OUR DIVIDEND GROWTH NEWSLETTER

Valuentum Securities

Stock Analysis: From Value through Momentum Investing

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The Dividend Growth Newsletter portfolio has advanced 83.3% since inception, January 2012.

Annualized Return	Annualized Goal	Outperformance
12.2%	Mid-High Single Digits	4.7pts

*Please see note below regarding performance measurement.

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"Be sure to continue to study the difference between price and value--just because a stock's price has advanced doesn't make it more expensive if the value of its enterprise has increased at a faster rate. If you understand this concept, you may be smarter than 99.9% of the investing population." – Brian Nelson, CFA

First Quarter 2017 Comes To A Close

By Brian Nelson, CFA

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Dividend Growth Ideas: MO, AAPL, AMLP, BA, CBRL, COH, CSCO, CVS, XLE, GE, GM, HAS, HBI, INTC, JNJ, MDT, MSFT, O, PG, PPL, SDY, VNQ

***NOTE:** The Dividend Growth portfolio's goal is to generate a mid-to-high single digit annual return (about 7.5%) over rolling 3-5 year periods. As of today, April 1, 2017, the portfolio is significantly exceeding this goal.

The first quarter of 2017 came and went.

Including dividends, the S&P 500 (SPY) roared nearly 6% higher during the period thanks to solid gains from the land of technology, an area that we have liked for the longest time. The Technology Select Sector SPDR (XLK) advanced more than 10% during the period, and key technology holdings in the Dividend Growth Newsletter portfolio include Apple (AAPL), Cisco (CSCO), Intel (INTC), and Microsoft (MSFT). Apple has surged to nearly $145 per share from ~$115 at the start of the year. Cisco is now approaching $34 per share from just north of $30 at the start of 2017. Intel has held the line at $36, despite a nice dividend increase to $1.09 per share on an annual basis (~3% annual dividend yield), while Microsoft is now ~$66 per share, up a few dollars from the beginning of January. The Dividend Growth Newsletter portfolio has been well-rewarded as a result, and we trust that those that are following along are very, very happy. Some of our members are even doing better, and we love that!

I'd like to take a quick second to help readers better understand the annualized return measurement that we use to assess performance of the Dividend Growth Newsletter portfolio. The return measurement is not an absolute measure as that of the Best Ideas Newsletter portfolio, where if the portfolio value increases, the return increases. In the case of annualized returns, if performance does not advance faster than the negative impact of the passing of time, the annualized return may actually decline for any given period even if the portfolio itself advances. In this light, it's easy to see how targeting a high-

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single-digit annualized return for a Dividend Growth Newsletter portfolio is no easy task, as in some cases, both the market and time can act as significant headwinds. That said, however, we think the annualized measure is appropriate when it comes to dividend growth investing, as most income investors are looking at their monthly or annualized income, and the annualized return speaks to that consideration. This may not be the easiest mathematical concept to understand, so please let me know if I can elaborate further.

The largest-weighted holding in the Dividend Growth Newsletter, Johnson & Johnson (JNJ) hit a new high of ~$129 per share during the month, and we must say we're pretty pleased with the company's performance. We're huge fans of J&J's opportunities in oncology, "Johnson & Johnson's Oncology Division A Force to Be Reckoned With (February 2017):"

> *J&J continues to pivot into the field of oncology as reimbursement levels remain robust.*
>
> *The company owns a 50% stake in Imbruvica, the pace setter for the treatment of Leukemia, and sales of Imbruvica continue to ramp higher as partner AbbVie (ABBV) pushes for a more rigorous label. The expansion of Imbruvica's treatment label is crucial for the product to reach its lofty peak annual sales estimates of $6 billion, and J&J's portion of Imbruvica sales came in north of $1.2 billion in 2016, a significant jump over 2015's tally. We remain excited about Imbruvica's potential and view the product as an attractive cornerstone of J&J's oncology division.*
>
> *Still, new compounds are necessary to expand J&J's reach in the field, and the recently approved Darzalex for the treatment of multiple myeloma may help to fill this role. The product achieved approval as fourth line monotherapy, but its true potential remains in combination with the established treatments in the field. For example, J&J is looking to pair Darzalex with Velcade in addition to dexamethasone in an effort to set up a new standard of care for the treatment of multiple myeloma, which remains an area of intense competition with multiple recent entrants into the field.*
>
> *We are impressed with Darzalex thus far and feel J&J has a winning compound that should help offset potential sales erosion from the loss of patent exclusivity for Remicade. With Imbruvica and Darzalex in the fold, J&J's 'Oncology' division is a force to be reckoned with.*

Hasbro (HAS), another top holding in the Dividend Growth Newsletter portfolio, continues to defy gravity, hitting a new high during March, following a nice dividend hike of nearly 12% in early February. I'm just so thankful for those that see the many good things that we do, and highlighting Hasbro repeatedly has been one of them, "EVERYTHING DIVIDENDS." The toy giant was added at a mere ~$30 per share at the inception of the Dividend Growth Newsletter portfolio, and now shares have rocketed to nearly $100 each. Of course, we've had better performers along the way, but I'm just really happy that things continue to work out for members. Any time that investors can triple their money on a solid dividend payer, it's a good thing. Hasbro management had a lot of good things to say in its latest quarterly release:

> Hasbro's global team delivered a tremendous 2016. We reached the $5 billion revenue mark for the first time in company history, we improved profitability and we invested to grow Hasbro over the long-term while increasing our dividend and share repurchase levels. Hasbro's foresight to build brands led by storytelling, consumer insights and innovation, combined with the relentless execution of our Brand Blueprint including investments in entertainment and digital gaming, is driving our business and creating long-term strategic differentiators for Hasbro. We are well positioned for a successful 2017 and the continued advancement of Hasbro's brand-building capabilities for years to come. – CEO Brian Goldner
>
> Our strong top line performance continued in the fourth quarter and we profitably grew Hasbro throughout the year. Looking ahead, we are very well positioned to support our business. We continue investing in our industry-leading brands, our differentiated capabilities around the Brand Blueprint and in our systems to support long-term, cost efficient business growth. We ended the year with $1.28 billion in cash, inventories in line with last year, and we paid out $400 million to shareholders through dividends and share repurchases." – CFO Deborah Thomas

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We're still being patient with some of the new additions to the Dividend Growth Newsletter portfolio. Boeing (BA) is sitting comfortably above our add price, and we continue to believe that the aerospace (plane-building) market remains one with the greatest visibility within the industrials sector (XLI), if not of any sector, including utilities (XLU). The backlogs of the airframe makers remain robust, and while order growth may slow in coming periods, we think it is more a function of not being able to receive planes fast enough than anything else – near-term slots are full so no need to rush an order in. Boeing's total company backlog at the end of 2016 was $473 billion, which includes more than 5,700 airplane orders, or nearly a decade worth of deliveries at the current annual run rate. Its 3%+ dividend yield should provide support to the equity, and free cash flow of $7.9 billion covered cash dividends paid of $2.8 billion by nearly 3 times during 2016.

There's not much to say about Hanesbrands (HBI), despite our continued acknowledgement of its disappointing performance out of the gate, but this has happened many a time before. We may be off on the timing by a few months or so, and then the stock comes roaring back in a big way, only to find that many that may have liked it initially have moved on to another idea. It takes patience to be successful in the market, and many investors have a difficult time waiting a month or so let alone a couple years. The Alerian MLP ETF (AMLP) has essentially held the line since it was added to the newsletter portfolio, and many have pointed to its tax implications, so be cognizant of those (we cannot provide any tax advice). Crude oil prices (USO) have bounced considerably from the mid-$20s doldrums, and as we've pounded the table on the concept of the linkage between midstream equities and energy prices, midstream MLPs have come rallying back, as expected. Let this finally be put to rest: **the fundamentals and prices of midstream equities are tied to energy resource pricin**g.

We include the Energy Select Sector SPDR (XLE) in the Dividend Growth Newsletter portfolio, too:

> The key benefit to energy sector ETFs rests heavily on diversified exposure to a potential rebound in the price of crude oil, which will be a relief not only for exploration and production entities but also for oil and gas equipment and servicing firms, which are tied heavily to capital spending at the majors. In our view, most energy sector ETFs will experience a 'rising tide lifts all boats' phenomenon if crude oil prices rise, offering reasonable risk-adjusted ideas for investors to consider following the collapse.
>
> In light of the potential for further price declines in crude oil and the firm-specific risk of a dividend cut by any one operator, however, it's difficult to argue that energy sector ETFs are not the best risk-adjusted way to play a rebound in crude oil prices. Sector ETFs are also not beholden to any one operator's capital budget decisions, and as a result, a probable dividend cut by a constituent or two should not be tragic to an ETF's yield. This should help investors sleep at night. -- source

Just a reminder, we think our best ideas for consideration are included in the newsletter portfolios at any given time. Certainly, many ideas have advanced considerably since inception, but our process is always forward-looking. What is sometimes lost amid talk of strong performance is the very notion that if we were to create a new dividend growth portfolio today, it would be the Dividend Growth Newsletter portfolio. Each day our team evaluates whether we want to continue to include existing ideas in the newsletter portfolio—if we don't, we'll seek to remove them or develop an exit plan. The newsletter portfolios have done well, including the Best Ideas Newsletter portfolio, but that has little bearing on our efforts to continue to do well in the future. Be sure to continue to study the difference between price and value—just because a stock's price has advanced doesn't make it more expensive if the value of its enterprise has increased at a faster rate. If you understand this concept, you're smarter than 99.9% of the investing population.

I hope you enjoy this April edition of the Dividend Growth Newsletter!

Who's Driving Who: The Future of the Automakers

By Kris Rosemann

There have been a number of interesting developments related to the auto space recently, from Theresa May and the UK government triggering Brexit to pressure on the US used vehicle and auto lending markets to the seemingly inevitable proliferation of autonomous vehicles. Such progressions should not come as a surprise; in fact, we outlined some potential concerns with the long-term health of the US auto market in the July 2016 article, "Sharp Curves Ahead for US Auto Market?"

The cyclical US auto market may be plateauing after multiple years of tremendous sales levels following the very difficult years of the credit crunch of late last decade. Industry giant Ford (F) anticipates a slight drop in both 2017 and 2018 on a year-over-year basis in terms of number of vehicles sold, even as incentive spending from automakers grows. Pent-up demand from the Great Recession may be finally beginning to wane, but Ford points to some potential US policy changes as having an impact on the volume of vehicles sold as well.

Rising interest rates may continue to increase borrowing costs in the country, increasing the cost of ownership for the average consumer, and the auto lending market, particularly subprime lenders, has already been a source of concern as lower-tier consumer credit quality has been called into question. The proposed tax on net imports would likely weigh on the demand levels by raising the all-in cost of production for certain vehicles whose production takes place outside the US, while the Trump administration's plans for the renegotiation of NAFTA also have the potential to impact the flow of goods from country to country.

