OUR DIVIDEND GROWTH NEWSLETTER

Valuentum Securities

Stock Analysis: From Value through Momentum Investing

Markets in Turmoil!

S&P 500 Target Range
2,350-2,750*

*S&P 500 Target Range reflects ~200-point margin around 16x forward 2020 estimated S&P 500 earnings, reduced 10% a result of COVID-19, or ~2,550.

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Dividend Growth Ideas: BAC, BKLN, CBRL, CSCO, DLR, IDV, INTC, JNJ, KMI, LMT, NEM, O, ORCL, RSG, SDY, XLV, and for protection, SPY Put Options
Most-recently Added: *NEW* SPY Put Options (Feb 24)
Most-recently Removed: *NEW* MSFT (Feb 24)

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COVID-19

WHO RISK ASSESSMENT

China	Very High
Regional Level	Very High
Global Level	Very High

"Equity markets around the world, including in the US, are crashing over fears that COVID-19 could be the Black Swan event that tips the global economy into a recession."

– Callum Turcan

Feb 24: We Added Market Crash 'Protection' to the DGN Portfolio, Removed MSFT

Image Shown: *The S&P 500 index (SPY) has come under pressure due to mounting concerns over the coronavirus epidemic.*

Please note that versions of this article were previously emailed out to members on February 24 and February 26.

By Callum Turcan and Brian Nelson, CFA

Changes to newsletter portfolio

We've added out-of-the-money put options to the Dividend Growth Newsletter portfolio.

We've removed Microsoft from the Dividend Growth Newsletter portfolio.

We trust you and yours are well during this global crisis. It's hard to turn on the television these days without hearing about COVID-19, a novel coronavirus and respiratory illness that continues to spread from person to person around the world. COVID-19 is deadly, and particularly deadly among those 60 years of age and older and those with cardiovascular disease and diabetes, among other pre-existing conditions. Markets have been selling off aggressively of late due to fears that COVID-19 could turn into a global pandemic.

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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.

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Apple (AAPL) smartphone sales in China appear to be pacing lower 40-50%, while Procter & Gamble (PG) noted that "results for the January to March quarter in China and for the total company will be materially impacted on both the top and bottom line by (the COVID-19 outbreak)," source 8-K, February 20. Both Apple and P&G had been removed from the newsletter portfolios previously.

These are just two of the biggest companies in the S&P 500 facing material negative impacts to their operations, as roughly 30%-40% of companies reporting results during the past several weeks have mentioned 'coronavirus' on their respective earnings calls. We believe that forward S&P 500 earnings estimates are currently too high.

As we reiterated in our prior note February 22 (which can be accessed on Valuentum's website) regarding the growing likelihood of a stock market crash (before the fallout happened), even a modest 10% haircut to S&P forward earnings estimates as a result of the COVID-19 outbreak coupled with a generous 16x forward multiple means the S&P 500 could return to **~2,550 (or thereabouts)**, implying a swoon of about 20-30% from the most recent peak.

We've only seen part of that swoon play out during the last week of February. The S&P closed Friday at 2,954 (10-15% higher than the midpoint of our target range).

Just prior to the recent crash, we had believed the forward P/E on S&P 500 earnings, after adjusting for the new debt from the dot-com peak and considering the modest haircut to S&P forward earnings estimates, was currently higher than what it was during the dot-com peak, or 24.4; hence, the massive crash to today's levels should not be surprising.

Let's talk about recent changes to our Dividend Growth Newsletter portfolio. Email link here: http://campaign.r20.constantcontact.com/render?m=1110817109903&ca=b48f673e-4c10-4f5b-84eb-0584d67179ec. First, on February 24 we added what we consider "crash protection" to the Dividend Growth Newsletter portfolio. We allocated roughly 1% of the portfolio to S&P 500 (SPY) put options dated September 18, 2020, strike price $250. **Since then, due to the market swoon, those put options are up significantly.**

Second, we removed a huge winner from the Dividend Growth Newsletter portfolio in Microsoft (MSFT). We've been fans of the company for years, even using it as the quintessential dividend growth stock in Valuentum presentations across the country. When we removed Microsoft from the portfolio, shares had advanced far beyond the high end of our fair value estimate range, and now are rolling over technically. We thought it was time for some profit taking. Let's talk more about COVID-19.

According to a Situation Report from the CDC dated March 1, there are now more new cases reported from countries outside of China (FXI, MCHI, KWEB) than from China. Globally, there are currently 87,000+ confirmed cases in roughly 60 countries, with China, South Korea (EWY), Italy (EWI) and Iran the major hotspots. Up until mid-last week, investors had been anxiously waiting for the other shoe to drop (i.e. community spread in the United States), with the CDC even saying, "It's not so much a question of if this will happen anymore, but rather more a question of exactly when this will happen and how many people in this country (United States) will have severe illness."

Well, that "when" is now. The CDC confirmed on February 26, 2020, a possible instance of community spread of COVID-19 in the US:

> The Centers for Disease Control and Prevention (CDC) has confirmed an infection with the virus that causes COVID-19 in California in a person who reportedly did not have relevant travel history or exposure to another known patient with COVID-19.
>
> At this time, the patient's exposure is unknown. It's possible this could be an instance of community spread of COVID-19, which would be the first time this has happened in the United States. Community spread means spread of an illness for which the source of infection is unknown. It's also possible, however, that the patient may have been exposed to a returned traveler who was infected.

Please see Feb 24: We Added...on next page

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According to CNBC, "the individual is a resident of Solano County and is receiving medical care in Sacramento County." Without a doubt, this is a big deal because it is the first known instance of potential community spread in the United States, meaning that COVID-19 could literally be spreading untraced throughout California and beyond as we speak. Since then, **California's Governor Gavin Newsom has said the state is monitoring around 8,400 people who recently returned from commercial flights from Asia who could potentially be infected with COVID-19**, according to MarketWatch. Furthermore, California has confirmed 28 cases of COVID-19 as of Thursday, February 27, several of which are from those repatriated from the Diamond Princess cruise ship in Yokohama, Japan, along with some recent travelers from China. There were other confirmed cases of COVID-19, with those individuals sent back to their home states.

Outside of California, NBC New York is reporting a resident of New York City is being tested for COVID-19 after coming back from a recent trip to Italy. **We want to stress here that this situation is about much more than just a handful of states; it's about the nation as a whole (cases have shown up in suburban Cook County, IL, and Rhode Island, among others).** The US Food and Drug Administration ('FDA') reported on February 27 that there was a shortage of the COVID-19 drug due to problems at the manufacturing site in China. That drug wasn't identified, but it's reports like these that are playing a large role in the ongoing selloff in equities. If authorities are having a hard time getting a handle on the COVID-19 outbreak at this stage, what would happen if it does become a full-blown global pandemic. This next excerpt is from the US FDA's report dated February 27;

> "…the FDA has been closely monitoring the supply chain with the expectation that the COVID-19 outbreak would likely impact the medical product supply chain, including potential disruptions to supply or shortages of critical medical products in the U.S.
>
> A manufacturer has alerted us to a shortage of a human drug that was recently added to the drug shortages list. The manufacturer just notified us that this shortage is related to a site affected by coronavirus. The shortage is due to an issue with manufacturing of an active pharmaceutical ingredient used in the drug. It is important to note that there are other alternatives that can be used by patients. We are working with the manufacturer as well as other manufacturers to mitigate the shortage. We will do everything possible to mitigate the shortage…
>
> The FDA is using all our existing authorities to address COVID-19, and we welcome the opportunity to work with Congress to further strengthen our response capabilities and emergency preparedness."
>
> --- Commissioner of Food and Drugs - Food and Drug Administration, Stephen M. Hahn M.D.

As we alerted members the Saturday (February 22) before the crash in our note "Is a Stock Market Crash Coming?", we sincerely hope and believe that we have the most prepared members out of any newsletter provider, any investment bank and any investment research company out there. Over a month ago on January 13, we positioned the Dividend Growth Newsletter portfolio defensively for 2020, removing Apple (AAPL) among other changes. As profit warnings from Mastercard (MA), Microsoft (MSFT), United Airlines (UAL), and others continue to add up, we could be at the beginning of one of the biggest market events since the stock market crash of 1987. So far, that event appears to be playing out before our very eyes.

As we said in our last Dividend Growth Newsletter intro, it could get a lot worse before things get better. We continue to closely monitor these events and will keep updating our members as new information becomes available. We hope you and yours are doing well as we face what's becoming a global crisis.

The Dividend Growth Newsletter portfolio seeks to find underpriced dividend growth gems that generate strong levels of free cash flow and have pristine, fortress balance sheets, translating into excellent Valuentum Dividend Cushion ratios. ***Disclosure:*** *Callum Turcan and Brian Nelson, CFA, do not own shares of any of the securities mentioned above.*

Republic Services Further Showcases Why It's a Top Quality Defensive Firm

Image Shown: *We added Republic Services Inc to our Dividend Growth Newsletter portfolio on January 13, 2020, with shares of RSG included at a modest weighting.* ***Image Source:*** *Republic Services Inc – March 2020 IR Presentation*

By Callum Turcan

On February 13, waste management company Republic Services Inc (RSG) reported fourth quarter and full-year results for 2019. We added shares of RSG with a modest weighting to our Dividend Growth Newsletter portfolio back on January 13 as part of our shift towards more defensive names in light of rising exogenous headwinds facing the global economy. **Waste management services are always in demand, and while trash and recycling needs can fluctuate, this is a very recession-resistant space.** Shares of RSG yield ~1.8% as of this writing and we like its dividend coverage, with Republic Services earning a Dividend Cushion ratio of 1.9x which supports its promising payout growth trajectory as the firm earns a GOOD Dividend Growth rating.

