OUR DIVIDEND GROWTH NEWSLETTER

Valuentum Securities

Stock Analysis: From Value through Momentum Investing

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Dividend Growth Ideas: AAPL, BKLN, CBRL, CSCO, DLR, XLE, XLF, GM, KMI, XLV, IDV, INTC, JNJ, MSFT, O, ORCL, SDY
Most-recently Added: KMI, XLV
Most-recently Removed: HAS, NVS
Under Consideration: PH

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"The less the prudence with which others conduct their affairs, the greater the prudence with which we must conduct our own."

– Warren Buffett (2018)

New Highs! The December Call Has Been Well-Rewarded

"The less the prudence with which others conduct their affairs, the greater the prudence with which we must conduct our own." - Warren Buffett (2018)

By Brian Nelson, CFA

While others are celebrating, we know better. This market could come down upon itself like nothing else. But for now. We breathe a sigh of relief. A company, Valuentum, that emphasizes the importance of timing and then delivers on that cold December 26 day to move to all-in in the newsletter portfolios is something remarkable. We cannot go back to the fateful time, some 20%+ ago now, but we can learn from it. This bull market is not going down without a fight.

The political environment seems nothing less than a circus these days, and it is only being amplified by social media. As I write in *Value Trap*, I couldn't have envisioned a Republican President winning again for many a term after Barack Obama, but here we are with President Trump at the helm. Not only that, but he was able to push through corporate tax cuts, has the 10-year falling, and is working aggressively to right trade deals. That's the trifecta, and he's pretty close to hitting it.

Please see *New Highs*...on next page

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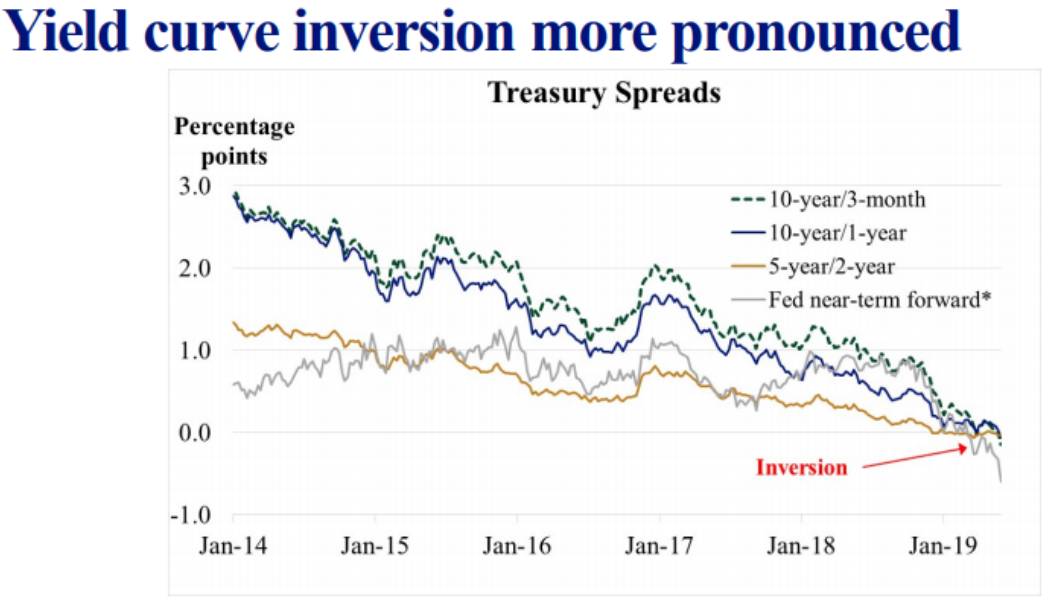
***NOTE:** The goal of the Dividend Growth Newsletter is to highlight ideas with strong dividend growth potential and update readers about new developments in the market. A simulated portfolio of dividend growth ideas is presented on page 5 of each edition.

***New Highs...*from previous page**

The combination of lower corporate tax rates and a reduced 10-year benchmark rate almost always translates into higher equity values, holding all else equal, of course. But how high is too high, or how high is about right. For starters, we know that equity values are ***not*** bargains at current levels. The forward 12-month P/E ratio on S&P 500 companies is 16.6x, above the 10-year average of 14.8x. That doesn't mean stocks are terribly expensive either. The 10-year benchmark rate is a huge lever to intrinsic value, and it fell below 2% recently after advancing to almost 3.25% in November.

Most bloggers have been pointing to economists' inability to predict the trajectory of the discount rate, but we didn't make any moves with our valuation infrastructure. Anybody that is trading valuations on benchmark Treasury rates is going to get whipsawed. What we do know is that not even the Fed has an answer for this market environment. With unemployment so low, inflation tame, the markets at new highs, how in the world can the Fed be looking to cut rates. But they are, and therein lies the rub. The behavioral implications of an inverted yield curve may be more catastrophic than an inverted yield curve itself. Regardless, yield curve inversion has only become more pronounced since we last spoke.



Sources: Federal Reserve Board, Bloomberg and author's calculations. Last observation: Week of May 29, 2019.
** For details, see E. Engstrom and S. Sharpe, "The Near-Term Forward Yield Spread as a Leading Indicator: A Less Distorted Mirror," Federal Reserve Board FEDS Working Paper No. 2018-055, July 2018.*

Image Source: Federal Reserve, St. Louis

When it comes to risks, there's more than just the inverted yield curve, of course. Trade negotiations with China continue, denuclearization talks with North Korea are ongoing, and companies continue to buy back stock at a record pace (is this stealth value-destruction?). The good thing is that the banks appear healthy, save for Deutsche Bank (DB) and some weaker European entities, and while geopolitical tensions with Iran can never be a good thing, it seems that cooler heads are prevailing.

As we said on that fateful December day last year when we went to 0% cash in the newsletter portfolios, where we nearly called the exact near-term bottom, our finger remains on the put-option trigger. We may look to remove a few ideas in the coming months if the markets continue to accelerate higher, but we're going to continue to stay fully invested in the Dividend Growth Newsletter portfolio for the time being. **We're taking Warren Buffett's quote about prudence to heart.** A lot of people just aren't paying attention to their investments these days (as many as 80% of the market may be on autopilot, either passive or in quant).

Aside from our REIT exposure, June was a very strong month for the Dividend Growth Newsletter portfolio. We really like Cracker Barrel's (CBRL) move (see page 6), and our diversification with the Energy Select Sector SPDR (XLE) was quite savvy. Things are lining up pretty well, in our view. We hope you enjoy this edition of the Dividend Growth Newsletter!

Broadcom Plummets After Cutting Guidance

Image Source: *Broadcom Inc – IR Presentation*

Broadcom resets investor expectations, sending shares of the company and peers lower. Broadcom sports a juicy yield.

By Callum Turcan

Global semiconductor and infrastructure software giant Broadcom (AVGO) spooked the market during its fiscal second quarter report, released June 13, by sharply revising its revenue forecast for FY2019 lower (its FY2019 ends November 3, 2019). Shares of the company finished lower by ~6% on June 14 before rebounding during the second half of the month. As of June 28, Broadcom's shares yield a juicy 3.7%.

Guidance Moves Lower

Earlier this year, Broadcom set some lofty expectations. In its fiscal first quarter FY2019 (ended February 3, 2019) earnings release, released March 14, management issued guidance for the full fiscal year that called for $24.5 billion in GAAP revenue and an adjusted non-GAAP operating margin of 51.0%. That indicated modest top-line growth on an adjusted basis along with some non-GAAP operating margin expansion.

Fast forward to the fiscal second quarter FY2019 (ended May 5, 2019), however, and things start to look a lot less rosy. Before getting into the guidance cut for FY2019, note that Broadcom generated $20.8 billion in GAAP revenue in FY2018 with an adjusted non-GAAP operating margin of 50.0%. After its latest earnings report, management now sees Broadcom's FY2019 sales coming in at $22.5 billion, down $2.0 billion from its previous forecast.

However, note that the firm's $18.9 billion all-cash purchase of CA Technologies closed during the first day of FY2019. At the time of closing, management stated in the press release:

> The transaction is expected to drive Broadcom's long-term Adjusted EBITDA margins above 55% and be immediately accretive to Broadcom's non-GAAP EPS. On a combined basis, **Broadcom expects to have last twelve months non-GAAP revenues of approximately $23.9 billion and last twelve months non-GAAP Adjusted EBITDA of approximately $11.6 billion.**

Using that as a baseline for FY2018, Broadcom's adjusted revenue is actually expected to decline in FY2019. **Going from expected top-line growth to contraction is why we think shares sold off aggressively on June 14**, and why we caution readers that Broadcom's growing troubles are material. This is not a trivial cut and indicates that global demand for semiconductors is beginning to show serious signs of stress (infrastructure software sales are holding up better). In late-June, President Trump and President Xi Jinping agreed to restart US-China trade talks after meeting on the sidelines of the G-20 summit in Japan. While we expect the semiconductor space and the market at-large to greatly appreciate the news, keep in mind that recent events only reduce potential downside risks for the time being as both sides agreed not to slap new tariffs on each other. That isn't enough by itself to turn around Broadcom's fortunes, both countries would have to reach and implement a final agreement in order to revive global business confidence.

