OUR DIVIDEND GROWTH NEWSLETTER

Valuentum Securities

Stock Analysis: From Value through Momentum Investing

June 1, 2020
Volume 9 Issue 6

Valuentum Securities
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Inside This Issue

"The S&P 500 index recently crossed the 3,000 mark once again as the market becomes increasingly confident that the US economy will rebound on the back of a potential COVID-19 cure or even better a vaccine becoming available by early next year."

– Callum Turcan

Dividend Growth Ideas: BAC, BKLN, CBRL, CSCO, DLR, IDV, INTC, JNJ, KMI, LMT, NEM, O, ORCL, RSG, SDY, XLV
Most-recently Added: Going "Full Invested" (April 29)
Most-recently Removed: SPY Put Options (Mar 12)

Digital Realty Trust is Holding Up Quite Well

Image Shown: *Shares of Digital Realty Trust Inc, a holding in both our Dividend Growth Newsletter and High Yield Dividend Newsletter portfolios, have outperformed the S&P 500 (SPY) by a wide margin over the past year and that's before taking dividend considerations into account.*

By Callum Turcan

On May 7, the data center real estate investment trust ('REIT') Digital Realty Trust Inc (DLR) reported first-quarter 2020 earnings. Though the firm's near-term guidance disappointed investors, management communicated that the medium- and long-term trajectory of Digital Realty's financial and operational performance remained strong.

Furthermore, its liquidity position and its dividend coverage continued to be rock-solid, particularly after factoring in the data center REIT's ongoing access to equity markets and lack of near-term debt maturities. Data centers are generally considered "essential" activities around the world given we live in the digital age and these assets have continued to operate during the pandemic. Shares of DLR yield ~3.1% on a forward-looking basis as of this writing.

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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.

Digital Realty Trust…on next page

*Digital Realty Trust…*from previous page

Outlook and Dividend Payout Strength

Digital Realty expects to generate $5.90-$6.10 per share in core funds from operations ('core FFO') in 2020, and after taking foreign currency translation adjustments into account, that goes up to $5.95-$6.25 per share on a constant-currency basis. In 2019, Digital Realty generated $6.65 per share in core FFO, meaning that its financial performance is coming under fire from a few factors including 1) elevated lease expiration activity that saw Digital Realty's cash rental rates shift lower last year (with that effect carried on into 2020), 2) the expiration of "vintage" lease agreements, and 3) pressures from the ongoing coronavirus ('COVID-19') pandemic. Management expects that the new rental rates on lease renewals this year will be down by low single-digits on a cash basis (and flat on a GAAP basis) as many of these are renewals covering vintage lease agreements that were signed at arguably premium rates several years ago.

Stay-at-home orders have negatively impacted construction activity (Digital Realty's construction activities have also been negatively impacted to varying degrees) which could lead to supply constraints. Going forward, management also mentioned (during the firm's latest quarterly conference call) that "(it) expect(s) to see continued gradual improvement on cash re-leasing spreads into 2020 and beyond" as Digital Realty cycles through its vintage lease renewals--and the uplift from rising data center demand and constraints on supply growth due to barriers to entry (eventually) kick in.

While many market participants were expecting that rising data center demand would result in a more favorable outlook for Digital Realty (particularly as it concerns the near-term trajectory of cash rental rates), management noted that "(it has) yet to see broad-based rental rate growth across most markets" other than in "a few select supplies constrained regions and metro areas," which indicates that the pandemic must be making rent increases a trickier task than expected (and that's coming on top of the headwinds created by vintage leases expiring).

All things considered, demand for data centers remains very strong, and that supports Digital Realty's expected cash flow generation this year (even if those cash flows are now expected to come in slightly below previous consensus expectations). As many households are forced indoors due to stay-at-home orders and the "cocooning" of households (as the world waits for a COVID-19 vaccine to get discovered and mass produced), Digital Realty's asset base remains an integral part of the global economy as we get deeper into the digital era.

Things are not looking dire at Digital Realty, far from it, **as the REIT continues to possess solid dividend coverage and a nice liquidity position (which we'll cover in the next section in this article).** On a core FFO payout basis, at the midpoint of Digital Realty's 2020 guidance, its payout ratio is expected to be ~75% this year (derived from Digital Realty's annualized dividend payout of $4.48 per share divided by expected core FFO of $6.00 in 2020). Digital Realty's adjusted (to take into account its access to equity markets) Dividend Cushion ratio of 2.9 provides for solid support during these harrowing times.

Please note that as a capital-market dependent entity, Digital Realty needs to retain access at all times to debt and equity markets to raise funds (ideally at attractive rates) to have the cash on hand to meet its growth ambitions and dividend obligations. That appears to be the case, which we'll cover in greater detail later on in this article, but for starters we would like to highlight here that Digital Realty's strong stock price performance year-to-date combined with its investment grade credit ratings makes tapping capital markets a significantly easier task.

Digital Realty generated negative free cash flows during the first quarter of 2020, and historically, the data center REIT has not generated meaningful positive free cash flows as the firm is investing heavily in growing its asset base. This dynamic highlights why maintaining access to capital markets is particularly important.

Digital Realty Trust…on next page

*Digital Realty Trust…*from previous page

While same-store cash net operating income ('NOI') is expected to shift lower by 2.5%-3.5% this year, Digital Realty's payout coverage remains rock-solid. As the global economy eventually emerges from the pandemic-induced lockdown and related economic recession, **Digital Realty should be on much stronger operational footing as headwinds fade and tailwinds emerge** (in part due to expected future supply constraints and in part due to Digital Realty growing its presence in key metropolitan hubs where supply constraints already exist).

Recent and Expected Financing Maneuvers

In January 2020, Digital Realty issued "€1.7 billion of Euro-denominated notes with a weighted-average maturity of approximately seven years and a weighted-average coupon of approximately 1.0%" with a large portion of those proceeds used to retire "€1.2 billion of Interxion's outstanding senior notes" which was taken on after Digital Realty acquired Interxion in March 2020. Interxion had a meaningful data center presence in mainland Europe, which now complements Digital Realty's existing data center presence in the UK and Ireland. That deal included Digital Realty issuing our 54 million shares of DLR to acquire Interxion's outstanding shares last quarter.

Digital Realty raised $37 million through modest at-the-market ('ATM') equity offerings in the first quarter, and subsequent to quarter-end, raised an additional $615 million through ATM equity offerings. Additionally, the data center REIT has a forward equity sale agreement that should raise $1.1 billion in cash when the deal matures in September 2020 (that's expected to net Digital Realty $1.0 billion after closing adjustments and fees when the deal matures according to its 10-Q filing).

Furthermore, in May 2020, Digital Realty filed a prospectus that noted it may issue up to $1.0 billion in additional equity. It's clear Digital Realty retains access to equity markets at attractive rates given the strength of shares of DLR over the past year. As it relates to debt issuance, the January 2020 Eurobond sale highlights that Digital Realty likely continues to possess access to debt markets at attractive rates as well.

The data center REIT agreed to acquire a 49% ownership interest in the Westin Building Exchange (a major interconnected hub) in Seattle, Washington, in February 2020, and that deal is expected to close during the first half of 2020. Pro forma for recent acquisitions or expected acquisitions (the Interxion acquisition and the pending acquisition of a stake in the Westin Building), and recent and expected financing transactions (particularly the forward offering and the completed ATM equity issuance), Digital Realty exited the first quarter of 2020 with a net debt to adjusted EBITDA ratio of 5.1x. Please note that doesn't include the potential proceeds Digital Realty would raise through the recently filed prospectus.

Pivoting now to the data center REIT's liquidity position, Digital Realty's management team had this to say during the firm's latest quarterly conference call (emphasis added):

> *"Pro forma for a full quarter contribution from Interxion and the Westin Building, the equity issuance activity on the ATM after quarter end and settlement of the $1.1 billion forward equity offering, net debt to adjusted EBITDA remains in line with our targeted range at just over five times, while fixed charge coverage is just under five times.*
>
> *As a result of our proactive balance sheet management,* ***we have ample liquidity to fund our capital spending with nearly $250 million of cash on the balance sheet as of March 31, another $1.7 billion of equity coming in post quarter end and $2 billion of availability on our global revolving credit facilities****.*
>
> *The successful execution against our financing strategy reflects the strength of our global platform, which provides access to the full menu of public as well as private capital, sets us apart from our peers and enables us to prudently fund our growth." --- Andrew Power, CFO of Digital Realty*

Digital Realty Trust…on next page

***Digital Realty Trust...*from previous page**

Digital Realty's global revolving credit facilities mature in January 2023, providing the firm with ample access to liquidity during these challenging times (that maturity date could get extended as the facilities carry two six-month extensions). As one can see in the upcoming graphic down below, Digital Realty does not have a meaningful amount of debt coming due until 2022, **and we appreciate the balanced nature of its debt maturity schedule.**