Earnings Update

In 2019, Republic Services generated a bit over $1.1 billion in free cash flow and spent just under $0.5 billion covering its dividend obligations. Another $0.4 billion was allocated towards share repurchases last year, and please note that historically, **management has preferred a combination of dividend growth and share buybacks as part of Republic Services' total shareholder return strategy.**

At the end of 2019, Republic Services was sitting on a combined $0.2 billion in cash and cash equivalents plus 'restricted cash and marketable securities' versus $0.9 billion in short-term debt and $7.8 billion in long-term debt. While we would prefer management consider paring Republic Services' debt load down a bit, given the resilience of its free cash flows, we view that burden as manageable. Republic Services' leverage was at the high end of its long-term range at the end of 2019, but still within its long-term range. Management communicated that the firm was comfortable with taking on a bit more leverage, as long as that entailed acquiring high quality cash flow streams at a good price, during Republic Services' latest quarterly conference call. Any incremental debt would be paid down over time, according to management.

Please see Republic Services…on page 6

The Dividend Growth Newsletter Portfolio

By Valuentum Analysts

Most-recently Added: ***NEW*** **SPY Put Options (Feb 24)**
Most-recently Removed: ***NEW*** **MSFT (Feb 24)**

DIVIDEND GROWTH IDEAS -- as of March 1, 2020

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)	2.40	2.52%	-	-	-	95.15	7.5%-12.5%
Intel (INTC)	1.32	2.38%	$51.00	3	1.09	55.52	7.5%-12.5%
Johnson & Johnson (JNJ)	3.80	2.83%	$151.00	7	0.89	134.48	7.5%-12.5%
Cisco (CSCO)	1.44	3.61%	$54.00	3	0.74	39.93	5.5%-7.5%
Digital Realty Trust (DLR)	4.32	3.60%	$102.00	4	1.18	120.11	5.5%-7.5%
Health Care Select Sector SPDR ETF (XLV)	2.05	2.22%	-	-	-	92.44	5.5%-7.5%
iShares Int'l Select Dividend (IDV)	1.57	5.21%	-	-	-	30.15	5.5%-7.5%
Invesco Senior Loan (BKLN)	0.96	4.37%	-	-	-	21.99	3.5%-5.5%
Oracle (ORCL)	0.96	1.94%	$55.00	4	0.90	49.46	3.5%-5.5%
Bank of America (BAC)	0.72	2.53%	$40.00	5	0.71	28.50	2.5%-3.5%
Cracker Barrel (CBRL)	5.20	3.63%	$168.00	3	0.85	143.33	2.5%-3.5%
Kinder Morgan (KMI)	1.00	5.22%	$23.00	3	0.83	19.17	2.5%-3.5%
Lockheed Martin (LMT)	9.60	2.60%	$432.00	6	0.86	369.87	2.5%-3.5%
Newmont Mining (NEM)	1.00	2.24%	$46.00	6	0.97	44.63	2.5%-3.5%
Realty Income (O)	2.79	3.85%	$60.00	3	1.21	72.39	2.5%-3.5%
Republic Services (RSG)	1.62	1.79%	$94.00	7	0.96	90.26	2.5%-3.5%
Put Options -- SPY, Sep 18, 2020, $250 strike ***NEW***							**1%**
Cash Consideration	-	-	-	-	-	-	**~9.5-16.5%**

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 March 1.

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 weighting ranges makes 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%. We're available for any questions.

The cash weighting in the Dividend Growth Newsletter portfolio is now ~10%. The midpoints of our respective weighting ranges approximately sum to 100% to reflect the range of possible combinations that may result in various allocations.

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.

*Republic Services…*from page 4

Strong Guidance

Going forward, management's guidance for 2020 looks quite promising. Back in October 2019, Republic Services forecasted that its "adjusted free cash flow" would come in at $1.15-$1.20 billion in 2020. During its latest earnings report, that forecast was upped to $1.175-$1.225 billion which we appreciate. Republic Services "expects to invest approximately $200 million in tuck-in acquisitions and $120 million in solar energy investments that qualify for tax credits. Additionally, the Company expects to return approximately $925 million of cash to shareholders through approximately $525 million of dividends and $400 million in share repurchases" and part of this will be funded by $1.2 billion in expected asset sale proceeds.

Management cited the firm's technology investments as part of the reason for the upgrade, with Republic Services targeting a 20-40 basis point improve in its adjusted EBITDA margin this year. While a non-GAAP metric, **communicating that technology investments are helping improve Republic Services' cost structure is a very welcome sign.** Those tech investments include website and mobile app improvements at it relates to customer services, its new RISE platform that is slated to improve dispatch operations, and in-cab upgrades as well. The synergies and economies of scale that bolt-on acquisitions can provide was another reason for the upgrade.

Republic Service is targeting for 4.25%-5.00% revenue growth this year assisted by rising 'average yield', volume, and acquisitions which is offsetting expected weakness at its 'environmental services' and 'recycling processing and commodity sales.' Please note that average yield refers to "the change in average price per unit and contemplates the impact of customer churn" according to management.

Here's additional commentary about Republic Services 2020 guidance, from the firm's latest quarterly conference call with investors:

> *"Our strong finish to 2019 sets us up for continued success in 2020. Given the underlying momentum in our business, we are well-positioned to deliver approximately 5% top-line revenue growth and nearly 6% EBITDA growth. On top of that we are entering 2020 with one of the strongest acquisition pipelines we've seen in years.*
>
> *We will achieve our 2020 guidance by continuing to prioritize the safety of our people and communities above all else; attracting value-oriented customers to drive profitable volume growth; leveraging technology to empower our employees; increase connectivity with our customers; and drive operational excellence; and finally, continue to make disciplined acquisition investments to grow free cash flow and drive sustainable long-term value…*
>
> *Looking forward in 2020, we expect average yield of approximately 3%. We will achieve this by continuing to focus on enhancing the customer experience and delivering superior service; partnering with our municipal recycling customers to build more durable economically sustainable recycling programs; and pricing our products and services to ensure we earn an appropriate return on our capital investment…*
>
> *The current economic backdrop remains supportive of continued growth. Consumer sentiment is strong, unemployment is low and housing starts are up year-over-year. Given this favorable backdrop for the year we expect total revenue growth of approximately 4.25% to 5% and adjusted EBITDA margin expansion of 20 to 40 basis points. We expect this level of margin expansion, despite approximately 30 basis points of headwind going into 2020. These headwinds include lower recycled commodity prices, a decrease in upstream environmental services revenues and an additional workday."*

Please see *Republic Services…*on next page

***Republic Services…*from previous page**

While Republic Services is experiencing material headwinds in some areas, its quality business model allows for management to have confidence the firm will deliver both revenue growth and margin expansion this year. During the Q&A portion of the call, management also noted the firm expects to see its SG&A expenses to be either flat or trend lower in 2020, which we appreciate. **Focusing on improving the cost structure late in the business cycle is prudent given that puts Republic Services ahead of the curve should US economic growth slow materially**, potentially due to weakening economic activity overseas eventually spreading to the US economy.

Concluding Thoughts

Republic Services is a high quality defensive company that comes with a nice dividend growth trajectory, and we include shares of RSG in our Dividend Growth Newsletter portfolio at a modest weighting for that reason. During volatile times such as these, pivoting towards defensive income-generating names is prudent, in our view. In the upcoming graphic down below, management highlights Republic Services' nice guidance for the current fiscal year.

Guidance and Cash Utilization

	2020 Guidance
Adjusted Diluted EPS[1]	$3.48 - $3.53
Adjusted Free Cash Flow[1]	$1,175 - $1,125 million
Revenue Growth	4.25% to 5.0%
Adjusted EBITDA Margin[1]	28.5% to 28.7%
Capital Investment[1]	$1.2 billion
Investment in "Tuck-in" Acquisitions	$200 million
Dividends	$525 million
Share Repurchase	$400 million

1. See "Reconciliation of Non-GAAP Measures" on pages 27-30

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Image Shown: *An overview of Republic Services' 2020 guidance.* ***Image Source:*** *Republic Services – March 2020 IR Presentation*

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

Newmont Posts a Great Earnings Report

Image Shown: *A look at Newmont Corporation's asset base, which is heavily centered on the Americas and Australia, with some exposure to West Africa as well.* ***Image Source:*** *Newmont – Fourth Quarter and Full-Year 2019 IR Earnings Presentation*

By Callum Turcan

On February 20, gold miner Newmont Corporation (NEM) reported a fourth quarter and full-year earnings report for 2019 that pleasantly surprised, with shares of NEM initially trading up sharply after the report. While Newmont has since given up most of those gains, since adding shares of NEM to our Dividend Growth Newsletter portfolio, Newmont has significantly outperformed the S&P 500 index (SPY).