Please see *Broadcom Plummets...*on next page

***Broadcom Plummets…*from previous page**

A key excerpt from Broadcom's latest quarterly conference call, as CEO Hock Tan attempted to calm investors by explaining the forecast cut:

> *"Now, let me address the current business environment and our outlook for the remainder of the year. We have, as I indicated, performed very much to plan in the first half of fiscal 2019. And in the second half, we had expected a recovery. However, while enterprise and mainframe software demand remained stable, particularly in North America and Europe, with respect to semiconductors, it is clear that the U.S./China trade conflict, including the Huawei export ban, is creating economic and political uncertainty and reducing visibility for our global OEM customers.*
>
> *As a result, demand volatility has increased and our customers are actively reducing inventory levels to manage risks.* ***This leads us to believe the second half of 2019 will be more in line with the first half as opposed to the previously expected recovery. We now anticipate fiscal 2019 semiconductor solutions segment revenue of $17.5 billion, which translates into a year-over-year decline in the high single-digits****."*

Previously, semiconductor solutions revenue was estimated at $19.5 billion for FY2019. On the flip side, the company is now expecting its non-GAAP operating margin to climb up to 52.5% this fiscal year, up 150 basis points from previous guidance. That appears largely due to Broadcom's CA Technologies acquisition holding up nicer than expected. CEO Hock Tan noted during the conference call that:

> *"CA software continues to perform above our original expectations while SAN switching is slowing down after a very strong first half. As a result, we are maintaining our fiscal 2019 infrastructure software outlook at $5 billion."*

While there wasn't much readily-available commentary regarding the adjusted non-GAAP operating margin increase, stronger software sales appear to be the main culprit (another factor could be weaker sales of potentially lower margin products/offerings). Looking farther out, **Broadcom's goal was to push its adjusted non-GAAP operating margin closer to 55.0% by FY2020 on the back of the CA Technologies purchase. That strategy may get derailed** if its growth story slows down elsewhere when contending with macro headwinds, depending on how steep the slowdown gets going forward.

How We View Broadcom

Broadcom is still very much a free cash flow cow due to its capex-light business model, generating $2.5 billion in free cash flow during its latest quarter. That underpins management's goal to return $8.0 billion to shareholders this fiscal year through dividends and share buybacks. Here's how we view Broadcom's main strengths as it relates to its dividend coverage (from our two-page Dividend Report):

> *The new Broadcom is levered to growth trends in the areas of LTE transition, datacenter spending, IP traffic, and the Internet of Things, all of which are expected to grow at strong double-digit CAGRs over the next 3-4 years. We're expecting robust free cash flow generation from the newly combined company, but notable execution and integration risk remains. In addition to its larger purchase of CA Tech, the company is working to integrate Brocade but has abandoned its unsolicited takeover attempt for Qualcomm (QCOM), which may have been a blessing in disguise, especially for its balance sheet. Management plans to pay out 50% of prior fiscal year's free cash flow as dividends in any given year.*

As always, downside risks need to be kept in mind when analyzing equities. Broadcom's Dividend Cushion ratio stands at 1.0x due to the debt the company took on to fund its acquisitions while also generously rewarding shareholders (via buybacks and dividends).

Please see *Broadcom Plummets…*on page 6

The Dividend Growth Newsletter Portfolio

By Valuentum Analysts

DIVIDEND GROWTH IDEAS -- as of July 1, 2019

Company Name	Yrly Div's Paid ($) / Shr	Div Yield %	Fair Value	VBI Rating	Price/FV	Last Close	% of Portfolio
S&P Dividend ETF SPDR (SDY)	2.56	2.53%	-	UR	-	101.21	7.5%-12.5%
Intel (INTC)	1.26	2.62%	$ 53.00	4	0.91	48.05	7.5%-12.5%
Johnson & Johnson (JNJ)	3.80	2.73%	$ 147.00	7	0.95	139.35	7.5%-12.5%
Apple (AAPL)	3.08	1.53%	$ 222.00	6	0.91	201.55	5.5%-7.5%
Cisco (CSCO)	1.40	2.56%	$ 56.00	3	0.98	54.74	5.5%-7.5%
Digital Realty Trust (DLR)	4.32	3.69%	$ 96.00	3	1.22	117.06	5.5%-7.5%
Energy Sector SPDR (XLE)	2.25	3.52%	-	UR	-	63.80	5.5%-7.5%
Health Care Select Sector SPDR ETF (XLV	1.50	1.61%	-	UR	-	93.14	5.5%-7.5%
iShares Int'l Select Dividend (IDV)	1.79	5.82%	-	UR	-	30.77	5.5%-7.5%
General Motors (GM)	1.52	3.92%	$ 49.00	6	0.79	38.75	3.5%-5.5%
Invesco Senior Loan (BKLN)	1.08	4.77%	-	UR	-	22.68	3.5%-5.5%
Microsoft (MSFT)	1.84	1.36%	$ 114.00	7	1.19	135.68	3.5%-5.5%
Oracle (ORCL)	0.96	1.65%	$ 59.00	7	0.98	58.01	3.5%-5.5%
Cracker Barrel (CBRL)	5.20	3.03%	$ 159.00	3	1.08	171.60	2.5%-3.5
Financial Select Sector SPDR ETF (XLF)	0.56	2.02%	-	UR	-	27.94	2.5%-3.5
Kinder Morgan (KMI)	1.00	4.79%	$ 23.00	6	0.91	20.89	2.5%-3.5
Realty Income (O)	2.72	4.00%	$ 56.00	5	1.21	68.03	2.5%-3.5
Cash Consideration	-	-	-	-	-	-	0.0%

UR = Under Review

Dividend yield and dividend per share information for ETFs retrieved from Yahoo Finance.

This portfolio is not a real money portfolio. Data as of July 1, 2019.

Goal:

The goal of the Dividend Growth Newsletter portfolio is to highlight ideas with strong dividend growth potential and update readers about new developments in the market. The Dividend Growth Newsletter portfolio seeks to find underpriced dividend growth gems that generate strong levels of free cash flow and have solid balance sheets, translating into excellent Valuentum Dividend Cushion ratios. *Given market conditions and the importance of diversification, not all stocks in the newsletter portfolio can be undervalued, however*. Stocks in the Dividend Growth Newsletter portfolio may have lengthy dividend growth track records spanning decades, but we focus most of our efforts on assessing the future safety and dividend growth potential of ideas.

Every subscriber has different goals and different risk tolerances, so where before in the newsletter portfolios, we would outline the specific percentage weighting, we think providing ranges make much more sense. For example, depending on someone's risk tolerances, a larger cash position in an overheated market may be prudent. On the other hand, the longer one's time horizon, perhaps a smaller cash position may make more sense. The Dividend Cushion ratios are so important, so please stay up to date with them. By our estimates, the efficacy of the Dividend Cushion ratio in warning about dividend cuts is roughly 90%.

Standard Disclaimer: The simulated 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 the simulated Dividend Growth Newsletter portfolio and accepts no liability for how readers may choose to utilize the content.

The Dividend Growth Newsletter portfolio is not a real money portfolio. Results are hypothetical and do not represent actual trading. Actual results may differ from simulated performance information being presented.

We've taken the cash weighting in our portfolio to 0%. The sum of the midpoints of our respective weighting ranges approximates 100% to reflect the range of possible combinations that may result in this allocation.

Broadcom Plummets…**from page 4**

Here is how we view Broadcom's potential weaknesses as it concerns its dividend coverage (from our two-page Dividend Report):

> *Broadcom's Dividend Cushion ratio has suffered as a result of it adding a substantial amount of debt to fund recent acquisitions. Our current estimation of its financial leverage is based on guidance that came prior to the CA Tech deal closing. While we think the firm is well-positioned to take advantage of a number of secular growth trends, we must highlight the integration risk associated with any merger of this size; synergy targets are not guaranteed. At the moment, we have confidence that management will be able to deliver on its expectations, but we think it may want to consider prioritizing deleveraging in the near term. Management expects to use the balance of free cash flow after dividends for share repurchases or M&A.*

Concluding Thoughts

Broadcom exited the second quarter FY2019 with $32.2 billion in net debt, and while the company is very free cash flow positive, the semiconductor and infrastructure software industries are very competitive. We would prefer management to consider deleveraging efforts, particularly as it cites the US-China trade war becoming a major headwind going forward. This would help shore up its dividend coverage. At a time when supply chains are undergoing fundamental shifts from exogenous events beyond any one company's control, it's best to batten down the hatches. Shares of Broadcom are trading a tad above the midpoint of our fair value estimate as of June 29.

Callum Turcan does not own shares in any of the securities mentioned above. Some of the companies written about in this article may be included in Valuentum's simulated newsletter portfolios. Contact Valuentum for more information about its editorial policies.

Cracker Barrel's Lofty (and Hidden) Dividend Yield

Image Source: *Cracker Barrel Presentation (10/17)*

By Brian Nelson, CFA

Incredible.

Cracker Barrel (CBRL) just issued announced another special dividend, to the tune of $3 per share. This special dividend is in addition to the regular quarterly dividend of $1.30 per share, which was increased 4% from the previous quarterly dividend of $1.25 per share. All in, annualizing the new quarterly rate and including the special dividend in the sum, Cracker Barrel yields ~4.8% at the time of this writing. You won't hear many talking about the firm's lofty yield because a large part of it has been from the special-dividend variety, which has been recurring for the past many years.

Please see *Cracker Barrel's…*on next page

Cracker Barrel's... from previous page

On a fundamental basis, we have no qualms with the company's fiscal third-quarter report, released June 4. Though we would have liked to see better traffic trends, both it and its comparable store restaurant sales growth of 1.3% "outperformed the casual dining industry." Total revenue and earnings per share advanced modestly on a year-over-year basis in the period (2.5% and 3%, respectively), and management was upbeat in the press release, encouraged by "the early results of (its) new Signature Fried Chicken initiative."

The casual dining space continues to face pressure from weak traffic, mostly due in our view to an oversaturation of themes, but we continue to believe that Cracker Barrel sports one of the most unique experiences for visitors, particularly with its unique country store concept. The restaurant continues to show that consumers are willing to absorb modest menu price increases (up 1.8% in the quarter), leading to higher average checks (up 3.1% in the quarter). The bigger long-term concern is income pressure as a result of increased labor and related expenses--see Texas Roadhouse's (TXRH) most recent quarter--but Cracker Barrel continues to find ways to make it up on the gross margin line (cost of goods sold declined while revenue advanced in the quarter).

