OUR DIVIDEND GROWTH NEWSLETTER

Valuentum Securities

Stock Analysis: From Value through Momentum Investing

September 1, 2017
Volume 6 Issue 9

Valuentum Securities Inc.
www.valuentum.com info@valuentum.com

UPDATED: Valuentum released a study on its Valuentum Buying Index ratings! Please download the paper at the following link: https://www.valuentum.com/articles/Value_and_Momentum_Within_Stocks_Too

Inside This Issue

1 Gilead's Stock Rockets Higher
2 Our Thanks to You
2 Newsletter Notifications and Website Changes
4 Procter & Gamble Is No Gamble
5 Dividend Growth Ideas Doing Well
7 Cisco's Shares Still Look Cheap
8 Realty Income Has Avoided Much of the Trouble in Retail
10 Stocks with High Valuentum Buying Index Ratings and Strong Dividend Growth Prospects
11 The Financially-Healthiest Dividend Payers Yielding Over 2%
12 Yields to Consider Avoiding
13 CVS Health Still Stuck in Neutral
15 Dividend Cut Coming at Plains
15 Understanding Share Buybacks
21 Value and Momentum Within Stocks, Too
22 Intel (INTC) – Page 1 of 2
23 About the Dividend Cushion™ Ratio

© 2017 Valuentum. All rights reserved. Reproduction by any means is prohibited.

"Gilead is but the latest example of how the Valuentum process combines value and technical/momentum to identify stocks that may be timely considerations."

– Brian Nelson, CFA

Gilead's Stock Rockets Higher

By Brian Nelson, CFA

Brian Nelson, CFA
President, Equity Research
brian@valuentum.com

Kris Rosemann
Associate Investment Analyst
kris@valuentum.com

Alexander J. Poulos
Healthcare & Biotech Contributor

Dividend Growth Ideas: MO, AAPL, BA, CBRL, CSCO, CVS, XLE, GM, GILD, HAS, HBI, INTC, JNJ, MSFT, NVS, 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, September 1, 2017, the portfolio is significantly exceeding this goal.

It's good to see the Valuentum stock-selection methodology working well. The latest example is Gilead (GILD). For a long time, we thought shares of the hepatitis-C powerhouse were undervalued on our discounted cash-flow process, but we didn't add it to the newsletter portfolios until shares broke through their defined downtrend more recently. Since the time we added shares to the newsletter portfolios (July 31), the price of Gilead's equity has soared. Here is our bullish take, released August 3:

https://www.valuentum.com/articles/Our_Bullish_Thesis_on_Gilead_Sciences

Gilead is but the latest example of how the Valuentum process combines value and technical/momentum to identify stocks that may be timely considerations. We believe that an undervalued stock that breaks through a defined technical downtrend may be poised to make one the strongest price advances, even on what might be considered modestly-positive news. In this case, we're viewing Gilead's planned purchase of Kite Pharma (KITE) with excitement, and it has reignited interest across the biotech space.

We expect to update readers on our thoughts of the proposed Gilead-Kite merger shortly, but we wanted to provide this illustration as yet another example of the efficacy of the Valuentum methodology in action. No methodology is perfect, but we think the Valuentum methodology makes a lot of practical sense. We include Gilead in both the Best Ideas Newsletter portfolio and Dividend Growth Newsletter portfolio.

Generating Alpha: In January 2016, we removed Gilead from the Best Ideas Newsletter portfolio at $83.37 and added Johnson & Johnson in its place at $104.18. J&J has subsequently surged to $131.03 at the time of this writing. We then added Gilead back to both newsletter portfolios at $76.32 in late July 2017, and the stock has now shown renewed vigor, advancing to $83.75 at the time of this writing. Though we may have added Gilead to the Best Ideas Newsletter portfolio a bit too early a couple years ago, J&J has made up for the miscue, and the recent breakout in Gilead's stock price more recently has been icing on the cake.

Our Thanks to You

By Valuentum Analysts

Dear reader,

Valuentum has been among the most successful investment publishing companies launched in this decade. As we've grown and added more features, we've learned so much along the way!

More recently, you may have noticed that we changed the prices of our membership plans and now only offer monthly plans, save for custom arrangements and the Nelson Exclusive publication. Our new prices are $29.99/month for the individual plan, $49.99/month for the adviser plan, and $99.99/month for an institutional seat. The Nelson Exclusive remains $1,000/year.

I wanted to let you know that the new rates only apply to new subscribers, effective a couple weeks ago, so if you are on an existing plan and want to keep your savings, don't cancel or let your payments lapse, or you'll lose the plan that you are currently on. It's my way of saying thank you for being there these past several years. If you are a longtime member, your subscription fee is grandfathered in.

From all of us at Valuentum, our very best wishes! Our thanks to you!

Kind regards,

Brian Nelson, CFA

Newsletter Notifications and Website Changes

By Valuentum Analysts

There are two important items. First, we made a number of changes to the newsletter portfolios this month. Second, we'd like to make you aware of a few improvements to our website as it relates to the archived stock screens (on the left column) and the list of Dividend Reports (on the right column). The navigation of our website is different than others', where the home page is used as a portal to information and the grey bar is used to welcome and provide information to new visitors. Please use the 'Symbol' search box (by ticker symbol) to locate each company's stock page -- there is a tremendous amount of unique, forward-looking and proprietary information on our website that cannot be found anywhere else.

A version of this 'Newsletter Notifications' article was emailed to members separately on August 18 (UNP, AAPL, PCLN, HAS).

Newsletter Portfolio Changes

Best Ideas Newsletter portfolio

We removed Union Pacific (UNP) from the Best Ideas Newsletter portfolio at $103.54 per share. The stock was added to the newsletter portfolio at under $80 per share and has been a nice winner, even without its steady stream of dividends.

Stock page: https://www.valuentum.com/search2?searchtext=unp&searchtype=symbol

We removed half of the position in Apple (AAPL) from the Best Ideas Newsletter portfolio or 53 shares at $158.14. Apple's cost basis is ~$50 in that newsletter portfolio (it is also an idea in the Dividend Growth Newsletter portfolio), and it, too, has been a fantastic winner, with its growing dividend icing on the cake.

Stock page: https://www.valuentum.com/search2?q=aapl&searchtype=symbol&btn=Search

We removed half of the position in Priceline (PCLN) from the Best Ideas Newsletter portfolio, or 3 shares at $1,809.73. Priceline's cost basis is ~$1,240, and we are mighty pleased with the company's stock performance during the past few years.

Stock page: https://www.valuentum.com/search2?q=pcln&searchtype=symbol&btn=Search

Please see *Newsletter Notifications...*on next page

***Newsletter Notifications...*from previous page**

Dividend Growth Newsletter portfolio

We removed 75% of our position in Hasbro (HAS) from the Dividend Growth Newsletter portfolio, or 82 shares at $96.54. Hasbro's cost basis in the newsletter portfolio is ~$32. The company's performance has been absolutely phenomenal.

Stock page: https://www.valuentum.com/search2?q=has&searchtype=symbol&btn=Search

Reasoning Behind the Changes

We removed half of the position in Apple in the Best Ideas Newsletter portfolio because its weighting had grown too large relative to others' and with respect to existing market conditions, which we believe remain frothy. We felt it prudent to also remove half of the position in Priceline in the wake of its strong pricing advance and current market conditions. We still like the business models of both companies.

Most of our concerns are with overall market valuations. The average company in the S&P 500, for example, is trading at nearly 18 times forward earnings, and we have talked extensively in the newsletters about various other valuation metrics (market cap to GDP, CAPE ratio, etc.) that suggest the market is "priced to perfection," if not significantly overpriced (some metrics are close to those of the dot-com bubble, for example). The same reasoning with respect to Apple and Priceline could also be applied to Hasbro, though as with Union Pacific (explained below), we believe Hasbro's shares are pricey. Hasbro's recent selling pressure wasn't very encouraging, and a large percentage of the position in the company was removed from the Dividend Growth Newsletter portfolio as a result.

We continue to like Union Pacific's business fundamentals, too, but the stock is up five-fold since the beginning of 2009, it registers a 3 on the Valuentum Buying Index, and shares are trading above what we believe to be fair value at the time of this writing ($100)--in a stock market that we believe is becoming increasingly vulnerable. Our estimate of its forward price-to-earnings ratio of 18.5 is above that of the average S&P 500 company, and our estimate of its 5-year forward price-earnings-to-growth ratio of 2.1 is on the high side relative to its industry group and from an absolute standpoint. Its Dividend Cushion ratio is modest at 1.2. Union Pacific was removed from the Best Ideas Newsletter portfolio.

More Improvements to the Website

In everything we do, from combining value and momentum into a process at the stock-selection level, to developing the forward-looking Dividend Cushion ratio, which has helped income investors, to expanding upon the concept of the economic moat to establish the Economic Castle rating, everything we do puts **INVESTORS FIRST** -- and frankly, these three metrics barely scratch the surface of what we do and the research and analysis that we continue to incorporate into our work. In the spirit of making our data as useful as possible, we wanted to let you know we've made a couple improvements to the website.

The first improvement is that now all generalized stock screens on the website (on the left column) will be a downloadable Excel file, instead of an archived article with a list of stocks. The descriptions of the screens will be the same, but you'll be able to use that downloadable file to come up with your own screen with the data provided. The information in the downloadable Excel file and the information on our stock pages will be updated at the end of each week such that readers can access the most up-to-date information in either a screen Excel download or on the stock page. Please be sure to access the stock price chart on each stock page for the most recent stock price information, and the valuation analysis behind our fair value estimates can always be found in the 16-page report (please note each stock and dividend report has an 'as of' date on them).