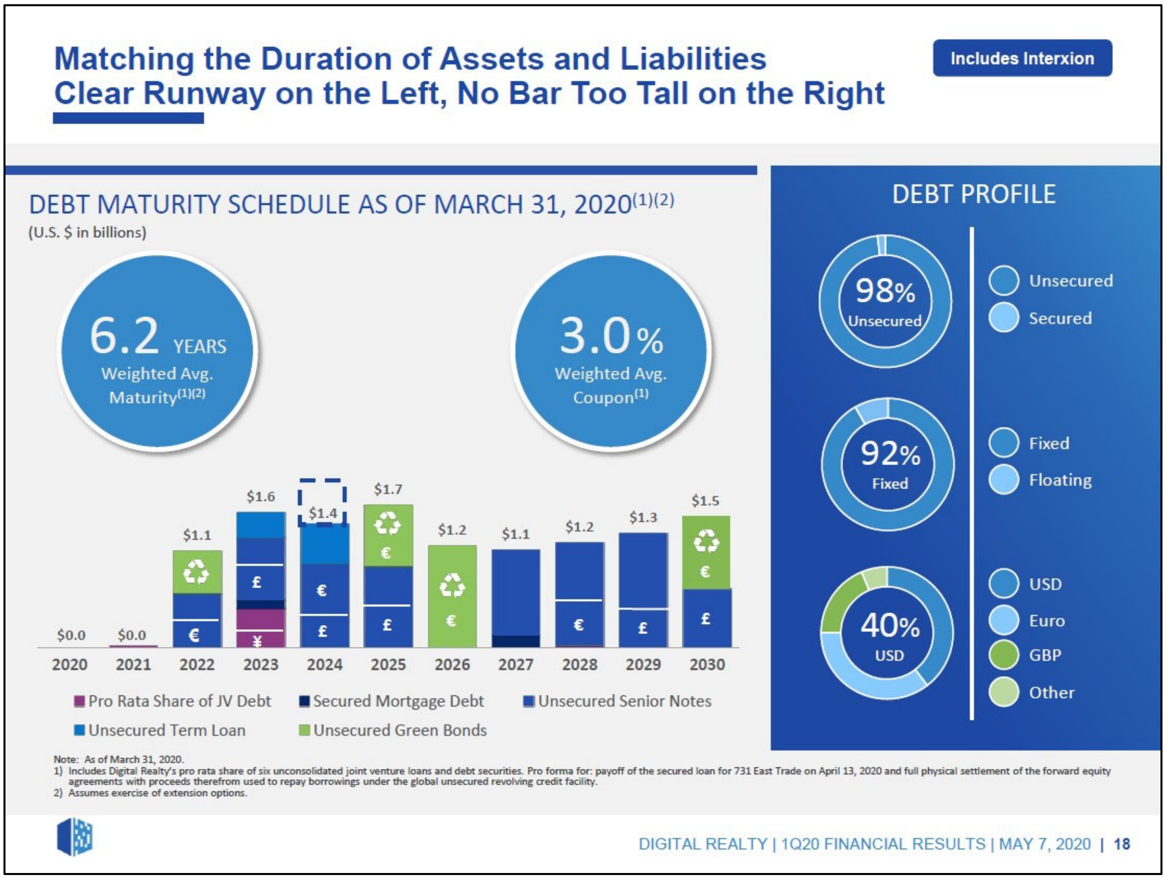

Image Shown: *Digital Realty does not have a meaningful amount of debt coming due until 2022, supporting its medium-term outlook.* ***Image Source:*** *Digital Realty - First Quarter of 2020 Earnings IR Presentation*

On a final note, Digital Realty's management team mentioned that "(it is) obviously going after the enterprise customer in hybrid multi-cloud environments" in light of the pending Westin Building deal and the acquisition of Interxion. These deals are building up a rental base that come with "15-year steady Eddie bump contracts" that should allow Digital Realty to slowly but steadily grow its organic rental revenues over time. While its financials may be lumpy in 2020, the firm's long-term growth outlook remains promising.

Concluding Thoughts

We continue to like Digital Realty as a holding in both our Dividend Growth Newsletter and High Yield Dividend Newsletter portfolios given its strong dividend coverage and quality access to capital markets (which lends support to the strength of its dividend coverage). The data center REIT continues to generate meaningful cash flows during the pandemic, and we like Digital Realty's long-term outlook.

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

The Dividend Growth Newsletter Portfolio

By Valuentum Analysts

Most-recently Added: Going "Fully Invested" (April 29)
Most-recently Removed: SPY Put Options (Mar 12)

DIVIDEND GROWTH IDEAS -- as of June 1, 2020 -- interim

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)	2.90	3.16%	-	-	-	91.82	8.25%-13.5%
Intel (INTC)	1.32	2.13%	$51.00	3	1.22	62.03	8.25%-13.5%
Johnson & Johnson (JNJ)	4.04	2.76%	$148.00	7	0.99	146.16	8.25%-13.5%
Cisco (CSCO)	1.44	3.08%	$54.00	3	0.86	46.69	6.25%-8.5%
Digital Realty Trust (DLR)	4.48	3.12%	$102.00	4	1.41	143.81	6.25%-8.5%
Health Care Select Sector SPDR ETF (XLV)	2.29	2.25%	-	-	-	101.95	6.25%-8.5%
iShares Int'l Select Dividend (IDV)	2.28	9.05%	-	-	-	25.17	6.25%-8.5%
Invesco Senior Loan (BKLN)	0.94	5.11%	-	-	-	21.40	4.25%-6.5%
Oracle (ORCL)	0.96	1.80%	$55.00	4	0.97	53.29	4.25%-6.5%
Bank of America (BAC)	0.72	2.93%	$28.00	5	0.88	24.59	3.25%-4.5%
Cracker Barrel (CBRL)	-	-	$95.00	3	1.16	110.04	3.25%-4.5%
Kinder Morgan (KMI)	1.05	6.68%	$17.00	3	0.93	15.73	3.25%-4.5%
Lockheed Martin (LMT)	9.60	2.47%	$432.00	6	0.90	389.04	3.25%-4.5%
Newmont Mining (NEM)	1.00	1.67%	$46.00	6	1.31	60.03	3.25%-4.5%
Realty Income (O)	2.80	4.96%	$52.00	3	1.09	56.45	3.25%-4.5%
Republic Services (RSG)	1.62	1.90%	$94.00	7	0.91	85.17	3.25%-4.5%
Cash Consideration	-	-	-	-	-	-	**0.0%**

UR = Under Review
Dividend yield and dividend per share information for ETFs retrieved from Yahoo Finance.
This portfolio is not a real money portfolio. Data as of June 1 (interim).

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 0%. The midpoints of our respective weighting ranges approximately sum to 100% to reflect the range of possible combinations that may result in various allocations.

Republic Services: "The Worst Is Behind Us…"

The waste industry has a number of cost levers to pull to overcome profit pressures in its residential pick-up operations and reduced volume in its commercial and industrial operations, the latter a higher margin proposition. However, economic activity seems to be picking up, and some are saying the worst may be behind us. Our favorite waste hauler is Republic Services.

By Brian Nelson, CFA

We talked a lot about the waste industry in the book *Value Trap: Theory of Universal Valuation*, explaining why the oligopolistic structure of the trash-taking space is much more attractive than the oligopolistic structure of the airline industry. For one, the former holds tremendous pricing power (consumers might be willing to pay up to get their trash taken away), while the latter suffers from extreme price transparency and fare pressure (air travel is a commodity and consumers mostly care about going point-to-point at the lowest possible price). As the airlines struggle to stay afloat in a post-COVID-19 world, the waste industry's pricing power is also being put to the test.

With consumers "cocooning" at home, residential waste volumes have been on the rise. Waste Management's (WM) CFO Devina Rankin recently noted that "the weight of residential waste has increased 15%-25% since the beginning of widespread lockdown orders in the US." While increased waste volumes seems like a good thing, residential pricing contracts tend to be a little less flexible when it comes to volumes (more residential waste tends to translate to more costs at the same price). These higher residential collection costs are happening at the same time higher-margin commercial and industrial roll-off operations are also facing pressure.

Please see *Republic Services…*on next page

Republic Services… from previous page

While not an ideal scenario, there may not be too much to worry about. Even if the waste industry comes up short collecting more fees from residential customers, it can still work to optimize route networks, reduce overtime hours, and eliminate non-essential costs and expenses (travel, entertainment, and consulting), while pursuing capital-spending adjustments to preserve free-cash-flow generation and dividend health. However, the group may not even need to go that far with cost levers. Recent economic data points have been encouraging. Dividend Growth Newsletter portfolio holding Republic Services (RSG), for example, had the following to say in its first-quarter report, released May 5:

> ***…we are beginning to see signs of increasing economic activity.*** *We remain confident in our ability to quickly adjust our costs and capital expenditures to align with changes in demand. Assuming the economy continues to recover, and GDP sequentially improves in the third and fourth quarter as currently predicted by economists, we expect to generate over $1 billion of adjusted free cash flow in 2020.*

On the conference call, Republic Services' CEO Donald Slager even said that "assuming these trends continue (customers re-engaging with them as businesses plan to re-open), **we believe the worst is behind us."** As states around the U.S. slowly re-open for commerce, higher-margin commercial and industrial roll-off revenue looks poised to bounce back materially, and we'd view any contractual adjustments on the residential side of the business due to higher volumes as icing on the cake (most already have embedded annual CPI-adjustments). Echoing our views on the group's solid free-cash-flow generating trends and strong business models, Waste Management had the following to say in its first-quarter 2020 press release:

> ***Our business model generates strong cash flow and is resilient in any economic cycle.*** *In past downturns, we have demonstrated the ability to flex spending and manage capital expenditures to generate strong free cash flow and return excess cash to our shareholders. We expect to deliver on these priorities as we continue to provide essential services to our customers during this unprecedented pandemic.*

The third-largest waste operator in the U.S., Waste Connections' (WCN) first-quarter 2020 results, released May 6, further showcased the resiliency of the group. The company noted that, even with the "measures taken across the U.S. and Canada to limit or control the spread of COVID-19…(it) exceeded (its) first quarter outlook for adjusted EBITDA." Waste Connections' revenue in the period advanced 8.7% thanks to 'price + volume' growth of 5.2%, while the company noted that **"solid waste trends have improved sequentially late in the month (April) and into early May."** The waste industry looks well-positioned to handle anything that COVID-19 may throw at it, while the economic backdrop starts to improve.