While Newmont's top-line marginally missed consensus expectations, its bottom-line handedly beat consensus expectations which is partially why investors were excited about the report. **The other big reason shares of NEM have performed so well, relatively speaking, is likely due to Newmont noting its outlook had improved materially** since closing on its Goldcorp acquisition and selling off some of its assets, as part of the normal portfolio optimization process one would expect after a major acquisition.

Financials Update

Newmont's GAAP revenues grew by 34% year-over-year to $9.7 billion in 2019 on the back of its Goldcorp purchase and due to its average realized gold price climbing higher by 11% year-over-year to $1,399 per ounce. In the fourth quarter of 2019, Newmont's average realized gold price came in at $1,478 per ounce and COMEX gold prices have continued to surge higher year-to-date as of late-February, further supporting its near-term outlook. Newmont's GAAP diluted EPS from continuing operations came in at $3.91 in 2019, up sharply from $0.53 in 2018 due in part to the firm realizing a massive gain when forming its Nevada Gold Mines joint-venture that Newmont owns 38.5% of the equity of (we'll cover that in a moment). Stronger fundamental performance was also at play here.

Please see *Newmont Posts…*on next page

Newmont Posts ...from previous page

Synergies Better Than Expected

A major selling point of the Goldcorp merger was due to the synergies Newmont could wring out by combining the operations of two major gold miners. As of its latest earnings report, **things are going much better than expected** as you can see in the upcoming graphic down below. Please note that the graphic below only covers the Goldcorp-related synergies, and not the expected synergies from Newmont's relatively new Nevada joint-venture (according to management commentary during the firm's latest quarterly conference call).

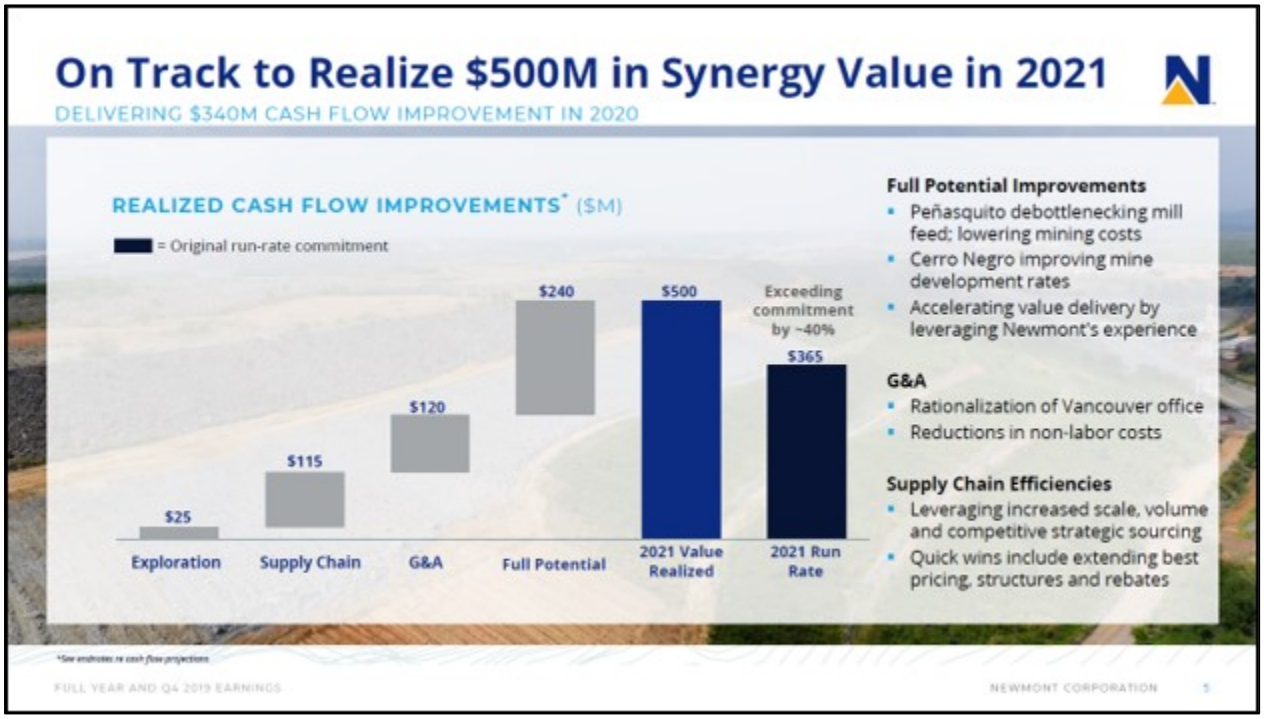

***Image Shown**: Newmont's plan to generate synergies from its Goldcorp purchase is bearing more fruit than expected. **Image Source**: Newmont – Fourth Quarter and Full-Year 2019 IR Earnings Presentation*

Previously, Newmont was targeting $365 million in run-rate synergies by 2021 due to its Goldcorp purchase, but now the firm has raised that guidance to $500 million which we appreciate. As a price taker, there's only so much Newmont can do when it comes to supporting its financials. **Cutting down on its ongoing expenses goes a long way in shoring up its expected long-term free cash flow potential.** In our view, that's a key reason why shares of NEM popped higher after its latest earnings report.

Additional synergies are expected to come from Newmont establishing the aforementioned joint-venture with Barrick Gold Corporation (GOLD) in Nevada last year. For a while, Barrick aggressively pursued Newmont largely due to the expected synergies merging their Nevada gold mining operations together would yield, but those efforts were abandoned after the joint-venture idea was agreed upon. At the time, Newmont's management team had repeatedly pushed back against the deal and Barrick had launched a hostile bid to take over the company.

Newmont's management seemed to indicate during the firm's latest quarterly conference call that more information would be coming in shortly concerning the potential synergies from the Nevada joint-venture. The company expects to realize $120 million in G&A synergies in 2020 (consolidating back-office work), according to its earnings press release, as those cost savings are easier to obtain (i.e. rationalizing its Vancouver offices) and can be pursued at a faster than cutting down on mining costs.

Please see *Newmont Posts*...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.

Company Name	Symbol	Dividend Yield	VBI	Div Growth	Div Safety	Div Cushion
Harley-Davidson	HOG	4.2%	7	GOOD	GOOD	1.7
Celenese	CE	2.0%	7	EXCELLENT	GOOD	2.3
Huntsman	HUN	2.7%	7	EXCELLENT	GOOD	1.9
LyondellBasell	LYB	4.5%	7	GOOD	GOOD	0.9
Xerox	XRX	3.2%	7	EXCELLENT	GOOD	2.1
Republic Services	RSG	1.8%	7	GOOD	GOOD	1.9
Waste Management	WM	1.7%	7	EXCELLENT	GOOD	1.9
Visa	V	0.7%	7	EXCELLENT	EXCELLENT	5.6
Archer-Daniels-Midland	ADM	3.5%	7	EXCELLENT	GOOD	2.1
Walgreens Boots Alliance	WBA	3.1%	7	EXCELLENT	GOOD	2.2
Quest Diagnostics	DGX	2.2%	7	GOOD	GOOD	1.2
AmerisourceBergen	ABC	2.0%	9	EXCELLENT	EXCELLENT	3.5
Johnson & Johnson	JNJ	2.8%	7	EXCELLENT	GOOD	2.4
Pioneer Natural Resources	PXD	1.3%	7	GOOD	EXCELLENT	2.8
Tapestry	TPR	5.2%	9	GOOD	GOOD	1.9
Caterpillar	CAT	2.8%	7	GOOD	GOOD	2.4
Ingersoll-Rand	IR	1.6%	7	GOOD	GOOD	2.2
Stanley Black & Decker	SWK	1.7%	7	EXCELLENT	GOOD	1.7
Bristol-Myers Squibb	BMY	2.9%	7	GOOD	EXCELLENT	3.5
Pfizer	PFE	3.9%	7	GOOD	GOOD	1.7
Carter's Inc	CRI	2.0%	7	EXCELLENT	GOOD	2.3
Applied Materials	AMAT	1.4%	7	EXCELLENT	EXCELLENT	3.9
Williams-Sonoma	WSM	2.6%	7	EXCELLENT	GOOD	2.2
Deluxe	DLX	2.4%	7	GOOD	GOOD	2.4
Manpower	MAN	2.3%	7	EXCELLENT	EXCELLENT	3.1