The second improvement is related to enhancing website functionality. We've invested resources to improve our stock pages, where up-to-date information can be found, so we no longer need lists of company reports on the website, per se. Specifically, we are now doing away with the list of Dividend Reports (on the right column) because we think it makes sense for members to access that information on

Please see ***Newsletter Notifications...*on next page**

***Newsletter Notifications…*from previous page**

each company's stock page, where the most recent stock price chart, company commentary, press releases, its stock report (w/ valuation analysis), and the dividend report (w/ Dividend Cushion ratio), among other considerations, reside. There is a tremendous amount of analysis for each company on each stock page. Here is one on General Mills (GIS), for example:

https://www.valuentum.com/search2?searchtext=gis&searchtype=symbol

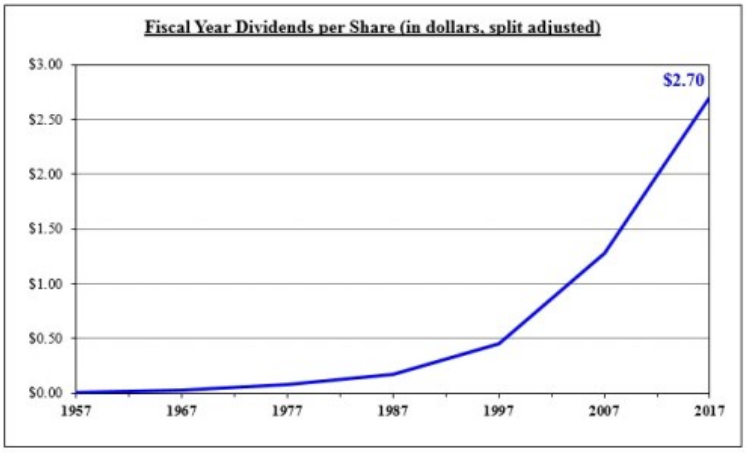
Please let us know if you have any questions or if we can be of any assistance. Our very best wishes.

Procter & Gamble Is No Gamble

By Brian Nelson, CFA

Image Source: P&G

Procter & Gamble (PG) is a wonder of a company. Almost everyone knows its name, and it's hard to argue against the view that its consumer-packaged goods have improved the lives of millions of consumers around the world. What we like most about P&G, however, is its history. Built on the foundation of an enterprise started by William Procter and James Gamble in 1837, P&G has a lot to be proud of over its long lifespan. The company's recent 3% dividend hike, for example, marked the 61st consecutive year in which it raised the payout, and the 127th consecutive year in which it has paid a dividend. Our readers love ideas with incredible consistency, and Procter and Gamble fits that mold.



(in dollars; split-adjusted)	1957	1967	1977	1987	1997	2007	2017
Dividends per share	$ 0.01	$ 0.03	$ 0.08	$ 0.17	$ 0.45	$ 1.28	$ **2.70**

Image Source: P&G

Please see *Procter & Gamble…*on page 6

Dividend Growth Ideas Doing Well

Valuentum released a study on its Valuentum Buying Index ratings! Please download the paper at the following link: https://www.valuentum.com/articles/Value_and_Momentum_Within_Stocks_Too

SIMULATED DIVIDEND GROWTH PORTFOLIO -- as of September 1, 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	50	1,489.50	63.54	3,177.00	1.7%	132.00
Apple (AAPL)	7/24/2013	63.17	51	3,228.45	164.05	8,366.55	4.5%	128.52
Boeing (BA)	1/26/2017	168.44	16	2,702.04	240.33	3,845.28	2.1%	90.88
Cisco (CSCO)	11/14/2014	26.31	199	5,242.53	32.30	6,427.70	3.4%	230.84
Cracker Barrel (CBRL)	2/1/2016	133.50	18	2,410.00	149.24	2,686.32	1.4%	86.40
CVS Health (CVS)	1/6/2017	81.84	107	8,763.88	77.92	8,337.44	4.4%	214.00
Energy Sector SPDR (XLE)	4/1/2015	72.63	121	8,795.76	63.58	7,693.18	4.1%	201.87
General Motors (GM)	12/1/2016	36.43	119	4,342.17	37.36	4,445.84	2.4%	180.88
Gilead Sciences (GILD)	7/31/2017	76.32	49	3,746.68	83.75	4,103.75	2.2%	101.92
Hasbro (HAS)	12/30/2011	31.89	28	899.92	98.34	2,753.52	1.5%	63.84
Hanesbrands (HBI)	1/26/2017	23.77	221	5,260.17	24.75	5,469.75	2.9%	132.60
Intel (INTC)	12/30/2011	24.25	289	7,015.25	35.09	10,141.01	5.4%	315.01
Johnson & Johnson (JNJ)	12/30/2011	65.58	107	7,024.06	131.03	14,020.21	7.5%	359.52
Microsoft (MSFT)	12/30/2011	25.96	77	2,005.92	73.94	5,693.38	3.0%	120.12
Novartis (NVS)	7/19/2017	85.16	65	5,542.40	83.81	5,447.65	2.9%	176.80
Proctor & Gamble (PG)	12/30/2011	66.71	105	7,011.55	92.53	9,715.65	5.2%	289.80
PP&L (PPL)	12/30/2011	29.42	238	7,008.96	39.11	9,308.18	5.0%	376.04
Realty Income (O)	7/24/2013	44.35	60	2,668.00	57.86	3,471.60	1.9%	152.40
S&P Dividend ETF SPDR (SDY)	4/20/2016	81.33	105	8,546.65	89.48	9,395.40	5.0%	212.78
Vanguard REIT ETF (VNQ)	2/1/2016	77.07	32	2,473.24	84.33	2,698.56	1.4%	116.86
Latest Changes: Removed 82 shares of HAS (8/18).								
Cash -- changes in cash balance reflects dividends received and trading gains/losses, where applicable						60,238.14	32.1%	3,683.08
Dividend Growth Portfolio				100,000.00		**187,436.11**	100.0%	**TBD**
DG Portfolio Annualized Return (from inception through current date)								**11.7%**
DG Portfolio Annualized Return Goal (Mid-to-High Single Digit Returns)								7.5%
DG Portfolio Annualized Return Outperformance								**4.2%**

UR = Under Review

This portfolio is not a real money portfolio. Data as of September 1, 2017. Cost basis includes commissions. Results include dividends, but no interest received on cash balance.

SIMULATED DIVIDEND GROWTH PORTFOLIO -- as of September 1, 2017 Fundamental data as of September 1, 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)	2.64	4.15%	mid Sep 2017	mid Sep 2017 (quart)	1.3	GOOD	GOOD	$60.00	3	1.06
Apple (AAPL)	2.52	1.54%	Nov 2017	Nov 2017 (quart)	5.0	EXCELLENT	EXCELLENT	$165.00	5	0.99
Boeing (BA)	5.68	2.36%	early Nov 2017	Nov 2017 (quart)	2.0	GOOD	EXCELLENT	$175.00	7	1.37
Cisco (CSCO)	1.16	3.59%	early Oct 2017	Oct 2017 (quart)	2.7	GOOD	EXCELLENT	$42.00	7	0.77
Cracker Barrel (CBRL)	4.80	3.22%	mid Oct 2017	Oct 2017 (quart)	1.7	GOOD	GOOD	$171.00	7	0.87
CVS Health (CVS)	2.00	2.57%	mid Oct 2017	Oct 2017 (quart)	1.1	GOOD	GOOD	$104.00	6	0.75
Energy Sector SPDR (XLE)	1.67	2.62%	mid Sep 2017	mid Sep 2017 (quart)	-	GOOD	NEUTRAL	-	UR	-
General Motors (GM)	1.52	4.07%	early Sep 2017	Sep 2017 (quart)	1.8	GOOD	POOR	$43.00	6	0.87
Gilead Sciences (GILD)	2.08	2.48%	early Sep 2017	Sep 2017 (quart)	4.7	EXCELLENT	EXCELLENT	$109.00	3	0.77
Hasbro (HAS)	2.28	2.32%	mid Oct 2017	late Oct 2017 (quart)	2.1	GOOD	EXCELLENT	$87.00	6	1.13
Hanesbrands (HBI)	0.60	2.42%	mid Nov 2017	Nov 2017 (quart)	1.0	GOOD	GOOD	$27.00	6	0.92
Intel (INTC)	1.09	3.11%	mid Nov 2017	Nov 2017 (quart)	2.3	GOOD	EXCELLENT	$42.00	7	0.84
Johnson & Johnson (JNJ)	3.36	2.56%	mid Nov 2017	Nov 2017 (quart)	2.5	GOOD	EXCELLENT	$121.00	7	1.08
Microsoft (MSFT)	1.56	2.11%	mid Nov 2017	Nov 2017 (quart)	2.3	GOOD	EXCELLENT	$62.00	7	1.19
Novartis (NVS)	2.72	3.25%	mid March 2018	March 2018 (annual)	1.8	GOOD	GOOD	$80.00	6	1.05
Proctor & Gamble (PG)	2.76	2.98%	early Oct 2017	mid Oct 2017 (quart)	1.5	GOOD	EXCELLENT	$74.00	4	1.25
PP&L (PPL)	1.58	4.04%	late Sep 2017	late Sep 2017 (quart)	Held for diversification reasons.			$32.00	6	1.22
Realty Income (O)	2.54	4.39%	monthly	monthly	2.1	GOOD	GOOD	$59.00	3	0.98
S&P Dividend ETF SPDR (SDY)	2.03	2.26%	mid Sep 2017	mid Sep 2017 (quart)	-	-	-	-	UR	-
Vanguard REIT ETF (VNQ)	3.65	4.33%	mid Sep 2017	mid Sep 2017 (quart)	-	GOOD	NEUTRAL	-	UR	-

Standard Disclaimer: Our Dividend Growth Newsletter 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.