Concluding Thoughts

With detailed guidance for 2020 suspended by the largest players in the space, top-line and profit pressures should be expected in the near term, but we're not concerned about the resilience of the waste industry's business models or the health of their dividends. In some ways, the worst may very well be behind us, and Republic Services' dividend yield of ~1.9% looks as enticing as ever. We continue to be huge fans of the group.

Our fair value estimate for Republic Services sits at $94 per share, and as of this writing in late-May, shares of RSG are trading meaningfully below that level yet still comfortably above the low end of our fair value estimate range. We see room for meaningful capital appreciate upside here, on top of Republic Services' high quality dividend growth trajectory. We give Republic Services "GOOD" Dividend Growth and Dividend Safety ratings.

Disclosure: *Brian Nelson owns shares in SPY and SCHG.*

Cisco Systems Remains Resilient During These Challenging Times

Image Source: *Cisco Systems Inc – Third Quarter of Fiscal 2020 Earnings IR Presentation*

By Callum Turcan

On May 13, Cisco Systems Inc (CSCO) reported earnings for the third quarter of its fiscal 2020 (period ended April 25, 2020) that beat consensus estimates on both the top- and bottom-lines. Within the report, management provided guidance for the fiscal fourth quarter that wasn't as bad as the market had feared. Though the firm's revenues are still expected to decline by high single-digits to low double-digits on a year-over-year basis in the fiscal fourth quarter, the market was expecting a significantly worse impact from the ongoing coronavirus ('COVID-19') pandemic as it relates to Cisco Systems' financial performance. Shares of CSCO yield ~3.1% as of this writing, and we continue to like the network infrastructure hardware and software company as a holding in both our Best Ideas Newsletter and Dividend Growth Newsletter portfolios.

Strong Cash Flows and Balance Sheet

At the end of Cisco Systems' fiscal third quarter, the company had $10.4 billion in cash and cash equivalents along with $18.2 billion in short-term investments on the books. Stacked up against $4.5 billion in short-term debt and $11.6 billion in long-term debt, **Cisco Systems' net cash position of ~$12.5 billion as of April 25, 2020, is an immense source of strength during these harrowing times.** Having a net cash position provides Cisco Systems the ability to keep making good on its dividend obligations and provides a cushion should exogenous headwinds stymie its ability to generate cash flow.

Please see *Cisco Systems…*on next page

*Cisco Systems…*from previous page

During the first nine months of fiscal 2020, Cisco Systems generated almost $11.1 billion in free cash flow, assisted by its very low capital expenditure requirements (the firm spent just $0.6 billion on 'acquisition of property and equipment' during this period). Its dividend obligations of $4.5 billion were easily covered by its free cash flows, as were its $2.7 billion in share repurchases under its buyback program.

Cisco Systems reduced its outstanding total debt load (inclusive of short-term debt) by $8.6 billion during the first nine months of fiscal 2020 versus year-end fiscal 2019 levels (period ended July 27, 2019) while its cash-like pile ('cash and cash equivalents' plus 'investments') was reduced by just $4.8 billion during this timeframe. That means **the firm's net cash position has been growing in fiscal 2020, which we appreciate, improving from $8.7 billion at the end of fiscal 2019 to $12.5 billion at the end of the third quarter of fiscal 2020.**

Operational Update

Subscription revenues as a percentage of Cisco Systems' total software revenues continued to grow last fiscal quarter as you can see in the upcoming graphic down below, which we appreciate **as reoccurring revenue streams generally result in higher quality cash flow profiles.**

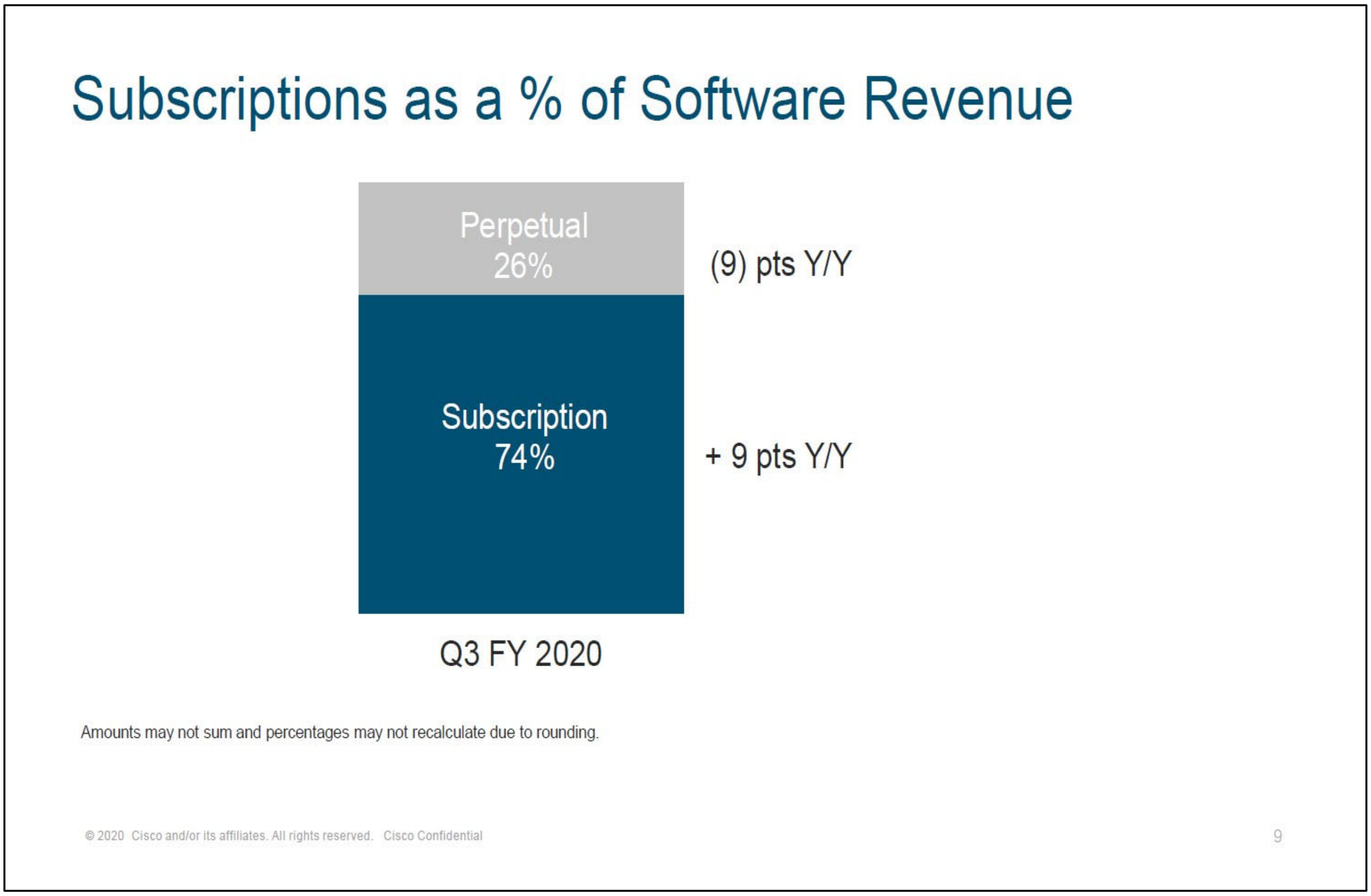

Image Shown: *Cisco Systems is pivoting towards a subscription-based business model to grow its reoccurring revenue streams from its software sales, which we strongly appreciate as that usually improves the quality of cash flow profiles over time.* ***Image Source:*** *Cisco Systems Inc - Third Quarter of Fiscal 2020 Earnings IR Presentation*

Please see *Cisco Systems…*on page 11

Dividend Cuts for the Week Ending May 22

By Christopher Araos

Firms Lowering Their Dividends This Week

Abercrombie & Fitch (ANF): suspends its quarterly dividend, was $0.20.

America First Multifamily Investors (ATAX): now $0.06 per share quarterly dividend, was $0.13.

ARMOUR Residential REIT (ARR): now $0.09 per share monthly dividend, was $0.17.

Central Securities (CET): now $0.20 per share dividend, was $1.15.

Citizens Financial Group 6.350% DEP PFD D (CFG.PD): now $0.3969 per share quarterly dividend, was $0.3900.

