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HIGH YIELD DIVIDEND NEWSLETTER

View the August 22 email sent to High Yield Dividend Newsletter members at the following link:
http://campaign.r20.constantcontact.com/render?preview=true&m=1110817109903&ca=11515adc-ce2a-4afa-9d00-22fcf466656e&id=preview

By Email, We Added Two New Ideas to the High Yield Dividend Newsletter Portfolio on August 22

Latest Changes to High Yield Dividend Newsletter
Added: 5% in CubeSmart (CUBE), 5% in Utilities SPDR (XLU) – August 22

Inside This Issue

> ***"WITH THE FEDERAL RESERVE LIKELY GETTING READY TO CUT INTEREST RATES AGAIN GIVEN A COLLAPSING LONG END OF THE YIELD CURVE, THE OUTLOOK FOR HIGH-YIELDING COMPANIES HAS IMPROVED GIVEN THE LACK OF YIELD ON THE WORLD STAGE." – CALLUM TURCAN***

Image Shown: *The Utilities SPDR (XLU) ETF has been on an upward trajectory since the Federal Reserve decided to pursue interest rate cuts instead of interest rate increases.*

Summary of newsletter portfolio changes: On August 22, we added self-storage REIT CubeSmart (CUBE) and the Utilities SPDR (XLU) ETF to the newsletter portfolio with a 5% weighting each, replacing the 10% cash holding. CUBE has a great free cash flow profile and growth trajectory, and given falling interest rates, utilities are poised to do well, which behooves the holdings within XLU.

By Callum Turcan

On August 22, we made a couple tweaks to the High Yield Dividend Newsletter portfolio as it has become increasingly likely the Federal Reserve will cut interest rates further. Top quality high-yielding names should perform quite well in a lower interest rate environment in our view. That's why we are added CubeSmart

(CUBE) -- 3.6% yield -- to the High Yield Dividend Newsletter portfolio, which we cover in detail in this newsletter's Spotlight article (please see page 6).

Additionally, we added the Utilities SPDR (XLU) ETF -- 3.0% yield -- to the portfolio. By removing the majority of the single operatorship risk from the picture, with an eye towards the problems that befall PG&E Corporation (PCG), the XLU provides investors with exposure to a sector that's already benefiting from the lower interest rate environment. As of August 29, 2019, the top 5 largest holdings in XLU included Next Era Energy Inc (NEE), Duke Energy Corporation (DUK), Dominion Energy Inc (D), Southern Company (SO), and Exelon Corporation (EXC).

The ETF seeks to track the performance of the Utilities Select Sector Index. This next segment is a sub-chapter from Value Trap.

Value Trap: Price Declines Are (Impair) Fundamental(s) for High Yield Stocks

Investing in high yield dividend stocks requires a different approach than investing in stronger corporate entities with solid free-cash-flow and balance-sheet coverage of the dividend. Let's excerpt a chapter from Value Trap to hit this point home.

By Brian Nelson, CFA

Investing for capital appreciation and investing for yield are two separate things, analytically independent of each other, but sometimes misunderstood by the marketplace. What a company pays out today as a dividend or distribution relative to its share price today has little, if anything, to do with the drivers of its long-term intrinsic value calculation, which is based on balance sheet health and future forecasts of enterprise free cash flows, from which dividends are paid.

Where investors that are focused on dividend growth may seek companies that have elevated Dividend Cushion ratios, those that venture into high-yield equities may find most high-yield considerations with Dividend Cushion ratios below 1 or even well below 0, meaning they are significantly capital-market dependent. In other words, most entities in the high-yield equity arena are already maxing out their payouts and don't have much to guard against exogenous events or cash flow shortfalls at all. This is what makes them inherently riskier as income vehicles, and in some respects, high-yield stock investing can be viewed as synonymous with high-risk stock investing. Dividend cuts are not only possible but may even be probable. **In the event a high-yield equity comes under suspicion of a dividend cut, its price may experience a considerable decline in advance of the dividend cut, given the income-oriented composition of its investor base, resulting in not only capital impairment but also reduced income if the dividend cut eventually happens.** The likelihood of prices becoming disconnected from intrinsic values may also be more probable with high-yield stocks, given a greater focus by the marketplace on chasing yield than on calculating an informed intrinsic value estimate.

Broadly speaking, the market price of a stock offers clues that there may be something else impacting the thesis on the company more heavily than an investor's original expectations. For example, if the analyst thinks a stock's shares are worth $50 each, but the stock is trading at $10 on its way to $5, there's probably something not quite lining up (rather than the market being that far off). Price movements could indicate situations when an analyst may be too aggressive, or even too conservative, with forecasts and the corresponding fair value estimate of a company. Some may call this "the information contained in prices." The market can be wrong at times, but sometimes the market price can also offer clues to help assess risks that may not have been extensively presented within the GAAP fundamentals.

There's a very important reason why evaluating market price activity may even be more critical within the high yield equity space. An often-overlooked component of high-yield equity analysis is that the market price, itself, is a key component of the fundamental dividend and distribution thesis of the company given the capital-market dependency of many constituents.

For example, during the Financial Crisis of the late 2000s, information in the share-price activity of banking stocks suggested something was very wrong despite items in their financial statements that may have suggested their share-price moves may have been unwarranted. Equity price declines during the Financial Crisis depleted a bank's ability to raise equity, creating an avalanche effect and self-perpetuating weakness, at the very time that access to the capital markets was needed.

Similarly, **the decline in the share prices of high-yield equities directly impacts their ability to raise funds, and as a result, impacts their credit strength, and therefore the strength of their dividend or distribution**, revealing a similar potential risk as that of banking equities under stress needing to shore up their own capital positions. There is an increased likelihood of a price-avalanche effect in the high-yield space (REITs, MLPs and the like) than in other arenas, per se. **This view runs counter to that of many lower-yielding, net-cash-rich corporates that can cover cash dividends paid with free cash flow, meaning that these strong companies do not need continued access to the capital markets.**

For high-yield equity considerations, however, capital-market dependence risk remains very real for them given the relationship of their dividends to free-cash-flow generation, and as a result, their share prices are contributing factors to overall financial and dividend health. The need for continued access to the capital markets for many in the high-yield space is why, with respect to high yield ideas, it may be worth paying the most attention to credit quality, as offered by the rating agencies, and share-price movements (as equity is a key source of funding). **The health of the payout of a high-yield entity's dividend or distribution may, in some cases, be beyond its control, given the need for ongoing debt or equity capital assistance.**

All things considered, however, the focus on the dividend more recently by investors has been a net positive development, but it could also be a concerning one. On one hand, investors that are interested in dividend-growth investing are allocating capital to strong, stable, dividend-paying companies such as Microsoft, for example, and this is great. Doing so prevents many an investor from getting involved in speculative, high-risk companies, which in many cases is the last thing a retiree should be interested in doing. But on the other hand, dividend-paying companies have, in other cases, been transforming into speculative investments, themselves. Many MLPs and REITs, for example, remain overly-dependent on the healthy functioning of capital markets, necessitating credit health for survival, and many investors are stretching for 8%+ yielding entities, whose payouts may not survive for long. This is not a good thing at all.

Altria and Philip Morris International May Rejoin Forces

Philip Morris is a High Yield Dividend Newsletter portfolio holding.

By Callum Turcan

Since the high-profile demerger in 2008, where US-focused Altria Group Inc (MO) and overseas-focused Philip Morris International Inc (PM) split ways, a lot has changed. Structural shifts in the global tobacco market (from the decline of traditional cigarette offerings to the rise of e-cigarettes) forms the impetus behind both companies seeking to rejoin forces through an all-stock merger of equals.