*Procter & Gamble…*from page 4

In the past, we were worried about Procter and Gamble's business transformation where it shed many well-known brands rather quickly, but we think our worries were overblown--if the company's share-price performance is any indication. The company wrapped up fiscal 2017 results July 27, and frankly, the results were solid. Both the top line and operating income advanced over fiscal 2016 results, and net earnings from continuing operations approached levels that were once were a function of higher revenue performance.

P&G's net income margin, for example, hit 15.7% in fiscal 2017, steadily increasing from 11.7% in fiscal 2015, and up from the 14.3%, 14%, and 12.1% marks set in fiscal 2014, fiscal 2013, and fiscal 2012, respectively. Clearly, we were underestimating P&G's ability to execute its transformation plan, but we sure are happy to have still included the idea in the Dividend Growth Newsletter portfolio. Letting winners run has proven to be a fantastic component of the Valuentum approach during this prolonged, multi-year market upswing.

The company's guidance for fiscal 2018 was also encouraging:

> P&G said it is projecting organic sales growth in the range of two to three percent for fiscal year 2018. P&G estimates all-in sales growth of about three percent for fiscal 2018, which includes a neutral to half-a-percentage point benefit to sales growth from the combined impacts of foreign exchange and acquisitions & divestitures.
>
> The Company said it expects core earnings per share growth of five to seven percent for fiscal 2018 versus core EPS of $3.92 in fiscal 2017. P&G said it expects core EPS growth in fiscal 2018 to be driven primarily by core operating profit growth. Additionally, a modest benefit to core EPS from a reduction in common shares outstanding will be partially offset by a net headwind from changes in interest expense, interest income and other non-operating income. P&G expects the core effective tax rate to be around 24%, essentially in-line with the fiscal 2017 rate.
>
> All-in GAAP earnings per share are expected to decrease 26% to 28% versus fiscal year 2017 GAAP EPS of $5.59, which included the significant benefit from the Beauty Brands transaction that was completed in October 2016. The fiscal 2018 GAAP EPS estimate includes approximately $0.10 per share of non-core restructuring costs.
>
> P&G said it expects results for the first quarter of fiscal 2018 to be the lowest organic sales and core EPS growth period of the year, as the period compares against the highest organic growth base period. Top-line headwinds from portfolio choices and the recent Gillette price reduction in the U.S. will primarily impact the first half of fiscal 2018 and will annualize as the year progresses. Additionally, productivity savings are expected to build throughout fiscal 2018.

The good business momentum, however, hasn't stopped activist investors from asking for more. Recently, P&G released a letter outlining how it plans to continue to create economic value in hopes that shareholders will defeat the proxy fight with Nelson Peltz of Trian Fund Management, which holds a 1.5% stake, and on August 16, P&G followed up again, talking directly to shareholders. We like the efforts of and conviction by management in its current plan, but we also like that Nelson Peltz is keeping the executive team on its toes. No matter what may happen, it has been the best of both worlds for shareholders of late, with P&G's stock price now north of $90 again, approaching highs last witnessed in late 2014. We're going to keep letting this winner run for now in the Dividend Growth Newsletter portfolio. Shares yield ~3% at the time of this writing.

Cisco's Shares Still Look Cheap

By Brian Nelson, CFA

Five Years Ended July 30, 2016 (in millions, except per-share amounts)

Years Ended	July 30, 2016 (1) (2)	July 25, 2015 (1)	July 26, 2014 (3)	July 27, 2013 (4)	July 28, 2012
Revenue	$ 49,247	$ 49,161	$ 47,142	$ 48,607	$ 46,061
Net income	$ 10,739	$ 8,981	$ 7,853	$ 9,983	$ 8,041
Net income per share—basic	$ 2.13	$ 1.76	$ 1.50	$ 1.87	$ 1.50
Net income per share—diluted	$ 2.11	$ 1.75	$ 1.49	$ 1.86	$ 1.49
Shares used in per-share calculation—basic	5,053	5,104	5,234	5,329	5,370
Shares used in per-share calculation—diluted	5,088	5,146	5,281	5,380	5,404
Cash dividends declared per common share	$ 0.94	$ 0.80	$ 0.72	$ 0.62	$ 0.28
Net cash provided by operating activities	$ 13,570	$ 12,552	$ 12,332	$ 12,894	$ 11,491
	July 30, 2016	July 25, 2015	July 26, 2014	July 27, 2013	July 28, 2012
Cash and cash equivalents and investments	$ 65,756	$ 60,416	$ 52,074	$ 50,610	$ 48,716
Total assets	$ 121,652	$ 113,373	$ 105,070	$ 101,138	$ 91,697
Debt	$ 28,643	$ 25,354	$ 20,845	$ 16,158	$ 16,266
Deferred revenue	$ 16,472	$ 15,183	$ 14,142	$ 13,423	$ 12,880

Image Source: Cisco

Cisco's (CSCO) name has become synonymous with networking, but over the years, the company has broadened its appeal as the preeminent go-to entity for delivering a vast portfolio of incremental IT-based products and services. It's hard not to like its enviable position at the intersection of data, the cloud, video proliferation, enhanced mobility, the growing need for security, and the increased importance of collaboration and analytics. Rightly so, Cisco believes that "data is the most strategic asset," and it is working tirelessly to connect "everything that can be digitally connected." From where we stand, the tech giant is at the sweet spot of helping businesses and governments around the world in an increasingly-connected global environment. Cisco is also shifting its business model to one with a more predictable revenue stream, a move we applaud. From Cisco's 10-K:

> Over the last several years, we have been transforming our business to move from selling individual products and services to selling products and services integrated into architectures and solutions…We have begun aggressively transitioning our portfolio to enable delivery both on premise and through the cloud in alignment with our strategy to shift to a business model based on more recurring revenue. We plan to expand the approach we have taken with our cloud-networking platforms to an increasing portion of our product and service portfolio to accelerate our shift to a more subscription and software-based model…We continue to drive product transitions, including the introduction of next-generation products that offer, in our view, better price-performance and architectural advantages compared with both our prior generation of products and the product offerings of our competitors. We also plan to continue to deliver innovation across our portfolio in order to sustain our leadership, and strategic position with customers.

Cisco reported decent fiscal fourth-quarter (calendar second quarter) 2017 results August 12. The company's gross margin faced pressure during the quarter, but we can't help but feel it was more timing-related even as the company noted that pricing was a factor. Though the top line faced some headwinds and non-GAAP earnings per share of $0.61 came in a little light relative to market expectations, we were generally pleased with the company's ongoing business-model transition, with 31% of total revenue now recurring, up 4 percentage points on a year-over-year basis. From the fourth-quarter press release:

> "We had another strong quarter and a transformative year. We made tremendous progress transitioning our business to more software and recurring revenue and delivered on our commitment to accelerate innovation in our core and across the portfolio," said Chuck Robbins, CEO, Cisco. "The network has never been more critical to business success and we are building the network of the future."

Please see *Cisco's Shares…*on next page

*Cisco's Shares…*from previous page

Frankly, it is just hard to be disappointed with a GAAP gross margin of 62.2% in the period, a measure of such magnitude that we view as emblematic of an enduring economic moat. At the end of fiscal 2017, Cisco hauled in an incredible $13.9 billion in cash flow from operations, an increase of 2% versus last fiscal year, and it ended the fiscal year with $70.5 billion in cash, cash equivalents, and investments (total debt stood at $33.7 billion). The company is anxiously awaiting potential tax reform in the US, namely a repatriation holiday, though we note our bullish stance on Cisco is not contingent on new developments in this area.

At the midpoint of its guidance range, Cisco is anticipating $0.60 per share in non-GAAP earnings for the first quarter of fiscal 2018 (this quarter). Annualizing such a measure means Cisco's shares are trading at less than 13 times current fiscal-year earnings, a valuation augmented by a strong net cash position. Though Cisco's business model remains in transition, we don't think the market is giving it nearly enough credit for its future free cash flow stream and competitive position. Its dividend yield is also quite attractive at ~3.8%, and free cash flow generation of $12.9 billion in fiscal 2017 more than doubled cash dividends paid of $5.5 billion, suggesting material room for further payout expansion. There may be fits and starts along the way given a revenue model in transition, but we're maintaining our $40+ fair value estimate for shares. Its Dividend Cushion ratio is 2.7.