The UK and European auto markets are in a similar situation concerning international trade uncertainty as the process of Brexit begins. From that July 2016 article:

> *Major automakers may be facing yet another obstacle in the form of the United Kingdom's exit from the European Union, as the material weakening of the British pound (FXB) is expected to have a significant impact on the UK (EWU) auto market. The uncertainty in the country's economy is anticipated to pressure investments, both in human capital and physical capital, as businesses, including car manufacturers in the nation, await greater economic clarity. The UK car industry has been advancing nicely in terms of production in recent years, but approximately 80% of vehicles made in the country are exported, with nearly 60% of these exports going to Europe. Conversely, roughly 80% of vehicles sold in the UK are produced in EU member nations.*
>
> *Currency moves may provide challenges as well as opportunities (from which side of the English Channel one looks at it), but such large import-export dynamics open the door for potential trade restrictions with the remainder of Europe as a result of 'Brexit.' The full implications of which remain uncertain at this point, but it could severely impact the auto sector that supports ~800,000 jobs and contributes ~£15.5 billion to the UK economy. Some early observers are expecting both the European Union and the UK to impose tariffs on vehicles imported from the at-odds entities, making a large portion of the UK and European auto markets materially more expensive for average consumers. Early projections are estimating UK auto sales could fall 15% in 2018, representing the loss of almost half a million vehicle sales from expectations based on the UK staying the EU.*

In what we think was a prudent move after considering the levels of economic uncertainty and past operational struggles in the region, newsletter portfolio holding General Motors (GM) recently sold its European operations for €2.2 billion. Other automakers with operations and exposure in the EU and UK have been pounding the table, demanding a trade deal be completed between the two sovereign entities that guarantees ongoing tariff-free trade. The result for GM is a more simple business with a

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The Dividend Growth Portfolio

Annualized Return	Annualized Goal	Outperformance
12.2%	Mid-High Single Digits	4.7pts

The Dividend Growth Newsletter portfolio has advanced 83.3% since inception, January 2012.

DIVIDEND GROWTH PORTFOLIO -- as of March 31, 2017 — Dividend Growth Portfolio Inception Date: January 1, 2012

Company Name	First Purchase	Avg Cost ($)	# of Shares	Total Cost ($)	Last	Current Value ($)	% of Portfolio	Exp. Yrly Div's ($)
Altria (MO)	12/30/2011	29.65	101	3,001.65	71.42	7,213.42	3.9%	246.44
Apple (AAPL)	7/24/2013	63.17	51	3,228.45	143.66	7,326.66	4.0%	116.28
Alerian MLP ETF (AMLP)	1/26/2017	13.19	398	5,256.62	12.71	5,058.58	2.8%	371.81
Boeing (BA)	1/26/2017	168.44	31	5,228.64	176.86	5,482.66	3.0%	176.08
Cisco (CSCO)	11/14/2014	26.31	199	5,242.53	33.80	6,726.20	3.7%	230.84
Coach (COH)	9/19/2014	37.55	80	3,011.00	41.33	3,306.40	1.8%	108.00
Cracker Barrel (CBRL)	2/1/2016	133.50	18	2,410.00	159.25	2,866.50	1.6%	82.80
CVS Health (CVS)	1/6/2017	81.84	107	8,763.88	78.50	8,399.50	4.6%	214.00
Energy Sector SPDR (XLE)	4/1/2015	72.63	121	8,795.76	69.90	8,457.90	4.6%	224.98
General Electric (GE)	10/21/2013	26.18	240	6,290.20	29.80	7,152.00	3.9%	230.40
General Motors (GM)	12/1/2016	36.43	119	4,342.17	35.36	4,207.84	2.3%	180.88
Hasbro (HAS)	12/30/2011	31.89	110	3,514.90	99.82	10,980.20	6.0%	250.80
Hanesbrands (HBI)	1/26/2017	23.77	221	5,260.17	20.76	4,587.96	2.5%	132.60
Intel (INTC)	12/30/2011	24.25	289	7,015.25	36.07	10,424.23	5.7%	315.01
Johnson & Johnson (JNJ)	12/30/2011	65.58	107	7,024.06	124.55	13,326.85	7.3%	342.40
Medtronic (MDT)	12/30/2011	38.25	78	2,990.50	80.56	6,283.68	3.4%	134.16
Microsoft (MSFT)	12/30/2011	25.96	77	2,005.92	65.86	5,071.22	2.8%	120.12
Proctor & Gamble (PG)	12/30/2011	66.71	105	7,011.55	89.85	9,434.25	5.1%	281.40
PP&L (PPL)	12/30/2011	29.42	238	7,008.96	37.39	8,898.82	4.9%	376.04
Realty Income (O)	7/24/2013	44.35	60	2,668.00	59.53	3,571.80	1.9%	151.80
S&P Dividend ETF SPDR (SDY)	4/20/2016	81.33	105	8,546.65	88.14	9,254.70	5.0%	231.37
Vanguard REIT ETF (VNQ)	2/1/2016	77.07	32	2,473.24	82.59	2,642.88	1.4%	123.16
Latest Changes: Added CVS (1/6/2017); Added BA (1/26/2017); Added HBI (1/26/2017); Added AMLP (1/26/2017).								
Cash -- changes in cash balance reflects dividends received and trading gains/losses, where applicable						32,670.95	17.8%	4,641.36
Dividend Growth Portfolio				100,000.00		**183,345.20**	100.0%	**TBD**
DG Portfolio Annualized Return (from inception through current date)								**12.2%**
DG Portfolio Annualized Return Goal (Mid-to-High Single Digit Returns)								7.5%
DG Portfolio Annualized Return Outperformance								**4.7%**

UR = Under Review

This portfolio is not a real money portfolio. Data as of March 31, 2017. Cost basis includes commissions. Results include divdends, but no interest received on cash balance.

DIVIDEND GROWTH PORTFOLIO -- as of March 31, 2017 — Fundamental data as of March 31, 2017

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)	2.44	3.42%	mid June 2017	mid June 2017 (quart)	1.1	GOOD	GOOD	$58.00	6	1.23
Apple (AAPL)	2.28	1.59%	late Apr 2017	May 2017 (quart)	5.0	EXCELLENT	EXCELLENT	$159.00	7	0.90
Alerian MLP ETF (AMLP)	0.93	7.35%	mid May 2017	late May 2017 (quart)	-	-	-	-	UR	-
Boeing (BA)	5.68	3.21%	early May 2017	early June 2017 (quart)	2.0	GOOD	EXCELLENT	$167.00	5	1.06
Cisco (CSCO)	1.16	3.43%	early Apr 2017	Apr 2017 (quart)	3.0	EXCELLENT	EXCELLENT	$42.00	3	0.80
Coach (COH)	1.35	3.27%	early June 2017	June 2017 (quart)	2.0	GOOD	GOOD	$41.00	5	1.01
Cracker Barrel (CBRL)	4.60	2.89%	mid Apr 2017	May 2017 (quart)	1.7	GOOD	GOOD	$171.00	7	0.93
CVS Health (CVS)	2.00	2.55%	mid Apr 2017	Apr 2017 (quart)	1.1	GOOD	GOOD	$104.00	6	0.75
Energy Sector SPDR (XLE)	1.86	2.66%	late Mar 2017	early Mar 2017 (quart)	-	GOOD	NEUTRAL	-	UR	-
General Electric (GE)	0.96	3.22%	mid May 2017	May 2017 (quart)	3.1	EXCELLENT	GOOD	$36.00	6	0.83
General Motors (GM)	1.52	4.30%	early June 2017	June 2017 (quart)	1.8	GOOD	POOR	$43.00	6	0.82
Hasbro (HAS)	2.28	2.28%	late Apr 2017	May 2017 (quart)	1.8	GOOD	EXCELLENT	$76.00	6	1.31
Hanesbrands (HBI)	0.60	2.89%	late Apr 2017	mid May 2017 (quart)	1.4	GOOD	EXCELLENT	$27.00	6	0.77
Intel (INTC)	1.09	3.02%	late Apr 2017	May 2017 (quart)	2.3	GOOD	EXCELLENT	$42.00	4	0.86
Johnson & Johnson (JNJ)	3.20	2.57%	mid May 2017	May 2017 (quart)	2.5	GOOD	EXCELLENT	$121.00	7	1.03
Medtronic (MDT)	1.72	2.14%	June 2017	late June 2017 (quart)	1.6	GOOD	EXCELLENT	$76.00	4	1.06
Microsoft (MSFT)	1.56	2.37%	mid May 2017	May 2017 (quart)	2.5	GOOD	EXCELLENT	$56.00	7	1.18
Proctor & Gamble (PG)	2.68	2.98%	mid Apr 2017	early May 2017 (quart)	1.5	GOOD	EXCELLENT	$74.00	4	1.21
PP&L (PPL)	1.58	4.23%	late June 2017	late June 2017 (quart)	Held for diversification reasons.			$32.00	6	1.17
Realty Income (O)	2.53	4.25%	monthly	monthly	2.0	GOOD	GOOD	$59.00	3	1.01
S&P Dividend ETF SPDR (SDY)	2.20	2.50%	mid June 2017	late June 2017 (quart)	-	-	-	-	UR	-
Vanguard REIT ETF (VNQ)	3.85	4.66%	1-Jun-17	late June 2017 (quart)	-	GOOD	NEUTRAL	-	UR	-

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.

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greater focus on major auto markets such as China and the US, and potentially a major leg up on international rivals with operations directly exposed to Brexit's economic ramifications. We like the more narrow focus, particularly in the US, where technological, and strategic, innovation is more important than ever to stay relevant.

In the US auto market, three important concepts or developments will be core to the future of the space as it evolves: 1) transportation as a service (TaaS), or point-to-point mobility for a fee such as ride-sharing, dynamic shuttles, and package delivery; 2) vehicle management as a service (VMaaS), or integrated end-to-end management of a fleet of vehicles including vehicle acquisition, vehicle financing, insurance, maintenance, and disposal; and 3) autonomous vehicles, which will be at the core of concepts 1 and 2.

Autonomous vehicles, as they are expected to evolve at this point in time, will require two subsets of products to run effectively and in coordination with the first two strategic concepts, virtual driving systems and autonomous vehicle platforms. Virtual driving systems are comprised of computers, sensors, software and electronics that enable the autonomous vehicle to function without a human driver, while autonomous vehicle platforms integrate and support the operation of TaaS and VMaaS. Auto giants GM and Ford and the competition are already investing or have committed to investing billions of dollars annually into these concepts, but at this point in time, it is nearly impossible to assess and evaluate how things will eventually shake out due to the rampant levels of uncertainty regarding the evolution of the technology, as well as how the integration of more traditional industrial firms with rapidly advancing technology and massive amounts of data plays out.