Reportedly, Philip Morris shareholders would own 59% of the pro forma company's equity and Altria's shareholders would own the rest. **We want to highlight why we see this potential combination as a good move and how this news strengthens the reasoning behind us adding Philip Morris International to the High Yield Dividend Newsletter portfolio in early August 2019.**

Demand for cigarettes (in terms of volume) declined in key markets like Japan and Russia from 2006 to 2018, weighing negatively on Philip Morris' trajectory. In the medium term, we see Philip Morris' pricing power enabling the tobacco giant to offset declining volumes of traditional cigarettes. The Marlboro brand comes with a lot of pricing power.

Farther out, we think Philip Morris can overcome the structural decline in cigarette demand through investments in new products like its smoke-free IQOS and TEEPS offerings. **Philip Morris' strong free cash flow profile represents a key reason why we added PM to our HYDN portfolio.**

Cigarette demand by volume also fell in the US during the 2006 to 2018 period, by a lot, with Altria attempting to offset that slide through continuous price increases and investments in less traditional offerings (just like Philip Morris). **That includes Altria's $12.8 billion purchase of a 35% stake in the controversial vaping company Juul Labs in 2018, as well as the firm's decision to invest $1.8 billion in Canadian-based cannabis company Cronos Group Inc (CRON) last year in return for a ~45% stake in the firm.** Keep in mind Altria also owns an ~10.1% economic interest in Anheuser-Busch Inbev NV's (BUD) as part of its diversification strategy.

Altria owns Philip Morris USA which has the rights to sell Marlboro-branded cigarettes in the US. The CDC noted Marlboro took 40% of the US tobacco market in 2017 and Altria sees its retail market share standing at just over 43% during the first two quarters of 2019.

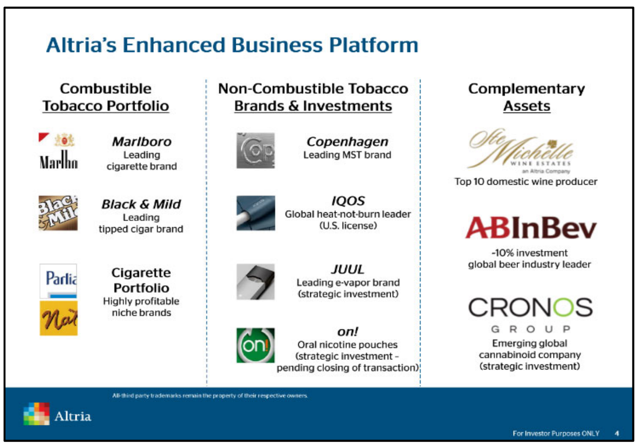

Image Shown: *An overview of Altria's expanding asset base as management seeks new growth avenues to offset terminal declines in traditional tobacco demand.* ***Image Source:*** *Altria – IR Presentation*

Phillip Morris reported that the Marlboro brand took 9.7% of the global tobacco market in 2018 based on volume (excluding sales in the US and China), miles above the second-place competitor Winston. Philip Morris took 15.2% of the global tobacco market in 2018 when including all of its tobacco brands (excluding US sales), and that grows to 28.2% when excluding cigarette sales in China as well. For reference, China's tobacco market is controlled by a state-run monopoly.

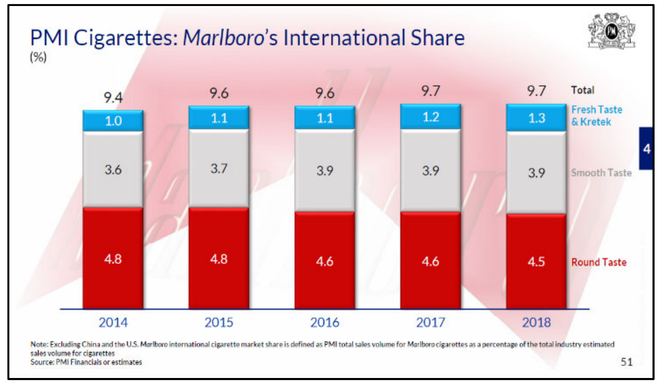

Image Shown: *Philip Morris' Marlboro marketing strategies have enabled the cigarette brand to modestly grow its international market share (excluding sales in the US and China) since 2014.* ***Image Source:*** *Philip Morris – IR Presentation*

There are obvious corporate-level synergies to be had if Altria and Philip Morris merge back together. The cost synergies are straightforward (i.e. merging back-office teams, marketing groups and simplifying the corporate structure to reduce SG&A expenses) and we see those savings as providing very strong support for a merger. **Cutting operating expenses, even modestly, can go a long way to enhancing future expected and realized free cash flows.**

Potential revenue synergies are also at play here. Philip Morris just had its smoke-free IQOS product approved for sale in the US in April 2019, which is seen as a potential top competitor to the big player in the vaping scene, Juul Labs. **Altria has exclusive rights to market IQOS in the US, so in the event Philip Morris does merge with Altria, its exposure to the growing smoke-less tobacco market would grow exponentially overnight.**

Third-party research service Nielsen Holdings (NLSN) notes **Juul controlled roughly three-quarters of the US e-cigarette market at the end of 2018**, which is thought to be the world's largest e-cigratte market. IQOS has done well in Japan and elsewhere since Philip Morris launched the product line back in 2014, providing a level of optimism for potential US sales. As a combined force, Altria and Philip Morris could dominate the global e-cigarette market.

Third-party research services P&S Intelligence, VynZ Research, and Grand View Research all see the global e-cigarette market growing by over 20% CAGR through

2024, reaching around ~$50 billion in sales (varies by research firm but the growth story remains largely the same). That includes strong growth in both US and international markets.

We caution that the US Federal Trade Commission is reportedly now probing Juul Labs over its marketing practices, particularly "influencer" campaigns that targeted younger consumers. Those types of campaigns have since ended (and were very small to begin with) but may result in a modest fine down the road. Juul Labs has responded by committing $100 million towards a program that would help encourage retailers to install automated technology that prevents the sale of tobacco to those that are underage. The Food and Drug Administration is also looking into Juul Labs over reports of seizures from a handful of people.

That being said, we don't think the US government will ban the sale of e-cigarettes considering the alternative (the CDC notes traditional cigarettes are responsible for almost half a million deaths in the US each year). Concerns over the banning of e-cigarette sales, and how that would impact Altria and Philip Morris, appear overblown especially as the industry has shifted towards supporting raising the legal smoking age nationwide to 21 (the federal minimum age is 18, but some states have raised that to 21 already). Regulatory concerns in the US are material, but navigable. **By pushing to raise the legal smoking age in the US nationwide, we think the industry is getting ahead of regulatory challenges.**

In July 2019, Altria agreed to invest just under $0.4 billion in Swiss tobacco company Burger Sohne as the partnership plans to roll out the On tobacco pouch offering worldwide. If Philip Morris joins forces with Altria once again, the pro forma company could leverage their global footprint to assist in that expansion effort.

Looking even farther ahead, Altria's major investment in Cronos Group is a bet that the world will increasingly shift towards legalizing cannabis for recreational use over the decades to come. Canada legalized cannabis for recreational consumption, as have several US states, and Mexico is working on legalization legislation. Many other nations (particularly in Central and South America) have also already legalized or decriminalized some variation of cannabis consumption. The theory is that this trend will continue to spread around the globe, albeit slowly, creating a new massive market to cater to.

Cronos Group has operations worldwide and is well positioned to capitalize on that trend, but Altria paid a pretty price for that upside potential. Altria could leverage its Cronos Group investment to roll out cannabis vaping products which could be quite popular and could generate nice reoccurring revenue streams with decent margins if brand-power comes into play.

Altria isn't alone here. Constellation Brands Inc (STZ) paid ~$4.2 billion to acquire a 38% stake in Canopy Growth Corporation (CGC) through two different transactions (initially a $0.2 billion investment that was followed up by a much larger $4.0 billion investment), a stake that could rise to around 50% if warrants are exercised.