Crawford & Company (CRD.B): now $0.03 per share quarterly dividend, was $0.05.

Crawford & Company (CRD.A): now $0.03 per share quarterly dividend, was $0.07.

Cross Timbers Royalty Trust (CRT): now $0.0563 per share monthly dividend, was $0.0859.

The Elmira Savings Bank (ESBK): now $0.15 per share quarterly dividend, was $0.23.

Extended Stay America (STAY): now $0.01 per share quarterly dividend, was $0.23.

Foot Locker (FL): suspends its quarterly dividend, was $0.40.

Franklin Limited Duration Income Trust (FTF): now $0.073 per share monthly dividend, was $0.074.

Halliburton (HAL): now $0.045 per share quarterly dividend, was $0.180.

Haverty Furniture (HVT): now $0.15 per share quarterly dividend, was $0.20.

Interface (TILE): now $0.01 per share quarterly dividend, was $0.07.

Invacare Corporation (IVC): suspends its quarterly dividend, was $0.0125.

LATAM Airlines Group S.A. (LTM): now $0.0942 per share annual dividend, was $0.0885 per share semi-annual dividend.

Melcor Developments (MODVF): now CAD 0.08 per share quarterly dividend, was CAD 0.10.

National Bankshares (NKSH): now $0.67 per share semi-annual dividend, was $0.72.

National Oilwell Varco, Inc. (NOV): suspends its quarterly dividend, was $0.05.

Old Dominion Freight Line (ODFL): now $0.15 per share quarterly dividend, was $0.23.

Permian Basin Royalty Trust (PBT): now $0.0165 per share monthly dividend, was $0.0230.

PREIT (PEI): now $0.02 per share quarterly dividend, was $0.21.

QIWI plc (QIWI): now $0.14 per share quarterly dividend, was $0.22.

San Juan Basin Royalty Trust (SJT): now $0.0043 per share monthly dividend, was $0.0083.

SFL (SFL): now $0.25 per share quarterly dividend, was $0.35.

Tekla Life Sciences (HQL): now $0.34 per share quarterly dividend, was $0.39.

The TJX Companies, Inc. (TJX): suspends its quarterly dividend, was $0.26.

Tri-Continental (TY): now $0.2824 per share quarterly dividend, was $0.2650.

United – Guardian (UG): now $0.42 per share semi-annual dividend, was $0.55.

VEREIT (VER): now $0.077 per share quarterly dividend, was $0.1375.

*Cisco Systems…*from page 9

Pivoting now to Cisco Systems' 'Security' sales (part of its 'Product' division), while this segment represents a modest portion of the firm's total revenues (~6.5% of fiscal third quarter revenues), security is a core part of the company's business. The firm reported 12% year-over-year sales growth at the segment during the first nine months of 2020, and 6% year-over-year sales growth during the fiscal third quarter. Here's what management had to say about Cisco Systems' Security segment within the firm's prepared remarks:

> *"Moving on to Security, which is always at the heart of everything we do. In Q3, we saw solid growth reflecting increased demand for our robust solutions to secure the rapid growth in remote workers and their devices. Being the largest enterprise security company in the world, we are uniquely positioned to safeguard our customers wherever they work. We have the most comprehensive and integrated end-to-end portfolio in the industry across the network, cloud, applications, and endpoints.*
>
> *[Cisco Systems] provided extended free licenses for key security technologies that are designed to protect remote workers, including Cisco Umbrella, zero trust security from Duo, industry-leading secure network access from Cisco AnyConnect, and endpoint protection from our AMP technology.*
>
> *We're also supporting our customers on their multi-cloud journey by enabling them to secure direct Internet access, cloud application usage, and roaming users. We're only two quarters into our secure Internet gateway transition, and we are already seeing strong adoption from existing and new customers. Building on the investments we made in innovation partnerships and acquisitions, we also introduced SecureX. This is the industry's broadest cloud-based security platform, connecting the breadth of our portfolio and our customer security infrastructure by providing unified visibility, automation, and simplified security across applications, the network, endpoints, and the cloud."*

Additionally, management highlighted strong demand for Cisco Systems' cloud security portfolio supported by its Duo and Umbrella offerings. In response to an analyst's question during Cisco Systems' latest quarter conference call regarding the rising work-at-home trend, largely a result of the ongoing pandemic, management noted that "there is clearly more security that needs to be deployed" in order to adjust to the new work arrangements.

Concluding Thoughts

We continue to like Cisco Systems in both our Best Ideas Newsletter and Dividend Growth Newsletter portfolios due to its high quality cash flow profile (aided by the firm's relatively low capital expenditure requirements) and net cash position. There are several promising structural changes in its operations and financials currently underway (i.e. greater subscription revenues from its software business and a heavier focus on growing its Security product sales) which supports its medium- and long-term outlook. Cisco Systems should be able to emerge on the other side of this pandemic with its financials and dividend payouts intact.

Our fair value estimate for Cisco Systems sits at $54 per share, comfortably above where shares of CSCO are trading at as of this writing at the end of May. Cisco Systems is trading modestly above the low end of our fair value range estimate, and should the company continue to perform well on a fundamental basis, we see room for decent capital appreciation upside as the market comes around to its improving cash flow profile and pristine balance sheet. We give Cisco Systems an "EXCELLENT" Dividend Growth rating and a "GOOD" Dividend Safety rating.

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

Gold Miner Newmont Continues to Shine

Image Source: *Newmont Corporation – First Quarter of 2020 Earnings IR Presentation*

By Callum Turcan

On May 5, the gold miner Newmont Corporation (NEM) reported first quarter 2020 earnings that missed both consensus top- and bottom-line estimates which prompted shares to sell off modestly during the normal trading session that day, though shares of NEM have been on an epic bull run since the start of 2020. We continue to like Newmont as an idea in our Dividend Growth Newsletter portfolio with shares of NEM up ~39% as of this writing in late-May since joining the portfolio on January 13, 2020, before taking dividend considerations into account, while the S&P 500 (SPY) is down ~7% during this period before taking dividend considerations into account. At Newmont's new annualized dividend payout of $1.00 per share, shares of NEM yield ~1.7% as of this writing.

Due to unprecedented monetary and fiscal stimulus measures enacted to combat the negative economic impact created by the ongoing coronavirus ('COVID-19') pandemic, **gold prices** (GLD) **have performed very well so far this year.** COMEX gold prices for July 2020 deliveries are trading near $1,700 - $1,750 per troy ounce as of this writing, up from ~$1,500-$1,550 at the start of 2020 and ~$1,200-$1,300 one year ago. Newmont is a very high-quality gold miner that expects to maintain a stable gold production base over the coming years after acquiring Goldcorp and merging its Nevada gold mining operations with Barrick Gold Corporation (GOLD) last year.

The high end of our fair value estimate range for shares of Newmont stands at $62, modestly above where shares of NEM are trading at as of this writing in late-May. We give Newmont a "GOOD" Dividend Safety rating and a "GOOD" Dividend Growth rating, and please note its Dividend Cushion ratio of 2.2 is quite strong. A combination of an improving gold pricing environment and cost-related synergies that are coming in better than expected paints an optimistic outlook for Newmont, and we continue to view the firm as our favorite gold miner out there.

Please see *Gold Miner Newmont…*on next page

*Gold Miner Newmont…*from previous page

As it relates to the synergies from the Goldcorp deal, those are coming in stronger than expected versus its initial target for $365 million in run-rate synergies by the end of 2021 (now estimated at $500 million) as you can see in the upcoming graphic down below. Going forward, synergies from the Nevada joint-venture with Barrick could further enhance Newmont's cost structure and thus its cash flow profile (at any gold price), which we really appreciate.

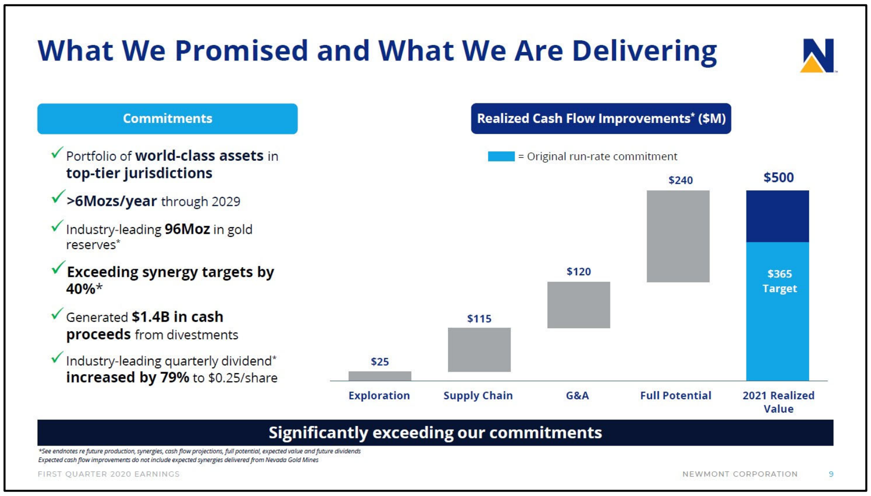

***Image Shown:** An overview of Newmont's recent financial news and synergies target. **Image Source:** Newmont – First Quarter of 2020 Earnings IR Presentation*

Newmont exited the first quarter of 2020 with $3.7 billion in cash and cash equivalents versus $0.1 billion in short-term debt and $6.0 billion in long-term debt on hand, providing the firm with ample financial flexibility to ride out the storm. Additionally, Newmont had $0.2 billion in short-term 'investments' and $2.9 billion in long-term investments on the books at the end of March 2020, however, some of that represents strategic investments in operations such as the producing Pueblo Viejo Mine (a gold mining operation).