Looking forward to the remainder of its fiscal 2019 (ends July), the company continues to target earnings per share in the range of $8.95-$9.10, up from adjusted earnings per share of $8.87 recorded during last fiscal year. Cracker Barrel ended the quarter with $400 million in long-term debt and ~$168 million in cash and cash equivalents, revealing a very manageable net debt position. During the nine months ending May 2019, free cash flow leapt nicely to $149 million from $119 million during the same period last year. The company's new $50 million buyback authorization should help support the equity, too, even though we think shares are about fairly valued. Cracker Barrel remains a holding in the Dividend Growth Newsletter portfolio.

Renewing Our Interest in Boston Properties

Image Source: *Boston Properties Inc – IR Presentation*

By Callum Turcan

Boston Properties Inc (BXP) is a real estate investment trust with operations in Boston, San Francisco, New York, Washington D.C., and Los Angles. The REIT focuses on owning, developing, and operating Class A corporate offices in the aforementioned markets. At the end of March 2019, Boston Properties asset base consisted of an economic interest in ~200 properties with ~90% of those being corporate office buildings.

Please see *Renewing Our Interest...*on next page

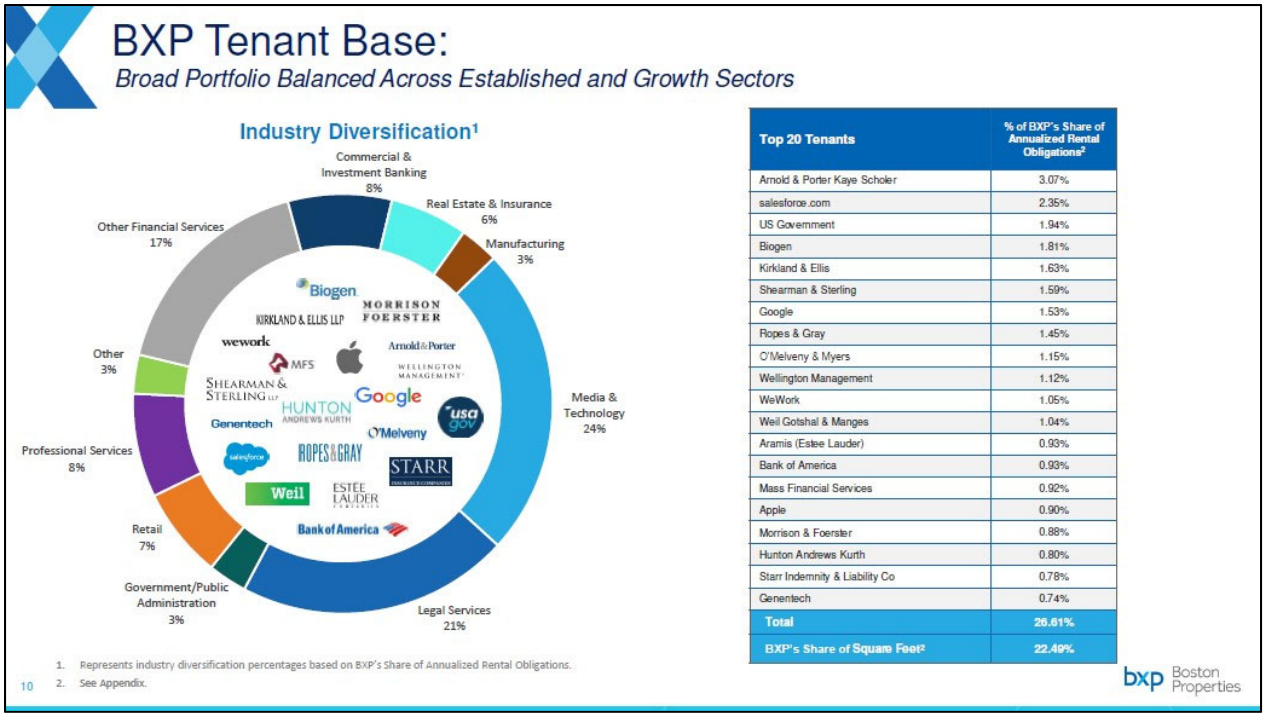
*Renewing Our Interest…*from previous page

That includes such top-tier properties as the new 61-story Salesforce Tower in San Francisco, which is now 100% owned by Boston Properties after the firm acquired the remaining 5% interest in didn't own for $0.2 billion at the beginning of April 2019. As one would expect, Salesforce Inc (CRM) is an anchor tenant. **We like Boston Properties' relatively low payout ratio, business strategy, guidance boost and investment grade credit ratings, but caution that its leverage remains elevated and that the REIT has cut its dividend in the past when the macro picture deteriorated, and credit conditions tightened.** Shares of BXP yield 3.0% as of this writing.

Overview

In 2018, Boston Properties generated $2.7 billion in rental revenue, $2.6 billion of which came from corporate offices. The REIT's Boston and New York operations each represented about one third of that while its operations in San Francisco and Washington D.C. each represented about one sixth of its rental revenue. Note that its Los Angles presence is fairly small, indicating that management could have included that in the San Francisco figures (no information was readily made available regarding what geographical segment, if any, Boston Properties' Los Angles revenue was classified under last year). Beyond corporate offices, its bread-and-butter, Boston Properties also had an economic interest in a hotel, half a dozen residential properties, and a dozen retail properties at the end of 2018.

What helps ensure Boston Properties keeps getting paid is that its client base is very diverse, with no single tenant representing more than 4% of its expected annual rent revenue. Its biggest tenant represents just over 3% of its expected annual rent revenue, removing some of the unsystematic business-concentration risk from its corporate profile. However, we caution that as Boston Properties' operations are heavily concentrated in Boston and New York, the name comes with a significant amount of geographical concertation risk.



Top 20 Tenants	% of BXP's Share of Annualized Rental Obligations²
Arnold & Porter Kaye Scholer	3.07%
salesforce.com	2.35%
US Government	1.94%
Biogen	1.81%
Kirkland & Ellis	1.63%
Shearman & Sterling	1.59%
Google	1.53%
Ropes & Gray	1.45%
O'Melveny & Myers	1.15%
Wellington Management	1.12%
WeWork	1.05%
Weil Gotshal & Manges	1.04%
Aramis (Estee Lauder)	0.93%
Bank of America	0.93%
Mass Financial Services	0.92%
Apple	0.90%
Morrison & Foerster	0.88%
Hunton Andrews Kurth	0.80%
Starr Indemnity & Liability Co	0.78%
Genentech	0.74%
Total	26.61%
BXP's Share of Square Feet²	22.49%

***Image Shown**: Boston Properties has a diverse tenant base with none of its clients representing more than 4% of its expected annualized rental revenue. **Image Source**: Boston Properties – IR Presentation*

Please see *Renewing Our Interest…*on next page

*Renewing Our Interest…*from previous page

Readers should keep in mind that Boston Properties was forced to cut its quarterly regular dividend during the Great Recession from $0.68 per share down to $0.50. While management eventually increased that payout back up to $0.95 per share, be aware that the corporate office market is susceptible to downturns in American economic activity. Also, readers should note that Boston Properties has paid out special dividends in the past, including a $1.25 per share payout that was declared in late-2015 and paid in early-2016.

Boston Properties' business strategy rests largely on acquiring or developing corporate offices in high-growth markets that house a cornucopia of well-educated workers. That workforce will always need a place to go to work, especially in cities with low unemployment rates, growing populations and the related growth in population density, and surging economic activity. The idea is that these are stickier revenue streams than say, an apartment complex, especially when looking at trophy assets like the Salesforce Tower. As many of these buildings are hard to replace and/or are in very attractive parts of these metropolises, Boston Properties has been able to maintain solid occupancy rates in the recent past.

Aggressive Leverage Strategy

Management is targeting a long-term leverage ratio, defined as EBITDAre (earnings before interest, taxes, depreciation and amortization for real estate), of 6.5x of Boston Properties' net debt load. After climbing sharply upwards from 5.7x in 2014 to 6.8x last year, management is aiming to push that lower in order to ensure Boston Properties retains adequate access to capital markets. **We caution that even by REIT standards, Boston Properties is pursuing a fairly aggressive leverage target that may put the firm at risk if exogenous adverse events effects were to materialize** such as: the US economy slowing down, weakness in the real estate markets of the handful of cities it operates in, tight credit market conditions, and other potential downside risks. Having the US FED indicate a strong willingness to potential start cutting interest rates this year is very advantageous for Boston Properties, which offsets a degree of the downside risks the REIT faces but only a degree.

In the first quarter of 2019, Boston Properties' adjusted (we'll covered that in a moment) net debt to EBITDAre dropped to 6.5x on an annualized basis. Using annualized extrapolations based on just one quarter of performance usually isn't a good idea, but, this is a REIT so its quarterly performance (generally speaking) is more indicative of what to expect going forward due to the consistency of these rental revenue streams. We would prefer Boston Properties focus on deleveraging over time to bring that leverage ratio down further.

At the end of March 2019, Boston Properties was sitting on $0.4 billion in cash, cash equivalents, and investments in securities versus $11.0 billion in net mortgage notes payable, net unsecured senior notes, and net unsecured term loans on a consolidated basis. That's good for a net debt position of $10.6 billion on a consolidated basis, versus $1.6 billion in EBITDAre that was generated in the first quarter. However, keep in mind that when factoring in 'partners' share of consolidated JV debt' and other factors, management notes Boston Properties' share of net debt goes down to $10.3 billion. This is how Boston Properties got its 6.5x leverage ratio.

Cash Flow Analysis

When including Boston Properties' numerous line-items that would generally be considered capital expenditures, the REIT hasn't been free cash flow positive in the recent past. That means Boston Properties must tap capital markets to cover its dividend payouts, making maintaining a relatively low cost of capital very important to its financial success.

Please see *Renewing Our Interest…*on page 13

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

By Valuentum Analysts

The table 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 simulated Dividend Growth Newsletter portfolio (see page 5).

Though the dividend growth portfolio may be fully invested at times, we may swap in stocks on this list or stocks on the 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 simulated Dividend Growth Newsletter portfolio.

Don't forget to visit the website at www.valuentum.com.

This table is as of June 1, 2019.