Realty Income Has Avoided Much of the Trouble in Retail

By Brian Nelson, CFA

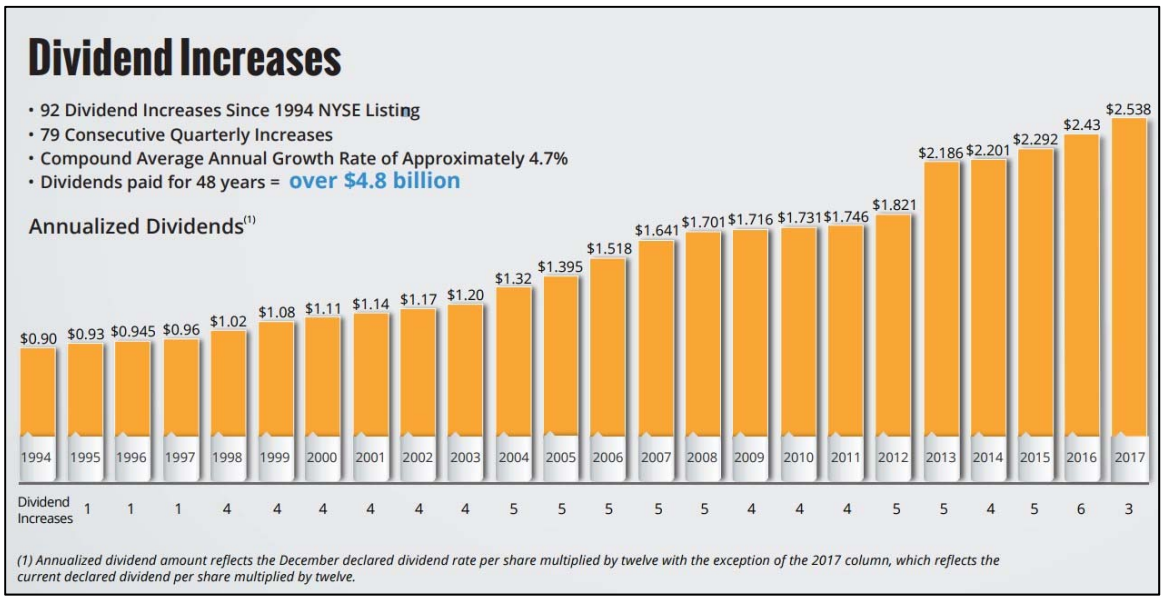


Image Source: Realty Income

Those that don't know Realty Income (O) should get to know it. The real estate investment trust (REIT) isn't called the 'Monthly Dividend Company' for no reason. Its dividend growth track record is simply a sight to see (1), and the company's dividend yield is still relatively attractive at ~4.6%, better than the that of the average S&P 500 company (2%) and even its equity REIT peers (~3.9%). None of this should be new 'news,' however, as we include this dividend growth giant as an idea in the Dividend Growth Newsletter portfolio. For the quarter ended June 30, 2017, adjusted funds from operations (AFFO) per share advanced 7%, while the company raised its 2017 AFFO guidance to $3.03-$3.07, up from $3.00-$3.06 previously. From its second-quarter report:

Please see *Realty Income…*on next page

***Realty Income*...from previous page**

> We achieved another solid quarter of positive operating results and are pleased with our company's position of strength across all areas of our business," said John P. Case, Realty Income's Chief Executive Officer. "During the second quarter, we completed approximately $321 million in acquisitions at attractive investment spreads to our cost of capital, bringing us to nearly $700 million in acquisitions completed during the first half of the year. Our high-quality real estate portfolio now exceeds 5,000 properties and remains healthy with quarter-end occupancy of 98.5%, our highest level in 10 years. Additionally, we recaptured 113% of expiring rent on 53 properties re-leased to existing or new tenants.

Though retail (XRT), its tenant backdrop at ~80% of property-type composition, continues to be in a world of hurt, Realty Income has been able to avoid most of the trouble, with some very healthy tenants at the top. The REIT's combined exposure to retailers that declared bankruptcy during 2017 (True Religion, Wet Seal, Limited Stores, Rue 23, Gymboree, Radio Shack, hhgregg and the like) has been less than 1% of annualized rent. The executive team estimates that, among the most vulnerable industries within the retail sector--apparel, sporting goods, electronics, general merchandise and shoe stores—Realty Income has only about 1.2% of its annualized rent tied to them. Recession-resistant drug stores, convenience stores, and dollar stores collectively account for about ~28% of its business, while somewhat more cyclically-tied health-and-fitness tenants make up ~8%. California and Texas each contribute ~9.3% of the company's total rental revenue, though Realty Income remains well-diversified geographically, in our view. Walgreens (WBA), FedEx (FDX), Dollar General (DG) are its top three customers, and all three are investment-grade clients.

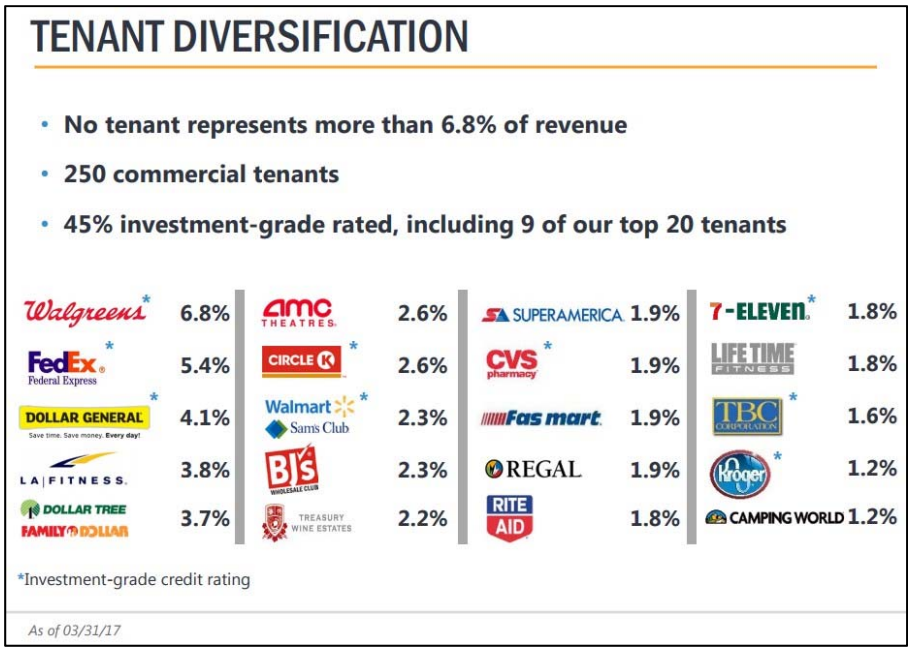


Image Source: Realty Income

Our biggest concern with Realty Income is that its debt-to-total market capitalization may be a little high for any entity, but it does boast investment-grade credit ratings (Baa1/BBB+/BBB+), meaning the capital markets are wide open to this strong dividend payer. Despite a troubling retail backdrop, Realty Income's performance continues to hold up well, and we still like the monthly dividend growth giant in the Dividend Growth Newsletter portfolio as one of our favorite REIT ideas. The company is also a member of the S&P High-Yield Dividend Aristocrats index, a grouping of companies that have consistently increased dividends each year for at least the past 20 years. It's hard to find another company with a bigger focus on dividend growth than Realty Income. Shares continue to trade below all-time highs of $70+ set in July 2016.

(1) On August 17, Realty Income declared its 566th consecutive common stock monthly dividend since its founding in 1969. The REIT has increased its dividend 90+ times, with ~80 consecutive quarter increases, amounting to dividend growth of 180%+, or a compound average annual dividend growth rate of ~4.7%.

Stocks with High Valuentum Buying Index Ratings and Strong Dividend Growth Prospects

By Valuentum Analysts

The table below showcases stocks 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 may be *among* the most timely dividend growth ideas to consider based on our stock-selection methodology. You'll see that many of them are already ideas included in the Dividend Growth Newsletter 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 believes that a new add may have more potential total return opportunity than a current idea already within the newsletter portfolio. At any time, however, our favorite dividend growth ideas are included in the Dividend Growth Newsletter portfolio.

Company Name	Symbol	Est Div Yield	VBI	Div Growth	Div Cushion
Exxon Mobil	XOM	3.8%	7	EXCELLENT	1.2
Coca-Cola	KO	3.3%	7	EXCELLENT	1.3
Boeing	BA	3.1%	7	EXCELLENT	2.0
Eaton	ETN	3.1%	7	GOOD	1.2
PepsiCo	PEP	2.8%	7	GOOD	1.2
Johnson & Johnson	JNJ	2.5%	7	EXCELLENT	1.9
Whirlpool	WHR	2.3%	7	EXCELLENT	2.1
United Technologies	UTX	2.2%	7	GOOD	1.7
Dover	DOV	2.1%	7	GOOD	1.2
Kaiser Aluminum	KALU	2.1%	7	EXCELLENT	2.1
Deere	DE	2.0%	7	GOOD	0.6
Celenese	CE	2.0%	7	EXCELLENT	2.0
Dun & Bradstreet	DNB	1.9%	7	GOOD	1.3
Manpower	MAN	1.7%	7	EXCELLENT	3.4
General Dynamics	GD	1.7%	7	EXCELLENT	2.8
Parker-Hannifin	PH	1.6%	7	EXCELLENT	3.0
FLIR Systems	FLIR	1.6%	7	EXCELLENT	2.9
Becton, Dickinson	BDX	1.6%	7	GOOD	1.4
Oracle	ORCL	1.6%	7	EXCELLENT	4.1
PPG Industries	PPG	1.4%	7	EXCELLENT	3.3
Equifax	EFX	1.1%	7	EXCELLENT	2.8
Jabil Circuit	JBL	1.0%	7	GOOD	4.1
Applied Materials	AMAT	0.9%	7	GOOD	7.8