NOTE 17 INVESTMENTS

	At March 31, 2020	At December 31, 2019
Current:		
Marketable equity securities	$ 175	$ 237
Non-current:		
Marketable equity securities	$ 101	$ 126
Equity method investments:		
Pueblo Viejo Mine (40.0%)	$ 1,232	$ 1,230
NuevaUnión Project (50.0%)	938	940
Norte Abierto Project (50.0%)	480	478
Maverix Metals Inc. (25.1%)	77	93
Alumbrera Mine (37.5%)	51	54
TMAC Resources, Inc. (28.0%)	11	114
Continental Gold, Inc. (1)	—	164
	2,789	3,073
	$ 2,890	$ 3,199
Non-current restricted investments: (2)		
Marketable debt securities	$ 48	$ 54
Other assets	1	1
	$ 49	$ 55

***Image Shown:** A look at a more detailed overview of Newmont's short-term and long-term investments line-items, many of which are strategic assets to the company. **Image Source:** Newmont – 10-Q filing covering the first quarter of 2020*

Please see *Gold Miner Newmont …*on next page

*Gold Miner Newmont…*from previous page

During the first quarter of 2020, Newmont sold its investments in Continental Gold Inc for $0.25 billion in cash proceeds which resulted in the firm recognizing a gain on the sale of $0.1 billion. We appreciate Newmont optimizing its balance sheet and economic interests in potential mining opportunities as that better positions the company for the long haul in terms of operational focus. As it relates to its economic interests in TMC Resources Inc (TMMFF), Newmont recorded an impairment charge of $0.1 billion last quarter as shares of TMMFF had fallen significantly from the end of 2019 to the end of the first quarter of 2020.

Additionally, Newmont completed the divestment of its 50% stake in Kalgoorlie Consolidated Gold Mines in Australia and its sale of the Red Lake complex in Canada last quarter, two moves we covered previously:

> 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 [which has since closed], 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.*

Combined, these divestments raised ~$1.4 billion in cash last quarter. Newmont's liquidity position is further supported by its remaining $2.9 billion in borrowing capacity under its $3.0 billion revolving credit line that matures in April 2024. The company is well-positioned to meet its enlarged dividend obligations while staying on top of its debt maturities and other commitments.

In late-March 2020, Newmont closed on the issuance of $1.0 billion in 2.250% Senior Notes due 2030, **highlighting its ongoing access to capital markets at very attractive rates.** Those proceeds were used for refinancing activities (which included retiring 3.500% Senior Notes due 2022, 3.700% Senior Notes due 2023, and 3.700% Senior Notes due 2023 owed by Newmont's Goldcorp subsidiary) and Newmont was able to secure a lower coupon on its newly issued debt, which we appreciate. Newmont exited the first quarter of 2020 with a net debt to adjusted EBITDA ratio of 0.7x on a pro forma basis.

In the first quarter of this year, Newmont generated $0.6 billion in free cash flows and spent $0.3 billion repurchasing its stock along with $0.1 billion covering its dividend (paid out at the old quarterly rate of $0.14 per share, which has since been increased to $0.25 per share on a quarterly basis). We like Newmont's high quality cash flow profile, which should improve over time as cost synergies kick in across the board.

Please see *Gold Miner Newmont…*on next page

*Gold Miner Newmont…*from previous page

Here's what Newmont's management team had to say during the gold miner's latest quarterly conference call (emphasis added):

> *"…[W]e expect to generate substantial free cash flow throughout the gold price cycle. For every $100 increase in gold price above our base assumption, Newmont delivers approximately $400 million of incremental attributable free cash flow per year.* ***Using our conservative $1,200 gold price planning assumption, our free cash flow would still total more than $5 billion over the next five years and at current gold prices our portfolio will generate around $15 billion of free cash flow over the same five-year time frame.***
>
> *In addition, we have the potential for further upside with tailwinds from favorable oil prices and foreign currency exchange rates.* ***The excess free cash we generate will be used to reduce our net debt and provide additional returns to shareholders.*** *Looking forward, we are well positioned to continue executing our capital priorities and staying focused on creating long term value." --- Tom Palmer, CEO of Newmont*

We are very supportive of Newmont's capital allocation strategies, particularly as it relates to net debt reduction via strong free cash flow generation. The upcoming graphic down below highlight's how higher gold prices (which are currently trading near ~$1,700 per troy ounce) impacts Newmont's expected free cash flows over the coming years.

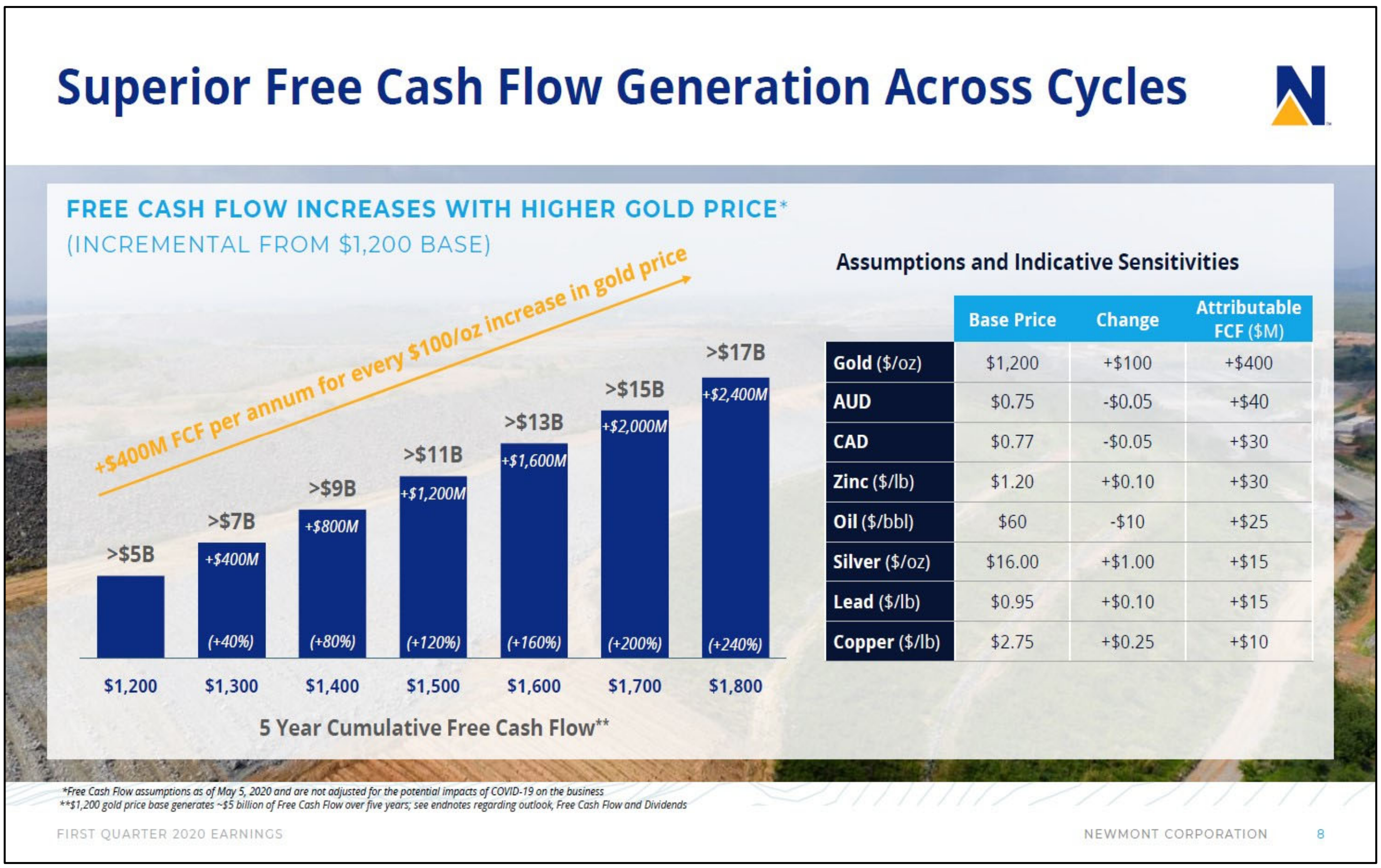

Image Shown: *Higher gold prices of late has had a very powerful impact on Newmont's expected free cash flow generation over the coming years.* ***Image Source:*** *Newmont – First Quarter of 2020 Earnings IR Presentation*

Please see *Gold Miner Newmont…*on next page

*Gold Miner Newmont…*from previous page

Newmont noted during its latest quarterly conference call that it had completed about 80% of its $1.0 billion share buyback program, retiring ~19 million shares at an average price of $42 per share. When asked about its capital allocation priorities, management noted that half of Newmont's capital allocation (it isn't clear if management meant as a percentage of net operating cash flows or not) would go towards investing in Newmont's gold mining business and the other half would go towards dividends, debt reduction, and share buybacks.