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	Dividend Yield	Economic Castl	Multiplier
General Motors	GM	4.4%	Attractive	13.96
Honda	HMC	3.9%	Neutral	13.94
Gilead Sciences	GILD	3.9%	Very Attractive	12.98
Guess	GES	2.7%	Attractive	11.33
Lear Corp	LEA	2.8%	Attractive	10.98
Hewlett-Packard	HPQ	3.7%	Attractive	10.84
Bristol-Myers Squibb	BMY	2.9%	Very Attractive	10.29
Gap	GPS	6.0%	Attractive	10.25
Ralph Lauren	RL	2.8%	Attractive	10.08
Tapestry	TPR	5.2%	Attractive	9.95
H&R Block	HRB	4.5%	Very Attractive	9.91
Methode Electronics	MEI	1.6%	Attractive	9.75
Automatic Data Processing	ADP	2.8%	Very Attractive	9.70
Total	TOT	5.6%	Neutral	9.10
Cisco	CSCO	3.2%	Very Attractive	8.58
Cheesecake Factory	CAKE	3.7%	Attractive	8.52
Ethan Allen	ETH	4.9%	Unattractive	8.21
AVX Corp	AVX	2.5%	Attractive	7.50
Ford	F	6.5%	Neutral	7.47
Archer-Daniels-Midland	ADM	3.5%	Attractive	7.40
Novartis	NVS	3.1%	Attractive	7.27
Dick's Sporting	DKS	2.4%	Attractive	7.24
Resources Connection	RECN	3.6%	Attractive	7.03
McKesson	MCK	1.2%	Very Attractive	6.99
Harley-Davidson	HOG	4.2%	Attractive	6.97
Cardinal Health	CAH	4.2%	Attractive	6.95
Manpower	MAN	2.3%	Attractive	6.92
AmerisourceBergen	ABC	2.0%	Very Attractive	6.92
Walgreens Boots Alliance	WBA	3.1%	Attractive	6.81
Altria Group	MO	6.7%	Very Attractive	6.78
Caterpillar	CAT	2.8%	Very Attractive	6.77
Robert Half	RHI	2.0%	Very Attractive	6.77
British American	BTI	6.9%	Unattractive	6.74
Amgen	AMGN	2.6%	Very Attractive	6.74
Pfizer	PFE	3.9%	Attractive	6.71
Xerox	XRX	3.2%	Attractive	6.69
Expeditors Intl	EXPD	1.4%	Very Attractive	6.63
Cedar Fair	FUN	6.7%	Attractive	6.62
MKS Instruments	MKSI	0.7%	Attractive	6.56
Johnson & Johnson	JNJ	2.8%	Attractive	6.54
Paychex	PAYX	2.9%	Very Attractive	6.49
AstraZeneca	AZN	3.0%	Attractive	6.42
MSC Industrial	MSM	4.0%	Attractive	6.26
IBM	IBM	4.8%	Attractive	6.21
Rio Tinto	RIO	5.0%	Neutral	6.10
AbbVie	ABBV	5.4%	Very Attractive	6.04
Merck	MRK	2.6%	Very Attractive	6.01
QUALCOMM	QCOM	3.0%	Very Attractive	6.00
Insperity	NSP	1.4%	Neutral	5.96
Royal Dutch Shell	RDS	6.7%	Neutral	5.94

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.

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	Dividend Yield	Div Safety	Div Cushion
R.R. Donnelley	RRD	Commercial Services	2.6%	VERY POOR	-27.8
Ryder System	R	Rental and Leasing	3.9%	VERY POOR	-11.3
Pitney Bowes	PBI	Commercial Services	3.9%	VERY POOR	-7.3
General Electric	GE	Conglomerates	0.4%	VERY POOR	-6.6
Intl Game Technology	IGT	Leisure	5.3%	VERY POOR	-6.1
HCA Healthcare	HCA	Health Care Services	1.3%	VERY POOR	-4.3
H.B. Fuller	FUL	Chemicals - broad	1.2%	VERY POOR	-4.3
CenturyLink	CTL	Telecom Services - diversified	7.4%	VERY POOR	-3.8
Briggs & Stratton	BGG	Machinery & Tools	3.4%	VERY POOR	-3.1
ConAgra Brands	CAG	Food Products - Large	3.1%	VERY POOR	-3.0
Olin Corp	OLN	Chemicals - mid/small	4.7%	VERY POOR	-2.8
Silgan	SLGN	Containers & Packaging	1.4%	VERY POOR	-2.4
Dine Brands Global	DIN	Restaurants - Fast Cas & Full Svc	3.8%	VERY POOR	-1.9
Apache	APA	Independent Oil & Gas	4.4%	VERY POOR	-1.7
Viacom	VIA	Media - CATV	3.2%	VERY POOR	-1.6
KAR Auction Services	KAR	Specialty Retail - auto	3.4%	VERY POOR	-1.5
CVS Health	CVS	Food Retailers	2.7%	POOR	-1.4
Anheuser-Busch InBev	BUD	Beverages - alcoholic	2.7%	VERY POOR	-1.4
Kroger	KR	Food Retailers	2.2%	VERY POOR	-1.3
Wendy's Co	WEN	Restaurants - Fast Food & Coffee	1.9%	VERY POOR	-1.3
Fluor	FLR	E&C	4.2%	VERY POOR	-1.2
Casey's General	CASY	Food Retailers	0.8%	VERY POOR	-1.2
Thor	THO	Recreational Vehicles	2.3%	VERY POOR	-1.1
Newell Brands	NWL	Household Durables	4.8%	VERY POOR	-1.1
Compass Minerals	CMP	Chemicals - agriculture	5.1%	POOR	-1.1
Kraft Heinz	KHC	Food Products - Large	5.6%	VERY POOR	-0.9
Comcast	CMCSA	Media - CATV	1.9%	POOR	-0.9
Molson Coors	TAP	Beverages - alcoholic	3.9%	VERY POOR	-0.9
Sealed Air	SEE	Containers & Packaging	1.5%	VERY POOR	-0.8
Royal Caribbean	RCL	Leisure	2.5%	VERY POOR	-0.8
Brinker	EAT	Restaurants - Fast Cas & Full Svc	3.8%	VERY POOR	-0.8

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

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

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Cash Flow Update

Keeping in mind there's some noise to Newmont's financials considering it acquired Goldcorp last year, the firm generated $2.9 billion in net operating cash flow and spent $1.5 billion on its capital expenditures in 2019, allowing for $1.4 billion in free cash flow. Annual dividend obligations stood at $0.9 billion last year, which includes a special dividend of $0.88 per share paid out before the merger went through (regular common dividends came in at $0.56 per share for all of 2019). Newmont also spent $0.5 billion repurchasing its stock in 2019. Newmont's Dividend Cushion ratio sits at a nice 2.2x and takes into account the planned dividend increase, which will bring its payout up to $1.00 per share on an annualized basis (starting in April 2020).

Balance Sheet Update

At the end of 2019, Newmont was sitting on $2.4 billion in cash and cash equivalents versus $0.1 billion in short-term 'lease and other financing obligations', $6.1 billion in long-term debt, and $0.6 billion in long-term 'lease and other financing obligations'. Furthermore, Newmont's 'investments' line-item includes strategic assets and marketable equity securities. At the end of 2019, Newmont was sitting on $0.4 billion in short-term and long-term marketable equity securities. That include its equity stake in Star Diamond Corporation (SHGDF), which arguably isn't a core asset by any means. Star Diamond is focused on exploring for and developing economically recovered diamond resources in Canada's Saskatchewan province, outside of Newmont's operational focus. Please keep in mind that Newmont closed one significant asset sale at the start of 2020 and is in the process of closing another deal, as covered in this excerpt from its 2019 Annual Report:

> *In the fourth quarter of 2019, we entered into a binding agreement to sell the Red Lake complex in Ontario, Canada to Evolution Mining Limited [CAHPF] ("Evolution"). Pursuant to the terms of the agreement, upon closing the transaction we will receive proceeds of $375 [million] in cash, adjusted for normal working capital movements, with contingent payments of up to an additional $100 [million] tied to new mineralization discoveries over a fifteen year period.*
>
> *In the fourth quarter of 2019, we entered into a binding agreement to sell our 50% interest in Kalgoorlie Consolidated Gold Mines ("Kalgoorlie"), included as part of our Australia segment, to Northern Star Resources Limited [NESRF] ("Northern Star"). We completed the sale on January 2, 2020, and pursuant to the terms of the agreement, received proceeds of $800 [million], including $25 [million] that gives Northern Star specified exploration tenements, transitional services support and an option to negotiate exclusively for 120 days the purchase of our Kalgoorlie power business for fair market value.*

The Red Lake divestiture is expected to be completed dur ing the first quarter of 2020. These moves should materially enhance its balance sheet, as will the potential sale of its Kalgoorlie power business in Australia.

Capital Allocation Update

However, management intends on allocating at least some of those asset sale proceeds towards share buybacks. During Newmont's latest quarterly conference call with investors, the gold miner's Executive VP and CFO Nancy Buese had this to say in response to a question concerning share repurchases going forward (emphasis added):

> *"**So, on the buybacks, I think I would consider that really tied to our asset sales.** And so between that and an opportunity to buyback shares at a very, very attractive share price, we feel like that was the right thing to do. And so, **we will continue that program through the end of 2020.** And we will also consider – at these gold prices when we think about capital allocation, we'll continue to manage the balance sheet and we'll think about other shareholder friendly actions."*

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Quote continued from previous page;

> ***"Certainly a key one of those will be to determine our appropriate level of dividend on a go forward and sustainable basis. So that's something that we will continue to evaluate and truly to remember that that dividend at $1 is sustainable at $1,200 gold price, so at a more robust pricing going forward****. That's something we will be definitely continuing to revisit."*

We really appreciate Newmont's commitment to its dividend program (keeping in mind the payout is set to increase from $0.14 per share per quarter up to $0.25 per share per quarter during its next dividend declaration period in April 2020). It seems Newmont is actively contemplating additional per share payout increases based on the above excerpt. As it relates to share repurchases, shares of NEM are trading above our fair value estimate of $46 per share as of this writing, however, given the strong technicals of NEM of late it's possible Newmont's intrinsic value is closer towards the top end of our fair value range estimate (which stands at $62 per share). That would make share buybacks a decent use of capital, in our view, though we would prefer Newmont consider debt reduction efforts as well.