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. We also make a few other tweaks with respect to business model risk considerations. 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 Castl	Multiplie
Finish Line	FINL	5.2%	3.2	Unattractive	16.70
Automatic Data Processing	ADP	2.2%	7.5	Very Attractive	16.59
GameStop	GME	7.0%	2.2	Very Attractive	15.24
Cooper Tire & Rubber	CTB	1.3%	11.3	Neutral	14.24
Abercrombie & Fitch	ANF	8.3%	1.6	Unattractive	13.05
Guess	GES	7.7%	1.6	Unattractive	12.23
American Eagle	AEO	4.3%	2.8	Attractive	12.16
Foot Locker	FL	3.6%	3.3	Attractive	11.82
QUALCOMM	QCOM	4.3%	2.7	Very Attractive	11.66
Chico's FAS	CHS	2.8%	4.2	Attractive	11.64
Resources Connection	RECN	3.1%	3.2	Very Attractive	10.07
Cisco	CSCO	3.7%	2.7	Very Attractive	9.94
AVX Corp	AVX	2.6%	3.8	Attractive	9.81
Fluor	FLR	1.8%	5.3	Attractive	9.81
Gap	GPS	4.0%	2.4	Attractive	9.71
Chicago Rivet	CVR	2.5%	3.8	Neutral	9.37
Scholastic Corp	SCHL	1.4%	6.5	Attractive	9.31
CA Tech	CA	3.2%	2.8	Highest Rated	8.97
Gentex	GNTX	2.3%	3.8	Attractive	8.77
Western Union	WU	3.6%	2.4	Neutral	8.59
Apple	AAPL	1.6%	5.3	Highest Rated	8.55
Williams-Sonoma	WSM	3.4%	2.5	Attractive	8.43
Graham Holdings Co	GHC	0.9%	9.5	Attractive	8.38
Brookfield Infrastructure	BIP	4.3%	1.9	Neutral	8.16
Ralph Lauren	RL	2.6%	3.2	Attractive	8.16
Insperity	NSP	1.6%	5.1	Neutral	8.03
NTT Docomo	DCM	3.1%	2.6	Attractive	7.93
Granite Construction	GVA	1.1%	7.3	Attractive	7.92
Garmin	GRMN	4.0%	2.0	Attractive	7.79
Lear Corp	LEA	1.4%	5.5	Attractive	7.76
Intel	INTC	3.1%	2.4	Attractive	7.64
Best Buy	BBY	2.3%	3.3	Attractive	7.58
CECO Environmental	CECE	3.3%	2.3	Attractive	7.50
Paychex	PAYX	3.0%	2.5	Very Attractive	7.46
Hewlett-Packard	HPQ	2.8%	2.6	Very Attractive	7.38
Pfizer	PFE	3.8%	1.9	Attractive	7.30
Meridian	VIVO	3.6%	2.0	Attractive	7.23
Big 5	BGFV	4.7%	1.5	Neutral	7.21
Interpublic	IPG	3.0%	2.4	Very Attractive	7.20
Dick's Sporting	DKS	2.5%	2.8	Attractive	7.16
Applied Materials	AMAT	0.9%	7.8	Very Attractive	7.15
Capella Education	CPLA	1.8%	3.9	Highest Rated	7.10
Helmerich & Payne	HP	5.1%	1.4	Neutral	7.02
Amgen	AMGN	2.6%	2.7	Very Attractive	7.01
Archer-Daniels-Midland	ADM	3.1%	2.2	Attractive	6.88
Xilinx	XLNX	2.2%	3.1	Highest Rated	6.78
Cardinal Health	CAH	2.7%	2.5	Very Attractive	6.69
Seagate	STX	7.6%	0.9	Attractive	6.68
McKesson	MCK	0.9%	7.6	Very Attractive	6.66
Cheesecake Factory	CAKE	2.0%	3.3	Attractive	6.61

Yields to Consider Avoiding

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 more conservative dividend-growth investor may want to consider steering clear of the following firms' shares:

Company Name	Symbol	Industry	Est Div Yield	Div Safety	Div Cushion
Frontier Comm	FTR	Telecom Services - diversified	1.0%	VERY POOR	-102.0
Textainer	TGH	Rental and Leasing	0.8%	VERY POOR	-73.2
Range Resources	RRC	Independent Oil & Gas	0.5%	VERY POOR	-42.9
KB Home	KBH	Homebuilders	0.4%	VERY POOR	-29.2
Lennar	LEN	Homebuilders	0.3%	VERY POOR	-20.4
Superior	SUP	Auto Parts Suppliers	2.5%	VERY POOR	-12.1
Ball Corp	BLL	Containers & Packaging	1.0%	VERY POOR	-11.5
Devon Energy	DVN	Independent Oil & Gas	0.8%	VERY POOR	-9.8
R.R. Donnelley	RRD	Commercial Services	4.4%	VERY POOR	-6.6
Anadarko	APC	Independent Oil & Gas	0.5%	VERY POOR	-6.5
Silgan	SLGN	Containers & Packaging	1.1%	VERY POOR	-6.3
Tailored Brands	TLRD	Retail - Men's, Women's, Kids' Apparel	6.3%	VERY POOR	-6.3
Teva Pharma	TEVA	Pharma - Generic/Other	1.7%	VERY POOR	-5.8
Ryder System	R	Rental and Leasing	2.5%	VERY POOR	-5.8
Deltic Timber	DEL	Building Materials	0.5%	VERY POOR	-5.7
Intl Game Technology	IGT	Leisure	4.0%	VERY POOR	-5.5
Diebold	DBD	Commercial Services	1.9%	VERY POOR	-4.3
Yamana Gold	AUY	Metals & Mining - gold	0.7%	VERY POOR	-3.4
NiSource	NI	Utilities	2.7%	VERY POOR	-3.3
Rent-A-Center	RCII	Rental and Leasing	2.3%	VERY POOR	-2.5
Noble Energy	NBL	Independent Oil & Gas	1.6%	VERY POOR	-2.5
Wendy's Co	WEN	Restaurants - Fast Food & Coffee	1.8%	VERY POOR	-2.4
MDC	MDC	Homebuilders	2.9%	VERY POOR	-2.3
Hill-Rom	HRC	Medical Instruments	1.0%	VERY POOR	-2.2
CF Industries	CF	Chemicals - agriculture	3.9%	VERY POOR	-2.2
Viacom	VIA	Media - CATV	2.1%	VERY POOR	-1.9
Centurylink	CTL	Telecom Services - diversified	9.2%	VERY POOR	-1.9
Orchids Paper	TIS	Paper Products	11.2%	VERY POOR	-1.9
Olin Corp	OLN	Chemicals - mid/small	2.6%	VERY POOR	-1.8
DineEquity	DIN	Restaurants - Fast Cas & Full Svc	9.5%	VERY POOR	-1.6
First Energy	FE	Utilities - Large	4.5%	VERY POOR	-1.5
Service Corp Intl	SCI	Personal Services	1.7%	VERY POOR	-1.4
Molson Coors	TAP	Beverages - alcoholic	1.8%	VERY POOR	-1.3
Plains All American	PAA	Oil & Gas Pipelines	5.9%	POOR	-1.2
Huntsman	HUN	Chemicals - broad	1.9%	VERY POOR	-1.2
Regal	RGC	Movie Production	3.9%	VERY POOR	-1.1
PPL	PPL	Utilities - Large	4.1%	VERY POOR	-1.0
PG&E	PCG	Utilities - Large	3.1%	VERY POOR	-1.0
SCANA	SCG	Utilities	3.8%	VERY POOR	-1.0
Newell Brands	NWL	Household Durables	1.7%	VERY POOR	-1.0

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

CVS Health Still Stuck in Neutral

By Alexander J. Poulos

Overview

CVS Health (CVS) operates a hybrid pharmacy model--it has melded together a ubiquitous pharmacy chain with a world-class Pharmaceutical Benefit Management (PBM) business. The hybrid model directly contrasts with the model operated by its primary rival Walgreens (WBA), which maintains a focus on pharmacy retail operations. The pharmacy retail field continues to consolidate with CVS acquiring the pharmacy division from Target (TGT) and Walgreens acquiring a portion of Rite Aid's (RAD) pharmacy locations. The consolidation hasn't stopped there; Walgreens just announced its intention to become a minority investor in PharMerica (PMC) (provides pharmaceutical services to the assisted living and nursing home market) as it is taken private by KKR. The removal of Target's pharmacies has now culled the field to three national players--CVS, Walgreens and Walmart (WMT)--with a host of regional players and supermarket operators, most notably Kroger (KR).

Quarterly Results

Second Quarter: Continued Solid Results

	Q2 2017	Change vs. Q2 2016
Consolidated net revenues	$45.7 billion	4.5%
Consolidated operating profit (1)	$2.3 billion	(7.0%)
Adjusted EBITDA (2)	$2.9 billion	(5.2%)
Adjusted EPS (3)	$1.33	0.8%
Free Cash Flow (4)	$1.6 billion	37.2%

Image Source: CVS second-quarter presentation

CVS' operating results continue to be impacted by the loss of a few key contracts at the end of 2016, which is pressuring overall prescription volume. On a 30-day equivalent basis, same-store prescription volumes were flat in the second quarter of 2017 compared to the year-ago period, but the aforementioned network changes resulted in a negative impact of 460 basis points on said volumes. In addition, the company revised its 2017 guidance for its 'Retail/Long-Term Care' segment to reflect expectations for slightly lower volumes. It now expects segment revenue to decline 2.75%-3.5%, total comps to be down 3.5%-4.25%, script comps growth of negative 0.75% to positive 0.25%, and the segment's operating profit is expected to fall 8.75%-10%.

The loss of the contracts is the main culprit for CVS' less-than-ideal performance, but other industry dynamics are causing some of the downward pressure as the reimbursement scheme for 2017 remains a significant headwind with reimbursement rates noticeably lower than last year. Pharmacy chains are well-versed in offsetting the headwind of lower payments with tactics such as higher generic dispensing rates coupled with an increase in script volume. The pharmacy business is saddled with high fixed costs, and the additional cost to service an increase in volume is rather negligible, meaning the last prescription filled is often the most profitable. Thus, the loss of volume deprives the organization of its primary method of offsetting lower reimbursement rates.

Digging further into the quarterly results, CVS' 'PBM' segment posted a 4.5% jump in consolidated revenues

Please see *CVS Health*...on next page

CVS Health...from previous page

from the year-ago period to $45.7 billion, while the number of claims jumped a very healthy 9.5%, a sign of strength in our opinion. The PBM segment is firing on all cylinders, but the drag remains the 'Retail/Long-Term Care' arm, which posted a sales decrease of 2.2% in the second quarter on a year-over-year basis. In addition, prescription volume weakness will have an adverse impact on store traffic, evidenced by the negative 2.1% comps performance in its retail store operations in the second quarter. The retail store division is the smallest portion of CVS operations, but it is highly dependent on pharmacy sales to drive foot traffic.