Altria and Philip Morris carry a combined market capitalization of ~$200 billion as of this writing but note that the pro forma company would also have a large net debt load. At the end of June 2019, Philip Morris had a net debt load of $25.9 billion and Altria had a net debt load of $27.4 billion, but we must stress here that this isn't the whole picture. When factoring in Altria's $32.1 billion in 'investments in equity securities' and Philip Morris' $4.7 billion in 'investments in unconsolidated subsidiaries and equity securities' it's clear the pro forma company has a much stronger financial position that first appearances suggest.

We would like to note here that conceivably Altria has no need for a 10.1% economic interest in Anheuser-Busch from a strategic standpoint (beyond diversification purposes). That stake represents a way Altria could raise funds as needed beyond its impressive free cash flows.

Short-term volatility in the share price action of MO and PM aside, we think this proposed merger makes perfect sense. Cost savings and revenue synergies would go a long way in shoring up the pro forma tobacco company's future financial trajectory, insulating its payout to a degree from the global headwinds that are building (whether that be over trade wars or tobacco regulations). **The future of tobacco increasingly, if not ironically, looks "smoke-less."**

Disclosure: *Callum Turcan does not own any of the securities mentioned in the article above.*

High Yield Spotlight: We Added CubeSmart (CUBE) to High Yield Dividend Newsletter Portfolio

CubeSmart (CUBE) -- 3.6% yield -- is a self-storage REIT and one of the newest positions in the High Yield Dividend Newsletter portfolio, with the 5% CUBE weighting replacing a 5% cash weighting as we think it's best for high-yield funds to be "fully invested" when the US Fed is cutting interest rates. The Fed has already embarked on one 25 basis point cut, and we think the Fed is likely to cut rates again during the group's upcoming meeting in September. CubeSmart is joining Public Storage (PSA) as our HYDN portfolio's second top-tier self-storage REIT play, and we really like the space given the industry's strong free cash flows (at the best operators) and intriguing growth trajectory.

Headquartered in Malvern, PA, CubeSmart's corporate profile is built around owning and developing its own self-storage locations and offering management services to third-party locations. CubeSmart's expertise in the self-storage space and ability to boost rental income are the main attractions. As of the end of 2018, CubeSmart owned 493 self-storage properties across 23 US states and managed 593 third-party stores across 34 US states. **We like the REIT's very strong free cash flows and dividend coverage (for a REIT), with future payout increases supported by its promising growth runway.** The company's investment grade credit ratings (BBB/Baa2) come with stable outlooks, and CubeSmart's debt maturity schedule is staggered making refinancing activities significantly easier.

CubeSmart uses a combination of equity (~$110 million was raised through an at-the-market program in the second quarter of 2019) and debt issuances to fund its growth story. Please note that CubeSmart recently extended the maturity date of its unsecured revolving credit line from 2020 to 2024 while increasing its borrowing capacity (from $500 million to $750 million) and reducing its borrowing rate (from 1.25% over LIBOR to 1.1%), **highlighting the confidence creditors have in the REIT's financial strength.**

When it comes to the key attributes we look for in top quality high-yielding names, CubeSmart checks most of the boxes. The REIT has solid investment grade credit ratings, better access to liquidity now that its revolver has been upsized and the maturity date extended, a strong free cash flow profile (which we will cover in a moment), and a promising growth trajectory. During the first six months of 2019, CubeSmart's adjusted funds from operations ("AFFO") grew by 4% year-over-year to $0.82 per share. Its dividend coverage ratio, as defined as AFFO divided by dividends per share ($0.64 per share), came in at 78% during this period. That provides for solid coverage and room to growth its payout on a per share basis going forward.

However, CubeSmart did have a net debt load of ~$1.85 billion at the end of the second quarter of 2019. The REIT's liquidity is largely built around its ability to tap capital markets and draw down its revolving credit line (which was drawn by ~$0.25 billion at the end of June 2019), as its cash pile is negligible. Management marginally adjusted CubeSmart's full-year guidance for 2019 during the second quarter. Now the REIT expects to generate $1.66 - $1.69 in fully diluted FFO (versus guidance calling for $1.65 - $1.69 previously) and $0.85 - $0.88 in fully diluted EPS (versus guidance calling for $0.85 - $0.89 previously). The majority (if not all) of that guidance change was due to the REIT's acquisition activity and not due to a change in the underlying strength of CubeSmart's businesses. Same-store net operating income ("NOI") growth is still expected at 1.00% - 2.25% which we appreciate.

In the upcoming graphic, take a look at the steady improvement in CubeSmart's leverage (net debt to EBITDA) and interest coverage (EBITDA/interest expense) ratios, particularly since 2013.

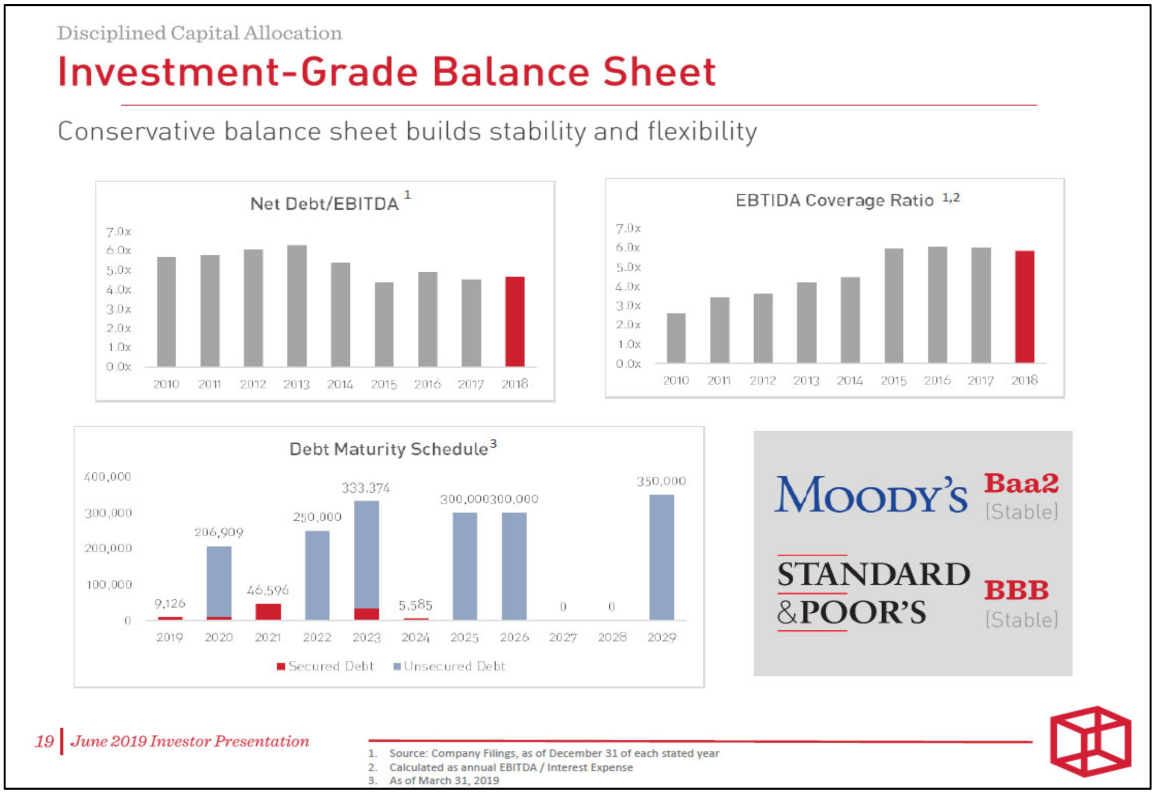

Image Shown: *CubeSmart has a manageable debt maturity schedule.* ***Image Source:*** *CubeSmart – IR Presentation*

We would be remiss if we also didn't highlight CubeSmart's stellar free cash flows. In this case, we would define capital expenditures as 'additions and improvements to storage properties' plus 'development costs' as highlighted in the upcoming graphic. The REIT's annual free cash flows averaged $161 million from 2016 – 2018. Last year, CubeSmart generated $191 million in free cash flow.