A big part of Newmont's strong financial performance in 2019 was due to the firm receiving a substantially higher price for its gold production and due to its output coming in quite strong. In Newmont's fourth quarter and full-year 2019 earnings press release it notes:

> *Attributable gold production[1] increased 23 percent to 6.29 million ounces for the full year and 27 percent to 1.83 million ounces for the quarter, compared to prior year, primarily due to new production from the Goldcorp assets and higher grade and throughput from the Subika Underground and Ahafo Mill Expansion projects, partially offset by lower production from KCGM…*
>
> *[1]Attributable gold production for the full year 2019 includes 287,000 ounces and for the fourth quarter 2019 includes 118,000 ounces from the Company's equity method investment in Pueblo Viejo (40%)*

Additionally, management provided forward guidance for 2020 and their forecasts for Newmont over the next five years that investors likely found appealing, as did we. Newmont is expecting its gold production to grow marginally this year, and please keep in mind that gold prices have been very strong of late which further enhances its near-term cash flow outlook:

> *Attributable gold production is expected to be stable at 6.2 to 6.7 million ounces across the five year period. The 2020 outlook of 6.4 million ounces increases from 2019 with a full year of production from the acquired Goldcorp assets. Production is expected to remain between 6.2 and 6.7 million ounces per year longer-term through 2024 supported by a steady base from Boddington, Tanami, Ahafo, Peñasquito, and the Company's equity ownership interest in the Nevada Gold Mines joint venture, which is further enhanced by solid production from the Company's nine other operating mines and its equity ownership in Pueblo Viejo.*

Newmont's capital expenditures are expected to increase modestly from 2019 levels this year, hitting a forecasted $1.6 billion in 2020 ($0.6 billion for development and $1.0 billion for sustaining capital expenditures). That's expected to drift down towards $0.9-$1.1 billion by 2024 ($0.0-$0.1 billion for development and $0.9-$1.1 billion for sustaining capital expenditures), unless Newmont gets closer to sanctioning another project which will be dependent in part of where the price of gold ends up in the future. Here's where Newmont's development spend is expected to go as things stand in February 2020:

> *Development capital includes Tanami Expansion 2 in Australia, Musselwhite Materials Handling in Canada, Subika Underground in Ghana, underground development at Cerro Negro in Argentina, expenditures related to the Company's ownership interest in Nevada Gold Mines, and to progress studies for future projects. Yearly decreases reflect the Company's approach to only including development projects that have reached execution stage.*

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As Newmont's all-in sustaining cost ('AISC') stood at $966 per ounce of gold produced in 2019, in-line with guidance, the firm's very competitive on the cost of gold supply curve which we appreciate. That's expected to help drive powerful free cash flows as you can see in the upcoming graphic below down.

Image Shown*: Newmont's focus on keeping capital expenditures contained and managing its investments with a realistic gold price in mind represents a big reason why the gold miner is very free cash flow positive. That's expected to continue being the case going forward, which represents a key reason why we added shares of NEM to our Dividend Growth Newsletter portfolio.* ***Image Source****: Newmont – Fourth Quarter and Full-Year 2019 IR Earnings Presentation*

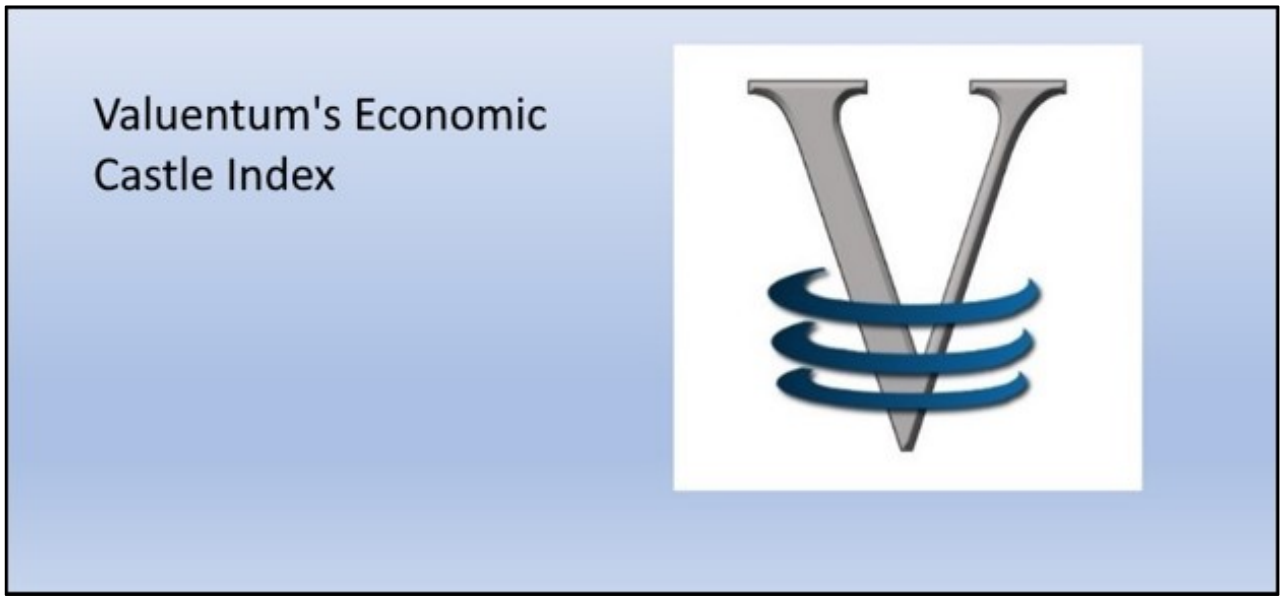
Concluding Thoughts

We continue to like Newmont in our Dividend Growth Newsletter portfolio and see the gold miner as very well-positioned to ride out the current storm. As of this writing, shares of NEM yield ~2.3% at the new and improved quarterly dividend payout rate and we are optimistic on the trajectory of that payout given management's commentary on Newmont's dividend growth during the firm's latest quarterly conference call with investors. We caution that Newmont's outlook, as always, is heavily influenced by the price of gold, even when considering its push into other metals like silver, copper, lead, zinc, and molybdenum.

As of this writing, shares of NEM are up modestly since being added to our Dividend Growth Newsletter portfolio on January 13, 2020, while the S&P 500 index is down over 10%. While this publication focuses primarily on dividend growth opportunities supported by rock-solid payout coverage, we also keep capital appreciation in mind as well as part of Valuentum's portfolio building process.

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

Analyzing Valuentum's Economic Castle Index: A Walk Forward Case Study



By Callum Turcan and Brian Nelson, CFA

In May 2015, the Valuentum team published a paper called *The Castle Trumps the Moat* which sought to change the conversation around Warren Buffett's very popular phrase "economic moat" towards one with a more quantitative grounding. The idea behind an economic moat is that companies with such a qualitative attribute should generate stronger returns than those that don't, at least so the thinking goes, given the ability for these firms to generate competitive advantages for themselves in their respective fields (allowing for these firms to charge relatively higher prices and/or incur lower expenses, resulting in larger profit streams than "non-moaty" companies).

There are two things generally wrong with a pure economic moat assessment, or economic "moat factor." First, it is much easier to assess outsize economic returns in the near-term than it is to assess outsize economic returns over the long haul. Quite simply, nobody can predict what will happen tomorrow, and they certainly don't know what will happen 20 or 30 years from now.

Second, a rational investor should generally prefer *expected* near-term outsize economic returns than *expected* long-term ones given the uncertainty of the latter--somewhat related to our first point, a bird in the hand (or large economic returns in the near term) is worth two in the bush (or large economic returns in the long run that may not materialize). The time value of money reinforces this notion. Near-term economic returns are generally worth more than long-term ones in real terms, even if they may be smaller nominally.

This is where our Economic Castle rating comes in. The goal of the Economic Castle rating is to identify those companies that are likely to generate a lot (or not so much) shareholder value over the foreseeable future. Instead of pondering a guess as to how the landscape will look 20 or 30 years from now, something not even the Oracle of Omaha can do with any sort of certainty (e.g. IBM, KHC), the Economic Castle rating ranks companies based on near-term *expected* economic returns, or returns that are more likely to be realized as opposed to those that may be built on "castles in the air" over 20-30 time horizons.

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By evaluating companies on the basis of the spread between their forecasted future return on invested capital ('ROIC') excluding goodwill less their estimated weighted-average cost of capital ('WACC'), we measure a company's ability to generate an "economic profit" over the foreseeable future, which we define *as the next five fiscal years*. Companies that generate a forecasted spread of 50 percentage points or more are given a "Very Attractive" Economic Castle rating and firms that are forecasted to generate a spread of 150 percentage points or higher are considered "Highest-Rated".

Firms that carry an Unattractive Economic Castle rating are those that are forecasted to generate a forward ROIC (ex-goodwill) less estimated WACC spread that's meaningfully below zero (firms near economic parity can receive a Neutral Economic Castle rating, assigned by the Valuentum team). The upcoming graphic down below highlights our guidelines for assigning Economic Castle ratings.