Operational Update

The Musselwhite gold mine up in Canada faced operational problems last year as one of the mine's conveyors caught on fire which in turn led to a power shutdown that forced the pumps that extract water from the mine to go offline. Newmont has been steadily working to repair its operations at Musselwhite; however, the pandemic has pushed back the completion of those repairs according to management. Please note that Newmont had almost completed a $90 million materials handling upgrade at Musselwhite, a project that aims to improve the way ore is moved to the crusher at the mine by constructing a raise bore winze, before shutting down construction on its repair and upgrading activities. Here's a key quote from management during Newmont's latest quarterly conference call:

> *"At Musselwhite, we proactively moved to care and maintenance on March 23 in order to minimize fly-in/fly-out activity to prevent the possible transmission of the virus into communities, including nearby First Nations communities in northern Ontario. We are developing plans to safely and efficiently resume operations…*
>
> *At Musselwhite, our team was exceeding their commitments and the conveyer installation was approximately 65% complete and well ahead of schedule before we placed the site in care and maintenance in late March. We now have every part for the conveyer installation in Thunder Bay, and installation of the conveyer will be the first thing to ramp up after a decision is made to resume operations. The Musselwhite materials handling project is 95% complete and will be ready for a full system test once the conveyer is installed." --- Rob Atkinson, Newmont's COO*

Additionally, please note that COVID-19 related shutdowns at the Musselwhite mine will marginally put downward pressure on Newmont's total production capacity. However, the mine was responsible for only a tiny amount of Newmont's gold production last quarter (about 1%, and please note that operational costs were elevated at this asset due to the need to ramp production back up to achieve meaningful economies of scale, and ongoing repair and upgrade activities). **The three other mining operations that were temporarily put on care and maintenance due to the pandemic have all since restarted** according to management (from Newmont's latest quarterly conference call):

> *"In mid-March, we proactively placed four operations in care and maintenance in order to protect the health of our workforce, neighboring communities, and to comply with government mandated restrictions. Three of these sites - Yanacocha, Cerro Negro and Eleonore, have since resumed operations." --- Newmont's COO*

We really appreciate this operational guidance as it indicates that Newmont should be able to continue capitalize on strong gold prices seen this year by maintaining its gold production base.

Concluding Thoughts

Newmont is a prime way to capitalize on strong gold prices of late and acts as a natural hedge against potential inflationary effects of unprecedented fiscal and monetary measures seen around the globe, including in the US. We continue to like Newmont as a holding in our Dividend Growth Newsletter portfolio and see plenty of room for additional upside ahead.

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

Realty Income Signals Turbulence Ahead, Shores Up Liquidity Position

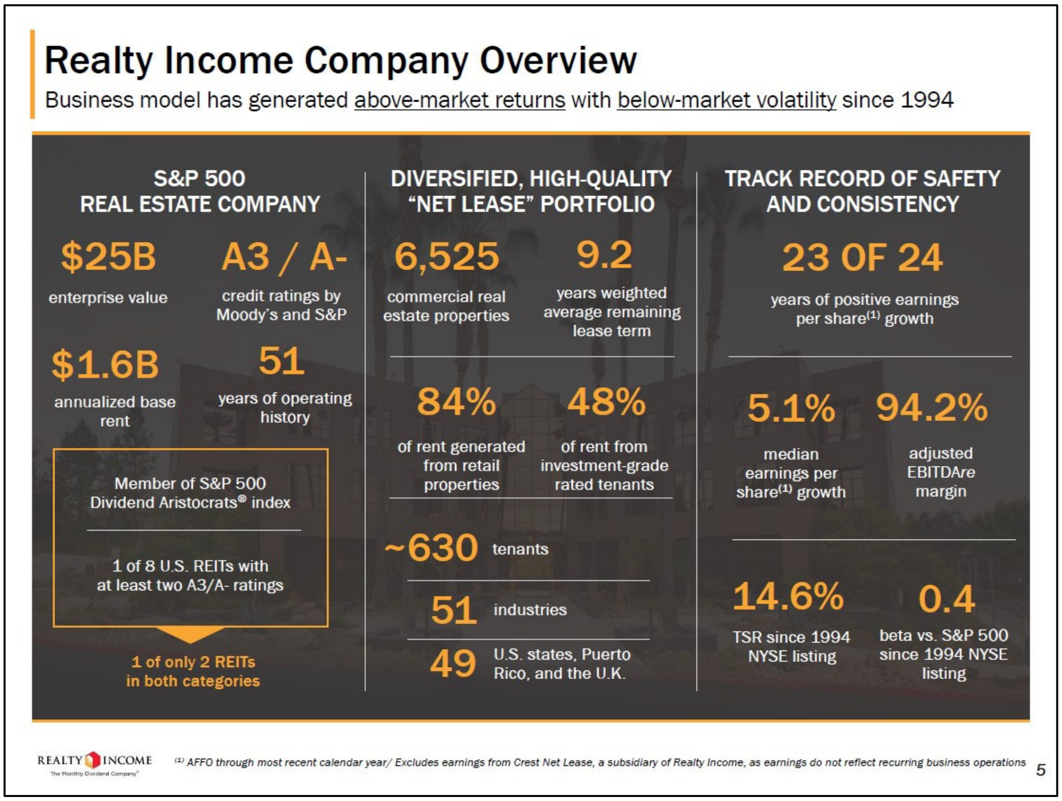

Image Source: *Realty Income Corporation - First Quarter of 2020 Earnings IR Presentation*

By Callum Turcan

On May 4, the real estate investment trust ('REIT') Realty Income Corporation (O) posted first-quarter 2020 earnings that saw its adjusted funds from operations ('AFFO') per share jump by over 7% year-over-year, hitting $0.78 last quarter. Realty Income pays out a monthly dividend, and shares of O yield ~5.1% as of this writing. We like the REIT's business model, which invests in single-tenant commercial properties, and we view Realty Income as well-positioned to ride out the ongoing coronavirus ('COVID-19') pandemic. However, we caution that its near-term financial performance will come under fire from some of its tenants no longer being able to (or willing to) pay rent due in part to the economic downturn.

As roughly half of its tenants carry investment-grade credit ratings, Realty Income is in a better position than some of its peers. Most of Realty Income's tenants have continued to pay rent during the pandemic, at least during the early stages of the crisis, and the REIT is working with its troubled tenants to find a solution that suites the interests of both parties.

Financial Update

Most REITs, including Realty Income, invest heavily in growing their asset base by utilizing a combination of internally generated cash flows and externally generated funds via equity and debt issuances. Realty Income generated $0.2 billion in negative free cash flow last quarter, and spent another $0.2 billion on its common dividend obligations.

Please see *Realty Income…*on next page

*Realty Income…*from previous page

As a capital-market dependent entity, Realty Income must retain access to debt and equity markets at (ideally) attractive rates at all times. On May 6, Realty Income announced that it was issuing out $600 million in 3.25% senior unsecured notes that mature in January 2031, which was priced at 98.987% of par for an effective yield to mature of 3.364%. Those proceeds will likely be used to retire its $250 million term loan that matures in June 2020, along with paying down outstanding borrowings on its revolving credit line and for other general corporate purposes.

This news indicates that Realty Income continues to possess access to debt markets at attractive rates, which we appreciate. Please keep in mind Realty Income carries high quality investment grade credit ratings (A3/A-/BBB+) and is one of only a handful of REITs that carries A-rated credit ratings (from at least two credit rating agencies).

Realty Income noted that as of May 1, the REIT retained $1.1 billion in borrowing capacity under its $3.0 billion revolving credit line (which matures in March 2023) and ~$1.2 billion in cash on hand, according to its latest earnings press release. That, combined with its recent debt issuance, should provide Realty Income with ample liquidity and access to liquidity to ride out the pandemic. In April 2020, Realty Income drew down a large portion of its revolving credit line to bolster its liquidity position as the REIT prepared itself for temporary but material volatility in its financial performance.

Additionally, Realty Income redeemed all of its $0.25 billion in outstanding 5.750% Notes due January 2021 during the first quarter of 2020 to further improve its liquidity position. The REIT raised $0.75 billion though equity issuances last quarter (at an average price of $77.37 per share). While Realty Income's share price has dropped since then, the REIT still maintains access to equity markets if needed.

Considering Realty Income's recent financing decisions and its staggered debt maturity schedule, as depicted in the upcoming graphic down below, the REIT should be able to continue making good on its dividend obligations while also possessing the funds needed to refinance upcoming debt maturities and invest in the business (though we think slowing down its growth trajectory would be prudent given the ongoing crisis around the world).