CUBESMART AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	For the year ended December 31, 2018	2017	2016
Operating Activities			
Net income	$ 165,488	$ 135,611	$ 88,376
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	145,663	148,319	164,442
Equity in losses of real estate ventures	865	1,386	2,662
Gains from sale of real estate, net	(10,576)	—	—
Equity compensation expense	5,572	5,586	4,850
Accretion of fair market value adjustment of debt	(735)	(559)	(1,138)
Changes in other operating accounts:			
Other assets	(4,937)	(10,429)	(5,229)
Accounts payable and accrued expenses	2,653	10,846	7,862
Other liabilities	342	1,154	1,449
Net cash provided by operating activities	$ 304,335	$ 291,914	$ 263,274
Investing Activities			
Acquisitions of storage properties	(214,510)	(69,629)	(388,641)
Additions and improvements to storage properties	(27,626)	(27,378)	(29,672)
Development costs	(86,002)	(68,778)	(136,912)
Investment in real estate ventures	(19,216)	(301)	(12,176)
Cash distributed from real estate ventures	8,706	15,783	8,113
Proceeds from sale of real estate, net	16,389	—	—
Net cash used in investing activities	$ (322,259)	$ (150,303)	$ (559,288)

Image Shown: *CubeSmart is very free cash flow positive, one of the reasons why we like the self-storage REIT space so much.* ***Image Source:*** *CubeSmart – 2018 Annual Report with additions from the author*

In 2018, CubeSmart spent a little over $221 million on dividends which was almost fully covered by free cash flow. As a REIT, we consider CubeSmart's access to capital markets when evaluating its dividend coverage as well as its free cash flow profile. The REIT raised $128 million from net equity issuances and $104 million from net debt issuances in 2018, proceeds that enabled CubeSmart to pursue significant acquisitions while also covering its dividend commitments. The upcoming graphic showcases how CubeSmart uses a combination of free cash flow and access to capital markets to fund its growth story while maintaining a generous dividend policy.

Financing Activities			
Proceeds from:			
Unsecured senior notes	—	103,192	298,512
Revolving credit facility	679,535	628,400	958,200
Principal payments on:			
Revolving credit facility	(565,710)	(590,000)	(914,900)
Unsecured term loans	—	(100,000)	—
Mortgage loans and notes payable	(9,816)	(8,666)	(37,260)
Loan procurement costs	—	(953)	(2,467)
Acquisition of noncontrolling interest in subsidiary	—	(9,033)	—
Proceeds from issuance of common shares, net	131,830	29,643	136,122
Cash paid upon vesting of restricted shares	(1,461)	(2,046)	(1,638)
Redemption of preferred shares	—	—	(77,574)
Exercise of stock options	3,835	2,364	13,283
Contributions from noncontrolling interests in subsidiaries	925	1,058	4,799
Distributions paid to noncontrolling interests in subsidiaries	(169)	—	—
Distributions paid to common shareholders	(221,328)	(195,006)	(149,280)
Distributions paid to preferred shareholders	—	—	(6,545)
Distributions paid to noncontrolling interests in Operating Partnership	(2,393)	(2,272)	(1,841)
Net cash provided by (used in) financing activities	$ 15,248	$ (143,319)	$ 219,411
Change in cash, cash equivalents, and restricted cash	(2,676)	(1,708)	(76,603)
Cash, cash equivalents, and restricted cash at beginning of year	9,158	10,866	87,469
Cash, cash equivalents, and restricted cash at end of year	$ 6,482	$ 9,158	$ 10,866

Image Shown: *CubeSmart continuously taps capital markets for funds.* ***Image Source:*** *CubeSmart – 2018 Annual Report*

Let's dig a bit deeper into why the self-storage space is so intriguing. Right off the bat what we really like is the ability for operators in the industry to maintain high occupancy levels while pushing through modest but significant price increases on a same-store basis. In the upcoming graphic, check out CubeSmart's strong occupancy levels and the meaningful growth in its net operating income ("NOI") on a same-store basis, particularly from 2013 onwards. Furthermore, keep in mind that CubeSmart's improving operational performance has had a direct positive impact on its financial performance, allowing for management to bring the REIT's leverage ratio down over the past six years (as noted previously).

Historical Company Data

Same-Store Performance [1]	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue Growth	0.3%	3.6%	3.8%	7.4%	7.2%	7.3%	7.0%	4.4%	3.3%
NOI Growth	1.0%	5.7%	6.0%	9.3%	9.6%	9.6%	10.2%	5.1%	3.5%
YOY Occupancy Growth (BPS)	0.6%	2.0%	3.4%	5.3%	2.6%	1.5%	0.8%	0.2%	3.3%
Annual Avg. Occupancy	76.8%	78.8%	82.6%	88.4%	90.8%	92.3%	92.9%	93.1%	92.7%
External Growth									
# Acquired Properties	12	27	37	20	53	29	28	7	10
Acquisition Value ($MM)	$85.1	$467.1	$432.3	$189.8	$568.2	$292.4	$403.6	$80.7	$227.5
# of Development Openings	0	0	0	0	2	3	2	4	1
Cost of Development Openings ($MM)	$0.0	$0.0	$0.0	$0.0	$42.3	$49.3	$64.0	$168.0	$92.1
# of Disposed Properties	16	19	26	35	0	8	0	0	2
Disposition Value ($MM)	$38.1	$45.2	$60.0	$126.4	$0.0	$37.8	$0.0	$0.0	$17.5
Trading & Valuation Metrics									
Market Equity Value[2]	$965	$1,277	$2,049	$2,335	$3,752	$5,496	$4,875	$5,324	$5,425
Total Market Capitalization[2]	$1,580	$2,035	$3,073	$3,474	$4,926	$6,758	$6,471	$6,659	$7,172
Total Gross Assets[2]	$1,793	$2,195	$2,504	$2,757	$3,278	$3,709	$4,146	$4,298	$4,615
P / FFO (Trailing)[3]	18.7x	16.4x	19.7x	17.5x	20.4x	24.5x	18.6x	18.2x	17.5x
FFO Payout Ratio[4]	28.4%	44.6%	47.3%	50.5%	50.9%	55.2%	62.5%	69.8%	74.4%
Dividend Yield[5]	1.5%	2.7%	2.4%	2.9%	2.5%	2.7%	3.4%	3.8%	4.3%

1. Performance as reported for the same-store pool as it was constituted at the end of the respective year
2. Year-ending values as detailed in Company's supplemental packages
3. Calculated as ending common share price / funds from operations per share, as adjusted. Please refer to CubeSmart's public filings for a detailed explanation of FFO and how it reconciles to a GAAP measure
4. Calculated as annual common distributions per share / funds from operations per share, as adjusted
5. Calculated as annual dividend per share / ending common share price

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Image Shown: *CubeSmart's average occupancy levels have stayed above 90% since 2014, and its same-store NOI growth hasn't fallen below 3.5% since 2010.* ***Image Source:*** *CubeSmart – IR Presentation*

CubeSmart's peers seem to think that there's a lot of upside ahead for self-storage demand in the US. Extra Space Storage Inc (EXR), a company we've profiled in the past, notes a rising percent of the US population is choosing to use self-storage options. **This is a multi-decade long trend with a lot of room to keep growing.** Major metropolises continue to get squeezed for space, driving up property values and rents, ultimately leading to greater demand for additional long-term space in somewhere that's safe and affordable. That's where CubeSmart comes into play.