Table 1: Guidelines for Assigning the Economic Castle Rating

Economic Castle Rating	Forward ROIC-less-WACC Spread
Highest-Rated	150 percentage points and over
Very Attractive	Greater than 50 percentage points but less than 150 percentage points
Attractive	Greater than 0 percentage points but less than 50 percentage points
Neutral	A little over or a little below economic parity. (assigned by Valuentum Team)
Unattractive	Below 0 percentage points.

Image Shown: *An overview of Valuentum's proprietary Economic Castle rating system.*

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Back as part of the May 2015 paper, the Valuentum team used its coverage universe and a set of rules to locate the top three companies by Economic Castle rating in each sector to create the Valuentum Economic Castle Index. Down in the upcoming graphic below is a look at the security selection methodology used during this index building process.

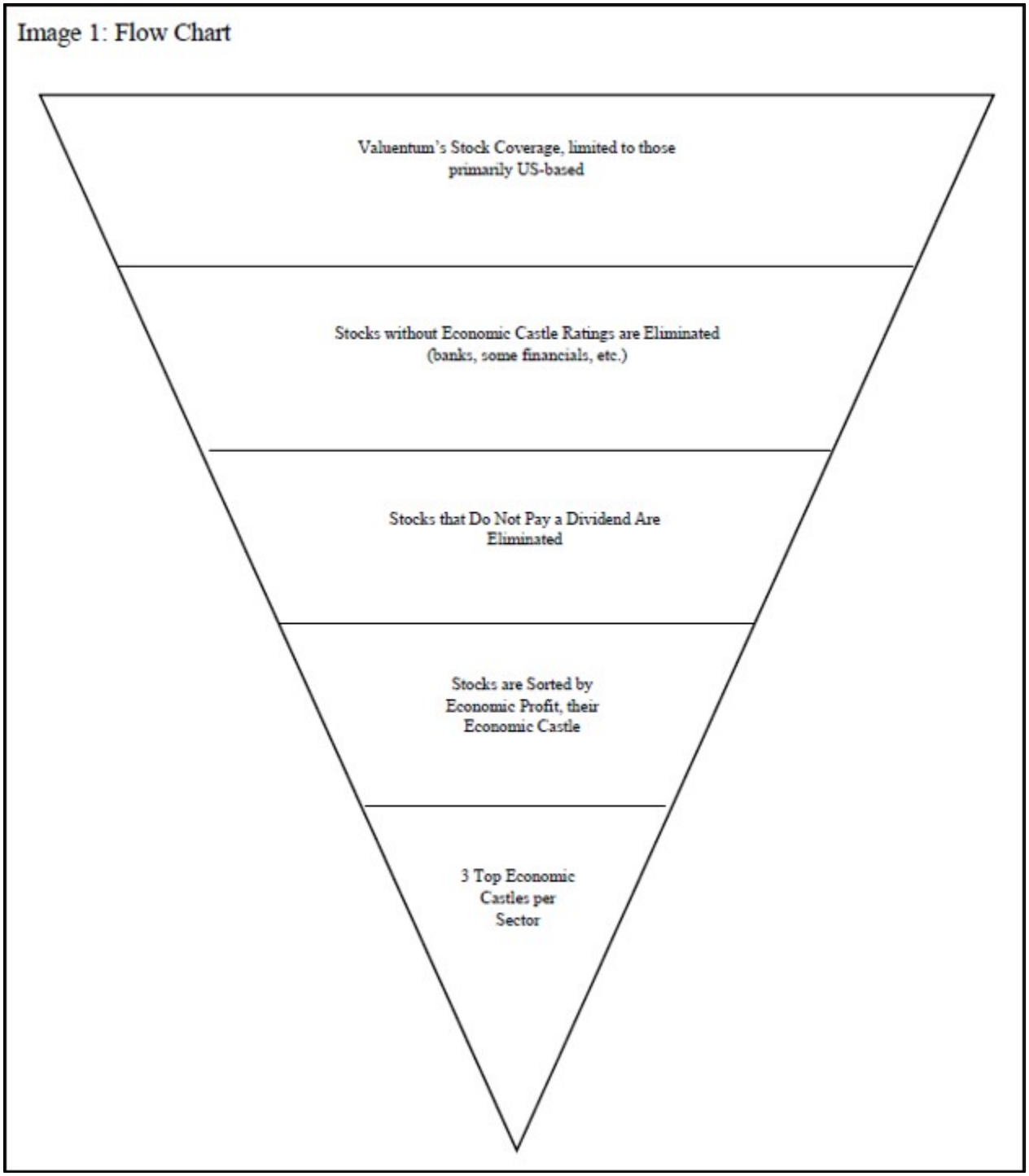

***Image Shown**: An overview of how the Valuentum team constructed the Valuentum Economic Castle Index.*

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The upcoming graphic down below highlights the resulting composition of the Valuentum Economic Castle Index, which consisted of 27 companies across nine different sectors, after conducting our aforementioned index building process.

Table 2: Constituents of the Valuentum Economic Castle Index

Valuentum Economic Castle Index			
Name	Ticker	Sector	Industry
Domino's Pizza	DPZ	Consumer Discretionary	Restaurants - Fast Food & Coffee
Capella Education	CPLA	Consumer Discretionary	Education Services
H&R Block	HRB	Consumer Discretionary	Personal Services
Reynolds American	RAI	Consumer Staples	Tobacco
Lancaster Colony	LANC	Consumer Staples	Food Products
Colgate-Palmolive	CL	Consumer Staples	Household Products
Alliance Resource Partners	ARLP	Energy	Industrial Minerals
HollyFrontier	HFC	Energy	Refiners
Franks Intl	FI	Energy	Energy Equipment
Moody's	MCO	Financials	Securities Research
Factset Research	FDS	Financials	Securities Research
CBOE	CBOE	Financials	Exchanges
AmerisourceBergen	ABC	Health Care	Wholesale Drug Providers
Chemed	CHE	Health Care	Home Health Care
Express Scripts	ESRX	Health Care	Wholesale Drug Providers
Raytheon	RTN	Industrials	A&D Prime
Northrop Grumman	NOC	Industrials	A&D Prime
FEI Co	FEIC	Industrials	Electrical Equipment
ARM	ARMH	Information Technology	Communications Equipment
EMC Corp	EMC	Information Technology	Computers & Peripherals
Apple	AAPL	Information Technology	Computer Hardware
Sealed Air	SEE	Materials	Containers & Packaging
Tupperware	TUP	Materials	Containers & Packaging
Southern Copper	SCCO	Materials	Mining - diversified
American Tower	AMT	Telecom Services	Wireless Telecom Services
Cogent Comm	CCOI	Telecom Services	Wireless Telecom Services
AT&T	T	Telecom Services	Telecom Services - diversified

Image Shown: *The Valuentum Economic Castle Index, the subject of our May 2015 paper and our walk forward test we are covering in this article and others.*

As part of the May 2015 paper, the Valuentum team measured the performance of the Valuentum Economic Castle Index against the S&P 500 (SPY) and the VanEck Vectors Morningstar Wide Moat ETF (MOAT). Please note Morningstar Inc (MORN) created the Wide Moat Focus Index "to track the overall performance of attractively priced companies with sustainable competitive advantages according to Morningstar's equity research team." In the backtest, what Valuentum's team discovered was that the Valuentum Economic Castle Index outperformed both the S&P 500 and MOAT ETF during the observed period (from 2004 to early-May 2015), as you can see in the graphic below.

Image 2: Performance of the Valuentum Economic Castle Index

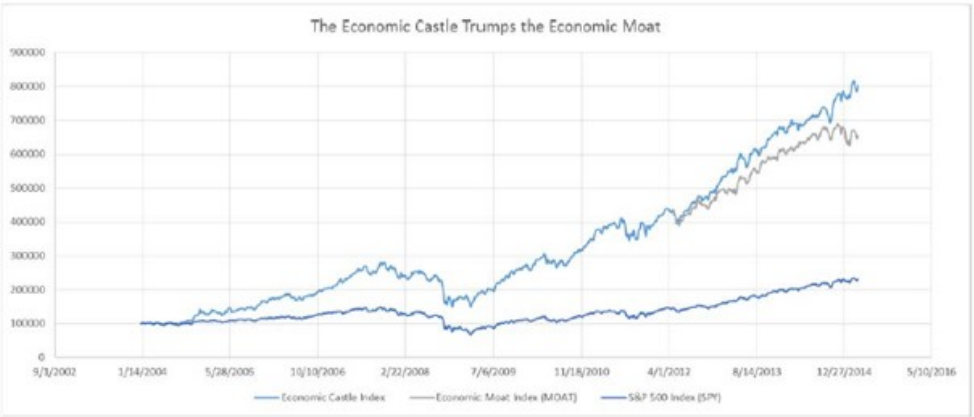

Image Shown: *Valuentum's Economic Castle Index trumps the S&P 500 and the MOAT ETF.*

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Walk Forward Test

Backtests are the start of research, however, not the conclusion. In order to gauge whether this trend continued going forward, we measured the performance of the Economic Castle Index portfolio from the market close on May 1, 2015 to the market close on January 14, 2020, but first we had to make a couple adjustments given that a number of "economic castles" were bought out or merged during the study period.