CVS Remains a Cash Flow Story

CVS continues to throw off gobs of free cash flow despite its struggles in the current operating environment, and it has generated over $4.6 billion in free cash flow through the first two quarters of 2017. Management is guiding for free cash flow in 2017 to fall within the range of $6.0-6.4 billion, and it continues to target top-notch shareholder friendliness with capital returned to shareholders in the form of dividends and share repurchases expected to surpass $7 billion in the year. Typically we would not be accepting of capital-return plans that exceed expectations for free cash flow, but we view CVS' share buybacks as adding value at current price levels as shares continue to trade below the lower bound of our fair value range. Nevertheless, we would clearly love to see CVS find a catalyst to facilitate price-to-fair value convergence, and we may be on the cusp of such an event.

PBM Selling Season

We are currently in the midst of the 2017 PBM selling season, in which contracts are negotiated for services in 2018. In 2016, CVS was caught flat-footed by Walgreens' move to make up for business lost in previous years as it bid more aggressively and offered more favorable terms than CVS. The net result of the situation was Walgreens winning some lucrative contracts that wound up excluding CVS. Shares of CVS were trading in the mid-to-high $80's when the news was released, a level the company has yet to return to.

The PBM selling season seems to have gotten off to a positive start thus far for CVS with the company reporting $5.4 billion in gross wins and $1.8 billion in net new wins. We are confident the management team is keenly aware of the need to drive additional prescription volume to boost profitability, and it has maintained it is retaining pricing discipline, which should help margin performance. However, pricing discipline is a concern for us as we view it as counterproductive to accept contracts that will result in negative net margins once the full costs of servicing the contract are factored in. All things considered, a successful PBM selling season coupled with a lower share count could prove to be the proper prescription to fuel price-to-fair value convergence for CVS.

Conclusion

While we remain frustrated by the relative lack of movement in the equity of CVS against the backdrop of what has been a roaring bull market, we are willing to exercise patience as CVS continues to generate copious amounts of free cash flow that fund its shareholder capital-return program. The current PBM selling season may act as a catalyst should results show improvement over the 2016 season, but in the meantime we remain content with CVS' quarterly dividend payments. We rate CVS' dividend safety as as good--its Dividend Cushion ratio hovers just above parity (1), a figure that factors in robust double-digit growth in the payout--due to the strength of its free cash flow coverage of annual dividend obligations. Shares yield just over 2.5% as of this writing.

Healthcare and biotech contributor Alexander J. Poulos is long CVS Health.

Dividend Cut Coming at Plains

By Brian Nelson, CFA and Kris Rosemann

It's been a bull market for some time, but that doesn't mean all is calm within the ranks.

Plains All American (PAA) disappointed investors August 8 after performance during its second quarter came in below expectations and the company lowered forward guidance. We've been cautious on the master limited partnership (MLP) space and critical of certain industry-specific metrics for some time, so the disappointment shouldn't be surprising to our readership. Plains All American noted at the time that it was conducting a "management and board review of PAA's distribution" as "opinions differ on the 'right' distribution level (page 12)," and the executive team pointed to $1.80 per unit as an illustrative distribution level, which if implemented would amount to a $0.40 per-share reduction from current $2.20 per-unit levels. Plains All American's Dividend Cushion ratio is -0.7 (negative 0.7). The executive team reduced its fiscal 2017 adjusted EBITDA outlook to $2.075 billion:

> Unfortunately, we continue to experience significant downward pressure in our margin-based Supply and Logistics segment. As a result, we updated our full-year 2017 Adjusted EBITDA guidance and our 2018 preliminary forecast. The updated 2017 guidance reflects a downward revision of $185 million, or 8%, primarily associated with the Supply & Logistics segment. Our 2018 preliminary forecast now includes a range with respect to our Supply & Logistics segment, from $100 million to $300 million.

Plains' management team announced the results of its distribution review August 25, and the MLP plans to reduce its annual distribution to $1.20 per unit. The distribution cut is expected to result in savings of ~$1.1 billion over 6 quarters. In addition to slashing the distribution, Plains All American plans to complete $700 million in pending strategic asset sales and reduce hedged crude oil and NGL inventories and related debt by ~$300 million. With help from these moves, it is targeting the reduction of total debt to ~$9.7 billion by March 31, 2019, from $11.15 billion at June 30, 2017. The MLP will continue to fund its growth capital program with new equity issuance and asset sale proceeds, highlighting the dependence of the MLP business model on access to healthily functioning capital markets. This dependence is at the base of our concerns over such a business model and the "financially-engineered" dividends that come with it.

Though shares received a slight boost as a result of its new distribution and leverage-reduction plans and are now back above the $20 mark--unlike similarly beleaguered MLP Energy Transfer Partners (ETP)--Plains All American's stock price performance has been nothing short of a train wreck since mid to late-2014 when it nearly touched $50.

Understanding Share Buybacks

By Brian Nelson, CFA

Management Teams Are Not Independent, Unbiased Sources of Information

Share buybacks are not always a "good thing."

The general rule of thumb may be that share buybacks reveal that management believes its stock is underpriced and that the executive team thinks there may be no better investment opportunities out there with firm money than its very own company stock, but while this sounds good, it doesn't always mean that share repurchases will benefit stockholders, or even create value in the long run. The reality is that management teams seemingly almost always think their company's stock is undervalued (except maybe Netflix's Reed Hastings?), and internal company projections that may estimate intrinsic value are subject to as much forecasting error and potential bias as any outside assessment.

A recent example of "stock buybacks gone wrong" is RadioShack (RSH), which in August 2010 went on a buying spree for its own shares (click here and here), specifically announcing an accelerated share repurchase program August 23, 2010. The image below shows when the buybacks were announced at

Please see *Understanding Share Buybacks…*on next page

*Understanding Share Buybacks…*from previous page

RadioShack, the red circle on the chart, and the subsequent stock performance though late 2013. RadioShack ended up filing for bankruptcy February 5, 2015, and then again in 2017. By most assessments, the company failed to reconnect with its customer base in the midst of increasing competition from more innovative and forward-leaning enterprises. In hindsight, it is clear RadioShack would have been better off keeping the money it spent on buybacks, and that is the point: not all buybacks are a positive sign and not all buybacks will generate value for shareholders (IBM is another example).

Image shown: Buybacks aren't always positive for shareholders. An image showing when RadioShack bought back its own stock, just a few short years prior to filing for bankruptcy.

With the idea that share buybacks are not always the best use of shareholder cash firmly established, let's address situations where management teams may get into trouble with traditional buyback analysis. Many market participants, for example, may believe that a stock will automatically be re-capitalized at a certain earnings multiple based on its forward earnings per share, which all else equal, will be enhanced as share buybacks are implemented. The thinking goes that a higher earnings per share number times (multiplied by) the same P/E multiple as before will equal a higher stock price than before. Unfortunately, this is generally not how value is created, and again, IBM (IBM) is yet another good example of this. IBM, for example, became so focused on achieving lofty operating earnings per share forecasts, augmented by share buybacks, that it lost sight of value-generation (the pursuit of high-ROIC projects relative to an estimated cost of capital).

Though there may be myriad reasons why market participants believe buybacks are generally always positive, such a view often comes down to investors overlooking one important source of value: the balance sheet. An understanding of the fundamental components of equity value, however, can help market participants determine whether share buybacks are value-creating (they add to the fair value of a company) or if they are value-destructive (they detract from the fair value of a company). Talking about the balance sheet with respect to buybacks, which seemingly only serve to enhance the earnings per share on the income statement, seems a bit off topic, but the balance sheet is a source of firm value, too, and that's where share buybacks are financed (either through cash already on the books, newly-issued debt, or internally-generated free cash flows). All else equal, a company with $100 billion in net cash is worth more than a company with $1 million in net cash. The takeaway is that not all components of intrinsic value rest on the income statement and can be appropriately captured by earnings per share.

Please see *Understanding Share Buybacks…*on next page

*Understanding Share Buybacks...*from previous page

Understanding the Components of Equity Value

$$\text{Fair value} = \left[\sum_{t=0}^{\infty} \frac{A(t)}{(1+d)^t} - B(0) - C(0) + D(0)\right]$$

where A (t) is an Enterprise Free Cash Flow (1) at year t,

B (0) is a Total Debt at time 0,

C (0) is a Preferred Stock at time 0,

D (0) is a Total Cash at time 0,

d is Weighted Average Cost of Capital (WACC).

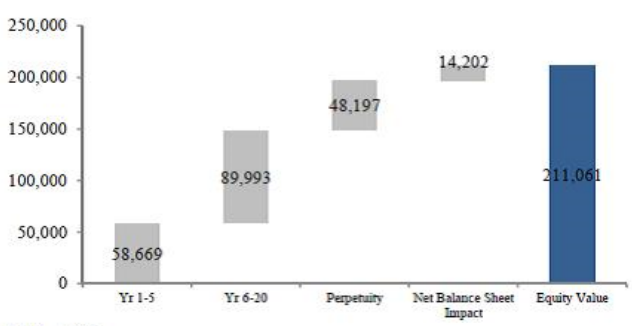
Notes: There are generally three primary sources of intrinsic value of a company. First, the company's operating activities have value, as measured by the present value of all future enterprise free cash flows that are generated for all stakeholders of the business (debt holders, equity holders, etc), to the entire enterprise (A). Second, the company's balance sheet can have value (D - B - C, in image above). For example, if a company has $1 billion in total cash and $500 million in total debt and no preferred stock outstanding, if the board should decide to shut down today, shareholders would be entitled to the net cash position, or $500 million ($1 billion less $500 million), adjusted for closing/unwinding expenses. Third, a company's "hidden" assets such as an overfunded pension or an equity stake in another company that may not be accurately reflected in GAAP accounting statements can have value (this aspect is not included in formula above, but an expanded definition might include it).