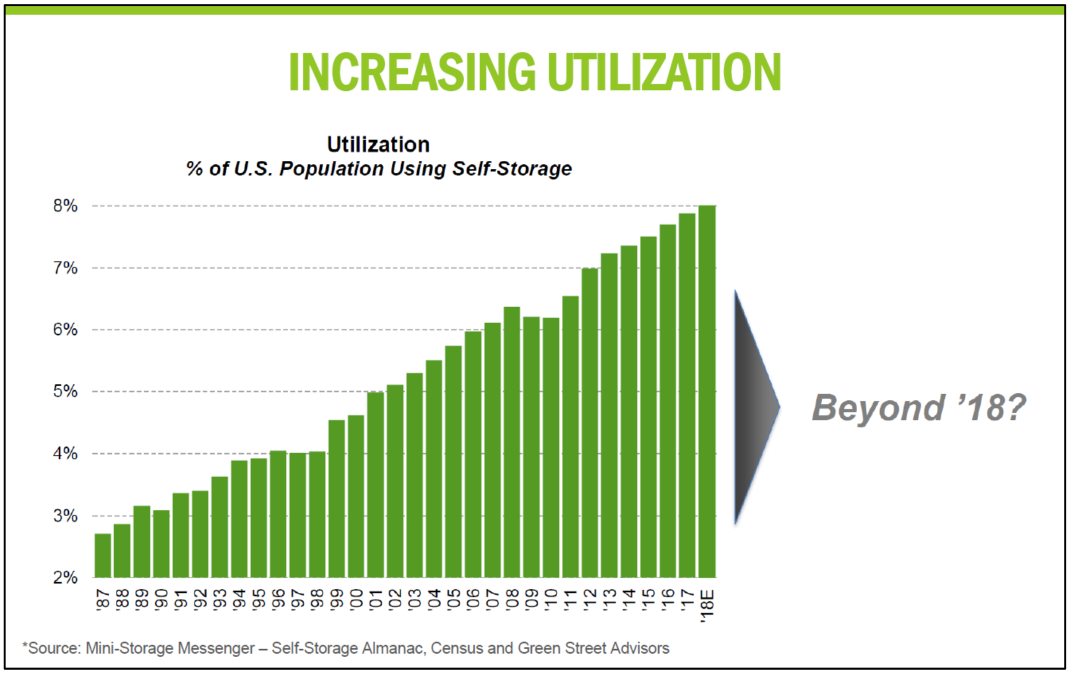

Image Shown: *Growing demand for self-storage options in the US in a multi-decades long trend with room to keep going.* ***Image Source:*** *Extra Space Storage – IR Presentation*

The market for self-storage options remains highly fragmented, which is why CubeSmart offers third-party management services. At the end of the second quarter, CubeSmart's third-party management platform included 648 locations, up meaningfully (~9%) from year-end 2018 levels. Rental income by far presents the majority of CubeSmart's revenues but we appreciate the level of diversity the third-party management segment brings. **Those relationships have really augmented CubeSmart's growth trajectory. As of March 2019, CubeSmart had purchased 68 properties through its third-party platform for a tad under $0.7 billion to date.** We appreciate CubeSmart's ability to leverage this segment to grow its more meaningful rental revenue streams.

CubeSmart is aggressively pushing into New York and other East Coast markets to keep the momentum going. That includes major developments in the boroughs of Queens, Bronx, and Brooklyn in New York City that have either recently come online or will soon be operational. Additionally, CubeSmart is pursuing developments in New Jersey, Virginia, and Massachusetts. **We like CubeSmart as one of the two newest editions to our High Yield Dividend Newsletter because the REIT's operational performance has been stellar, its free cash flow profile is impressive, its financials continue to move in the right direction, and capital markets remain readily accessible.** Its creditors clearly believe in CubeSmart's ability to make good on its debt commitments, and investors appear to like the name (the REIT's stock is on an upward trajectory) as interest in the self-storage REIT spaces continue to grow. CubeSmart, along with our other favorite self-storage REIT, Public Storage (PSA), are two high-quality ways to play a lower interest rate environment.

Disclosure: *Callum Turcan does not own any of the securities mentioned in the article above.*

Regional Banks as Dividend Plays?

By Matthew Warren

Previously, we looked at the big six banks in the US in search of potential yield plays. We noted then that the Global Financial Crisis ("GFC") put a serious dent in that characterization, as horrendous asset quality seriously dented so many banks' earnings power, to the point where many cut their dividends in order to defend their balance sheets; some were forced to raise capital at depressed prices, and others went bust. **The disclaimer that must be up front in this article is that it is always possible that this could happen again if we were to face another deflationary financial crisis.** Banks simply do not stand up well in a deflationary environment as they lend in large part against collateral, and when the value of collateral collapses, defaults increase amongst shakier customers and shakier projects, and losses-given-default increase as the collateral can only be sold below base-case projected levels.

While at Morningstar (MORN) I wrote about this phenomenon during the GFC in an article titled "Banks and the Avalanche of Deflation" back in January of 2009. With that (hopefully) tail risk addressed, let's proceed assuming we don't go off the rails into another financial crisis.

Regional Banks range in size from a bank or two all the way up to a US Bancorp (USB) with its $80B market capitalization. One big difference as compared to the large money center banks like JP Morgan (JPM) or Bank of America (BAC) is that regional banks typically have little or no contribution from investment banking and capital markets activity. **There are of course exceptions like investment banking, capital markets, payment processing, insurance brokering, or wealth/investment management, but most of what you get with regional banks is typically traditional bread and butter spread banking.**

Banks raise equity funds and then collect deposits (and sometimes borrow additional money in the capital markets) in order to turn around and lend that money out (and invest some in assets like US treasuries or mortgage-backed securities) at a higher rate. The spread they earn is called the net interest margin. Banks also charge various fees to earn non-interest income. This net revenue covers charge offs of bad loans and the banks operating expenses, leaving profits to reinvest in asset growth and for return to shareholders in the form of dividends and share buy backs. **Because US banking is generally quite a mature, slow growth industry, there is typically substantial money left over for dividends after funding balance sheet growth.**

So, what is the current state of play in regional banking? In going through the earnings calls of the banks we are going to discuss, several trends emerge. First, the credit backdrop is very benign at this point in the cycle. In other words, loans are not going bad in large amounts. The consumer is strong with a very low jobless rate and wage growth a bit ahead of overall inflation. Small business, commercial, and corporate customers have also been quite healthy to this point in the cycle. The banks talk about current credit losses being below through-the-cycle or normal levels. Most banks are flagging commercial real estate construction loans as a source of risk they are attempting to downplay at this point in the cycle. What does that mean for commercial real estate loans in general and where are we in the cycle I would then ask? This is a tell that banks are a bit cautious on both these fronts.

The other substantial negative which is receiving significant airtime at this point in the cycle is that with the Federal Reserve cutting interest rates and yields coming down across the entire treasury curve, the banks are all expecting some amount of net interest margin pressure in coming quarters. **Time will tell whether it is a rate cut or two which is digestible, or whether short rates are headed back towards zero in a more serious economic situation.** The latter situation would not only pressure spread income, but it would also come with generalized revenue pressure and mounting credit cost pressures.

Most of the banks are also on efficiency drives as they use digital technology and branch consolidation to try to become more efficient, as measured by their efficiency ratio – the lower the better as far as investors are concerned.

Many regional banks have higher efficiency ratios in the mid-50s as opposed to the universal banks closer to 50%, as the regional banks are more exposed to commercial & industrial and commercial real estate as opposed to hefty consumer exposure. This is because the large money center banks have captured the lion's share of mortgage, auto, and credit card lending and the regional banks are left to nibble on what's left over after the lion pride gorges in their geographies. **Consumer lending is a business where scale matters and the big universal banks have the best apps, footprint, and nationwide ad campaigns.** Consumer banking at scale is very efficient and high return on capital as compared to paying out sizable commissions to commercial loan officers, though both can earn above the cost of capital as the best regional banks display with return on tangible capital levels approaching 20%.