Company Name	Symbol	Est Div Yield	VBI	Div Growth	Div Safety	Div Cushion
Broadcom	AVGO	3.6%	7	GOOD	GOOD	1.0
Carlisle Companies	CSL	1.2%	7	EXCELLENT	EXCELLENT	3.7
Celenese	CE	2.1%	7	EXCELLENT	GOOD	2.7
DowDuPont	DWDP	3.9%	7	EXCELLENT	GOOD	1.3
Huntsman	HUN	2.7%	7	EXCELLENT	EXCELLENT	3.0
LyondellBasell	LYB	4.5%	7	GOOD	GOOD	1.0
Harris Corp	HRS	1.5%	7	EXCELLENT	GOOD	1.6
Eaton	ETN	3.6%	7	GOOD	GOOD	1.2
Core Labs	CLB	3.2%	7	GOOD	GOOD	1.3
Republic Services	RSG	1.8%	7	GOOD	GOOD	1.8
Waste Management	WM	1.9%	7	EXCELLENT	GOOD	1.7
Visa	V	0.7%	7	EXCELLENT	EXCELLENT	5.3
Quest Diagnostics	DGX	2.2%	7	GOOD	GOOD	1.2
AmerisourceBergen	ABC	2.0%	9	EXCELLENT	EXCELLENT	3.5
Johnson & Johnson	JNJ	2.6%	7	GOOD	GOOD	2.4
Kimberly-Clark	KMB	3.3%	7	GOOD	GOOD	1.0
VF Corp	VFC	2.2%	7	EXCELLENT	GOOD	1.8
Dover	DOV	2.0%	7	GOOD	GOOD	1.8
Stanley Black & Decker	SWK	1.9%	7	EXCELLENT	GOOD	1.9
Interpublic	IPG	4.2%	7	EXCELLENT	GOOD	1.4
Baxter Intl	BAX	1.0%	7	GOOD	EXCELLENT	3.4
Stryker	SYK	1.1%	7	EXCELLENT	EXCELLENT	2.9
Pfizer	PFE	3.4%	7	GOOD	GOOD	1.8
Donaldson Co	DCI	1.6%	7	GOOD	GOOD	2.6
Cheesecake Factory	CAKE	2.8%	7	EXCELLENT	GOOD	2.5
American Eagle	AEO	2.6%	7	EXCELLENT	EXCELLENT	3.5
Microsoft	MSFT	1.7%	7	EXCELLENT	EXCELLENT	3.3
Oracle	ORCL	1.5%	7	EXCELLENT	EXCELLENT	4.5
Foot Locker	FL	2.3%	7	EXCELLENT	EXCELLENT	3.3
Williams-Sonoma	WSM	3.4%	7	EXCELLENT	GOOD	2.0
Equifax	EFX	1.4%	7	EXCELLENT	GOOD	1.8
Manpower	MAN	2.4%	7	EXCELLENT	EXCELLENT	3.1
Robert Half	RHI	1.9%	7	EXCELLENT	EXCELLENT	3.5

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 overlaid the screen with an Economic Castle assessment to consider business-model risk, too!

Company Name	Symbol	Div Cushion	Economic Castle	Multiplie
GameStop	GME	1.8	Attractive	31.29
General Motors	GM	3.4	Attractive	14.90
Chico's FAS	CHS	2.3	Attractive	13.74
Honda	HMC	3.7	Neutral	12.98
Gilead Sciences	GILD	3.1	Very Attractive	12.17
Fluor	FLR	4.1	Attractive	11.79
Chicago Rivet	CVR	3.9	Neutral	11.78
Guess	GES	3.9	Attractive	10.48
Automatic Data Processing	ADP	5.0	Very Attractive	10.36
Abercrombie & Fitch	ANF	3.3	Attractive	10.17
Cooper Tire & Rubber	CTB	8.1	Neutral	9.96
Methode Electronics	MEI	6.0	Attractive	9.75
Hewlett-Packard	HPQ	3.1	Attractive	9.74
Bristol-Myers Squibb	BMY	2.7	Very Attractive	9.29
Western Union	WU	2.1	Neutral	9.22
American Eagle	AEO	3.5	Attractive	9.19
Gap	GPS	2.3	Attractive	8.46
Caterpillar	CAT	2.8	Very Attractive	8.41
Gentex	GNTX	4.4	Attractive	8.37
Total	TOT	1.6	Neutral	8.27
Huntsman	HUN	3.0	Attractive	8.25
Ralph Lauren	RL	4.3	Attractive	8.19
Omnicom	OMC	2.3	Unattractive	8.01
Dick's Sporting	DKS	2.6	Attractive	7.96
Cummins	CMI	2.6	Attractive	7.94
Tapestry	TPR	1.9	Attractive	7.93
Foot Locker	FL	3.3	Attractive	7.74
QUALCOMM	QCOM	2.1	Very Attractive	7.71
Apple	AAPL	5.5	Very Attractive	7.69
H&R Block	HRB	2.1	Very Attractive	7.67
Archer-Daniels-Midland	ADM	2.3	Attractive	7.66
Walgreens Boots Alliance	WBA	2.3	Attractive	7.64
AVX Corp	AVX	2.9	Attractive	7.50
Manpower	MAN	3.1	Attractive	7.47
Lear Corp	LEA	4.1	Attractive	7.45
Newmont Mining	NEM	4.1	Neutral	7.40
Amgen	AMGN	2.4	Very Attractive	7.37
Ethan Allen	ETH	1.8	Unattractive	7.31
Rio Tinto	RIO	1.6	Neutral	7.19
Cisco	CSCO	2.8	Very Attractive	7.17
MKS Instruments	MKSI	8.9	Attractive	7.15
Taiwan Semiconductor	TSM	2.0	Attractive	7.14
McKesson	MCK	5.9	Very Attractive	7.07
Southwest	LUV	5.6	Attractive	7.02
Applied Materials	AMAT	3.6	Very Attractive	7.01
Cardinal Health	CAH	1.7	Attractive	6.95
Oracle	ORCL	4.5	Very Attractive	6.93
Novartis	NVS	2.3	Attractive	6.93
AmerisourceBergen	ABC	3.5	Very Attractive	6.92
Paychex	PAYX	2.4	Very Attractive	6.92

Note: The 'Multiple' in this list considers a company's dividend yield and Dividend Cushion ratio as a multiplicative combination. Though it is a robust and largely objective measure, there could be exogenous or secular dynamics that could impact the business, where a dividend may not be as strong as the financials indicate.

For example, **GameStop (GME)** is dealing with a secular shift toward digital gaming, while **Abercrombie & Fitch (ANF) and Guess (GES)** are navigating changing consumer preferences as millennials seek 'experiences' not 'things' (e.g. fashion). The Dividend Cushion is only one factor that we use in assessing the overall health of

This table is as of June 1, 2019.

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 their current share price, even if traditional valuation techniques suggest the company's shares are inexpensive. On a similar note, companies 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 companies 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
Ensco	ESV	Energy Svcs - Offshore Drilling	1.0%	VERY POOR	-49.4
R.R. Donnelley	RRD	Commercial Services	2.2%	VERY POOR	-27.5
Superior	SUP	Auto Parts Suppliers	7.1%	VERY POOR	-12.5
Yamana Gold	AUY	Metals & Mining - gold	0.8%	VERY POOR	-9.2
Ryder System	R	Rental and Leasing	3.9%	VERY POOR	-7.3
General Electric	GE	Conglomerates	0.4%	VERY POOR	-6.6
NiSource	NI	Utilities	3.0%	VERY POOR	-6.3
Pitney Bowes	PBI	Commercial Services	2.8%	VERY POOR	-5.7
Intl Game Technology	IGT	Leisure	5.7%	VERY POOR	-5.7
Teekay	TGP	Shipping	3.7%	VERY POOR	-5.7
HCA Healthcare	HCA	Health Care Services	1.0%	VERY POOR	-4.9
H.B. Fuller	FUL	Chemicals - broad	1.3%	VERY POOR	-4.1
Centurylink	CTL	Telecom Services - diversified	8.2%	VERY POOR	-3.9
Spire	SR	Utilities	3.0%	VERY POOR	-3.6
ConAgra Brands	CAG	Food Products - Large	3.7%	VERY POOR	-3.0
Entergy	ETR	Utilities	4.1%	VERY POOR	-2.9
Alliant Energy Corp	LNT	Utilities	3.2%	VERY POOR	-2.5
CMS Energy	CMS	Utilities	2.9%	VERY POOR	-2.4
Silgan	SLGN	Containers & Packaging	1.5%	VERY POOR	-2.4
American Electric	AEP	Utilities	3.4%	VERY POOR	-2.1
SITE Centers	SITC	REIT - Retail	6.4%	VERY POOR	-2.0
Kraft Heinz	KHC	Food Products - Large	4.8%	VERY POOR	-2.0
Casey's General	CASY	Food Retailers	0.9%	VERY POOR	-1.9
Duke Energy	DUK	Utilities	4.2%	VERY POOR	-1.8
PPL	PPL	Utilities	5.4%	VERY POOR	-1.8
Eversource Energy	ES	Utilities	2.9%	VERY POOR	-1.7
Dine Brands Global	DIN	Restaurants - Fast Cas & Full Svc	3.0%	VERY POOR	-1.7
Pinnacle West	PNW	Utilities	3.4%	VERY POOR	-1.5
Southern Co	SO	Utilities	4.9%	VERY POOR	-1.5
DTE Energy	DTE	Utilities	3.2%	VERY POOR	-1.5
Olin Corp	OLN	Chemicals - mid/small	3.5%	VERY POOR	-1.5
Public Service	PEG	Utilities	3.3%	VERY POOR	-1.5
Kroger	KR	Food Retailers	2.2%	VERY POOR	-1.4
South Jersey	SJI	Utilities	3.8%	VERY POOR	-1.4
Edison Intl	EIX	Utilities	4.3%	VERY POOR	-1.4
Big 5	BGFV	Retail - Sporting Goods	6.1%	VERY POOR	-1.4
CVS Health	CVS	Food Retailers	3.7%	POOR	-1.4
Xcel Energy	XEL	Utilities	2.9%	VERY POOR	-1.3
Wendy's Co	WEN	Restaurants - Fast Food & Coffee	2.1%	VERY POOR	-1.2
Newell Brands	NWL	Household Durables	5.8%	VERY POOR	-1.2
Meredith	MDP	Media - advertising	4.0%	VERY POOR	-1.2
Hess	HES	Refiners	1.9%	VERY POOR	-1.2
Sempra Energy	SRE	Utilities	3.1%	VERY POOR	-1.2
Comcast	CMCSA	Media - CATV	2.1%	POOR	-1.1
Exelon	EXC	Utilities	2.9%	VERY POOR	-1.1
Consolidated Edison	ED	Utilities	3.8%	VERY POOR	-1.1

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

This table is as of June 1, 2019.