During the observed period, the Economic Castle Index portfolio (excluding CPLA, RAI, ESRX, FEIC ARMH, and EMC) returned 60.51% when excluding dividend considerations, and that goes up to 73.57% when including dividends received or entitled to. When including the grossed up* total return of the six aforementioned companies, the portfolio's return when including dividends received or entitled to grew to 79.25% during the observed period.

During the observed period for this walk-forward test, the S&P 500 returned 55.73% before including dividends and 66.80% after including dividends received or entitled to. **The Valuentum Economic Castle Index did better than the S&P 500 during the observed period, with or without including the six aforementioned companies.** That implies that investors have generally preferred companies garnering lofty economic castles versus a broad basket of equities, like the S&P 500. We used the SPDR S&P 500 ETF Trust (SPY) to gauge the dividends received or entitled to as part of the total S&P 500 return calculation.

Pivoting now to the VanEck Vectors Morningstar Wide Moat ETF (MOAT), the Morningstar Wide Moat ETF also outperformed the S&P 500. During the observed period, the MOAT ETF returned 75.42% before including dividend considerations and 84.67% after including dividends received or entitled to. Here we would like to note that Morningstar actively removes companies from the Wide Moat ETF and replaces them with new ones, making a comparison between Valuentum's Economic Castle Index not quite apples-to-apples in this study.

For example, because the Economic Castle Index is not a live index, no alterations were made from the original paper. Entities such as master limited partnership Alliance Resource Partners (ARLP), multi-level-marketing company Tupperware (TUP), and Franks Intl (FI), all of which were huge drags on the Economic Castle Index return would have almost certainly been removed prior to the worst of their declines due to their deteriorating outlooks. Neither one, for example, currently holds a Very Attractive or Highest Rated rating, unlike some of the biggest winners in the Economic Castle Index, including Domino's (DPZ) and Apple (AAPL), which still retain the strongest ratings.

We therefore feel it appropriate to make another adjustment to simulate a "what if" scenario, had the Economic Castle Index been actively managed like the MOAT ETF. Excluding the impact on the returns from ARLP, TUP, and FI (and excluding the returns of the six aforementioned companies), the Valuentum Economic Castle Index would have returned 83.69% when excluding dividend considerations and 96.09% including dividends received. When grossing up* the total return of the six aforementioned companies and not including ARLP, TUP, and FI, the portfolio's return would have been even greater. **There is strong backtest and walk-forward support for an actively-managed Economic Castle Index ETF, in our view.**

Concluding Thoughts

Both economic castle analysis and economic moat analysis are very strong components of due diligence, and our evaluation in this study shows that both can be extremely valuable to generating outperforming returns. That said, there are some important points worth clarifying. Per studies performed by Morningstar and published in CFA institute papers, wide economic moats generally underperform narrow economic moats and no economic moats. Generally, wide moats underperform the rest of the market.

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We therefore attribute the outperformance of the MOAT ETF relative to the S&P 500 in the study more to Morningstar's ability to identify undervalued companies that appreciated toward intrinsic value, rather than the companies themselves having "moaty" characteristics alone.

To reiterate, the performance of the MOAT ETF offers strong support for the economic moat concept used in enterprise valuation, or the free cash flow to the firm process, the basis for the Theory of Universal Valuation, as outlined in *Value Trap*. A moat assessment is used to better calculate an intrinsic value estimate, and with almost all factors, moats are not causal to the investment outcome by themselves, per se. For example, a wide moat company can be purchased at nose-bleed levels and underperform miserably, while a no moat company can be bought at a bargain price and outperform significantly.

Whereas the MOAT ETF is a multi-factor approach embracing enterprise valuation, the Economic Castle Index includes companies solely on the basis of their economic-return characteristics (regardless of their valuation considerations), and such an index offers a purer perspective of the economic-castle "factor" than the MOAT ETF does with the moat "factor". **Said another way, all else equal, castles should generally be preferred over moats, given the evidence of the outperformance of castles in this study and the underperformance of wide moats to the market in the Morningstar/CFA study, per below.**

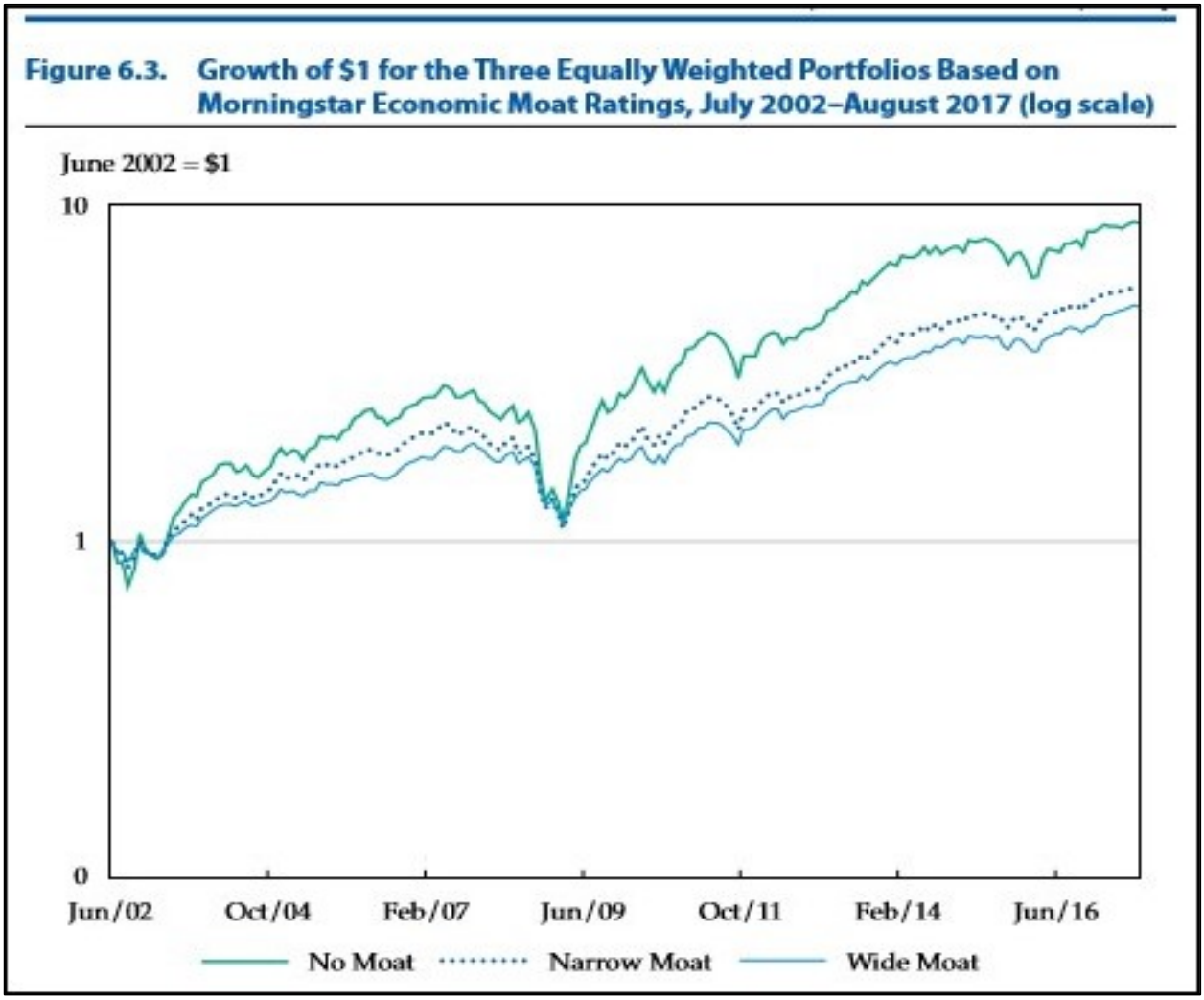

Image Source: *CFA Institute Research Foundation*

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

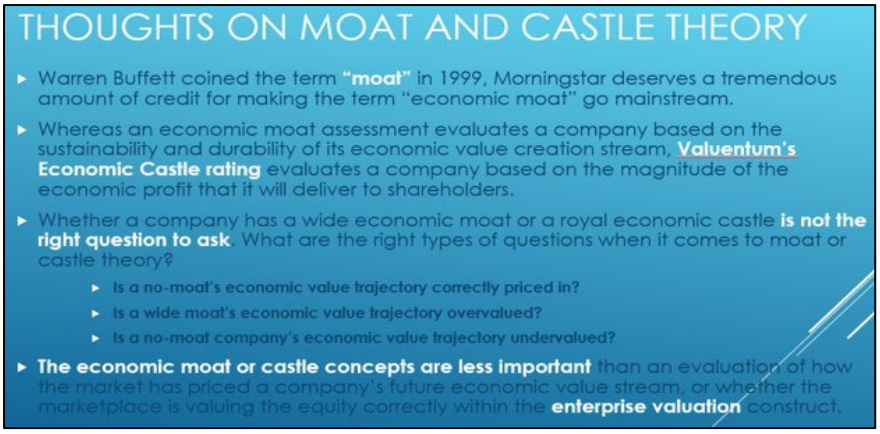

Image Source: *Valuentum's Presentation of Value Trap*

All of this remains consistent with the Theory of Universal Valuation. Generally speaking, a basket of no moats and narrow moats should generate better returns than wide moats over "long-enough" periods of time because of their higher risk profiles (and their respective cost of equities, the pace at which value advances by). No moat and narrow moat companies tend to have higher-duration value (cash flow) compositions, too (i.e. most of the value is out long into the future), a consideration that has been augmented more than the lower-duration value composition of wide-moat entities as a result of falling interest rates (during the past decade or so), boosting relative performance.