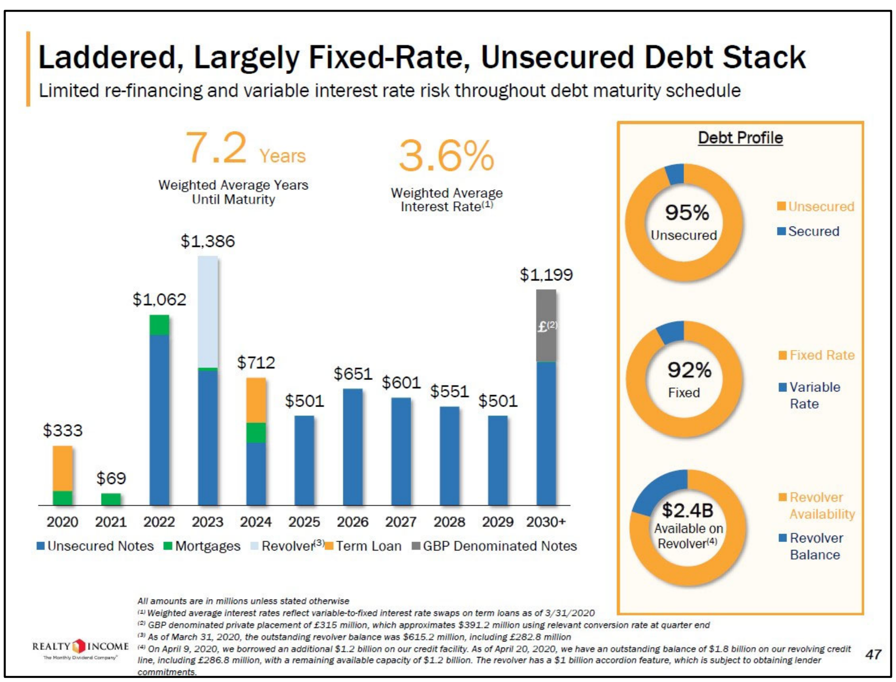

Image Shown: *Realty Income has the funds to refinance its 2020 and 2021 debt maturities without ruining its liquidity position.* ***Image Source:*** *Realty Income – First Quarter of 2020 Earnings IR Presentation*

Please see *Realty Income…*on next page

*Realty Income…*from previous page

International Push Continues

We've covered Realty Income's push into international markets in the past, specifically in the UK, and we will highlight that the REIT continued to grow its UK presence last quarter by acquiring four additional properties for approximately USD$166 million. While we are living through challenging times at the moment, over the long haul, having another country to expand in that has similar characteristics to the US in terms of the business environment and culture will favorably augment Realty Income's growth runway. During Realty Income's latest quarterly conference call, the REIT mentioned that one of its new tenants in the UK was an investment grade pharmaceutical company with the property located in an industrial hub.

Realty Income alluded to wanting to push into the UK's grocery market and included the below slide in its earnings presentation covering its first quarter of 2020 performance. In particular, the REIT appears to be focusing on supermarkets, convenience stores, and grocery stores in terms of new commercial property acquisition opportunities in the UK.

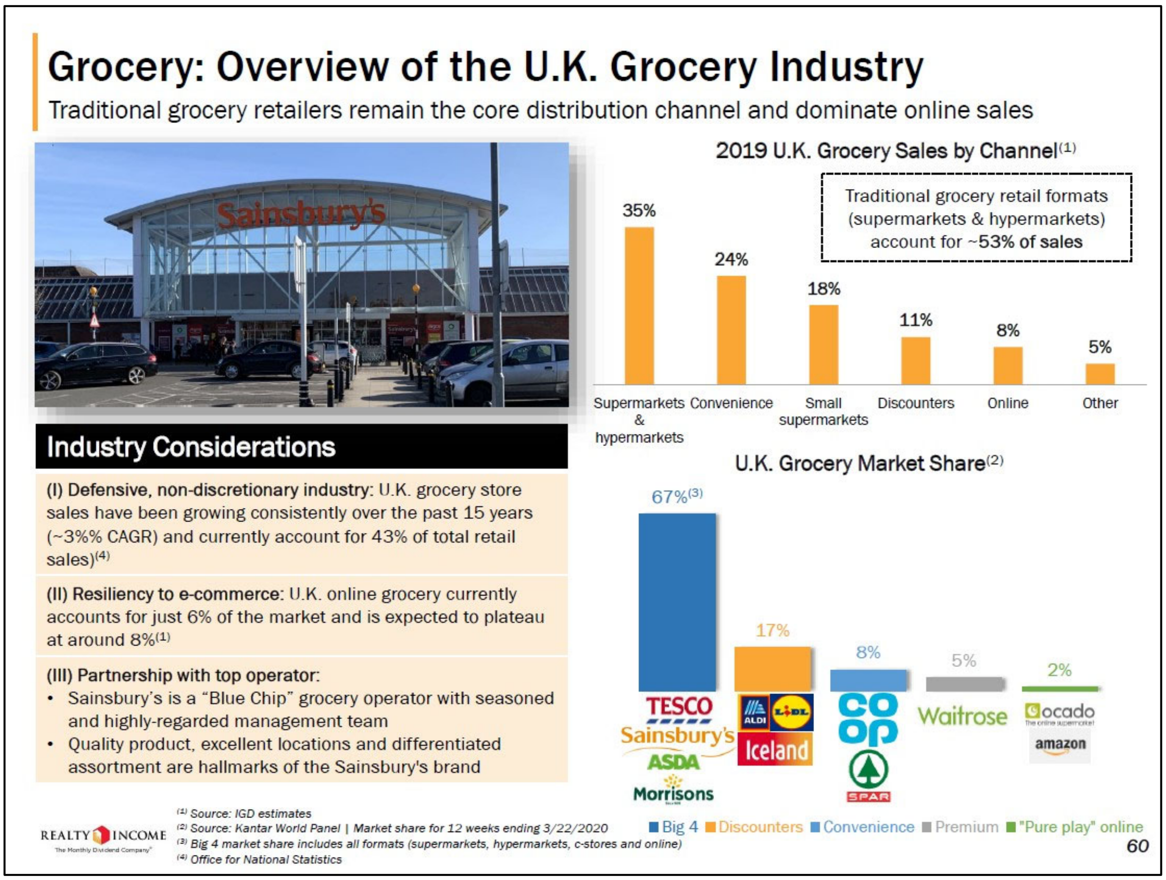

***Image Shown:** Realty Income appears to be considering pushing deeper into the UK commercial property market by acquiring properties that cater to grocery stores, convenience stores, supermarkets, and similar entities/operations. **Image Source:** Realty Income – First Quarter of 2020 Earnings IR Presentation*

Operational Update

Realty Income hasn't been immune to the ongoing pandemic. Though the REIT's occupancy rate stood at 98.5% at the end of March 2020, Realty Income's rental revenues came under pressure in April as stay-at-home orders and the negative impact the pandemic is having on consumer spending and business investment levels **prompted some of the REIT's tenants to not pay rent.**

Please see *Realty Income…*on next page

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

Here's a quote from management from Realty Income's first quarter earnings press release (emphasis added):

> *"We have constructed our real estate portfolio, the majority of which is leased to leading national or multi-national operators, with a focus on economic resiliency.* ***In April 2020, we collected approximately 83% of expected contractual rent, with substantially all the non-collected rent attributed to tenants in the theater, health and fitness, restaurant and child care industries****, each of which have been disproportionately impacted by government-mandated closures. We will continue to partner with our tenants to achieve mutually beneficial outcomes during these challenging circumstances and remain committed to creating long-term value for our shareholders." --- Sumit Roy, CEO of Realty Income*

Those that didn't pay rent were primarily tenants whose operations were hit the hardest, both operational and financially, from the pandemic according to Realty Income's management team. Additionally, management noted that the REIT may see some more of its automotive services tenants seek rent relief in May, as highlighted during Realty Income's latest quarterly conference call.

Its tenants operating in other sectors and industries appeared to continue paying in a timely fashion, a dynamic aided by Realty Income's exposure to grocery stores (~5% of annualized revenues at the end of March 2020), dollar stores (~8% of annualized revenues), drug stores (~9% of annualized revenues), and convenience stores (~12 of annualized revenues), venues that remain in high demand. In the upcoming graphic down below, Realty Income provides an overview of which type of tenants paid rent and which type of tenants were unable or unwilling to pay rent in April 2020.