Perhaps the most important question to ask as we enter the age of autonomous driving and cloud-connected cars is who will control the tremendous amounts of data created by these vehicles, and it will be a tremendous amount, estimates suggest that one vehicle will create the data equivalent of 3,000 individual people per day. We raised the same question in our analysis of Intel's (INTC) acquisition agreement with Mobileye (MBLY), "Intel Makes Strong Move into Autonomous Driving," and we maintain the notion that this may very well be the driving force behind the evolution of the auto landscape in coming decades. Automakers will be looking to avoid the struggles hardware makers are currently experiencing in the PC market by controlling massive troves of data, which would potentially enable them to better understand how to serve the transportation needs of consumers.

Another distinct yet adjacent development worth monitoring in the US auto market is the material amounts of pressure we're seeing on used vehicle prices. The surge in demand for new cars in recent years is causing a surge in the supply of late model used cars as vehicles come back to dealer lots following their lease period or as consumers continue to 'trade up' on a multi-year cycle. We posit that the impact of this dynamic will be accentuated by the aforementioned technological advances, which are expected to reduce demand for vehicles in the future, as overall new vehicle sales remain, and are expected to remain through at least 2018, near peak levels.

The above supply-demand dynamics could become a serious problem for automakers if they are not able to effectively manage inventory and production levels leading up to the autonomous driving age. Obsolescence risk will become an even more important consideration in the industry. We would expect the transition to be a somewhat gradual one, which should help automakers adjust to changing demand, but if new auto sales remain near peak levels in coming years, driving used car supply higher in the years that follow, we could see a severe supply-demand imbalance.

When absorbing such a wide range of potentially harmful or revolutionary information for the auto industry, investors must be cognizant of the varying timeframes and likelihoods of any major events coming to fruition. Targets for the first mainstream autonomous vehicle have mostly been set at the

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2020-2021 range, suggesting automakers have some time to develop and refine their strategies as the industry moves forward technologically. In the case of Brexit, the uncertainty surrounds whether or not the EU and UK are able to strike an agreeable trade deal. Regardless, we think GM's move to exit Europe altogether was the right one. GM could eventually see some pressure in China, where it has multiple joint ventures, as the government has begun to roll back incentives that had been helping boost vehicle sales (particularly of small cars).

All things considered, our investment thesis on GM remains intact, and we plan to continue including shares in both newsletter portfolios. Despite potential demand issues, GM's management expects 2017 to be another strong year in China in addition to ongoing strength in North America thanks in part to effective vehicle innovation, a positive sign for things to come. A healthy ~4.3% dividend yield is tough to pass up, and shares remain underpriced compared to the rest of the frothy market at just ~6.2x the midpoint of 2017 earnings guidance. We still like GM!

Analyzing Amgen's Sudden Fall

By Alexander J. Poulos

Amgen (AMGN) remains a biotech bellwether, as the company continues to profit from its legacy product line. The established product line enhances the equity's appeal as the cash flow generated is returned to shareholders in the form of a generous dividend. The company currently yields ~2.8%. For many conservative, income-seeking investors Amgen remains a top consideration in what many perceive as a "risky industry."

That said, what many hopeful investors may not realize is that Amgen's legacy product line is now under assault through the rise of biosimilar products. Similar to the traditional pharma players, a biosimilar is a copy of the original branded product that can be marketed by a competitor once the patent exclusivity lapses. The biotech industry has been shielded from this reality for quite some time

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with Amgen the largest beneficiary of this trend. To offset the future biosimilar challenge, Amgen will need to increase innovation.

Amgen, thus far, seems up to the challenge with the company's best hopes of replacing the lost revenue coming from the recently approved Evolocumab which is marketed under the brand Repatha. Repatha belongs to the PCSK9 class, a novel new way for clinicians to lower cholesterol. The PCSK9 works by increasing the liver's ability to remove LDL-C (Low-Density Lipoprotein or otherwise known as "Bad Cholesterol") cholesterol. The PCSK9 gene is thought to play a crucial role in the reduction of LDL cholesterol, Repatha is indicated for those afflicted with familial hypercholesterolemia, a genetic disorder that reduces the number of LDL receptors found in the liver the main organ that breaks down cholesterol.

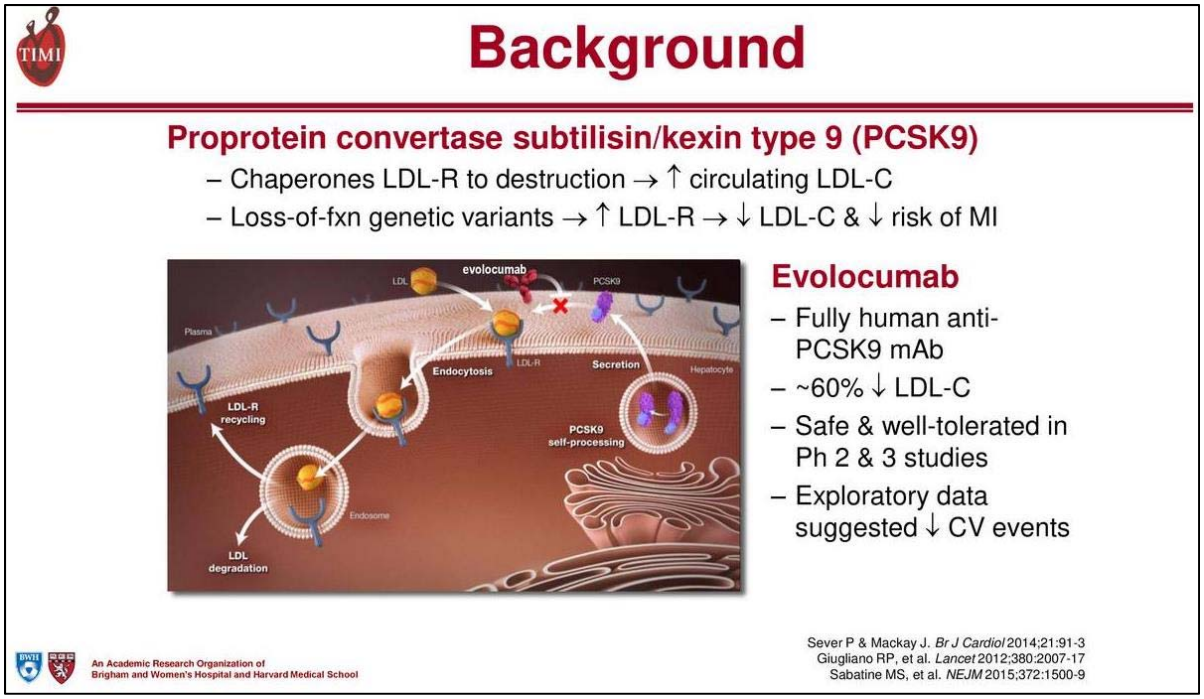

Image Source: Amgen

The product is a rousing success for the initial indication, but the overall market for those afflicted with Familial Hypercholesterolemia is rather small, by most measures. For Amgen to grow overall top line revenue, the prescribing label for Repatha would need to expand considerably. The goal could be to include those with stubbornly high cholesterol to the mix, a far larger overall market.

The price of Repatha likely remains the greatest stumbling block to increased market share; a yearly therapy of Repatha lists for $14,000, a major hurdle. Traditional statin treatments to lower cholesterol sold under trade names such as Lipitor and Crestor have all lost patent protection with many retailing for under $10 per month. With cost containment, the principal activity in healthcare today, the hurdle rate for Repatha looms large. To exceed the barrier and expand the overall market, definitive proof of superior outcomes would need to be presented. Amgen recently revealed the details of its outcomes trial dubbed, Fourier on March 17.

The Fourier Trial

The trial is a massive multicenter trial conducted from all corners of the world. The large patient population poll was designed to include the largest swath of the eligible patient population in order to conclusively demonstrate superior outcomes over the use of conventional statin therapy.

Please see *Analyzing Amgen's...*on next page

*Analyzing Amgen's...*from previous page

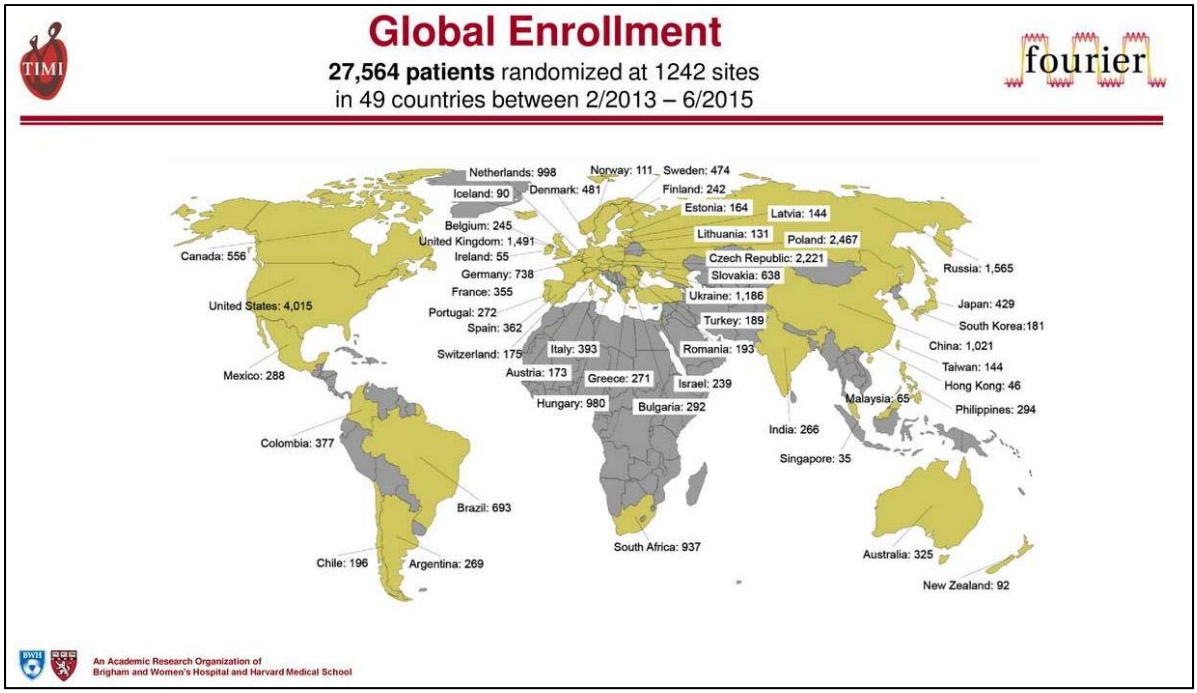

Image Source: Amgen

The primary endpoint of the trial is the reduction of cardiovascular events, which are defined as cardiovascular death, stroke and myocardial infarction (heart attack) or the acronym MACE (Major Adverse Cardiovascular Events). The secondary endpoint is time to cardiovascular death, myocardial infarction, and death. Amgen share price gapped up in early February 2017 upon the press release heralding that Repatha met both its primary and secondary endpoints in the Fourier trial. To say the least, expectations were running high.