So, let's jump into it. Below are six of the largest regional banks including BB&T (BBT), which is slated for a merger of equals with Sun Trust Banks (STI) later this year. In the upcoming graphic you can see the market capitalizations and forward dividend yields of 6 of the largest publicly traded regional banks in our country:

		Share Price	Market Cap (B)	Forward Dividend	Yield
U.S. Bancorp	**USB**	$ 52.58	$ 81.6	$ 1.48	2.8%
BB&T Corporation	**BBT**	$ 47.52	$ 35.8	$ 1.80	3.8%
Sun Trust Banks, Inc.	**STI**	$ 61.39	$ 27.0	$ 2.24	3.6%
The PNC Financial Services Group, Inc.	**PNC**	$ 128.95	$ 56.6	$ 4.60	3.6%
M&T Bank	**MTB**	$ 145.95	$ 19.3	$ 4.00	2.7%
KeyCorp	**KEY**	$ 16.56	$ 16.3	$ 0.74	4.5%

Source: *Yahoo Finance*

What you'll notice is that all these yields are well above the 30-year treasury bond, which has come way down – all the way below 2% in the past few months. KeyCorp (KEY) leads the way with a 4.5% yield, which is quite high by any standard. Now, in the upcoming graphic, you will see how well covered last year's dividends were at each of these banks:

		2018 EPS	2018 DPS	Div Coverage
U.S. Bancorp	**USB**	$ 4.14	$ 1.34	309%
BB&T Corporation	**BBT**	$ 3.91	$ 1.56	251%
Sun Trust Banks, Inc.	**STI**	$ 5.74	$ 3.23	178%
The PNC Financial Services Group, Inc.	**PNC**	$ 10.71	$ 3.40	315%
M&T Bank	**MTB**	$ 12.74	$ 3.55	359%
KeyCorp	**KEY**	$ 1.70	$ 0.57	301%

Source: *Bank Annual Reports*

Perhaps apart from Sun Trust (STI), the other 5 banks have been covering their dividend payments quite easily, leaving plenty of money to fund balance sheet growth and even share buybacks on top of existing dividends. **It makes sense that these banks have raised their forward dividends. So, any bank investor concerned with dividend yields and potential dividend growth should also concern themselves with the earnings power of the banks being considered.**

So, let's look at the return on equity of these six regional banks below:

		2018 ROE
U.S. Bancorp	USB	15.40%
BB&T Corporation	BBT	11.50%
Sun Trust Banks, Inc.	STI	12.13%
The PNC Financial Services Group, Inc.	PNC	11.83%
M&T Bank	MTB	12.82%
KeyCorp	KEY	12.79%

Source: *Bank Annual Reports*

Not only are all six banks earning above the roughly 10% cost of capital, but they are also putting up return on tangible equity (excluding goodwill and intangibles) in the mid to upper teens. These levels of returns suggest two things to me: (a) these are some of the more competitively advantaged banks in our country, as compared to smaller and poorly run institutions and (b) this is a snapshot of a benign or good part of the banking cycle.

Another question I would ask myself as a potential bank investor looking for yield is whether these banks have healthy deposit franchises, as this speaks to the low-cost nature of the banks as well as the sustainability of their franchise and earnings power.

		2018 Loans	2018 Deposits	L/D Ratio	2018 Liabilities	Deposits/Total Liabilities
U.S. Bancorp	USB	$ 286,810	$ 345,475	83%	$ 415,717	83%
BB&T Corporation	BBT	$ 150,001	$ 161,199	93%	$ 195,519	82%
Sun Trust Banks, Inc.	STI	$ 150,224	$ 162,589	92%	$ 191,263	85%
The PNC Financial Services Group, Inc.	PNC	$ 226,245	$ 267,839	84%	$ 334,545	80%
M&T Bank	MTB	$ 87,447	$ 90,157	97%	$ 104,637	86%
KeyCorp	KEY	$ 89,552	$ 107,309	83%	$ 124,018	87%

Source: *Banks Annual Reports*

As I mentioned previously, these banks are very plain vanilla with deposits making up the vast majority of liabilities as opposed to capital markets borrowing – a sign of health. While some of the banks have nearly lent out their entire deposit base and are likely scratching around for deposit growth to keep up with asset growth, none of the banks have stretched past lending out all their deposits yet – another sign of reasonable health. The next question regarding the health of these banks is how well capitalized they are, which you can see in the below graphic:

		Common Tier 1 Ratio	Tangible common equity ratio
U.S. Bancorp	USB	9.1%	7.8%
BB&T Corporation	BBT	10.2%	7.4%
Sun Trust Banks, Inc.	STI	9.2%	7.6%
The PNC Financial Services Group, Inc.	PNC	9.6%	9.0%
M&T Bank	MTB	10.1%	8.7%
KeyCorp	KEY	9.8%	8.3%

Source: *Banks Annual Reports*

Here you can see that all the banks are well capitalized. While their common equity Tier 1 ratios are a bit below the money center banks, their tangible common equity ratios are the same or a little better. The banks' allowance for bad loans is higher than the level of current write offs as well, reflecting a more normalized environment to come. **We do not have any concerns about the level of banks' capital at this stage.**

Aside from the safety of the dividend, the next question to ask is will it grow? My best bet is that growth might slow going forward, as compared to the rear-view mirror of the past five years, though only time will tell.

		2014 Net Revenue	2018 Net Revenue	5 Yr Rev CAGR	2014 EPS	2018 EPS	5 Yr EPS CAGR	2014 Div	2018 Div	5 Yr Div CAGR
U.S. Bancorp	**USB**	$ 20,046	$ 22,637	2.5%	$ 3.08	$ 4.14	6.1%	$ 0.97	$ 1.34	6.8%
BB&T Corporation	**BBT**	$ 9,230	$ 11,558	4.6%	$ 2.72	$ 3.91	7.5%	$ 0.95	$ 1.56	10.4%
Sun Trust Banks, Inc.	**STI**	$ 8,163	$ 9,213	2.4%	$ 3.23	$ 5.74	12.2%	$ 0.70	$ 1.80	20.8%
The PNC Financial Services Group, Inc.	**PNC**	$ 15,375	$ 17,132	2.2%	$ 7.30	$ 10.71	8.0%	$ 1.88	$ 3.40	12.6%
M&T Bank	**MTB**	$ 4,547	$ 5,928	5.4%	$ 7.42	$ 12.74	11.4%	$ 2.80	$ 3.55	4.9%
KeyCorp	**KEY**	$ 4,114	$ 6,455	9.4%	$ 1.04	$ 1.73	10.7%	$ 0.25	$ 0.57	17.7%

Source: *Bank Annual Reports*

In terms of earnings, Sun Trust (STI), M&T (MTB), and KeyCorp (KEY) stand out with double-digit earnings growth. KeyCorp and M&T grew the top line quite rapidly the past five years as well. With net interest margin pressure ahead from Federal Reserve rate cuts and flattening of the yield curve, the next year might well augur slower revenue growth, but that depends on where the economy goes too. Now let's look at loan and deposit growth, which drives the P&L.