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BOSTON PROPERTIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the year ended December 31,		
	2018	2017	2016
		(In thousands)	
Cash flows from operating activities:			
Net income	$ 712,563	$ 562,481	$ 569,977
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	645,649	617,547	694,403
Impairment losses	11,812	—	1,783
Non-cash compensation expense	40,117	35,361	32,911
Income from unconsolidated joint ventures	(2,222)	(11,232)	(8,074)
Gain on sale of investment in unconsolidated joint venture	—	—	(59,370)
Distributions of net cash flow from operations of unconsolidated joint ventures	6,703	26,858	24,955
Losses (gains) from investments in securities	1,865	(3,678)	(2,273)
Non-cash portion of interest expense	21,303	(1,284)	(35,052)
Settlement of accreted debt discount on redemption of unsecured senior notes	(483)	(1,980)	—
Losses (gains) from early extinguishments of debt	16,490	(496)	371
Gains on sales of real estate	(182,356)	(7,663)	(80,606)
Change in assets and liabilities:			
Tenant and other receivables, net	29,204	2,433	3,688
Note receivable	(13)	—	—
Accrued rental income, net	(43,662)	(58,355)	(28,127)
Prepaid expenses and other assets	12,472	51,425	52,923
Accounts payable and accrued expenses	1,353	10,482	15,666
Accrued interest payable	5,237	(160,521)	53,547
Other liabilities	4,955	(44,970)	(106,071)
Tenant leasing costs	(130,742)	(104,429)	(96,103)
Total adjustments	437,682	349,498	464,571
Net cash provided by operating activities	1,150,245	911,979	1,034,548
Cash flows from investing activities:			
Acquisitions of real estate	—	(15,953)	(78,000)
Construction in progress	(694,791)	(608,404)	(500,350)
Building and other capital improvements	(189,771)	(222,482)	(150,640)
Tenant improvements	(210,034)	(205,331)	(230,298)
Proceeds from sales of real estate	455,409	29,810	122,750
Capital contributions to unconsolidated joint ventures	(345,717)	(109,015)	(575,795)
Capital distributions from unconsolidated joint ventures	—	251,000	20,440
Proceeds from sale of investment in unconsolidated joint venture	—	—	55,707
Deposit on capital lease	(13,615)	—	—
Issuance of related party note receivable	(80,000)	—	—
Issuance of note receivable	(19,455)	—	—
Investments in securities, net	(902)	(1,669)	(1,161)
Net cash used in investing activities	(1,098,876)	(882,044)	(1,337,347)

Image Shown: *Boston Properties does not appear to be free cash flow positive when defining free cash flow as net operating cash flow less 'construction in progress,' 'building and other capital improvements,' 'tenant improvements,' and 'capital contributions to unconsolidated joint ventures.'*

Image Source: *Boston Properties – 2018 Annual Report with additions from the author*

On the positive side, Boston Properties has solid investment grade credit ratings from all three major agencies (A-/Baa1/BBB+) and shares of BXP are performing very well year-to-date. Keep in mind that historically, Boston Properties has preferred to tap debt markets. This indicates that retaining investment grade credit ratings is one of the most important aspects of Boston Properties' maintaining access to capital markets going forward. **On June 12, Boston Properties issued $850 million in 3.4% unsecured green bonds due 2029, highlighting the REIT's ability to raise capital at attractive rates.**

BOSTON PROPERTIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the year ended December 31,		
	2018	2017	2016
		(In thousands)	
Cash flows from financing activities:			
Proceeds from mortgage notes payable	—	2,300,000	—
Repayments of mortgage notes payable	(18,634)	(1,317,653)	(1,326,865)
Proceeds from unsecured senior notes	996,410	847,935	1,989,790
Redemption of unsecured senior notes	(699,517)	(848,020)	—
Borrowings on unsecured line of credit	745,000	580,000	25,000
Repayments of unsecured line of credit	(790,000)	(535,000)	(25,000)
Proceeds from unsecured term loan	500,000	—	—
Repayments of mezzanine notes payable	—	(306,000)	—
Repayments of outside members' notes payable	—	(70,424)	—
Payments on capital lease obligations	(1,353)	(493)	(745)
Payments on real estate financing transactions	(960)	(2,840)	(5,260)
Deposit on mortgage note payable interest rate lock	—	(23,200)	—
Return of deposit on mortgage note payable interest rate lock	—	23,200	—
Deferred financing costs	(8,362)	(50,705)	(16,121)
Debt prepayment and extinguishment costs	(15,973)	(12,784)	—
Net proceeds from equity transactions	(730)	241	(271)
Dividends and distributions	(587,628)	(526,578)	(671,626)
Contributions from noncontrolling interests in property partnerships	46,701	52,009	11,951
Distributions to noncontrolling interests in property partnerships	(82,501)	(54,342)	(55,474)
Net cash provided by (used in) financing activities	82,453	55,346	(74,621)
Net increase (decrease) in cash and cash equivalents and cash held in escrows	133,822	85,281	(377,420)
Cash and cash equivalents and cash held in escrows, beginning of year	505,369	420,088	797,508
Cash and cash equivalents and cash held in escrows, end of year	$ 639,191	$ 505,369	$ 420,088

Image Shown: *Boston Properties preferred to tap debt markets over equity markets over the past three years.*

Image Source: *Boston Properties – 2018 Annual Report*

Please see *Renewing Our Interest...*on next page

Renewing Our Interest…**from previous page**

While we caution that Boston Properties is highly levered, we appreciate its strong investment grade credit ratings, diverse tenant base, the hot metropolitan markets where it operates, and its recent guidance raise. Boston Properties expects to generate $6.95 - $7.02 in FFO per share this year, up sharply from $6.25 in 2018. Using the midpoint of guidance and its annualized current dividend policy as a template, it appears Boston Properties is targeting a payout ratio of ~54% on a forward-looking basis. We appreciate the REIT's strong dividend coverage on FFO terms.

Boston Properties raised its guidance for this year back during the first quarter, with CEO Owen Thomas noting that (from Boston Properties' first quarter 2019 conference call):

> *"We had another strong quarter of performance and are successfully executing on our strategy for continued revenue and income growth. Highlights for this quarter include, we grew our FFO per share 15% over the first quarter of 2018, which was also $0.05 above the midpoint of our guidance for the quarter and $0.06 above street consensus.* ***We raised our full-year 2019 FFO per share guidance by $0.05 at the midpoint, which would result in a 11% FFO growth above 2018****."*

We are very supportive of REITs that raise guidance as that indicates a high level of conviction in that entity's ability to outperform. Boston Properties has also performed well on the occupancy front with CEO Owen Thomas noting that;

> *"We increased the occupancy for our in-service office and retail portfolio 150 basis points from the last quarter to 92.9%. this also marked 240 basis point increase from a year ago."*

Rising occupancy levels highlight the stickiness of Boston Properties' revenue streams, as these are top tier properties in hot markets that are very hard or nearly impossible to replace. Here are a few examples of those properties.

Image Shown: *Four properties that Boston Properties placed into service last year.*

Image Source: *Boston Properties - IR Presentation*

Concluding Thoughts

Boston Properties stands to gain immensely from a lower interest rate environment, courtesy of the US Fed. Management has already identified numerous other growth opportunities Boston Properties seeks to invest in, with work on some of those endeavors well underway. We are optimistic on Boston Properties' growth trajectory but caution that as a highly-levered entity (that was forced to cut its dividend payout before) whose shares have soared upwards on the back of an expected rate cut, if the US Fed doesn't deliver what bond markets are expecting (with ten-year US Treasuries now yielding ~2%), that could have severe repercussions for shares of BXP.

Callum Turcan does not own shares in any of the securities mentioned above. Some of the companies written about in this article may be included in Valuentum's simulated newsletter portfolios. Contact Valuentum for more information about its editorial policies.

The United Technologies-Raytheon Merger Will Create a Defense and Commercial Aerospace Giant

Image Source: *United Technologies Corporation – IR Presentation*

By Callum Turcan

On June 9, United Technologies Corporation (UTX) and Raytheon Company (RTN) agreed to a merger of equals that if approved, will create a new giant in the aerospace & defense world. The combined company will sell anything from Patriot surface-to-air missile systems to national governments to power generation and cyber protection products for commercial aircraft. **United Technologies and Raytheon hope that as a combined entity, the new company will have the scale required to be truly competitive in the commercial aerospace industry while maintaining the status of a reliable defense contractor.** Shares of UTX yield 2.3% as of June 28 while shares of RTN yield 2.2%.

Both CEO's went on CBNC together to defend the deal and explained it as "complementary" to highlight the limited amount of overlap between the two businesses and the large number of jobs the combined company plans to create in America, largely to appeal to President Trump and domestic regulators. The company will be renamed Raytheon Technologies Corporation and is expected to be headquartered in Boston, Massachusetts. **While the deal is forecasted to close during the first half of 2020, we caution that any major defense/aerospace merger is likely to receive a lot of scrutiny from federal regulators and other relevant government bodies (such as the Department of Defense).**

Greg Hayes, currently CEO of United Technologies, is expected to be CEO of Raytheon Technologies and will also eventually take over the role of Executive Chairman from Tom Kennedy, who is currently CEO of Raytheon. Tom Kennedy is expected to become Executive Chairman of Raytheon Technologies for two years after the deal closes, before giving the role to Greg Hayes, largely for continuity purposes.