Critical Questions

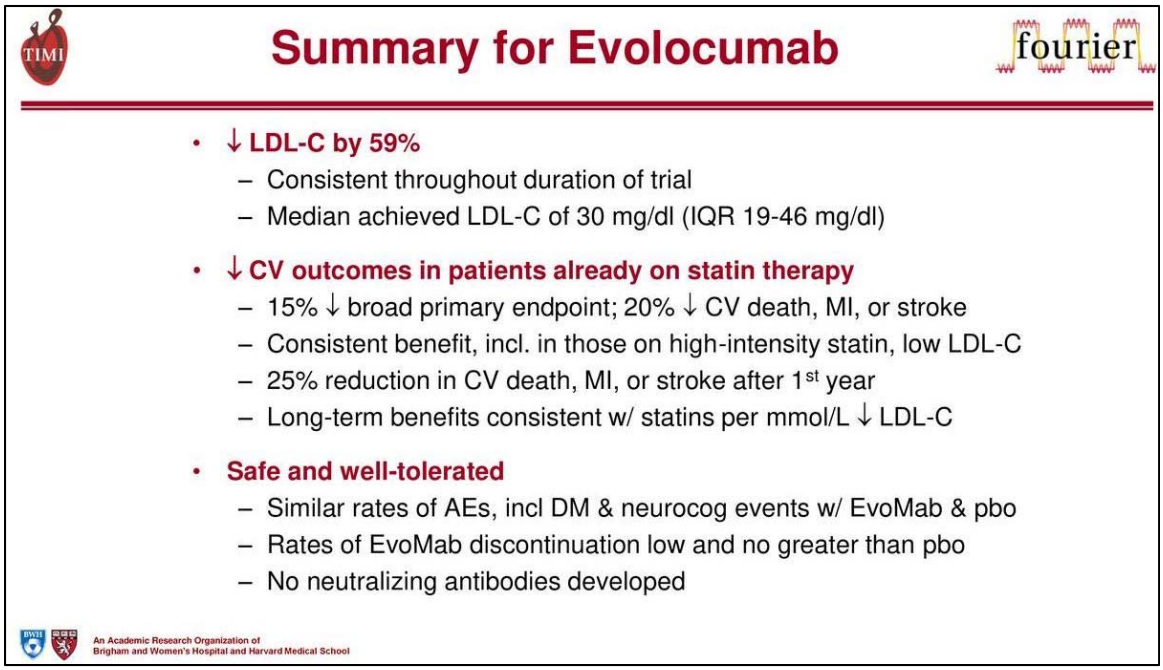

Image Source: Amgen

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Stocks with High Valuentum Buying Index 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 dividend growth ideas 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 may be fully-invested at times, 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. At any time, however, our favorite dividend growth ideas are included in the Dividend Growth portfolio.

Company Name	Symbol	Sector	Est Div Yield	VBI	Div Growth	Div Cushion
AbbVie	ABBV	Health Care	4.0%	7	GOOD	1.1
Garmin	GRMN	Industrials	4.0%	7	GOOD	1.9
Digital Realty Trust	DLR	Financials	3.7%	7	GOOD	1.7
Coca-Cola	KO	Consumer Staples	3.5%	7	EXCELLENT	1.3
Unilever N.V.	UN	Consumer Staples	3.4%	7	GOOD	1.5
Unilever PLC	UL	Consumer Staples	3.4%	7	GOOD	1.5
IBM	IBM	Information Technology	3.3%	7	EXCELLENT	1.4
Eaton	ETN	Industrials	3.2%	7	GOOD	0.8
VF Corp	VFC	Consumer Discretionary	3.2%	7	EXCELLENT	1.7
ABB	ABB	Industrials	3.1%	7	GOOD	1.8
Cracker Barrel	CBRL	Consumer Discretionary	2.8%	7	GOOD	1.7
Williams-Sonoma	WSM	Consumer Discretionary	2.7%	7	EXCELLENT	2.6
PepsiCo	PEP	Consumer Staples	2.7%	7	GOOD	1.2
Polaris Indust	PII	Industrials	2.6%	7	EXCELLENT	1.3
Microsoft	MSFT	Information Technology	2.5%	7	EXCELLENT	2.5
Johnson & Johnson	JNJ	Consumer Staples	2.5%	7	EXCELLENT	2.5
United Technologies	UTX	Industrials	2.4%	7	EXCELLENT	1.4
Dr Pepper Snapple	DPS	Consumer Staples	2.4%	7	GOOD	1.0
Whirlpool	WHR	Consumer Discretionary	2.3%	7	EXCELLENT	2.3
Ingersoll-Rand	IR	Industrials	2.0%	7	GOOD	1.9
DuPont	DD	Materials	2.0%	7	GOOD	2.3
W.W. Grainger	GWW	Industrials	1.9%	7	EXCELLENT	2.0
Apple	AAPL	Information Technology	1.9%	7	EXCELLENT	5.0
Manpower	MAN	Information Technology	1.9%	7	EXCELLENT	3.4
Oracle	ORCL	Information Technology	1.8%	7	EXCELLENT	4.1
General Dynamics	GD	Industrials	1.7%	7	EXCELLENT	3.1
Deluxe	DLX	Information Technology	1.6%	7	GOOD	4.6
Canadian National	CNI	Industrials	1.6%	7	EXCELLENT	1.7
Scripps Networks	SNI	Consumer Discretionary	1.5%	7	EXCELLENT	1.8
Fluor	FLR	Industrials	1.5%	7	EXCELLENT	5.4

At any time, our favorite dividend growth ideas are included in the Dividend Growth portfolio, page 5.

The Financially-Healthiest Dividend Payers Yielding Over 2%

By Valuentum Analysts

There are a number of ways to evaluate the health of a company's dividend. We think a minimum threshold for a company's yield is par for the course in any income-oriented screen, and we peg the dividend yield hurdle rate for this screen at 2%. For firms that make this cut, we want to find those that generate free cash flow at a pace that is far larger than the cash paid out as dividends and have a strong balance sheet to boot, or companies that have high Dividend Cushion ratios.

Enter stocks that have the highest multiplicative combination of their dividend yield and Dividend Cushion ratio. We exclude the business models of master limited partnerships and real estate investment trusts in this screen and focus exclusively on corporates. Income investors have a lot to choose from, and this screen is one of our favorites -- it focuses on identifying the financially-healthiest dividend-payers with yields over 2%. We've overlayed the screen with an Economic Castle assessment to consider business-model risk, too!

Company Name	Symbol	Est. Div Yield	Div Cushion	Economic Castle	Multiple
Automatic Data Processing	ADP	2.2%	7.5	Very Attractive	16.65
GameStop	GME	6.2%	2.2	Very Attractive	13.46
Abercrombie & Fitch	ANF	6.7%	1.8	Unattractive	12.02
Guess	GES	8.3%	1.4	Unattractive	11.78
Cisco	CSCO	3.5%	3.0	Very Attractive	10.35
QUALCOMM	QCOM	3.9%	2.6	Highest Rated	10.22
AVX Corp	AVX	2.8%	3.6	Attractive	10.02
American Eagle	AEO	3.3%	2.9	Attractive	9.74
General Electric	GE	3.1%	3.1	Attractive	9.44
CA Tech	CA	3.2%	2.9	Highest Rated	9.29
Finish Line	FINL	2.1%	4.1	Attractive	8.78
Hewlett-Packard	HPQ	3.6%	2.4	Unattractive	8.78
Best Buy	BBY	2.4%	3.5	Attractive	8.37
Resources Connection	RECN	2.6%	3.2	Very Attractive	8.32
Chico's FAS	CHS	2.3%	3.6	Attractive	8.23
Ralph Lauren	RL	2.4%	3.3	Attractive	8.01
Gap	GPS	3.8%	2.1	Attractive	7.98
Meridian	VIVO	3.7%	2.1	Attractive	7.76
Garmin	GRMN	4.0%	1.9	Attractive	7.75
NTT Docomo	DCM	3.0%	2.5	Attractive	7.74
Paychex	PAYX	3.0%	2.6	Very Attractive	7.65
Pfizer	PFE	3.7%	2.0	Attractive	7.58
Taiwan Semiconductor	TSM	3.2%	2.3	Attractive	7.53
Helmerich & Payne	HP	3.9%	1.9	Neutral	7.46
General Motors	GM	4.1%	1.8	Attractive	7.45
Intersil	ISIL	2.2%	3.4	Highest Rated	7.33
Nu Skin	NUS	2.7%	2.7	Attractive	7.30
Superior	SUP	2.6%	2.8	Attractive	7.25
World Wrestling	WWE	2.6%	2.7	Very Attractive	7.22
Williams-Sonoma	WSM	2.7%	2.6	Attractive	7.16
Archer-Daniels-Midland	ADM	2.9%	2.4	Attractive	7.15
Cypress Semi	CY	4.0%	1.8	Attractive	7.15
Xilinx	XLNX	2.4%	3.0	Very Attractive	7.06
Boeing	BA	3.5%	2.0	Attractive	6.98
Intel	INTC	3.1%	2.3	Attractive	6.98
Ethan Allen	ETH	2.7%	2.6	Unattractive	6.96
Amgen	AMGN	2.6%	2.7	Very Attractive	6.93
Western Union	WU	2.8%	2.4	Neutral	6.85
Coach	COH	3.5%	2.0	Attractive	6.76
Novartis	NVS	3.6%	1.8	Attractive	6.66
Accenture	ACN	2.1%	3.1	Very Attractive	6.43
Johnson & Johnson	JNJ	2.5%	2.5	Attractive	6.33
Microsoft	MSFT	2.5%	2.5	Very Attractive	6.33
Corning	GLW	2.2%	2.8	Attractive	6.31
Ford	F	4.8%	1.3	Neutral	6.26
Target	TGT	4.4%	1.4	Attractive	6.16
Interpublic	IPG	2.5%	2.4	Very Attractive	6.15
H&R Block	HRB	3.6%	1.7	Very Attractive	6.12
STMicroelectronics	STM	2.2%	2.7	Attractive	6.10
Total	TOT	5.2%	1.1	Neutral	5.98

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 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:

Company Name	Symbol	Industry	Est. Div Yield	Div Safety	Div Cushion
Textainer	TGH	Rental and Leasing	0.9%	VERY POOR	-72.1
CONSOL Energy	CNX	Industrial Minerals	0.2%	VERY POOR	-65.1
KB Home	KBH	Homebuilders	0.6%	VERY POOR	-41.2
Windstream	WIN	Telecom Services - diversified	8.5%	VERY POOR	-36.3
Alcoa	AA	Aluminum	0.4%	VERY POOR	-33.6
Devon Energy	DVN	Independent Oil & Gas	0.5%	VERY POOR	-18.5
Lennar	LEN	Homebuilders	0.3%	VERY POOR	-15.4
Anadarko	APC	Independent Oil & Gas	0.3%	VERY POOR	-13.5
Tailored Brands	TLRD	Retail - Men's, Women's, Kids' Apparel	3.2%	VERY POOR	-6.7
Ryder System	R	Rental and Leasing	2.4%	VERY POOR	-6.2
Yamana Gold	AUY	Metals & Mining - gold	0.7%	VERY POOR	-6.1
Deltic Timber	DEL	Building Materials	0.5%	VERY POOR	-5.8
Allegheny Technologies	ATI	Aluminum	1.8%	VERY POOR	-5.4
MDC	MDC	Homebuilders	3.7%	VERY POOR	-3.1
Ball Corp	BLL	Containers & Packaging	0.7%	VERY POOR	-3.1
Wendy's Co	WEN	Restaurants - Fast Food & Coffee	2.1%	VERY POOR	-3.0
Rent-A-Center	RCII	Rental and Leasing	3.6%	VERY POOR	-2.9
Hill-Rom	HRC	Medical Instruments	1.1%	VERY POOR	-2.8
Huntsman	HUN	Chemicals - broad	2.4%	VERY POOR	-2.7
Murphy Oil	MUR	Refiners	3.2%	VERY POOR	-2.2
Noble Energy	NBL	Independent Oil & Gas	1.0%	VERY POOR	-2.2
Quad/Graphics Inc	QUAD	Book Publishing	4.8%	VERY POOR	-2.0
Olin Corp	OLN	Chemicals - mid/small	2.6%	VERY POOR	-1.9
Centurylink	CTL	Telecom Services - diversified	8.9%	VERY POOR	-1.9
Service Corp Intl	SCI	Personal Services	1.7%	VERY POOR	-1.9
CF Industries	CF	Chemicals - agriculture	4.1%	VERY POOR	-1.8
Apache	APA	Independent Oil & Gas	1.5%	VERY POOR	-1.7
Hess	HES	Refiners	1.6%	VERY POOR	-1.7
PG&E	PCG	Utilities - Large	2.8%	VERY POOR	-1.7
Frontier Comm	FTR	Telecom Services - diversified	12.8%	VERY POOR	-1.6
Viacom	VIA	Media - CATV	1.7%	VERY POOR	-1.5
DineEquity	DIN	Restaurants - Fast Cas & Full Svc	7.3%	VERY POOR	-1.5

The Dividend Cushion Beats the Dividend Aristocrats:
http://www.valuentum.com/articles/20150506

The Valuentum Dividend Cushion™ has an excellent track record of predicting dividend cuts. For more information, please select the following link (login required):

http://www.valuentum.com/articles/20130528

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The results from the trail at first glance seemed impressive, but upon further review, critical questions have been raised.

Repatha registered a 15% decrease in MACE, its primary endpoint, with a 20% drop in MACE to meet its secondary endpoints. The key portion of the secondary outcome is the inclusion of a statin therapy in addition to Repatha. The unfortunate outcome is the use of Repatha did not have a positive impact in lowering cardiac death versus statin alone, in our view a negative for the future prospects of the entire class.

The lowering of LDL-C, as shown by the Fourier trial does have a positive impact, but the goal of reducing cardiac death remains elusive. The ability to drop LDL-C is a significant step in lowering the overall risk but remains just part of the process. Additional work will need to be conducted with other mechanisms to produce the desired outcome.

From a business perspective, we feel the mixed results do not improve the significant hurdles that the PCSK9 group faces. We found it interesting that Amgen spent a considerable part of the post-release conference call discussing the pricing strategy that will evolve.

Pricing Strategy

PBM Pressure on Repatha?

The inability of Repatha to conclusively improve cardiac deaths will be the cudgel that the pharmacy benefit managers (PBM) use to extract significant pricing concessions in an attempt to keep pricing rational. The vast majority of plans require the arduous prior authorization process to limit the overall patient population from being prescribed the therapy. The reasoning is straightforward--before the release of the Fourier data, the small subsection that is afflicted with Familial Hypercholesterolemia, which accounts for the rather weak initial sales tally of Repatha versus expectations. Amgen needs the product to become a rousing success to patch the looming gap in the company's product lineup, in our view.

TOP 10 SPECIALTY THERAPY DRUGS

RANKED BY 2016 PMPY* SPEND

					TREND		
RANK	DRUG NAME	THERAPY CLASS	PMPY SPEND	% OF TOTAL SPECIALTY SPEND	UTILIZATION	UNIT COST	TOTAL
1	Humira Pen® (adalimumab)	Inflammatory conditions	$45.11	11.3%	10.5%	17.9%	28.4%
2	Enbrel® (etanercept)	Inflammatory conditions	$26.82	6.7%	-4.3%	10.9%	6.6%
3	Tecfidera® (dimethyl fumarate)	Multiple sclerosis	$13.49	3.4%	-2.1%	10.5%	8.4%
4	Copaxone® (glatiramer)	Multiple sclerosis	$12.42	3.1%	-12.3%	1.6%	-10.7%
5	Harvoni® (ledipasvir/sofosbuvir)	Hepatitis C	$9.86	2.5%	-49.5%	-4.3%	-53.8%
6	Revlimid® (lenalidomide)	Oncology	$9.78	2.5%	13.7%	10.6%	24.3%
7	Gilenya® (fingolimod)	Multiple sclerosis	$8.48	2.1%	5.6%	9.0%	14.6%
8	Truvada® (emtricitabine/tenofovir disoproxil fumarate)	HIV	$8.44	2.1%	27.1%	10.7%	37.8%
9	Humira® (adalimumab)	Inflammatory conditions	$8.15	2.1%	2.8%	16.0%	18.8%
10	Stelara® (ustekinumab)	Inflammatory conditions	$8.13	2.0%	18.2%	3.7%	21.9%

*Per member per year

Image Source: Express Scripts commercial plan data

Enbrel Troubles?

Amgen's top seller remains, Enbrel, a treatment for various inflammatory diseases. The payers have begun to push back on the pricing strategy employed by pharma/biotech where significant annual price hikes are handed down. The drop in Amgen's share price in October 2016 came on the heels of the revelation that it expects little contribution from price hikes this year on Enbrel.

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The lack of pricing power will have an adverse impact on overall sales as Amgen's top seller faces increasing competition from recently-approved products such as Stelara. The commercial plan data from Express Scripts (ESRX) denotes a drop in utilization for Enbrel with price hikes more than making up for the loss in volume in 2016. We doubt Enbrel will be able to generate volume gains; with the absence of pricing power Enbrel sales in the commercial level will likely remain under pressure.

The Need for an Innovative Pricing Scheme

In order to capture the bulk of the sales potential of Repatha, an innovative pricing scheme will need to be put forth. To the credit of Amgen's management team, the company thus far seems to be receptive to the idea of structuring reimbursements based on patient outcomes. The willingness of Amgen to accept a different rate of pay based on clinical results is a watershed moment for the industry, long vilified by many for the prices charged for therapy. Amgen put forth an interesting argument over the pricing of cholesterol meds in general--the following quote from Josh Ofman, Amgen, Inc. - SVP, Global Value, Access, and Policy neatly sums up the case:

> *The budgetary issues that you refer to, I think a lot of payers say, listen, this is really a budget problem; we just can't afford these medicines. And we just have to put that in perspective.*
>
> *Currently, Express Scripts, PBMs, and other payers are paying per-member/per-month rates well above $0.50; sometimes well above $1 for diabetes drugs. They were paying that for Crestor before it went off patent. They are paying those per-member/per-month rates.*
>
> *Right now for Repatha, they are paying $0.05 or $0.10 per-member/per-month, and in 2016 and 2017, because of the patent expiry of both Crestor and Zetia, there is about $11 billion to $12 billion of spending on those medicines alone that the payers no longer have to burden. So there is plenty of room to accommodate a novel, innovative therapy to treat our sickest patients who need protection from cardiovascular events and I think the payers will understand that.*

We suspect the real battleground will be over the patient profile that falls into the category of "sickest patients." A large cohort of the patients treated with Crestor and Zetia fall in the category of mild to moderate hyperlipidemia, not an ideal candidate for PCSK9 therapy.

The PCSK9 class is priced based on what is widely-suspected to be the pricing model that most payers utilize. The plans model for $150,000 per quality life years saved, with LDL-C > 70 priced at $7,700-$11,200 and LDL-C >100 priced at $10,400 to $15k. Amgen's argument is its treatment can drop the LDL-C level below 40 and sustain it there for well over 100 weeks as proven with the Fourier trial. Hence, utilizing the above pricing parameters should justify a net price in the $8,000-$11,000 range.

To add further flexibility to maximize the number of eligible patients, Amgen is willing to enter into either of two pricing models. The first is a Performance and Outcomes-based contract where Amgen would refund the cost of therapy if certain parameters are not met. Also, it is willing to enter into an LDL-C based contract or a Cardiovascular events contract. In essence, Amgen would be paid based on the net lowering of LDL-C or reduction in expected Cardiovascular events, a significant departure from standard contracts. The standard contract model is also available where Amgen would offer volume discounts based on the number of members utilizing the product.

Competitive Threat

The most immediate threat to Repatha dominance in the PCSK9 class is Praluent which is marketed by Sanofi (SNY). Amgen is looking to bar the sale of Praluent claiming the product infringes on some of its patent estates, a point a recent court decision found to be valid. The case is highly technical, yet Amgen is playing hardball to dominate the class.

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We feel the most likely outcome is a royalty will be paid to Amgen with both products remaining in the marketplace. We find it a stretch to believe the US government will remove a competing product from the market in what could potentially evolve into a $10 billion dollar market with Amgen handed supreme pricing power and virtual monopoly as other competitors remain in the distance.

From our perspective, it is important to keep in mind that just because a company has a competing product in the lab does not guarantee success. The failure of Bococizumab in Phase 3 trials underscores the risky nature of the drug discovery process. There are no guarantees the competing products in the lab will ultimately gain approval.

We will continue to follow the progress of the class carefully and will post a timely update when warranted.

Sanofi: The First Victim in the Great Insulin Price War

By Alexander J. Poulos and Kris Rosemann

The diabetes pandemic continues to expand at a rapid pace. Diabetes is a condition where the body is unable to regulate the amount of sugar found in the blood correctly, and it is differentiated into two distinct types. Type one diabetes is defined as a condition where the body does not produce any insulin, thus requiring regular supplementation to maintain proper regulation. The second and more common version is Type 2 diabetes where the body loses the ability to produce an adequate amount of insulin to regulate its blood sugar. Type 2 diabetics can often be controlled with insulin, but due to the high cost of therapy, it is reserved for the cases where less expensive oral agents are not effective.