An intrinsic value estimate of any non-financial equity (stock) is generally calculated as follows: the discounted future enterprise free cash flows to the firm (enterprise cash flow) are added to the company's current balance-sheet net cash position, and that sum is divided by current shares outstanding. The result is an estimate of the firm's fair value per share. Share buybacks influence the value equation as follows: shares are reduced by the number of shares repurchased and cash on the balance sheet is reduced by the cost of the share repurchase program (price paid per share multiplied by number of shares outstanding).

Shown below is Oracle's (ORCL) equity value make-up as an example. Future free cash flows are calculated by our analysts. A look on page 84 of Oracle's 10-K, in fiscal 2012, shows the company's cash and cash equivalents ($14.96 billion) plus marketable securities ($15.72 billion) less its current notes payable ($2.95 billion) less its long-term notes payable ($13.52 billion), which equals the net balance sheet impact of $14.2 billion (fourth bar from the left). You'll find Oracle's shares outstanding in that same 10-k on page 85 (5.12 billion), which we use to arrive at the company's fair value estimate per share.

Valuation Breakdown

In the chart below, we show the build up to our estimate of total enterprise value for Oracle and the break down to the firm's total equity value, which we estimate to be about 211.06USD billion. The present value of the enterprise free cash flows generated during each phase of our model and the net balance sheet impact is displayed. We divide total equity value by diluted shares outstanding to arrive at our $41 per share fair value estimate.



In Millions of USD

You'll notice that we didn't say future shares outstanding or future earnings per share in this case. Generally speaking, an intrinsic value estimate of a company considers its current net balance-sheet position and current shares outstanding. Within enterprise valuation, the company's future outlook is captured via the entity's discounted future enterprise free cash flows. In the valuation context, we therefore focus on evaluating the operating and investing dynamics (capex) of the company--share buybacks (and dividends) are financing activities--and spend most of our time thinking about the nature of a company's future enterprise free cash flow stream (revenue, operating earnings, net income, working capital movements, capital expenditures). A company's future earnings per share changes that are

Please see *Understanding Share Buybacks...*on next page

*Understanding Share Buybacks…*from previous page

exclusively driven by future share buybacks (made at the fair value price) are theoretically already captured in the intrinsic value equation either with 1) today's current balance-sheet net cash position or 2) future free cash flows to the firm. Only when share buybacks are completed at a price that differs from our estimate of the company's intrinsic value would value-creation or value-destruction occur.

A modeling note: We view today's cash on the balance sheet or future free cash flows to the firm as the only two sources of cash that can be used for future buybacks. Issuing debt in the future may be used for buybacks but that action alone is value-neutral: debt is increased by the amount cash is increased – therefore the net cash position on the balance sheet is unchanged. The subsequent share buybacks financed by newly-issued debt at a future date are assumed to be made at the fair value price – no change in value. Predicting when companies will issue new debt and at what price they may or may not buy back shares tends to be a highly speculative and aggressive valuation procedure, in our view, and we tend to avoid making such forecasts. That said, with newly-issued debt at a future date, there may be a change in the discount rate as a result of the new capital structure, but we typically reset our valuation with the new capital structure at that time, and only in material, transformative instances. We do not build in material capital structure changes in the model in future years as we again would view this as speculative and aggressive valuation procedure.

How Share Buybacks Impact Intrinsic Value

As you have read thus far, we're generally not concerned with earnings per share in the out-years of our valuation approach as a result of a share buyback program. Instead, we focus on future operating earnings (or net income, or more specifically, earnings before interest) and the capital requirements of the entity (i.e. net new investment in arriving at an estimate of future free cash flows to the firm). We generally assume that future share buybacks to be completed at an unknown price in the future are fair-value neutral, what we consider to be a reasonable expectation, until the buybacks are completed. Key concepts thus far:

1) An intrinsic value estimate considers the balance sheet

2) Share buybacks impact earnings per share and the cash on the balance sheet

3) We assume future share buybacks are made at the fair-value price until they are completed

In the case where share buybacks are completed, there are a few things that happen:

--> Shares are reduced by the number of shares bought back

--> The amount of cash on the balance sheet is reduced by the number of shares bought back multiplied by the price per share

--> The resulting addition to the fair value estimate or detraction from the fair value estimate rests on which change is more powerful. Either:

a. the impact of the reduction of the number of shares has a smaller impact on the fair value estimate than the reduction in cash on the balance sheet

b. the impact of the reduction of the number of shares has a greater impact on the fair value estimate than the reduction in cash on the balance sheet

Let's use a couple hypothetical examples to illustrate a value-creating buyback and a value-destroying buyback.

Please see *Understanding Share Buybacks…*on next page

*Understanding Share Buybacks...*from previous page

Value-Creating Buyback Scenario*

Per Oracle, above:

Sum of Discounted Future Free Cash Flows: 58,669 + 89,993 + 48,197 = $196.86 billion
Net Balance Sheet Impact: $14.2 billion
Total Equity Value: $211.06 billion
Shares Outstanding: 5.1 billion
Fair Value Estimate: $41.38 per share.

At the time of this original publishing, Oracle's shares were trading at $33.15 per share. Let's say, for illustration purposes, Oracle decides to use all of its net cash of $14.2 billion to buy back 0.428 billion shares. Here's the new equity value make-up:

Sum of Discounted Future Free Cash Flows: 58,669 + 89,993 + 48,197 = $196.86 billion
Net Balance Sheet Impact: $0 billion
Total Equity Value: $196.86 billion
Shares Outstanding: 4.67 billion
Fair Value Estimate: $42.15 per share.

By buying back stock at the price levels outlined in this example, Oracle has theoretically created value. The company's new fair value estimate is $42.15 (was $41.38). Though there is always the risk of fair-value estimation error, buying back stock would make sense in this situation.

Value-Destroying Buyback Scenario*

Let's use Home Depot (HD) in this hypothetical example. Here's the equity value make-up for the home improvement powerhouse:

Sum of Discounted Future Free Cash Flows: 28,121 + 49,482 + 28,513 = $106.1 billion
Net Balance Sheet Impact: -$8.3 billion
Total Equity Value: $97.81 billion
Shares Outstanding: 1.51 billion
Fair Value Estimate: $64.73 per share.

Let's assume that Home Depot buys back $10 billion worth of stock at the price at the time of original publishing, at $76.14 per share. This action would reduce shares outstanding by 0.131. Here's the new equity value make-up:

Sum of Discounted Future Free Cash Flows: 28,121 + 49,482 + 28,513 = $106.1 billion
Net Balance Sheet Impact: -$18.3 billion
Total Equity Value: $87.81 billion
Shares Outstanding: 1.379 billion
Fair Value Estimate: $63.67 per share.

In this case, by buying back stock at the price levels outlined in this example, Home Depot has theoretically destroyed value. The company's new fair value estimate is $63.67 per share (was $64.73). Buying back stock, in this case, may not make much sense even though future earnings per share will increase, all else equal and assuming our fair value estimate is "correct."

*** Both scenarios assume no change in a company's weighted average cost of capital.**

Please see *Understanding Share Buybacks...*on next page

*Understanding Share Buybacks…*from previous page

Valuentum's Take

All told, we hope that we've explained why share buybacks may not always a good thing, and why only through a focus on the entire value composition can investors estimate whether share buybacks theoretically can create or destroy economic value. Rule of Thumb: If share buybacks are completed at a price level that is under a firm's fair value estimate, the activity can be considered value-creating. If share buybacks are completed at a price level that is above a firm's fair value estimate, they can be considered value-destroying. All of this comes with one big caveat, however: the estimate of the fair value relative to the price at which buybacks are completed must be directionally "correct." We hope you enjoyed this piece.

Top 10 Companies by Dollar-Value Buybacks – Most Recent Quarter

Company	Sector	Quarter's Buybacks ($M)	% Change in Shares (Qtr)	Dividend Outflows	1 Year Total Return
Apple Inc.	Information Technology	$16,000	(3.4%)	$2,811	(31.5%)
Merck & Co., Inc.	Health Care	$5,025	(3.0%)	$1,332	11.0%
General Electric Company	Industrials	$4,068	(1.5%)	$1,972	10.6%
Exxon Mobil Corporation	Energy	$4,030	(1.0%)	$2,794	(0.5%)
IBM Corporation	Information Technology	$3,501	(1.2%)	$1,048	(6.1%)
AT&T Inc.	Telecom Services	$3,307	(1.6%)	$2,428	(5.0%)
Pfizer Inc.	Health Care	$3,277	(6.7%)	$1,701	22.8%
Oracle Corporation	Information Technology	$2,827	(1.5%)	$0	6.8%
The Home Depot, Inc.	Consumer Discretionary	$2,126	(1.8%)	$566	32.6%
Wal-Mart Stores, Inc.	Consumer Staples	$1,850	(0.6%)	$1,543	3.9%
S&P 500	**-**	**$122,752**	**(0.4%)**	**$82,728**	**19.2%**

Image Source: FactSet, 9/23/2013

A version of this article appeared on our website October 28, 2013. This article is for educational purposes only and may not reflect our updated opinion on any companies mentioned. Please access the updated research for any company of interest.