Please see *The United…*on next page

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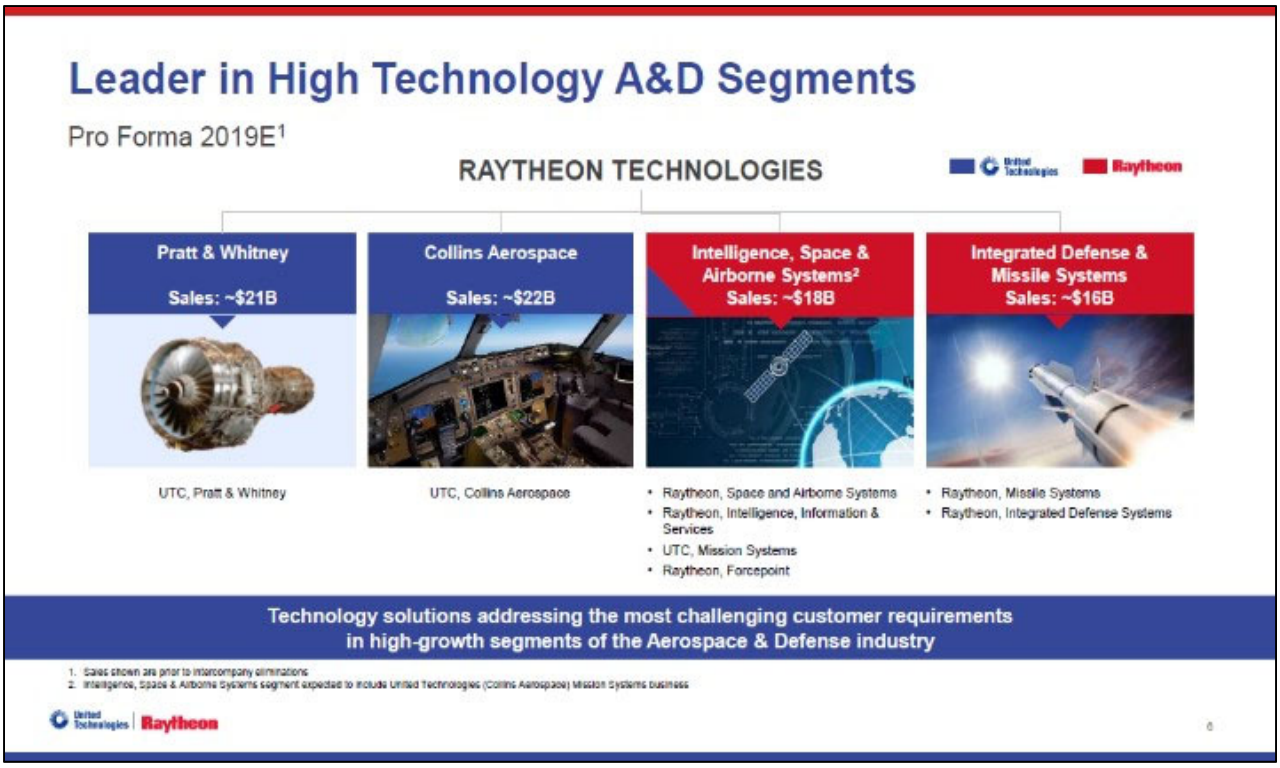

Image Shown: *The proposed pro forma operating segments of Raytheon Technologies.*
Image Source: *United Technologies – IR Presentation*

Pro Forma Financials

United Technologies and Raytheon expect the combined company will have $73.6 billion in sales this year on a pro forma basis, keeping in mind United Technologies plans on spinning off its Otis (makers of elevators and escalators) and Carrier businesses (provider of HVAC systems, and fire safety & security products) next year. On a pro forma basis, the combined entity is expected to have ~$26.0 billion in net debt at the time of closing. Management is targeting an investment grade credit rating within the 'A grade' range.

Assuming the deal goes through as planned, keeping in mind there are plenty of regulatory hurdles to vault first, shareholders of United Technologies will own 57% of Raytheon Technologies and shareholders of Raytheon will own the remaining 43%. Note that the spin-off of Otis and Carrier are happening before the proposed all-stock merger. Here is a key excerpt from the press release:

> *"Under the terms of the agreement, which was unanimously approved by the Boards of Directors of both companies, Raytheon shareowners will receive 2.3348 shares in the combined company for each Raytheon share. Upon completion of the merger, United Technologies shareowners will own approximately 57 percent and Raytheon shareowners will own approximately 43 percent of the combined company on a fully diluted basis. The merger is expected to close in the first half of 2020, following completion by United Technologies of the previously announced separation of its Otis and Carrier businesses. The timing of the separation of Otis and Carrier is not expected to be affected by the proposed merger and remains on track for completion in the first half of 2020. The merger is intended to qualify as a tax-free reorganization for U.S. federal income tax purposes."*

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Back in November 2018, United Technologies had just completed its acquisition of Rockwell Collins. That deal bulked up United's aerospace division and at the time of completion, was expected to generate $0.5 billion in run-rate pre-tax cost synergies within four years. **Now Raytheon Technologies will be targeting $1.0 billion in gross annual cost synergies within four years of the United-Raytheon deal closing. Those synergies are expected to be generated through supply chain improvements, corporate consolidation, facilities consolidation, and IT/SG&A overlap.** United and Raytheon mentioned in the press release that "approximately $500 million in annual savings [would be] returned to customers" in a bid to get regulators to support the proposed transaction.

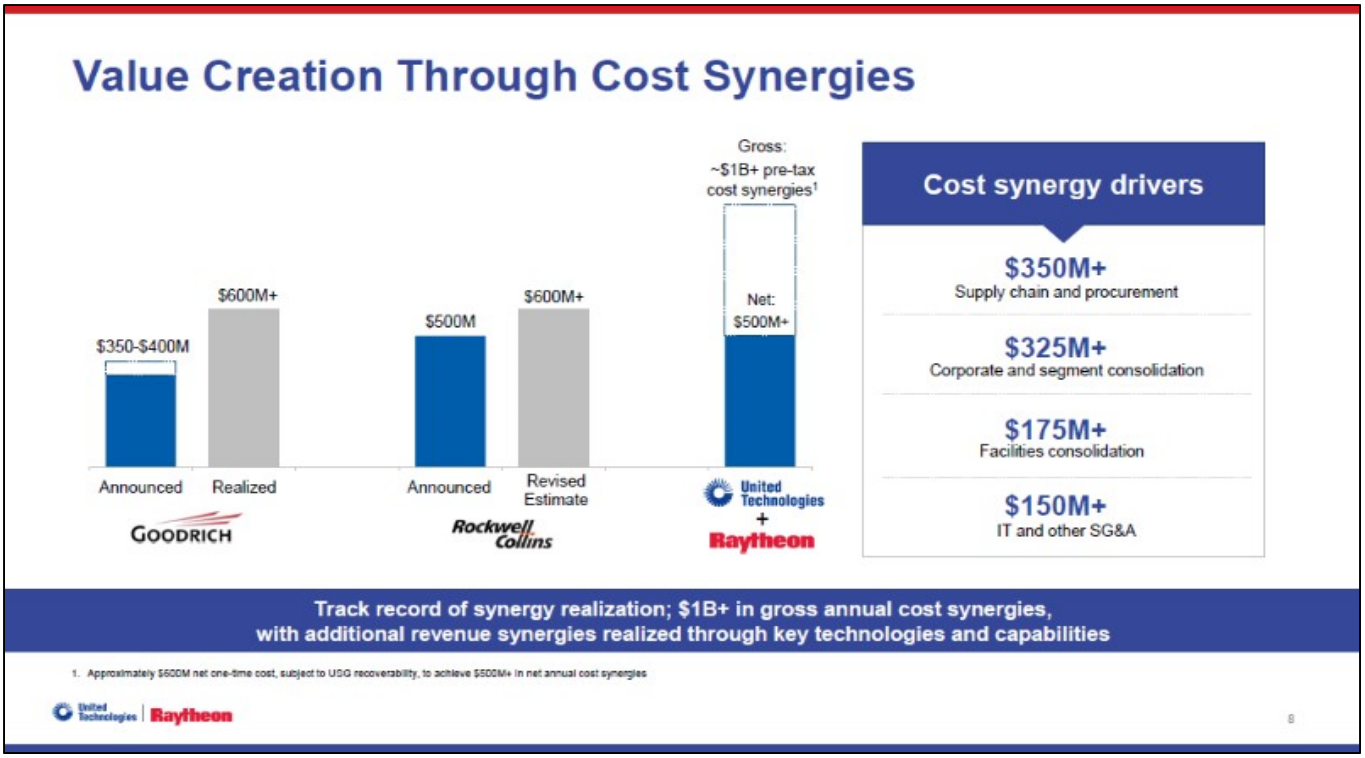

***Image Shown**: Cost synergies underpin part of United Technologies' acquisitive strategy, as economies of scale enables the firm to better control its supply chain while consolidation efforts keep costs contained. **Image Source**: United Technologies – IR Presentation*

United Technologies and Raytheon intend on consolidating some of their divisions into larger, more streamlined entities to boost efficiency and cut costs. Raytheon's businesses will be consolidated into two entities; Space & Airborne Systems and Integrated Defense & Missile Systems. Those two segments will join United Technologies' Collins Aerospace and Pratt & Whitney segments to form the four pro forma segments of Raytheon Technologies. **Corporate consolidation offers a clear line-of-sight on cost savings and we are supportive of moves that keep costs contained and management teams focused.** Shedding Otis and Carrier represent a key part of this strategy, so going forward, Raytheon Technologies will be a commercial aerospace and defense contractor, not an industrial player with far-flung operations.