MEDICARE: TOP 10 TRADITIONAL DRUGS

RANKED BY 2016 PMPY* SPEND

RANK	DRUG NAME	THERAPY CLASS	PMPY SPEND	% OF TOTAL TRADITIONAL SPEND	TREND		
					UTILIZATION	UNIT COST	TOTAL
1	Lantus® (insulin glargine)	Diabetes	$104.68	3.9%	7.8%	-4.6%	3.2%
2	Spiriva® (tiotropium)	COPD	$56.42	2.1%	-3.2%	5.8%	2.6%
3	Advair Diskus® (fluticasone/salmeterol)	Asthma	$55.19	2.1%	-11.6%	4.0%	-7.6%
4	Januvia® (sitagliptin)	Diabetes	$54.61	2.1%	5.0%	1.9%	6.9%
5	Xarelto® (rivaroxaban)	Anticoagulants	$53.71	2.0%	10.9%	8.2%	19.1%
6	Eliquis® (apixaban)	Anticoagulants	$51.15	1.9%	72.6%	5.7%	78.3%
7	Lyrica® (pregabalin)	Pain/inflammation	$50.11	1.9%	3.9%	12.2%	16.1%
8	Zetia® (ezetimibe)	High blood cholesterol	$43.69	1.6%	-7.3%	19.1%	11.8%
9	Humalog® KwikPen® (insulin lispro)	Diabetes	$42.50	1.6%	29.8%	-8.6%	21.2%
10	Crestor® (rosuvastatin)	High blood cholesterol	$38.41	1.4%	-51.7%	17.6%	-34.1%

*Per member per year

Image Source: Express Scripts

Diabetes Market Dynamics

The combination of an aging worldwide demographic and an increase in the number of cases of diabetes is expected to continue driving consistent, sustained volume growth in the insulin market. However, a key stumbling block has emerged that has altered the landscape; the pharmaceutical benefit managers (PBMs) have banded together to extract significant price concessions to halt the rise in spending. The aggressive moves by the PBMs have sent shock waves through the industry with shares of Novo Nordisk (NVO) being among those most exposed. Novo Nordisk has enjoyed a prosperous run over the past decade; the company remains a virtual "pure play" on the disease with Novo investing the bulk of its resources behind expanding its share in the diabetes market. Now that a deflationary pricing environment has taken hold of the market, Novo has lost its appeal as a growth darling.

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*Sanofi…*from previous page

The Lantus franchise, owned by the European pharma powerhouse Sanofi (SNY) finds itself in a particularly tenuous position. Lantus is currently the top-selling insulin with 2016 sales exceeding €5.7 billion dollars, and it is also the top selling product in the Medicare market, as of 2016, according to Express Scripts stats. Lantus remains the Sanofi's top-selling product, yet unlike its rival Novo Nordisk, Sanofi has a broad product lineup beyond diabetes that can absorb the potential revenue pressure resulting from price pressures.

The PBMs have seized on the approval given to the third player in the field, Eli Lilly (LLY), to market an "alternative version" of Lantus named Basaglar. Lilly and Novo Nordisk offer a complete lineup of insulin products ranging from human insulins to basal insulins and GLP-1 agonists. The PBM's have often pitted Novo against Lilly to extract maximum concessions as most clinicians feel the products are interchangeable. For example, Humulin N (Eli Lilly's product) will be substituted with Novolin N (Novo Nordisk's product) if the formulary does not cover Humulin with the reverse also true.

Sanofi's entrance into the insulin market serves as a departure from the company's primary focus. We do not fault the firm for broadening its product lineup beyond its traditional role as a producer of cardiovascular products, but we were a bit surprised that Sanofi has had such success in the field as Lantus remains the premier insulin product in terms of sales. However, Lantus' days as a growth driver for Sanofi have come to an abrupt end with PBM CVS Caremark (CVS) now covering Eli Lilly's Basaglar exclusively. Other payers are is in the process of imitating the move, including United Healthcare (UNH), one of the largest insurers in the US and the third largest PBM, who, as of April 1, will cover Basalgar exclusively in its commercial and Meidcaid Managed Care plans. We expect other plans to follow in a staggered manner as cost containment remains the prime objective.

Sanofi Overview

Sanofi is a diversified healthcare company based in France, and its business is broken down into two core operating segments: 'Pharmaceuticals' and 'Vaccines.' The 'Pharmaceuticals' segment operates in five distinct global business units: 'Specialty Care,' 'Diabetes & Cardiovascular,' 'Established Prescription Products,' 'Consumer Healthcare,' and 'Generics,' while the 'Vaccines' segment is wholly dedicated to vaccines. The 'Vaccines' segment is an area of strength for Sanofi, though the vaccines market can be characterized as steady with modest annual growth.

Sanofi's 'Specialty Care' division is home to a well-established line of specialty medications such as treatments for Multiple Sclerosis. The division, also known as Genzyme, was acquired to gain a firm hold in specialty medications, and the company continues to reap the benefits of the move as the division has grown at a solid double-digit pace of late. This division is a core reason why Sanofi is far better positioned than Novo Nordisk to handle the pricing pressure in the diabetes market, as the company also works to offset weakness in some of its top selling drugs in its 'Established Prescription Products' division, its largest pharma division in terms of annual sales. Plavix (blood thinner) and Renagel (hypocalcemia) have been two key sources of weakness for the division of late.

The 'Consumer Healthcare' division consists of numerous over the counter, non-prescription items, everyday products that many consumers have in their medicine cabinets such as Act, Allegra, Icy Hot and Rolaids. The consumer division offers slow, predictable yet uninspiring growth as branded products compete directly with generic products. The closest US competitors to Sanofi are multinationals such as Johnson and Johnson (JNJ).

Diabetes and Cardiovascular

In an attempt at life cycle management, Sanofi developed a next generation product of top-selling diabetes drug Lantus called Toujeo. Thus far, Toujeo has failed to gain traction, and we expect this to continue for the foreseeable future. Prescribers have been reluctant to stray from the mainstay

Please see *Sanofi…*on next page

***Sanofi...*from previous page**

products such as Lantus, and the PBMs formularies come into play here once again, which no doubt continues to stymie efforts to migrate patients to next generation products with extensive patent protection. CVS and UnitedHealthcare will exclude Toujeo from their commercial and Medicaid Managed Care plans.

Sanofi will need to broaden its product lineup further to return the group to growth, and management recognized the need for constant innovation by partnering with promising research-based entities to broaden the product lineup. The key product that was expected to mitigate the loss is the PCSK9 class for elevated cholesterol, which is the result of a partnership with Regeneron Pharmaceuticals (REGN) to market the treatment sold under the trade name Praluent. However, the treatment has failed to catch on, partially due to the enormous list price for a yearly treatment. The best hopes for expanded use rests with compelling long-term outcome data that conclusively proves the superiority of the treatment versus conventional therapies, but with the data still pending, near-term growth prospects have been hampered.

Further complicating matters is the pending litigation between Sanofi/Regeneron and Amgen (AMGN) over the infringement of Amgen's patent on its competing product. The negotiations have taken an acrimonious stance with Amgen pushing for Praluent to be withdrawn from the US market. We do not envision this scenario playing out; the most likely outcome is a royalty will be paid with Praluent remaining on the market. The greater issue is the uncertainty has given Amgen an opportunity to steal share and become the primary product clinician's use. The PCSK9 class requires extensive pre-authorization which is a time-consuming endeavor. Clinicians will opt for the path of least resistance, with the future of Praluent in doubt as the legal case plays out. Also, if Praluent is banned, clinicians would have to abruptly discontinue therapy, which is often not in the best interests of the patient. A break in the continuity of care often leads to worse outcomes, the opposite of what all in the healthcare field should strive for.

Role of the Dividend

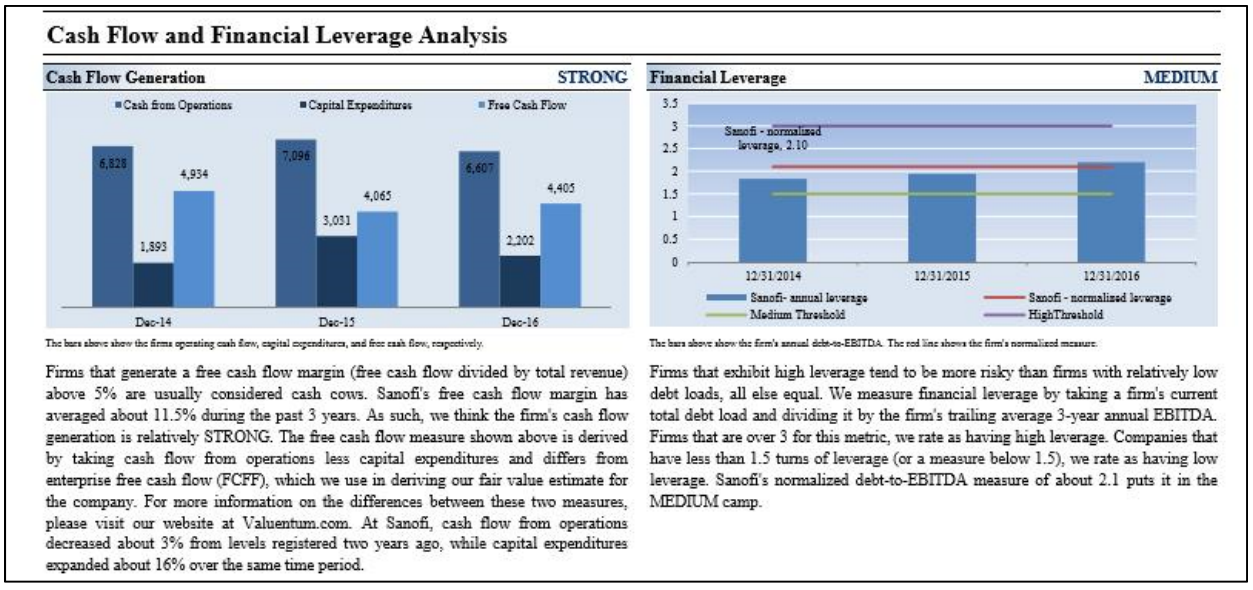


Image Source: Valuentum

Similar to its big pharma brethren, Sanofi pays a robust dividend. With Sanofi domiciled in France, the company follows the tradition of most European equities, paying an annual dividend instead of a quarterly payout, the model most income-seeking investors prefer. Sanofi current yield of ~3.5% is attractive, especially in today's yield starved markets. However, Sanofi's dividend is subject to currency fluctuations, which may cause volatile net payouts in US dollars though it is steady when denominated in euros. The company has a consistent history of raising the dividend in euros, but the actual payout to US ADR-holders paints a far different picture.

Please see *Sanofi...*on next page

*Sanofi...*from previous page

Image Source: Sanofi

Taxation of Dividends

The dividends received from foreign-based companies may be taxed at a far higher rate than the current US rate. While we are not tax experts and suggest the consultation of a qualified expert in this matter (we cannot give any advice), a few points of interest are worth highlighting. According to current French law, dividends received from a company domiciled in France are subject to a withholding tax of 30%. Certain situations do apply such as the following quote taken from a recent regulatory filing:

> *Dividends paid to an eligible U.S. holder may immediately be subject to the reduced rates of 5% or 15% provided that such holder establishes before the date of payment that it is a U.S. resident under the Treaty by completing and providing the depositary with a treaty form (Form 5000). Dividends paid to a U.S. holder that has not filed the Form 5000 before the dividend payment date will be subject to French withholding tax at the rate of 30% and then reduced at a later date to 5% or 15%, provided that such holder duly completes and provides the French tax authorities with the treaty forms Form 5000 and Form 5001 before December 31 of the second calendar year following the year during which the dividend is paid.*

Conclusion

In our view, Sanofi is taking the correct actions to move past the loss of revenue from top selling product Lantus. The diversified revenue stream of multinational pharmaceutical giants helps to prevent a significant decline in revenue, thus providing a healthy backdrop for a steady, uninterrupted stream of income via the dividend. Sanofi is not a growth vehicle like its partner Regeneron, but it should be viewed as a consistent performer that returns excess cash to shareholders.