		2014 Loans	2018 Loans	5 Yr Loans CAGR	2014 Deposits	2018 Deposits	5 Yr Deposit CAGR
U.S. Bancorp	**USB**	$ 247,851	$ 286,810	3.0%	$ 282,733	$ 345,475	4.1%
BB&T Corporation	**BBT**	$ 121,307	$ 150,001	4.3%	$ 129,040	$ 161,199	4.6%
Sun Trust Banks, Inc.	**STI**	$ 131,175	$ 150,224	2.7%	$ 139,234	$ 161,544	3.0%
The PNC Financial Services Group, Inc.	**PNC**	$ 204,817	$ 226,245	2.0%	$ 232,234	$ 267,839	2.9%
M&T Bank	**MTB**	$ 65,749	$ 87,447	5.9%	$ 73,582	$ 90,157	4.1%
KeyCorp	**KEY**	$ 57,381	$ 89,552	9.3%	$ 71,998	$ 107,309	8.3%

Source: *Bank Annual Reports*

KeyCorp, M&T, and BB&T stand out regarding balance sheet growth. It certainly helps to be in faster growing regions of the United States when it comes to healthy outsized balance sheet growth. If KeyCorp were growing any faster, it might be a source of concern worth exploring. But of course, they also bought First Niagra and Laurel Road in the past five years. And deposits are growing nearly as fast as loans, showing balance

My conclusion is that for investors seeking the highest possible yield, KeyCorp's 4.5% yield is worth due consideration. The dividend is well covered, the bank earns a reasonable return on equity of nearly 13% and an appealing return on tangible equity of just over 16%. The bank is largely funded by deposits and there is still room to lend. The bank is very well capitalized and is putting up some of the highest growth on the board, thanks in part to acquisitions. **One red flag is a sizable ($90M) client fraud that just took place at the bank, but this appears to be one off in nature at this stage.** We like the tone of management in the recent call, with Beth Mooney leading the charge as Chairman and CEO. In fact, management did a good job hedging against lower rates, which positions them well for the current environment. While KeyCorp sits in some slower growing regions of the country, as long as we avoid another financial crisis, KeyCorp looks like a good play for investors seeking to pick up yield in a low yield world.

Disclosure: *Matthew Warren does not own shares in any of the securities mentioned above.*

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Disclosure: *Brian Nelson, Callum Turcan, and Matthew Warren do not own any shares of any securities mentioned in their authored articles. Please contact info@valuentum.com for more information regarding Valuentum's editorial policies.*

THE SIMULATED HIGH YIELD DIVIDEND NEWSLETTER PORTFOLIO

We can't begin to tell you how excited we are about the high yield space during 2019. We think we did pretty good during 2018 given the uncertainty regarding Fed policy, but as you've noticed since the December 2018 bottom in the market, high yield dividend equities have come roaring back!

We think this is the beginning of what could be a nice run in the space given a more "dovish" stance by Fed policy. We also think the High Yield Dividend Newsletter portfolio positions us fairly well for whatever the market may throw at us. We're pretty well-diversified, and we've started to identify some pretty good individual equity ideas of late.

The high yield dividend equity arena trades a lot like junk bonds, meaning that interest rates play a key role in how equities will perform. As interest rates fall, high yield stays in vogue, but as interest rates rise, many look elsewhere. This impacts pricing greatly.

We're laser focused on identifying high yielding stocks that have sustainable yields, and if the income stream becomes threatened, we won't hesitate to say goodbye to a name. The High Yield Dividend Newsletter portfolio is presented each month in similar fashion (list and weightings) as that of the first edition.

If you have any questions, comments, or concerns, please be sure to let us know at info@valuentum.com.

Idea	Symbol	Weighting	Est Div Yield
CORE			
Alerian MLP ETF	AMLP	5.0%	8.03%
Global X SuperDividend ETF	SDIV	5.0%	9.45%
Global X SuperIncome Preferred ETF	SPFF	10.0%	6.57%
iShares International Select Dividend ETF	IDV	5.0%	6.15%
iShares MSCI Australia ETF	EWA	5.0%	5.25%
iShares U.S. Preferred Stock ETF	PFF	5.0%	5.62%
PowerShares Senior Loan Portfolio	BKLN	5.0%	4.92%
ProShares High Yield—Interest Rate Hedged	HYHG	5.0%	6.26%
Utilities Select Sector SPDR ***NEW***	XLU	5.0%	3.11%
Vanguard Real Estate ETF	VNQ	10.0%	3.41%
EQUITY			
AT&T	T	5.0%	5.79%
BP PLC	BP	5.0%	6.66%
CubeSmart ***NEW***	CUBE	5.0%	3.57%
Digital Realty Trust	DLR	5.0%	3.49%
Enterprise Products Partners	EPD	5.0%	6.17%
Magellan Midstream Partners	MMP	5.0%	6.07%
Philip Morris	PM	5.0%	6.33%
Public Storage	PSA	5.0%	3.02%
Cash*	-	0.0%	2.25%
		100.0%	**5.49%**

This is not a real money portfolio. Inception 1/1/2018. Data as of 9/3/2019. Est. Div. Yield retrieved from YahooFinance.

** Reflects high end of federal funds rate*

SCREEN OF THE MONTH – THE FINANCIALLY-HEALTHIEST DIVIDEND PAYERS YIELDING OVER 2%

The following is a list of stocks that have the highest multiplicative combination of their dividend yield and Dividend Cushion ratio, per our estimates. 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!

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. This screen was included in the June edition of the Dividend Growth Newsletter.*

Company Name	Symbol	Economic Castle	Multiplier
General Motors	GM	Attractive	14.90
Chico's FAS	CHS	Attractive	13.74
Honda	HMC	Neutral	12.98
Gilead Sciences	GILD	Very Attractive	12.17
Fluor	FLR	Attractive	11.79
Lear Corp	LEA	Attractive	10.98
Guess	GES	Attractive	10.48
Automatic Data Processing	ADP	Very Attractive	10.36
Hewlett-Packard	HPQ	Attractive	9.74
Bristol-Myers Squibb	BMY	Very Attractive	9.29
Western Union	WU	Neutral	9.22
American Eagle	AEO	Attractive	9.19
Gap	GPS	Attractive	8.46
Caterpillar	CAT	Very Attractive	8.41
Total	TOT	Neutral	8.27
Huntsman	HUN	Attractive	8.25
Omnicom	OMC	Unattractive	8.01
Dick's Sporting	DKS	Attractive	7.96
Tapestry	TPR	Attractive	7.93
Foot Locker	FL	Attractive	7.74
QUALCOMM	QCOM	Very Attractive	7.71
H&R Block	HRB	Very Attractive	7.67
Archer-Daniels-Midland	ADM	Attractive	7.66
Walgreens Boots Alliance	WBA	Attractive	7.64
AVX Corp	AVX	Attractive	7.50
Manpower	MAN	Attractive	7.47
Amgen	AMGN	Very Attractive	7.37
Ethan Allen	ETH	Unattractive	7.31
Rio Tinto	RIO	Neutral	7.19
Cisco	CSCO	Very Attractive	7.17
Applied Materials	AMAT	Very Attractive	7.01
Cardinal Health	CAH	Attractive	6.95
Novartis	NVS	Attractive	6.93
AmerisourceBergen	ABC	Very Attractive	6.92
Paychex	PAYX	Very Attractive	6.92
Cheesecake Factory	CAKE	Attractive	6.86
Altria Group	MO	Very Attractive	6.78
Johnson & Johnson	JNJ	Attractive	6.73
KLA-Tencor	KLAC	Very Attractive	6.69
Williams-Sonoma	WSM	Attractive	6.69
ABB	ABB	Attractive	6.62
Garmin	GRMN	Attractive	6.59
Weyerhaeuser	WY	Attractive	6.55
Best Buy	BBY	Very Attractive	6.53
British American	BTI	Unattractive	6.53
Tupperware	TUP	Attractive	6.53
Hillenbrand	HI	Attractive	6.52
Taiwan Semiconductor	TSM	Attractive	6.48
Cedar Fair	FUN	Attractive	6.40
AbbVie	ABBV	Very Attractive	6.39

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, there may be stocks that are dealing with a secular shift toward digital consumption or navigating changing consumer preferences as millennials seek 'experiences' not 'things' (e.g. fashion). These may not be the best dividend growth stocks to consider. The Dividend Cushion is only one factor that we use in assessing the overall health of a company's dividend.