Below is a look at the pro forma financials of the proposed defense & aerospace giant. In particular, note that **the firm is expecting to generate $6.0 billion in pro forma free cash flow this year.** Strong free cash flow generation combined with the strength of Raytheon's balance sheet (lowering the relative pro forma net debt load of the combined entity), expected cost synergies, and potential revenue growth is what will underpin Raytheon Technologies' future shareholder return program.

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Pro Forma Financial Profile

Pro Forma 2019E[1,2]

	United Technologies	Raytheon	United Technologies + Raytheon
Sales[3]	~$44.7B	~$28.9B	~$73.6B
Operating Profit[4]	~$5.8B	~$3.5B	~$9.3B
Operating Margins[4]	~12.9%	~12.2%	~12.6%
EBITDA[5]	~$8.0B	~$5.4B	~$13.5B
Free Cash Flow[6]	~$3.2B	~$2.8B	~$6.0B
Net Debt	~$24B	~$2B	~$26B

1. Pro forma 2019 estimates based on current outlook provided by each company; excludes Otis and Carrier
2. Figures exclude pro forma synergies
3. Net of intercompany sales eliminations
4. Reflects business segment operating profit and margins net of eliminations
5. Excludes non-operating pension income/(expense)
6. Excludes one-time costs associated with United Technologies portfolio separation

United Technologies | Raytheon

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***Image Shown**: Raytheon Technologies is expected to be very free cash flow positive on a pro forma basis. **Image Source**: United Technologies – IR Presentation*

By 2021, Raytheon Technologies is forecasted to generate $8.0 billion in pro forma free cash flow. That free cash flow will fund the firm's $18.0-20.0 billion shareholder return program over the 36 months following the closing of the deal, which includes both dividends and share buybacks. In order to keep shareholders happy, often management teams need to tout major shareholder return programs when pursuing transformative deals like this.

Hurdles to Vault

There are clearly a lot of different interests United Technologies and Raytheon must appease to get this deal done including: the Department of Defense, various US federal regulators, President Trump, shareholders of UTX and RTN, and (to a lesser degree) its commercial aerospace clients. **It's a balancing act for sure.**

For instance, management is championing both job creation (combined, both companies expect to create 20,000 jobs in America over the coming years) and cost synergies (which usually involves redundancy-related layoffs) at the same time. Another example involves management highlighting the expected cost savings for the company's customers (indicating a willingness to sell products for less, relatively speaking) while also noting the benefits from largess (economies of scale as it relates to cost control measures is one thing, but this deal will also give the new entity much more pricing control when it comes to dealing with its big clients, especially in the commercial aerospace industry).

Please see *The United…*on next page

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In our view, one of the most important aspects of whether this transaction goes through as proposed comes down to how President Trump receives news of the deal. So far, he has expressed reservations regarding how the merger would impact competition. A large part of this deal rests on United Technologies and Raytheon only having to divest a small amount of their pro forma businesses, allowing for the expected synergies. Honeywell International Inc (HON) tried to buy United Technologies back in 2016, but due to the operational overlap, the new entity would have had to divest a material amount of its operations to comply with regulator's concerns. Those divestments, at least in the view of United Technologies, would have ruined any potential synergies the Honeywell-United Technologies deal might have yielded. If United Technologies and Raytheon can't sell President Trump on the deal, then it's chances of getting approved drops considerably, in our view.

Concluding Thoughts

United Technologies and Raytheon joining forces, as proposed, makes a ton of sense. Its businesses do appear largely complementary, with minimal overlap, allowing for serious cost synergies without (in theory) raising the ire of regulators to the degree that could derail such a deal. That being said, sometimes consolidation in strategic industries is seen as unwarranted or unwanted given the size of the Department of Defense's budget and the high barriers for entry in the commercial aerospace arena. It's quite possible that federal regulators and other relevant parties decide to kill the deal in order to keep the space more competitive (at least in terms of the number of firms competing in the market).

If this deal does go through, as proposed, the pro forma company should realize material cost synergies enabling significantly stronger free cash flow generation in the future. Shares of UTX have posted lackluster performance over the past five years while RTN was on a tear until 2018. This is largely why United Technologies wants to pursue a transformative merger while spinning off Carrier and Otis; something needs to change. For Raytheon, the pro forma company should be better positioned to navigate the financial volatility involved when seeking to secure new major defense contracts by having a large commercial aerospace division. We'll see how this transaction plays out over the coming months. The initial reaction from Wall Street wasn't overly optimistic, but these are early days.

Callum Turcan does not own shares in any of the securities mentioned above. Some of the companies written about in this article may be included in Valuentum's simulated newsletter portfolios. Contact Valuentum for more information about its editorial policies.

Value Trap Is Winning and So Are You!

***Image Shown**: Value Trap received acclaim at the prestigious Next Generation Indie Awards at the Mayflower Hotel in Washington DC. Shown: Value Trap at the American Library Association conference Headline Books booth June 22.*

By Brian Nelson, CFA

Please note that a version of this article was emailed out to subscribers on June 24.

Hi everyone,

Last week I was involved in a lot of traveling, and I thank you for your patience as I seek to catch up on your emails. Also, **please note the weekly datascreener is in the process of getting updated as our team returned back to the offices this past weekend.**

For starters, I want to thank each and every one of you out there for your continued support. The field of finance has simply been turned upside down, with 90% of active fund management underperforming, and many professionals just charging 1-2% to hold an index fund. It's sad.

I believe Valuentum to be a safe haven for individual investors, financial advisors, and institutional customers. **I truly believe that.** You are truly getting an independent perspective. We're after the "right" answer, not telling you only what you want to hear. That's how the industry got here in the first place. Too much selling and asset gathering.

But the industry is at a crossroads. Who is to say which type of investor education is correct? Certainly, many believe that looking backward, as in applying realized data, and using short-cuts, as in the P/E ratio or P/B ratio, is the right way to invest. The full, complete answer is to look forward and apply a comprehensive process such as enterprise valuation. You know it. I know it. But it is so bad out there. The catch phrase "evidence-based" is simply going to drive this industry back into the dark ages, pre-dating the works of Graham and Dodd. Investors need the right evidence, not just any evidence.

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Finance has been off the tracks for years, and it is showing up today in the vast underperformance numbers. **Do you think we can fix it?** I'm trying. At what point, however, does finance say it has made a mistake, and it reverts back to actually performing due diligence on underlying holdings, something Valuentum holds dear. Should regulators get involved? My goodness -- should fiduciaries really not know anything about the stocks they own for clients, as in the case of indexing? How many quantitative models have to fail before we start asking the tough questions?

I think Warren Buffett saw this coming in the 1980s in his famed Graham and Doddsville paper. Seriously, did finance really think that not paying attention to the intrinsic values of underlying holdings, looking only backward in "empirical" work, studying what has turned out to be spurious correlations, and promoting index funds was going to end well? If you think about it, during the past 15 years, almost every professional dollar has underperformed after fees, whether fund or advisor**. Investors are losing, and I don't like it.**

It's so silly to think about how the industry is trying to explain this massive underperformance, too. Instead of saying that a reversion to intrinsic value methods should be par for the course, the industry is saying that finance professionals are too talented, that their skills cancel out. I appreciate the spirit, but you've got to be kidding me. Not only this, but many say active funds just cost too much. I don't believe it for a second.

The reality is that many are stuck in the mindset of the **"Great False Dichotomy."** Structural barriers are limiting the conversation between active and passive *funds.* Many advisors lack the skill set of stock selection, so customers are losing out on other options such as stock selection (which is free of fund fees!). According to the Investment Company Institute, active and passive funds/ETFs combined represent ~30% of the corporate equity market. Just 30% of the market!

There's another 70% of the market out there where alpha can be captured and costs can be overcome. I do not believe that finance professionals are too talented to outperform. **I believe that they are doing things the wrong way: looking backwards and applying shortcuts.** While costs are important, I do not believe they fully explain active fund underperformance either. Active funds are just 16% of the corporate equity market (there's a lot of potential alpha out there in the other 70% of the market).

Alright, let's hammer out a few questions. I've been getting a number of questions on GameStop (GME). Folks -- it's simple. We like stocks that we think are undervalued and are going up (the market thinks are undervalued, too). GameStop's stock has fallen all the way from the mid-$40s in 2015 to the single digits today. Do we like shares? No. The market hates this company, and its business model is under structural attack as physical game sales are overtaken by digital distribution. You might expect a buyout but you would have already lost big to this point. It's not an idea in any newsletter portfolio.

There are better ideas. You should be thinking instead, for example: should I be adding to our favorite idea Visa (V) on the Facebook (FB) crypto news? Facebook looks incredibly cheap. Should I be increasing that position? Fascinating that Booking Holdings (BKNG) was part of the Libra Association. This could be potential upside for this Best Ideas Newsletter portfolio holding, too. **Add to strength! Don't add value traps on weakness!** GameStop is so far down the list of considerations that I'm trying not to think about it so I can focus faculties elsewhere. I want you to succeed.

Also, let me repeat. Many a value investor is buying stocks on the way down, and they are failing. It's in the numbers. 90% of active management is underperforming during the trailing 15-year period ending 2018. I'm not so much encouraging you to think differently as I am encouraging you to think more logically. You need the market to agree with you to be right. Why not wait until shares start to move higher first before diving into what potentially may be a value trap!

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One more thing before I wrap up this morning note. Many of you are stretching for ideas. Why? Some of you are thinking that just because we don't have a lot of 9s and 10s that 7s and 8s have become the next best. **NO. ABSOLUTELY NOT.** Let me be clear. Our process is working. The markets have been going sideways for a long time, and that the Valuentum Buying Index hasn't been highlighting many 9s and 10s shows that it is picking up the market's choppiness as valuations remain less than attractive.

I have to be clear. The things that finance has been peddling during the past few decades are not working. You have to start over with a clean slate. Think undervalued stocks that are going up that have strong competitive advantages with solid business castles and a solid dividend, to boot. Many of these are in the newsletter portfolios. I have to say it: If you have the urge to buy a stock just because it has fallen in price, you may be just like those 90% of active fund managers that are underperforming. **Stop it.**

I'm not asking you to think different. I'm asking you to think more logically. I'm asking you to think "correctly." In a world where professional academic papers have been written on how to trade around phases of the moon (not kidding!), I'm asking you to focus on common sense. Let's do this. Block out the other stuff, even some of the stuff that comes with a nice wrapping, as in presented in a fine academic journal. My goodness--how many peer reviewed papers in academic journals have been proven wrong (from the CAPM and beyond).