For those who are interested in further details on this partnership, please review the February 23 article, "3 Critical Drug Approvals for your Radar." All things considered, Sanofi is a fine payer of dividends, but we are not looking to add additional healthcare exposure to the Dividend Growth Newsletter portfolio at this point in time, especially after considering the currency implications on the payout.

Disclosure: Alexander J Poulos is long Regeneron Pharmaceuticals (REGN).

Is Target's Dividend Safe?

By Valuentum Analysts

Download Target's 16-page report, 2-page supplemental dividend report and read Valuentum's latest commentary on its website at www.valuentum.com.

Valuentum's Stock Dividend Research — Visit us at www.valuentum.com — Ratings as of 27-Mar-2017 — Data as of 17-Mar-2017

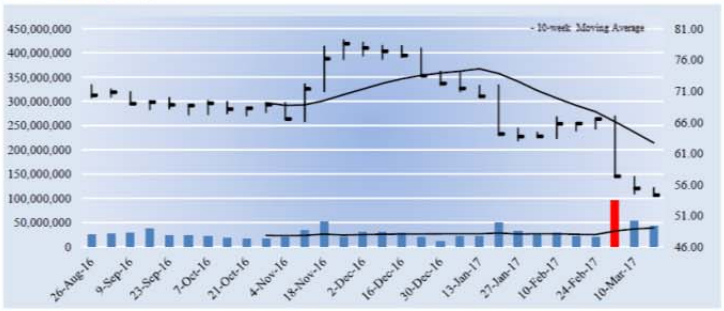
Target TGT FAIRLY VALUED

Buying Index™ 5 **Value Rating**

Economic Castle	Stock Fair Value Range	Dividend Track Record	Dividend Safety / Cushion™	Div Growth Potential	Dividend Yield
Attractive	$53.00 - $79.00	HEALTHY	GOOD / 1.4	EXCELLENT	4.42%

Target's Dividend Cushion ratio suggests there is room for continued growth.

Stock Chart (weekly)



Key Dividend Considerations

Current Annual Dividend Yield	4.42%
Annual Dividends per Share	$2.40
Initial Annual Div's Paid, $10k Investment	$442.07
Dividend Track Record	HEALTHY
Dividend Safety	GOOD
Valuentum Dividend Cushion™	1.4
Dividend Growth Potential	EXCELLENT
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)	$31,624
Avg Weekly Vol (30 wks)	29,684
30-week Range (USD)	54.12 - 79.3299
Valuentum Sector	Consumer Staples
Last Fiscal Year Revenue	69,495
Last Fiscal Year EPS	4.58
Last Fiscal Year EBITDA	7,267
Forward Revenue Growth (5-yr)	0.7%
Forward EPS Growth (5-yr)	1.8%

Dividend Vitals

Current Annual Dividend Yield %	4.4%
Annual Dividends Per Share	2.40
Forward Dividend Payout Ratio	59.4%
3-yr Historical Dividend CAGR	8.1%
15-yr Historical Dividend CAGR	17.3%
3-yr Hist Median Div Payout Ratio	49.6%
15-yr Hist Median Div Payout Ratio	21.0%

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

Initial Annual Income Per Investment ($)

# of Shares	Investment ($)	Annual Div's ($)
25	1,357.25	60.00
50	2,714.50	120.00
100	5,429.00	240.00
200	10,858.00	480.00
300	16,287.00	720.00
400	21,716.00	960.00
500	27,145.00	1,200.00
1,000	54,290.00	2,400.00
2,000	108,580.00	4,800.00
5,000	271,450.00	12,000.00
10,000	542,900.00	24,000.00
50,000	2,714,500.00	120,000.00

Dividend Safety / Cushion **GOOD / 1.4**

Target faces tough competition from long-time foe Walmart as well as rapidly-expanding online retailers, namely Amazon. Pricing competition looks to be at all-time highs. We still view Target as one of the premier retailers within the industry, however, and this in part gives us confidence to assign a Dividend Safety rating of GOOD for now. That said, Target has been simplifying its business operations as of late, and we could re-evaluate our methodology for its Dividend Safety rating, which currently considers the addition of incremental capital in the numerator. Such an adjustment would result in a much less attractive Dividend Cushion ratio.

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. Target registers an EXCELLENT rating on our scale, and we think the firm's annual dividend will be $2.70 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. Target

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
Jan-02	0.22	NA	2.01	10.9%
Jan-04	0.26	18.2	2.01	12.9%
Jan-05	0.30	15.4	2.07	14.5%
Jan-06	0.36	20.0	2.71	13.3%
Jan-07	0.44	22.2	3.21	13.7%
Jan-08	0.52	18.2	3.33	15.6%
Jan-09	0.60	15.4	2.86	21.0%
Jan-10	0.66	10.0	3.30	20.0%
Jan-11	0.84	27.3	4.00	21.0%
Jan-12	1.10	31.0	4.28	25.7%
Jan-13	1.32	20.0	4.52	29.2%
Jan-14	1.58	19.7	3.07	51.5%
Jan-15	1.90	20.3	3.83	49.6%
Jan-16	2.16	13.7	5.25	41.1%
Jan-17	2.32	7.4	4.58	50.7%
Jan-18	***2.40***	***3.4***	***4.04***	***59.4%***
Jan-19	*2.47*	*3.0*	*4.07*	*60.7%*
Jan-20	*2.55*	*3.0*	*4.33*	*58.8%*
Jan-21	*2.62*	*3.0*	*4.64*	*56.5%*
Jan-22	*2.70*	*3.0*	*5.00*	*54.0%*

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 Target, please visit our

Key Strengths

Dividend Aristocrat Target has made a few moves of late. It sold off its US consumer credit card portfolio, its pharmacy/clinic operations to CVS, and abandoned its expansion efforts in Canada outright. We think such moves may make the retailing giant too dependent on the US consumer, and the company may come to regret these decisions in the coming decades should organic growth start to disappoint. Digital initiatives have been paying off, but online competition remains heated. It has a net debt position, but its A credit-rating and free cash flow generation remain fantastic. We doubt there's much to challenge Target's 45+ year annual dividend growth streak.

Potential Weaknesses

Target will have its hands full in coming years as it deals with online competition and rising input/labor costs, but its free cash flow generation remains impressive, averaging $3.7 billion during the past three fiscal years (2014-2016), well in excess of yearly cash dividend obligations (~$1.35 billion). Net debt of ~$10.2 billion as of January 2017 is certainly manageable after considering its free cash flow generating capacity, and while we'd like to see a net cash position from the company, its financial health is solid. The company continues to buy back stock, using capital that could otherwise go to securing a stronger payout, but it has been growing its dividend every year since 1971. It's hard not to like that consistency.

Intel (INTC) – Page 1 of 2

By Valuentum Analysts

Download Intel's 16-page report, 2-page supplemental dividend report and read Valuentum's latest commentary on its website at www.valuentum.com.

Valuentum's Stock Dividend Research | Visit us at www.valuentum.com | Ratings as of 31-Mar-2017 | Data as of 17-Mar-2017

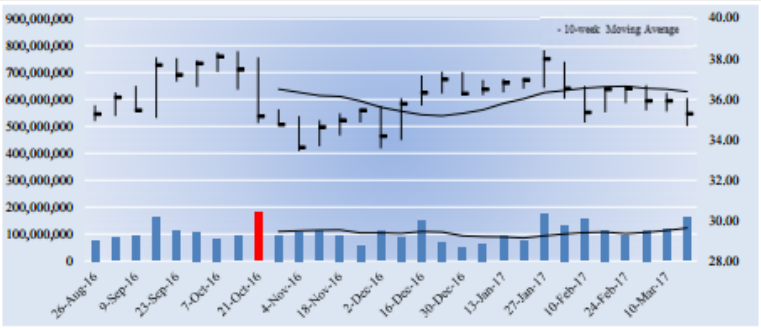
Intel INTC FAIRLY VALUED

Buying Index™ 4 **Value Rating**

Economic Castle	Stock Fair Value Range	Dividend Track Record	Dividend Safety / Cushion™	Div Growth Potential	Dividend Yield
Attractive	$34.00 - $50.00	HEALTHY	GOOD / 2.3	EXCELLENT	3.09%

Intel's Dividend Cushion ratio is among the best in our coverage after considering the size of its annual dividend yield.

Stock Chart (weekly)



Company Vitals

Market Cap (USD)	$171,941
Avg Weekly Vol (30 wks)	107,052
30-week Range (USD)	33.42 - 38.45
Valuentum Sector	Information Technology
Last Fiscal Year Revenue	59,387
Last Fiscal Year EPS	2.12
Last Fiscal Year EBITDA	22,550
Forward Revenue Growth (5-yr)	2.3%
Forward EPS Growth (5-yr)	9.8%

Dividend Vitals

Current Annual Dividend Yield %	3.1%
Annual Dividends Per Share	1.09
Forward Dividend Payout Ratio	38.8%
3-yr Historical Dividend CAGR	6.6%
15-yr Historical Dividend CAGR	19.0%
3-yr Hist Median Div Payout Ratio	41.2%
15-yr Hist Median Div Payout Ratio	39.0%

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

Initial Annual Income Per Investment ($)

# of Shares	Investment ($)	Annual Div's ($)
25	881.75	27.25
50	1,763.50	54.50
100	3,527.00	109.00
200	7,054.00	218.00
300	10,581.00	327.00
400	14,108.00	436.00
500	17,635.00	545.00
1,000	35,270.00	1,090.00
2,000	70,540.00	2,180.00
5,000	176,350.00	5,450.00
10,000	352,700.00	10,900.00
50,000	1,763,500.00	54,500.00
100,000	3,527,000.00	109,000.00

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

Dividend Safety / Cushion — GOOD / 2.3

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. Intel scores a 2.3 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. Intel registers an EXCELLENT rating on our scale, and we think the firm's annual dividend will be $1.48 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. Intel registers a score of MEDIUM on our scale.

Key Dividend Considerations

Current Annual Dividend Yield	3.09%
Annual Dividends per Share	$1.09
Initial Annual Div's Paid, $10k Investment	$309.04
Dividend Track Record	HEALTHY
Dividend Safety	GOOD
Valuentum Dividend Cushion™	2.3
Dividend Growth Potential	EXCELLENT
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).