DIVIDEND REPORT PAGE 2 – DICK'S SPORTING GOODS INC (DKS)

Dick's Sporting DKS FAIRLY VALUED

Buying Index™ 6 | Value Rating

Economic Castle	Stock Fair Value Range	Dividend Track Record	Dividend Safety / Cushion™	Div Growth Potential	Dividend Yield
Attractive	$33.00 - $49.00	HEALTHY	GOOD / 2.6	EXCELLENT	3.02%

Assessment of Company Dividend Strategy

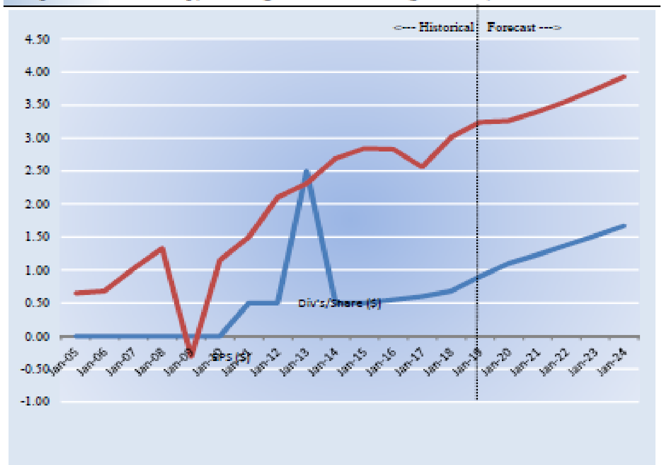
Key Strengths

Dick's Sporting Goods dubs itself as the leader of the sporting goods industry. E-commerce sales have been growing at a double-digit pace, an initiative worth watching, and the company has high hopes for its pending private label launch (targeting $2 billion in annual sales). Free cash flow has been solid (averaging ~$378 million from fiscal 2016-2018), and the company holds a ~$54 million net cash position as of the end of 2018 (including short term debt). In 2012, Dick's Sporting Goods paid a special dividend of $2 per share in anticipation of a potential tax increase on dividends. Although the company is in the middle of a share buyback program, it has continued to raise the quarterly payout in recent years.

Potential Weaknesses

Dick's Sporting Goods is in an industry that grows at a modest pace, and investors must remember that no matter how strong its recent growth has been, it is not immune to challenges of the current retail environment. Dick's Sporting Goods has shown its dividend some love in recent years, but the company has an emphasis on share buybacks ($251 million annually in fiscal 2016-2018). Capital spending was more than halved in fiscal 2018 to $198 million, and is expected to remain suppressed in fiscal 2019 (guidance for ~$230 million). Gross margin pressure is expected in the near term due to lower-margin e-commerce sales growing at a materially higher clip than overall sales.

Graphical Relationship, Earnings and Dividends (per share)

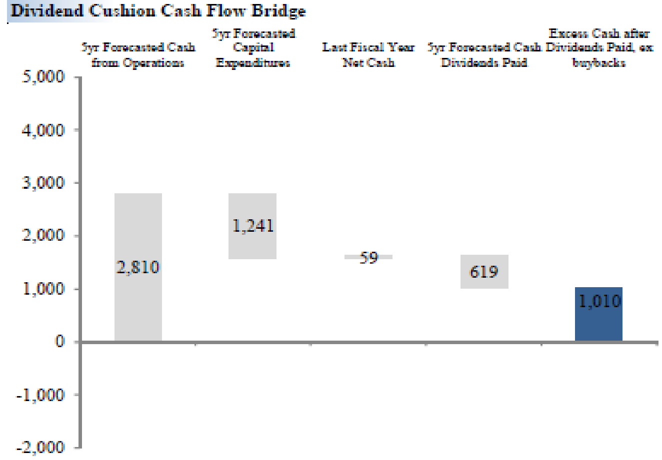


The graph above shows the relationship between a firm's earnings per share and its dividends per share.

Dividend Cushion Cash Flow Bridge Evaluation

The Dividend Cushion Cash Flow Bridge, shown in the image to the right, illustrates the components of the Dividend Cushion ratio and highlights in detail the many drivers behind it. Dick's Sporting's Dividend Cushion Cash Flow Bridge reveals that the sum of the company's 5-year cumulative free cash flow generation, as measured by cash flow from operations less all capital spending, plus its net cash/debt position on the balance sheet, as of the last fiscal year, is greater than the sum of the next 5 years of expected cash dividends paid. Because the Dividend Cushion ratio is forward-looking and captures the trajectory of the company's free cash flow generation and dividend growth, it reveals whether there will be a cash surplus or a cash shortfall at the end of the 5-year period, taking into consideration the leverage on the balance sheet, a key source of risk. On a fundamental basis, we believe companies that have a strong net cash position on the balance sheet and are generating a significant amount of free cash flow are better able to pay and grow their dividend over time. Firms that are buried under a mountain of debt and do not sufficiently cover their dividend with free cash flow are more at risk of a dividend cut or a suspension of growth, all else equal, in our opinion. Generally speaking, the greater the 'blue bar' to the right is in the positive, the more durable a company's dividend, and the greater the 'blue bar' to the right is in the negative, the less durable a company's dividend.

Dividend Cushion Cash Flow Bridge

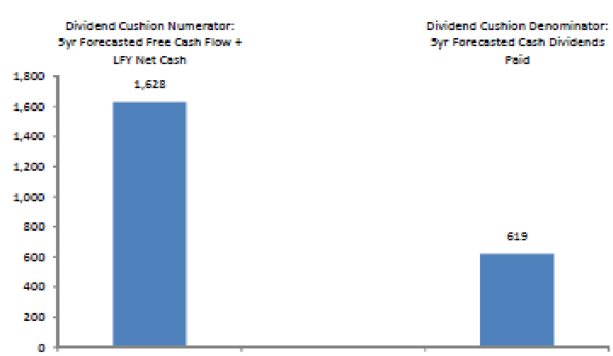


Source: Company Filings, Valuentum Projections

Dividend Cushion Ratio Evaluation

The Dividend Cushion Ratio Deconstruction, shown in the image to the right, reveals the numerator and denominator of the Dividend Cushion ratio. At the core, the larger the numerator, or the healthier a company's balance sheet and future free cash flow generation, relative to the denominator, or a company's cash dividend obligations, the more durable the dividend. In the context of the Dividend Cushion ratio, Dick's Sporting's numerator is larger than its denominator suggesting strong dividend coverage in the future. The Dividend Cushion Ratio Deconstruction image puts sources of free cash in the context of financial obligations next to expected cash dividend payments over the next 5 years on a side-by-side comparison. Because the Dividend Cushion ratio and many of its components are forward-looking, our dividend evaluation may change upon subsequent updates as future forecasts are altered to reflect new information.

Dividend Cushion Ratio Deconstruction



DEFINITIONS

ValueCreation. This is a proprietary Valuentum measure. ValueCreation indicates the firm's historical track record in creating economic value for shareholders, taking the average difference between ROIC (without goodwill) and the firm's estimated WACC during the past three years. The firm's performance is measured along the scale of EXCELLENT, GOOD, POOR, and VERY POOR. Those firms with EXCELLENT ratings have a demonstrated track record of creating economic value, while those that register a VERY POOR mark have been destroying economic value.

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).

ValueTrend. This is a proprietary Valuentum measure. ValueTrend indicates the trajectory of the firm's return on invested capital (ROIC). Firms that earned an ROIC last year that was greater than the 3-year average of the measure earn a POSITIVE rating. Firms that earned an ROIC last year that was less than the 3-year average of the measure earn a NEGATIVE rating.