A 7 or an 8 on the Valuentum Buying Index does not become more attractive because there are fewer 9s and 10s. The ideas in the newsletter portfolios are among our best ideas for consideration. In times like these, if the ideas in the newsletter portfolios aren't of interest, the Exclusive publication is where you'll find three new ideas each month. We cover hundreds of companies on our website, and update the reports a couple times a year to provide background on our thought process and support the newsletter portfolios. We publish tons of commentary, too. In a financial market where most everyone else is underperforming, we're trying to set you up for success, and I know you are winning.

With all this said, I am enjoying my vacation. This one has been a long time coming, and **I thank you for your patience.** Were it not for you my dear members, Valuentum would simply not exist. Let's keep pushing forward. Let's forget the ways of others that are underperforming. Let's keep looking forward. Let's keep performing due diligence. Let's stay away from short-cuts. Let's embrace the information contained in market prices via technical and momentum indicators. Said another way, let's keep doing things the right way. Thank you!

For those interested, order Value Trap here today! - https://www.amazon.com/Value-Trap-Theory-Universal-Valuation/dp/0998038490

RYAM: Terrible Business, Potentially Cheap Stock

By Brian Nelson, CFA

Rayonier Advanced Materials (RYAM) was spun out of Rayonier (RYN) a few years ago. The company is a leader "of cellulose-based technologies, including high purity cellulose specialties, a natural polymer commonly found in cell phone and computer screens, filters and pharmaceuticals (10-K)." Its products are used to make cigarette filters, LCDs, cosmetics, food casings, and paints. Shares of RYAM yield 4.3% as of June 28.

In November 2017, it bought Tembec and put together a business that now has leadership across a number of cellulose specialties (e.g. acetate, ethers, high-strength viscose, and filtration specialties). Management is working aggressively to pursue cost transformation as it rolls out new products, but deleveraging remains a key strategic pillar as business challenges mount.

The First-Quarter 2019 Bust

In May 2019, Rayonier Advanced Materials reported first-quarter 2019 results that sent shares tumbling aggressively. The quarter had some one-time items, including unplanned downtime at its Temiscaming plant (boiler issues), but it did face a significant increase in hardwood costs at its Jesup plant. There wasn't much good in the report, from what we could see.

Revenue dropped more than 7% in the quarter, while total operating income swung to a loss of $18 million from +$46 million in the year-ago period. Profit weakness was across the board, declining materially in all of its major operating segments: high purity cellulose, forest products, pulp, paper, while corporate expenses actually increased. The quarter was a complete bust.

Looking to the back half of 2019, the company expects EBITDA margins to return to the high teens in its high purity cellulose division, but there are other dynamics at play. **Commodity prices and tariffs are big question marks**, and management believes that cellulose specialties prices and volumes will be "stable" for 2019, which could be optimistic. Weaker-than-expected lumber, pulp and paperboard markets continue to weigh.

Cyclicality and Pricing Weakness

Though we generally agree with management that its "first quarter operating and financial results were disappointing and not reflective of the earnings potential of the company (1Q PR)," the cyclicality of lumber, pulp and paperboard markets remains, and the commodity nature of its products makes pricing power elusive (lumber prices fell 19% in the first quarter of 2019). From its first-quarter press release regarding trends in its high purity cellulose segment (~60% of first-quarter sales and adjusted EBITDA):

> Operating income decreased $24 million compared to March 31, 2018 resulting in a $3 million operating loss for the three month period ended March 30, 2019. **The decrease was driven by a 7 percent decline in cellulose specialties sales prices as a result of duties on products sold into China** and higher average prices in the 2018 comparable quarter due to higher priced 2017 shipments which were recognized as sales in the 2018 quarter.

The company can fix the issues related to downtime at its plants and take action to mitigate cost increases, but we think Rayonier is lacking any "moaty" characteristics, and the first quarter put this on display. Rayonier Advanced Materials is a price taker and tied to demand trends that will ebb and flow, with some in permanent decline. Newsprint volumes fell 27% in the first quarter of 2019, for one. It also makes acetate tow, which is used in the filter component of cigarettes, another area where declines are more secular in nature. During 2018, it had $361 million of products shipped to customers in China. Tariff uncertainty is a huge part of this story.

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The Business Model May Not Be Resilient

Rayonier Advanced Materials has a business model that we don't find very attractive. Though one quarter a trend (and company) does not make, during the first quarter of 2019, it used operating cash flows of $27 million, while it sent $31 million out the door in capital spending, good enough for -$58 million (negative $58 million) in free cash flow.

Making matters worse is that the company now has an adjusted net debt position of $1.16 billion (up from $1.08 billion at the end of 2018) and just $250 million of liquidity (~$180 million on its revolver). Needlessly, the firm shelled out $14 million in the first quarter on dividends and buybacks. Net debt stood at 3.9x EBITDA at the end of the first period, well above its 2.5x target.

The ultimate challenge for Rayonier Advanced Materials to right the ship over the long haul rests in the structure of the industry in which it operates, and this just isn't great (and out of its hands). There is significant competition around the globe in all areas of operation, and many rivals have increased lower-cost capacity. When it comes to commodity products, the low-cost provider wins. Even without the production issues that came home to roost during the first quarter, we don't think Rayonier Advanced Materials is the low-cost provider. Here is a key except from the firm's 10-K:

> Competition, demand fluctuations and cyclicality are the most significant drivers of sales volumes and pricing for our products. We face significant competition from domestic and foreign producers in virtually all of our businesses. For example, our cellulose specialties product line has seen increased cellulose specialties production capacity from our competitors, some of whom have lower raw material, wood and production costs than us, combined with demand weakness, particularly in the acetate grades, which have collectively driven cellulose specialties sales prices down substantially over the past several years. Likewise, volumes have declined meaningfully over the past two years due to these factors. There can be no assurance these declines will not continue into the near future.

There are more risks to this story, too. Its top 10 customers account for about 35% of revenue, and as the top line moves with the cycle and pricing dynamics, raw material and energy costs, which are largely beyond its control, will impact profitability. Caustic soda is a big input cost in high purity cellulose, and it has been considerably volatile in recent years. Roughly 75% of workers around the globe are unionized, and its business has pension considerations.

Rayonier Advanced Materials is also quite capital intensive, targeting $100 million in maintenance capital spending across its segments in 2019. By comparison, its market capitalization is just shy of $325 million. That's a lot of capital each year just to keep things going, and from what we can tell, some of the assets from its Tembec acquisition have considerable deferred maintenance. Rayonier Advanced Materials may have acquired a lot of trouble with this deal, and we think the road ahead will be a long and rough one for investors.

Shares Look Cheap But We Don't Like the Business at All

Though we've made the case that Rayonier Advanced Materials may be among the most challenged businesses out there, if it's able to right the ship over the long haul, shares could be opportunistic. Adjusted free cash flow has been somewhat choppy during the past couple years, but during the past five years, it has averaged ~$120 million (not bad).

If we capitalize that at a 10% cost of capital and 3% standard long-term growth rate, we're looking at a company that could garner a market capitalization of ~$550 million, implying considerable upside from today's levels. At the heart of the Valuentum process is patience, however. We'd much rather wait for technical and momentum indicators to improve before we consider this one. In sum: Terrible business, potentially cheap stock. Rayonier Advanced Materials had a market capitalization of ~$320 million as of June 28.

About the Valuentum Dividend Cushion™ Ratio

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.

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™ ratio 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 the 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 the Valuentum Dividend Cushion…*on next page

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Here are the results of the study (a Valuentum Dividend Cushion™ below 1 indicates the dividend may be in trouble). The Valuentum Dividend Cushion™ 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 walk-forward analysis (beyond the limitations of a backtested academic study).

The following link, for example, provides more information of the Dividend Cushion ratio tested in a robust out-of-sample walk-forward study across our coverage universe from its inception in 2012 through 2017:

Our Dividend Growth Methodology Is Rocking! ***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 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.

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

*About the Valuentum Dividend Cushion…*from previous page

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.

Here's a glimpse of the Valuentum Dividend Cushion™ ratio (as of November 2017) 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	Symbol	Sector	Div Cushion
Coca-Cola	KO	Consumer Staples	1.4
PepsiCo	PEP	Consumer Staples	1.2
Air Products & Chemicals	APD	Materials	1.3
Ecolab	ECL	Materials	1.2
PPG Industries	PPG	Materials	2.5
Cintas Corp	CTAS	Industrials	2.7
3M	MMM	Industrials	1.6
W.W. Grainger	GWW	Industrials	1.4
Emerson Electric	EMR	Industrials	2.1
Hormel Foods	HRL	Consumer Staples	2.2
McCormick	MKC	Consumer Staples	1.7
Archer-Daniels-Midland	ADM	Consumer Staples	2.1
Sysco	SYY	Consumer Staples	1.4
Target	TGT	Consumer Staples	1.4
Walgreens Boots Alliance	WBA	Consumer Staples	2.0
Wal-Mart	WMT	Consumer Staples	1.6
Leggett & Platt	LEG	Consumer Discretionary	1.3
Clorox	CLX	Consumer Staples	1.2
Colgate-Palmolive	CL	Consumer Staples	1.8
Johnson & Johnson	JNJ	Consumer Staples	2.2
Kimberly-Clark	KMB	Consumer Staples	1.2
Procter & Gamble	PG	Consumer Staples	1.8
VF Corp	VFC	Consumer Discretionary	1.6
Dover	DOV	Industrials	1.2
Illinois Tool Works	ITW	Industrials	1.6

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.

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

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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 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

The Valuentum Dividend Cushion™ ratio 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 8, Issue 7

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

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

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

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

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

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

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

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

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

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