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-02	0.08	NA	0.46	17.4%
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	0.87	11.5	2.13	40.8%
Dec-13	0.90	3.4	1.89	47.6%
Dec-14	0.90	0.0	2.31	39.0%
Dec-15	0.96	6.7	2.33	41.2%
Dec-16	1.04	8.3	2.12	49.1%
Dec-17	***1.09***	***4.8***	***2.81***	***38.8%***
Dec-18	*1.18*	*8.0*	*2.95*	*39.9%*
Dec-19	*1.27*	*8.0*	*3.08*	*41.3%*
Dec-20	*1.37*	*8.0*	*3.22*	*42.6%*
Dec-21	*1.48*	*8.0*	*3.38*	*43.9%*

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 Intel, please visit our website at www.valuentum.com

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Johnson & Johnson (JNJ) – Page 1 of 2

By Valuentum Analysts

Download Johnson & Johnson's 16-page report, 2-page supplemental dividend report and read Valuentum's latest commentary on its website at www.valuentum.com.

Valuentum's Stock Dividend Research | Visit us at www.valuentum.com | Ratings as of 27-Mar-2017 | Data as of 17-Mar-2017

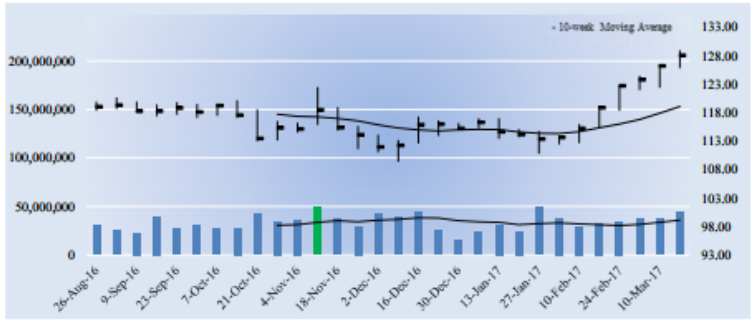
Johnson & Johnson JNJ FAIRLY VALUED

Buying Index™ 7 Value Rating

Economic Castle	Stock Fair Value Range	Dividend Track Record	Dividend Safety / Cushion™	Div Growth Potential	Dividend Yield
Attractive	$97.00 - $145.00	HEALTHY	GOOD / 2.5	EXCELLENT	2.50%

J&J's dividend track record has been very impressive, and the company is one of our favorite dividend growth ideas.

Stock Chart (weekly)



Company Vitals

Market Cap (USD)	$357,147
Avg Weekly Vol (30 wks)	33,528
30-week Range (USD)	109.32 - 129
Valuentum Sector	Consumer Staples
Last Fiscal Year Revenue	71,890
Last Fiscal Year EPS	5.93
Last Fiscal Year EBITDA	24,919
Forward Revenue Growth (5-yr)	4.0%
Forward EPS Growth (5-yr)	8.8%

Dividend Vitals

Current Annual Dividend Yield %	2.5%
Annual Dividends Per Share	3.20
Forward Dividend Payout Ratio	45.0%
3-yr Historical Dividend CAGR	5.1%
15-yr Historical Dividend CAGR	9.7%
3-yr Hist Median Div Payout Ratio	53.1%
15-yr Hist Median Div Payout Ratio	44.1%

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

Initial Annual Income Per Investment ($)

# of Shares	Investment ($)	Annual Div's ($)
25	3,201.50	80.00
50	6,403.00	160.00
100	12,806.00	320.00
200	25,612.00	640.00
300	38,418.00	960.00
400	51,224.00	1,280.00
500	64,030.00	1,600.00
1,000	128,060.00	3,200.00
2,000	256,120.00	6,400.00
5,000	640,300.00	16,000.00
10,000	1,280,600.00	32,000.00
50,000	6,403,000.00	160,000.00
100,000	12,806,000	320,000.00

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

Dividend Safety / Cushion — GOOD / 2.5

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. Johnson & Johnson scores a 2.5 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. Johnson & Johnson registers an EXCELLENT rating on our scale, and we think the firm's annual dividend will be $4.35 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. Johnson & Johnson registers a score of MEDIUM on our scale.

Key Dividend Considerations

Current Annual Dividend Yield	2.50%
Annual Dividends per Share	$3.20
Initial Annual Div's Paid, $10k Investment	$249.88
Dividend Track Record	HEALTHY
Dividend Safety	GOOD
Valuentum Dividend Cushion™	2.5
Dividend Growth Potential	EXCELLENT
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).

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-02	0.80	NA	2.16	37.0%
Dec-03	0.93	16.3	2.40	38.8%
Dec-04	1.10	18.3	2.84	38.7%
Dec-05	1.28	16.4	3.46	37.0%
Dec-06	1.46	14.1	3.73	39.1%
Dec-07	1.62	11.0	3.63	44.6%
Dec-08	1.80	11.1	4.57	39.4%
Dec-09	1.93	7.2	4.40	43.9%
Dec-10	2.11	9.3	4.78	44.1%
Dec-11	2.25	6.6	3.49	64.5%
Dec-12	2.40	6.7	3.86	62.2%
Dec-13	2.59	7.9	4.81	53.8%
Dec-14	2.76	6.6	5.70	48.4%
Dec-15	2.95	6.9	5.48	53.8%
Dec-16	3.15	6.8	5.93	53.1%
Dec-17	***3.20***	***1.6***	***7.11***	***45.0%***
Dec-18	*3.46*	*8.0*	*7.45*	*46.4%*
Dec-19	*3.73*	*8.0*	*7.94*	*47.0%*
Dec-20	*4.03*	*8.0*	*8.47*	*47.6%*
Dec-21	*4.35*	*8.0*	*9.05*	*48.1%*

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 Johnson & Johnson, please visit our website at www.valuentum.com

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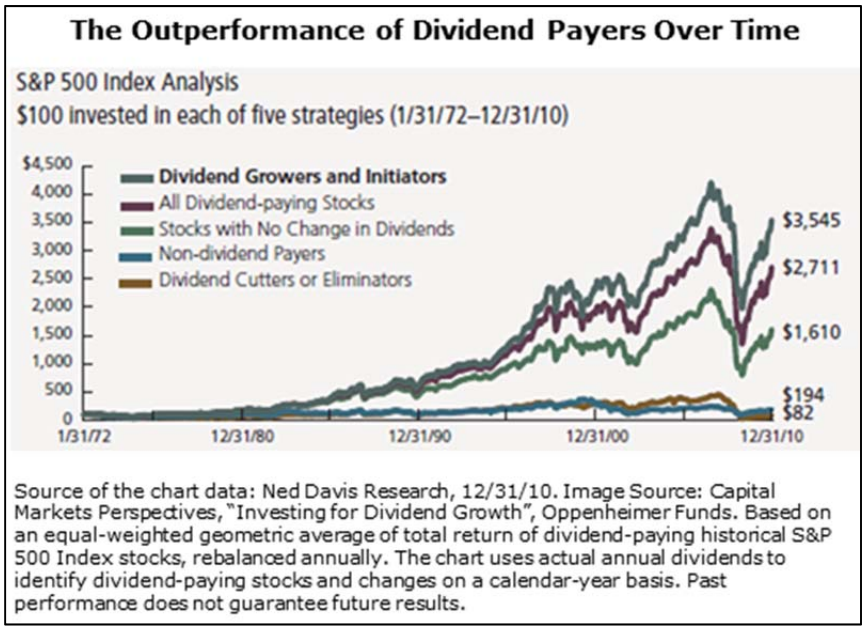
About the Valuentum Dividend Cushion™

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.



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 strongest 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) during tightening credit markets.

The Importance of Forward-Looking Dividend Analysis

Informed 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. One only has to look over the past few years to see the removal of well-known names from the Dividend Aristocrat List (including General Electric and Pfizer) to understand that backward-looking analysis is only part of the story. After all, you're investing for the future, so the future is what you should care about more.

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The Dividend Cushion Ratio Helps Income Investors

$$\frac{\sum_{t=1}^{5}[A(t) - B(t)] + C(0) - D(0)}{\sum_{t=1}^{5} E(t)}$$

A = cash flow from operations (from the operating section of the cash flow statement),
B = capital expenditures or additions to property plant and equipment (from the investing section of the cash flow statement),
C = cash and cash equivalents (from the balance sheet),
D = long-term debt (from the balance sheet), and
E = cash dividends paid (from the financing section of the cash flow statement).

"All else equal, a firm with billions of net cash on the balance sheet is better positioned to keep paying a dividend than a firm with billions of net debt on the balance sheet. More cash on the books relative to debt reveals significantly more financial flexibility. The dividend payout ratio ignores this important concept, while the Dividend Cushion ratio embraces it." – Valuentum's Brian Nelson, CFA

We want to find 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. 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 (cash and cash equivalents less debt) and adds that to its forecasted future free cash flows (cash from operations less capital expenditures) 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 our study, the Valuentum Dividend Cushion™ process caught every dividend cut made by a non-financial, operating firm that we have in our database, except for one (Marriott). But interestingly, the 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.

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Here are the results of the 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 measure continues to do well by members in real-time as well (beyond the constraints of any academic study).

See more at the following link: http://www.valuentum.com/articles/20130528

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 Foords (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 trends beyond last reported year.

Backtesting Methodology: Net balance sheet (year prior to dividend 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. Dividends paid reflects what the dividends 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. We provide the Valuentum Dividend Cushion™ ratio in the dividend reports and monthly Dividend Growth Newsletter, and we also scale the safety of a firm's dividend based on this measure in simple terms: Excellent, Good, Poor, Very Poor.

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Here's a glimpse of the Valuentum Dividend Cushion™ ratio (as of November 2011) for a sample set of firms in our coverage universe. Please note that the current score on these and hundreds more are available with a membership to our website:

Company Name	Dividend Cushion
Abbott Labs (ABT)	2.3
Coca-Cola (KO)	1.9
Family Dollar (FDO)	4.4
International Business Machines (IBM)	3.7
Johnson & Johnson (JNJ)	2.5
Merck (MRK)	2.5
Molex (MOLX)	2.5
Pepsi (PEP)	1.3
Proctor & Gamble (PG)	1.4
Wal-Mart (WMT)	1.4

Subscribe to Valuentum to monitor the Dividend Cushion of firms you own.

Understanding Dividend Growth

It takes time to accumulate wealth through dividends, so dividend growth investing requires a long-term perspective. We assess the long-term future growth potential of a firm's dividend, and we don't take management's word for it. Instead, we dive into the financial statements and make our own forecasts of the future to see if what management is saying is actually achievable. We use the 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. We scale our dividend-growth 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.

The Valuentum Dividend Cushion™ has an excellent track record of predicting dividend cuts. For more information, please select the following link (login required):

http://www.valuentum.com/articles/20130528

Valuentum Dividend Growth Newsletter: Volume 6, Issue 4

Valuentum's Dividend Growth Newsletter is published monthly. To receive this newsletter 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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