It might also be reasoned that rational investors should generally prefer "more predictable" near-term outsize economic return profiles (that could surprise to the upside in duration) than more uncertain long-duration ones (that could surprise to the downside via truncation). However, what happened in this particular study period is a bit more complicated than just investor preference. Those companies with *expected* near-term outsize economic return profiles (strong Economic Castle ratings) exceeded market expectations over the period of the study to drive their returns above that of the market. Also, those companies with *expected* long-term outsize economic return profiles and were undervalued (wide moats + undervalued), as measured by the MOAT ETF, seem to have exceeded market expectations over the period of the study to drive their returns above that of the market, too.

Though castles may be better than moats, by themselves, and enterprise valuation may be paramount to any process in augmenting returns, as in the MOAT ETF, prices and returns will always be driven by changes in future expectations, or expectations revisions, not the absolute assessment of a company's moat or castle, itself. The economic moat or castle concepts are less important than an evaluation of how the market has priced a company's future economic value stream, or whether the marketplace is valuing the equity correctly within the enterprise valuation construct.

Hence, the strong outperformance of the Best Ideas Newsletter portfolio (our capital appreciation focused publication) and the MOAT ETF, both of which have an enterprise valuation overlay. We continue to study the behavior (magnitude and duration) of future expected economic profits and its impact on stock prices and returns, and we maintain our view that an Economic Castle Index ETF may make for a great consideration for investors looking to capitalize on this research.

Contact Valuentum at info@valuentum.com to license our Economic Castle Index.

** To gross up the returns for the six companies that were bought out or merged during the observed period (i.e. there were 1,719 days between May 1, 2015 and January 14, 2020, and if Company X was bought out after 1,000 days during the observed period, the grossed up total return, defined as Y, would be Y multiplied by [1,719 days divided by 1,000 days] to get the total grossed up return). This was done to better reflect the performance of the index during the observed period.*

Disclosure: *Callum Turcan and Brian Nelson, CFA, do not own shares in any of the securities mentioned above.*

Walmart Reports Fourth Quarter Results, Raises Dividend

***Image Source**: Valuentum*

By Brian Nelson, CFA

On February 18, global brick-and-mortar retail bellwether Walmart (WMT) reported mixed fourth-quarter fiscal 2020 results (ends January 31, 2020) that showed revenue advancing 2.1% and non-GAAP earnings per share of $1.38 missing the consensus forecast. We await the filing of the firm's 10-K to roll our valuation model forward (Walmart had yet to publish its 10-K for 2019 as of late-February), but we do not expect to make any material changes to our fair value estimate at this time, which stands at $109 per share. The stock is trading hands at ~$107 per share as of this writing.

Walmart's US comparable store sales growth, on a two-year stacked basis, came in at 6%, which is solid in our view, but the most recent quarterly pace (+1.9%) came in below the consensus forecast (2.4%). **Perhaps the disappointment wasn't too surprising**, however, given Target's (TGT) lower-than-expected comp for the November/December period, released January 15. Both Walmart and Target lapped impressive comp performance in the respective prior-year periods, so the comparisons were difficult.

The highlight of Walmart's fourth quarter was the firm's US e-commerce business, which advanced an impressive 35% on a year-over-year basis (comparable digital sales were up 19% in the November/December period at Target). Management noted that Walmart.com had "its highest quarterly growth rate of the year," as much of the strength in e-commerce at Walmart during the period came from grocery pickup and delivery. Target also noted strength in same-day fulfillment services (Order Pick Up, Drive Up and Shipt), which advanced more than 50% during the November/December period.

Sam's Club recorded comparable sales growth of 0.8% (excluding fuel) during the fourth quarter, and **management pointed to tobacco sales as a big headwind**, perhaps a read-through to the major US players, including Altria (MO). Sam's Club and Walmart changed their tobacco sales policy in the US and are no longer selling tobacco products to consumers under the age of 21, which went into effect on July 1, 2019. Additionally, Sam's Club and Walmart are no longer selling certain vaping products, particularly fruit flavored vaping products that are popular with teenagers. This policy change was in response to pressures from consumer advocacy groups and federal regulators. Net sales at Walmart International clocked in at $33 billion in the quarter, up 2.3%.

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Looking ahead to fiscal 2020, Walmart expects consolidated net sales growth of ~3% in constant currency driven by expectations for comp sales growth at Walmart US of 2.5%+ (excluding fuel), offsetting ongoing headwinds at Sam's Club due primarily to weakness in tobacco-related sales. Walmart US e-commerce net sales expansion is targeted at 30% on the year, while Walmart International net sales growth is expected to be ~4% in constant currency. Earnings per share is targeted in the range of $5.00-$5.15, up 1.5%-4.5% compared to fiscal 2020 adjusted numbers. The fiscal 2021 EPS target came in below the consensus forecast.

	Fiscal Years Ended January 31,	
(Dollars in millions)	2020	2019
Net cash provided by operating activities	$ 25,255	$ 27,753
Payments for property and equipment (capital expenditures)	(10,705)	(10,344)
Free cash flow	$ 14,550	$ 17,409
Net cash used in investing activities[1]	$ (9,128)	$ (24,036)
Net cash used in financing activities	(14,299)	(2,537)

Image Shown: *Walmart's free cash flow trends weakened in fiscal 2020.* ***Image Source:*** *Walmart's Fourth-Quarter 2020 Earnings Press Release*

Walmart ended fiscal 2020 with $9.5 billion in cash and cash equivalents and $49.7 billion in short and long-term debt, revealing a material net debt position. Cash flow from operations fell in fiscal 2020, as well, while capital spending increased, putting a squeeze on free cash flow, which fell to $14.6 billion on the year, down $2.9 billion from last year's tally. Big picture, Walmart's financials are showing signs of "fatigue" so late into this decade-long economic expansion, in our view, as free cash flow weakened and its debt load remains bloated.

Concluding Thoughts

Walmart's modest 1.9% dividend hike to $2.16 per share (~2.0% forward annualized yield) may not be enough to appease dividend growth investors, especially given the rather lackluster valuation opportunity in shares. Big-box brick-and-mortar retail and grocery continues to evolve, as Amazon's (AMZN) entry into the space with its purchase of Whole Foods and Berkshire Hathaway's (BRK.B) new purchase of Kroger (KR) shares will only make the competitive environment more intense, in our view. **Not only does Walmart have to contend with strengthening rivals, but the coronavirus outbreak may ultimately come to impede 2021 performance.** We like Walmart (the company), but we're not interested in its stock at these levels.

Segment results

(Amounts in billions, except as noted. Dollar and percentage changes may not recalculate due to rounding.)

Walmart U.S.	Q4 FY20	Q4 FY19	Change		FY20	FY19	Change	
Net sales	$92.3	$90.5	$1.8	1.9%	$341.0	$331.7	$9.3	2.8%
Comp sales (ex. fuel)[1,2]	1.9%	4.1%	NP	NP	2.8%	3.6%	NP	NP
Transactions[2]	1.0%	1.5%	NP	NP	NP	NP	NP	NP
Ticket[2]	0.9%	2.6%	NP	NP	NP	NP	NP	NP
eCommerce	~210 bps	~180 bps	NP	NP	NP	NP	NP	NP
Operating income	$4.4	$5.0	-$0.6	-12.7%	$17.4	$17.4	$—	—%
Adjusted operating income[3]	$4.9	$5.0	-$0.2	-3.8%	$17.8	$17.4	$0.4	2.6%

Image Shown: *An overview of Walmart's US operational and financial performance.* ***Image Source:*** *Walmart's Fourth-Quarter 2020 Earnings Press Release*

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 9, Issue 3

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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Valuentum's company-specific forecasts used in its discounted cash flow model are rules-based. These rules reflect the experience and opinions of Valuentum's analyst team. Historical data used in our valuation model is provided by Xignite and from other publicly available sources including annual and quarterly regulatory filings. Stock price and volume data is provided by Xignite. No warranty is made regarding the accuracy of any data or any opinions. Valuentum's valuation model is based on sound academic principles, and other forecasts in the model such as inflation and the equity risk premium are based on long-term averages. The Valuentum proprietary automated text-generation system creates text that will vary by company and may often change for the same company upon subsequent updates.

Valuentum uses its own proprietary stock investment style and industry classification systems. Peer companies are selected based on the opinions of the Valuentum analyst team. Research reports and data are updated periodically, though Valuentum assumes no obligation to update its reports, opinions, or data following publication in any form or format. Performance assessment of Valuentum metrics, including the Valuentum Buying Index, is ongoing, and we intend to update investors periodically, though Valuentum assumes no obligation to do so. Not all information is available on all companies. There may be a lag before reports and data are updated for stock splits and stock dividends.

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