Value and Momentum Within Stocks, Too

UPDATED: Valuentum released a study on its Valuentum Buying Index ratings! To download the paper in PDF form:

https://www.valuentum.com/downloads/20170729/download

Study of Individual Time Series of 20,000+ Valuentum Buying Ratings

Value and Momentum Within Stocks, Too

An Introduction to the Valuentum, the Value-Timing and the Ultra-Momentum Factors

Brian Nelson, CFA
Tatiana Dmitrieva
Kris Rosemann

First Version: July 2017
This Version: August 2017

Abstract

This paper strives to advance the field of finance in four ways: 1) it extends the theory of the "The Arithmetic of Active Management" to the investor level; 2) it addresses certain data problems of factor-based methods, namely with respect to value and book-to-market ratios, while introducing price-to-fair-value ratios in a factor-based approach; 3) it may lay the foundation for academic literature regarding the Valuentum, the value-timing, and ultra-momentum factors; and 4) it walks through the potential relative outperformance that may be harvested at the intersection of relevant, unique and compensated factors within individual stocks.

© Valuentum Securities. All rights reserved.

Brian Nelson, MBA Booth School of Business, University of Chicago, formerly Director of Training and Methodology Development at Morningstar, is President of Equity Research and ETF Analysis at Valuentum, an independent investment research publisher serving individual investors, financial advisors, and institutional money-managers. Special thanks to Tatiana Dmitrieva, Data Scientist at Valuentum, Kris Rosemann, Head of Data and Associate Investment Analyst at Valuentum, Chris Araos, and to the dozens of analysts and colleagues at Morningstar and Driehaus Capital Management for the thoughts and comments during the past decade that ultimately shaped this analysis, making this paper possible. The views expressed herein are those of the authors and may not reflect the views of any company or organization mentioned.

1

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-Aug-2017 — Data as of 25-Aug-2017

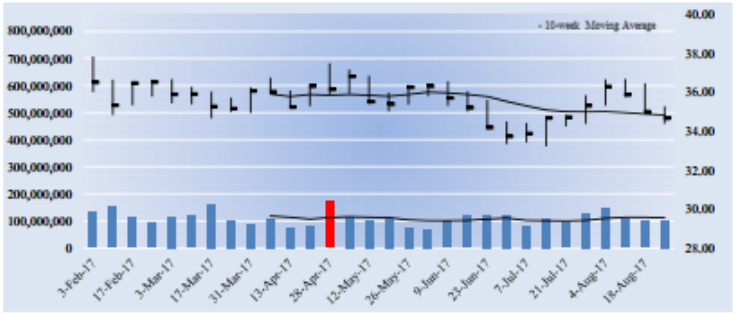
Intel INTC FAIRLY VALUED

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 - $52.00	HEALTHY	GOOD / 2.4	EXCELLENT	3.14%

Intel's Dividend Cushion ratio is among the best in our coverage after considering the size of its annual dividend yield, but its deal with Mobileye will impact its balance sheet health.

Stock Chart (weekly)



Company Vitals

Market Cap (USD)	$169,016
Avg Weekly Vol (30 wks)	110,604
30-week Range (USD)	33.23 - 37.84
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)	2.9%
Forward EPS Growth (5-yr)	10.7%

Dividend Vitals

Current Annual Dividend Yield %	3.1%
Annual Dividends Per Share	1.09
Forward Dividend Payout Ratio	35.9%
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	866.75	27.25
50	1,733.50	54.50
100	3,467.00	109.00
200	6,934.00	218.00
300	10,401.00	327.00
400	13,868.00	436.00
500	17,335.00	545.00
1,000	34,670.00	1,090.00
2,000	69,340.00	2,180.00
5,000	173,350.00	5,450.00
10,000	346,700.00	10,900.00
50,000	1,733,500.00	54,500.00
100,000	3,467,000.00	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 / 2.4

We assess the safety of a firm's dividend by adding the company's net cash to our forecast of its free cash flows over the next five years. We then divide that sum by the total expected dividends over the next five years. This process results in our Dividend Cushion™ ratio. A Dividend Cushion™ above 1 indicates a firm can cover its future dividends with net cash on hand and future free cash flow, while a score below 1 signals trouble may be on the horizon. And by extension, the greater the score, the safer the dividend, as excess cash can be used to offset any unexpected earnings shortfall. Intel scores a 2.4 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 $1.43 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	3.14%
Annual Dividends per Share	$1.09
Initial Annual Div's Paid, $10k Investment	$314.39
Dividend Track Record	HEALTHY
Dividend Safety	GOOD
Valuentum Dividend Cushion™	2.4
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).

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*	*3.04*	*35.9%*
Dec-18	*1.18*	*8.0*	*3.13*	*37.6%*
Dec-19	*1.27*	*8.0*	*3.25*	*39.1%*
Dec-20	*1.35*	*6.0*	*3.38*	*39.9%*
Dec-21	*1.43*	*6.0*	*3.51*	*40.6%*

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

The information and data contained in this report is not represented or warranted to be timely, complete, accurate, or correct. This report is for informational purposes only and should not be considered a solicitation to buy or sell a security. Before acting on any information in this report, you should consider whether the information is suitable for your particular circumstances and, if necessary, seek professional advice. Assumptions, opinions, and estimates are based on our judgment as of the date of the report and are subject to change without notice. Valuentum is not responsible for any errors or omissions or for results obtained from the use of this report. Redistribution is prohibited without written permission. To license Valuentum research, contact us at valuentum@valuentum.com.

VALUENTUM

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 by Ned Davis Research, 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.

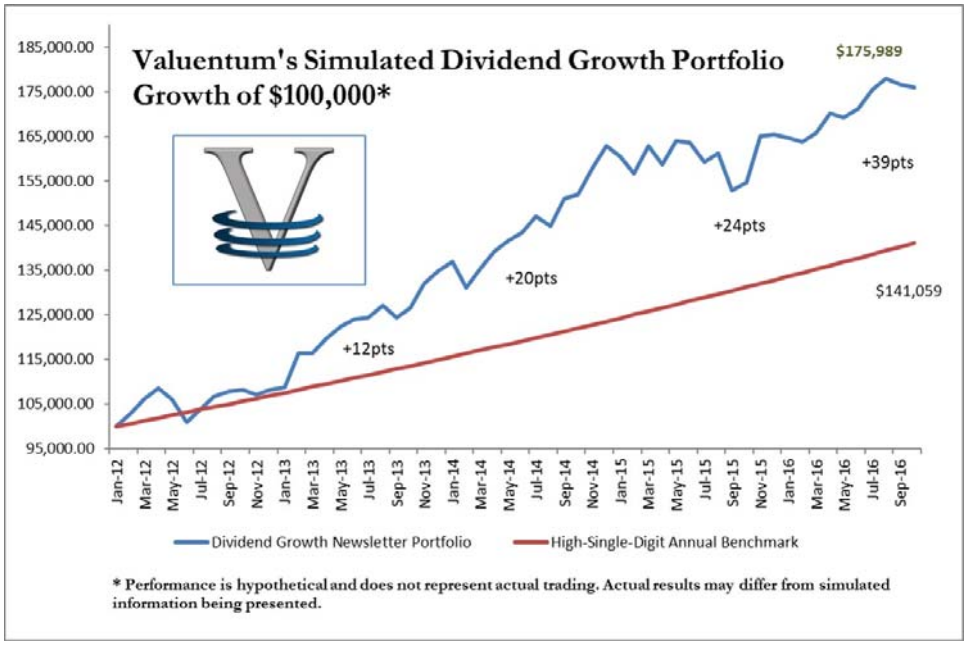
Such analysis is difficult to ignore, and we believe investors may be well-rewarded in future periods by finding the best dividend-growth stocks out there. As such, we've developed a rigorous dividend investment methodology that uncovers firms that not only have the strongest dividends but also ones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



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

*About Our Valuentum Dividend Cushion…*from previous page

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 on the basis of our estimates, 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.

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

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

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

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

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

(3) Forecast is 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.

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

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

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 9

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).

© Valuentum Securities, Inc. All rights Reserved. The information contained in this report is not represented or warranted to be accurate, correct, complete, or timely. This report is for informational and educational purposes only and should not be considered a solicitation to buy or sell any security. The securities mentioned herein may not be suitable for all types of investors. The information contained in this report does not constitute any investment advice, especially on the tax consequences of making any particular investment decision. This material is not intended for any specific type of investor and does not take into account an investor's particular investment objectives, financial situation or needs.

This report is not intended as a recommendation of the securities highlighted or any particular investment strategy. Before acting on any information found in this report, readers should consider whether such an investment is suitable for their particular circumstances, perform their own due-diligence, and if necessary, seek professional advice. This report has not been tailored to suit any particular person's portfolio or holdings.

Assumptions, opinions, and estimates are based on our judgment as of the date of the report and are subject to change without notice. Valuentum is not responsible for any errors or omissions or for results obtained from the use of this report and accepts no liability for how readers may choose to utilize the content. In no event shall Valuentum be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the information contained in this document. Investors should consider this report as only a single factor in making their investment decision.

Valuentum is not a registered investment advisor, does not offer brokerage or investment banking services, and adheres to professional standards and abides by formal codes of ethics that put the interests of clients and subscribers ahead of their own. As of the date of this report, Valuentum has not received any compensation from companies highlighted in this report. Valuentum, its employees, affiliates, and contributors may have long, short or derivative positions in the stock or stocks mentioned herein.

No warranty is made regarding the accuracy of any data or any opinions. The portfolio in the Valuentum Dividend Growth Newsletter is hypothetical and does not represent real money. Performance assessment of the Valuentum Buying Index™ is currently ongoing, and we intend to update readers periodically. Actual results may differ from simulated information being presented. Past performance is not a guarantee of future results.

Redistribution is prohibited without written permission. For general information about Valuentum's products and services, please contact us at info@valuentum.com.