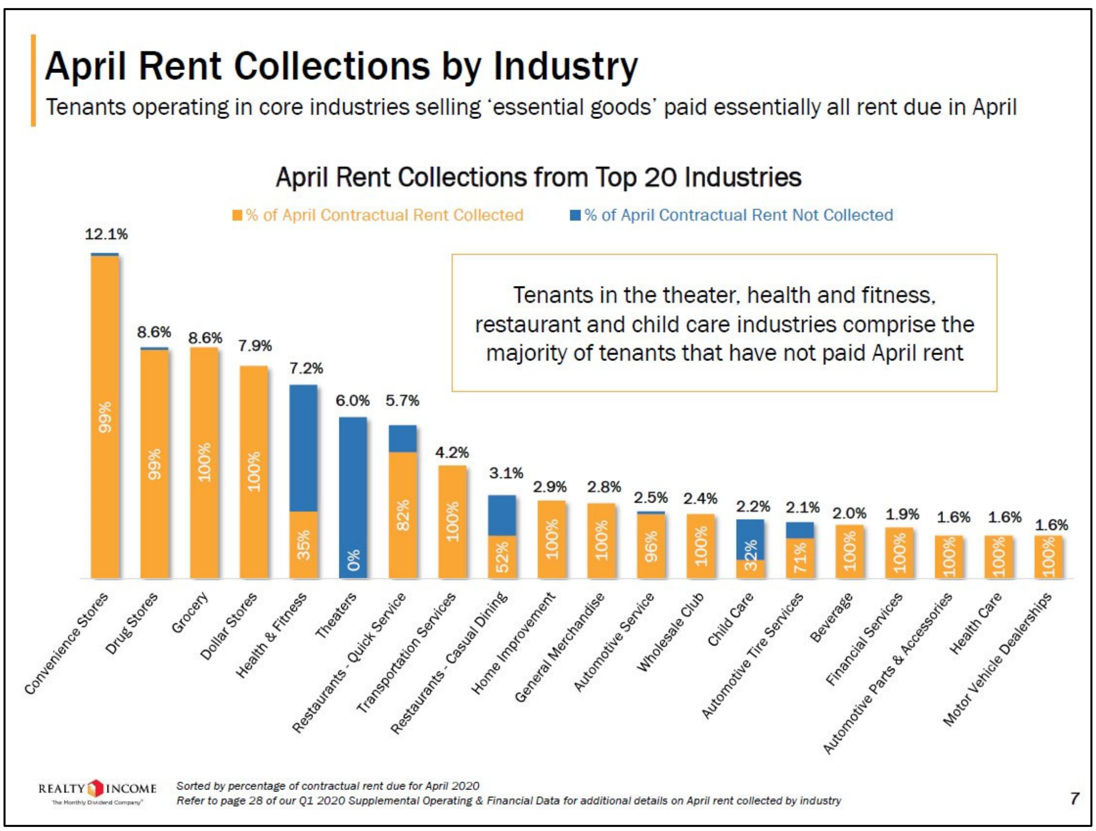

Image Shown: *Realty Income collected rent from most of its tenants in April, however, many or all of its theater, health & fitness, restaurants, and child care tenants did not pay rent that month.* ***Image Source:*** *Realty Income – First Quarter of 2020 Earnings IR Presentation*

Please see *Realty Income...*on next page

*Realty Income…*from previous page

Management noted that Realty Income was in the process of negotiating with troubled tenants and additionally, that virtually all of the REIT's investment-grade rated tenants paid rent in April. While the near-term situation remains highly fluid and the liquidity position for some of its tenants has likely deteriorated somewhat, Realty Income appears to be in a position to continue generating rental revenues on the vast majority of its properties.

Concluding Thoughts

Realty Income possesses the financial strength to ride out the storm, though its near-term financials will come under pressure from the ongoing pandemic as some of its tenants have stopped paying rent. We will continue monitoring the space going forward, and for now, we see Realty Income being able to continue meeting its monthly dividend obligations. This may change in a hurry, however.

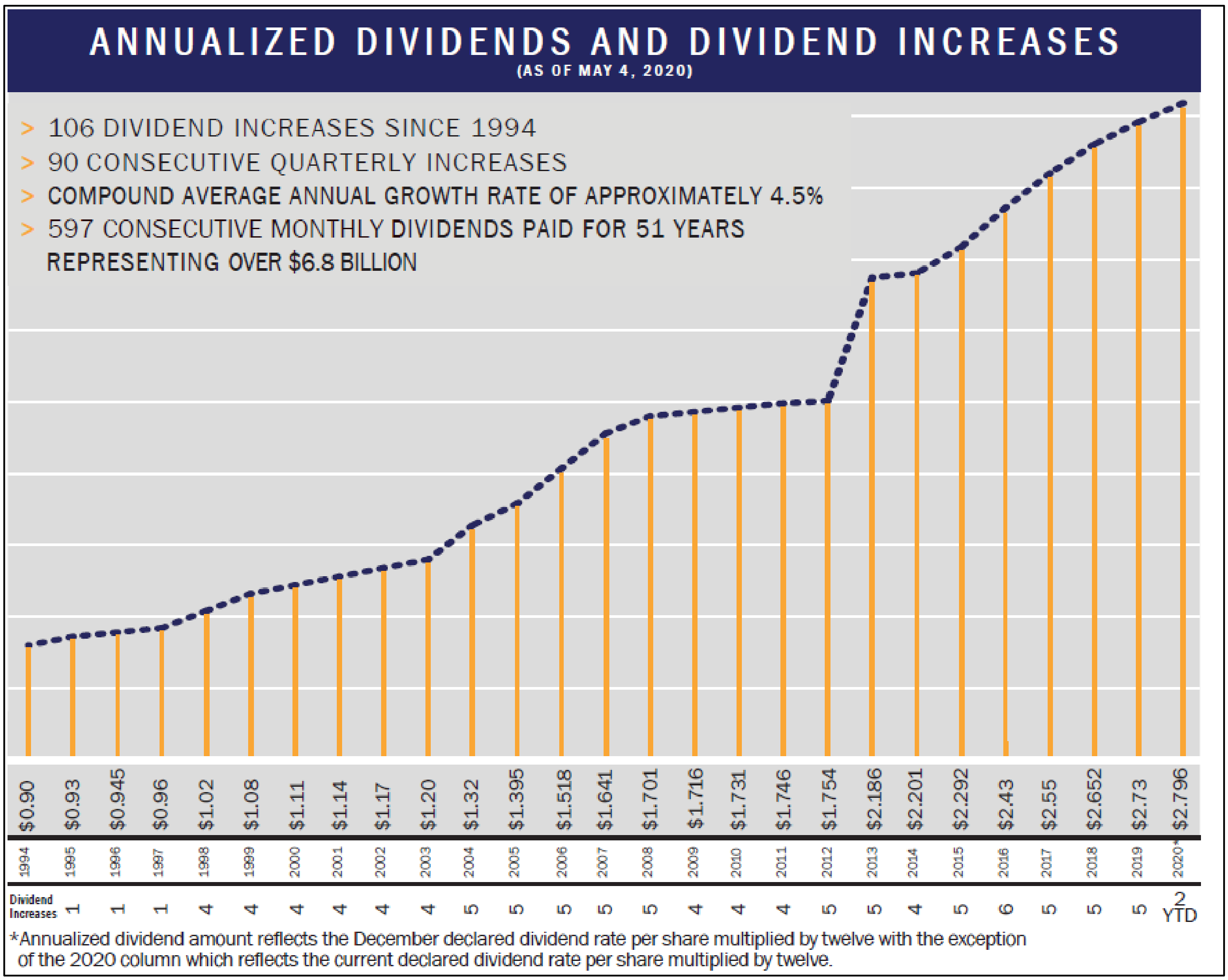

Image Shown: *An overview of Realty Income's impressive historical dividend payout growth.* ***Image Source:*** *Realty Income – First Quarter of 2020 Investor Fact Sheet*

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

Home Depot Reports Earnings

Image Source: *Home Depot Inc – June 2019 IR Presentation*

By Callum Turcan

On May 19, Home Depot Inc (HD) reported first-quarter earnings for fiscal 2020 (period ended May 3, 2020) that beat consensus top-line estimates and missed consensus bottom-line estimates. Comparable store sales were up 6.4% year-over-year, including up 7.5% at its US stores. Home Depot announced $850 million in expanded benefits to reward frontline workers during these harrowing times and to provide its older employees with the ability to stay home via additional paid time off. That saw its SG&A expenses rise by 18% year-over-year which resulted in Home Depot's GAAP operating income dropping by 9% year-over-year last fiscal quarter. However, **rewarding employees and ensuring a safe working environment can yield powerful long-term benefits once the pandemic fades** (reduced employee turnover, better brand image, etc.).

Home Depot pulled its full-year guidance for fiscal 2020 due to the challenging conditions created by the ongoing coronavirus pandemic. Predicting its future financial and operational performance is no easy task, and a lot is up in the air right now as parts of the US begin easing stay-at-home orders. That being said, management had enough confidence in Home Depot's performance (aided by its strong comparable store sales growth last fiscal quarter) to maintain the firm's dividend payout at its recently increased rate (from $1.36 per share on a quarterly basis in late-2019 which rose to $1.50 per share on a quarterly basis in early-2020). **Digital sales played a major role in supporting Home Depot's revenues.** Here's a key excerpt from Home Depot's latest quarterly conference call (emphasis added):

> *"Investments we have made over the years in our stores, market leading digital assets, flexible supply chain and a world class merchandising organization have allowed us to quickly adapt to shifts in customer needs, preferences and behaviors. Our interconnected retail strategy and underlying technology infrastructure have supported record level web traffic for several weeks without disruption.*
>
> ***Sales leveraging our digital platforms increased approximately 80% in the quarter and more than 60% of the time our customers opted to pick up their orders at a store.*** *We were able to extend our in-store focus capabilities to curbside pickup in the U.S. in a matter of days offering customers an additional choice with respect to fulfillment. In the case of our Ontario stores in Canada, this curbside capability was turned on essentially overnight when it became the only option to remain open and operational with those stores operating under these circumstances for more than a month." --- Craig Menear, CEO and Chairman of Home Depot*

Firms that invested heavily in digital infrastructure and the related operational changes (whether that's improving home delivery logistics or enabling curbside or some form of in-store pickup) better positioned themselves for Black Swan events like COVID-19.

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

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

*About the Valuentum Dividend Cushion…*from previous page

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

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

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

(3) Forecasts 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

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

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 6

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).