OUR DIVIDEND GROWTH NEWSLETTER

Valuentum Securities

Stock Analysis: From Value through Momentum Investing

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www.valuentum.com
info@valuentum.com

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"The COVID-19 pandemic has all but shown it's **not** the economy, or next quarter's earnings, or last year's book-to-market ratio or last year's P/E ratio that drives market prices and returns; it's enterprise valuation. Read about the duration of value composition in *Value Trap*."

– Brian Nelson, CFA

Dividend Growth Ideas: AAPL, BKLN, CSCO, DLR, IDV, INTC, JNJ, KMI, LMT, MSFT, NEM, O, ORCL, RSG, SDY, XLV and SPY Put Option
Most-recently Added: *NEW* SPY Put Option (August 21 expiration, $295 strike) [June 11] --- AAPL, MSFT (June 12)
Most-recently Removed: *NEW* BAC, CBRL (June 11)

Why We Like Apple and Microsoft in the Newsletter Portfolio

Image Shown: *Shares of Apple Inc (blue line) and Microsoft Corporation (red line) are up significantly year-to-date as of June 29, and we see room for both shares of AAPL and MSFT to continue marching higher after recently revising our fair value estimates for both companies.*

Please note a version of this article was emailed out to members on June 22.

By Callum Turcan

On June 12, we added shares of Apple Inc (AAPL) and Microsoft Corporation (MSFT) back to the Dividend Growth Newsletter portfolio by using the cash position generated by removing Cracker Barrel Old Country Store Inc (CBRL) and Bank of America Corporation (BAC) from the Dividend Growth Newsletter portfolio on June 11.

There are a lot of reasons to like Apple and Microsoft, especially during these turbulent times. Both firms have massive net cash positions, better positioning the tech giants to ride out the storm created by the ongoing coronavirus ('COVID-19') pandemic. Both companies are free cash flow cows and their growth trajectories are underpinned by secular growth tailwinds (particularly on the cloud computing and digitally-provided services side of things), further bolstering their cash flow profiles.

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

Christopher Araos
Associate Stock and Dividend Analyst
info@valuentum.com

Callum Turcan
Associate Investment Analyst, Co-Editor of Valuentum's Newsletters
info@valuentum.com

Matthew Warren
Independent Financials Contributor & Stock and Economic Strategist
info@valuentum.com

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

As of the end of Apple's second quarter of fiscal 2020 (period ended March 28, 2020), the firm had a net cash position of $83.3 billion (defined as its cash and cash equivalents plus its short-term marketable securities plus its long-term marketable securities less its short-term term debt less its outstanding commercial paper and repurchase agreement balance less its long-term term debt). **Please note Apple has been utilizing its hefty net cash position to repurchase a material amount of its stock.** In the second quarter of fiscal 2020, Apple's outstanding diluted share count fell by more than 6% year-over-year.

From fiscal 2017 to fiscal 2019 (period ended September 28, 2019), Apple generated $58.3 billion in annual free cash flow on average which easily covered $13.5 billion in annual dividend obligations on average. The company's annual share repurchases averaged $57.5 billion during this period, and those buybacks really started to pick up pace in fiscal 2018 and fiscal 2019. As mentioned previously, a chunk of Apple's share repurchases were funded by its balance sheet.

As of this writing on June 29, shares of AAPL yield ~0.9%. We rate both Apple's Dividend Safety and Dividend Growth ratings as "EXCELLENT" and give the firm a Dividend Cushion ratio of 5.7. Please note our forward-looking Dividend Cushion ratio factors in our expectations that Apple will push through double-digit annual per share dividend increases over the coming years. **Apple's dividend coverage strength is a product of its sizable net cash balance, stellar cash flow profile, and its growing 'Services' segment, which in our view underpins Apple's long-term growth trajectory.**

While the potential launch of Apple's first 5G-capable iPhone this calendar year will get most of the market's attention in the short term, we are looking out past the firm's upcoming new iPhone cycle. Apple's Services segment includes sales generated through its digitally-oriented App Store, Apple Arcade, Apple Pay, Apple Music, Apple TV+, and iCloud services along with its more physically-oriented Apple Care services (fee-based services that includes hardware repairs among other things, and under certain programs, coverage for accidental damage to iPhones among other things).

From fiscal 2017 to fiscal 2019 (all of the upcoming figures are on a GAAP basis and are derived from the firm's income statement), Apple's Services segment saw its net sales grow by 42%. **During this period, Apple's Services segment's gross margin expanded by over 870 basis points, hitting 63.7% in fiscal 2019. For reference, Apple's 'Products' segment posted a gross margin of 32.2% in fiscal 2019** and saw its sales grow by 9% from fiscal 2017 to fiscal 2019. For now, Apple's Products segment is still far larger in terms of revenue and gross profit than its Services segment but please keep in mind that **its Services segment has grown tremendously (in terms of revenue and gross profit) over the past few fiscal years.**

Due to rising confirmed cases of COVID-19 and the related increase in hospitalizations in several parts of the US, Apple temporarily closed roughly a dozen of its stores across four states (Arizona, Florida, North Carolina, and South Carolina) starting June 20. Through the end of June, Apple continued to temporarily close some of its stores in the US in the four aforementioned states along with some of its stores in Texas (including several stores in the Houston area). By early-July, Apple intends on having approximately three dozen of its stores across those five states temporarily closed.

While this news highlights why there are growing fears of a second wave of COVID-19 infections in the US (and elsewhere), this news does not change Apple's long-term growth trajectory and is more representative of the short-term headwinds global economies will face when attempting to resume "normal" activities during the pandemic. **Please note we added a hedge to the Dividend Growth Newsletter portfolio on June 11 by adding SPDR S&P 500 ETF Trust (SPY) put options to each newsletter portfolio.**

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Our recently revised fair value estimate for shares of AAPL sits at $344 and the top end of our fair value estimate range sits at $413 per share of Apple. We remain very optimistic on the tech giant's growth runway and see the firm as well-positioned to ride out near-term headwinds, especially as its Services segment continues to grow both in absolute terms and as a percent of Apple's overall business. Apple's goal is to double its Services revenue in fiscal 2020 over fiscal 2016 levels, and the company had this to say during its latest quarterly conference call:

> *"Turning to Services. We set an all-time revenue record of $13.3 billion [in the second quarter of fiscal 2020] with strong performance across the board with all-time revenue records in the App Store, Apple Music, Video, cloud services, and our App Store search ad business. And we also set a March quarter record for AppleCare. Our new services, Apple TV Plus, Apple Arcade, Apple News Plus and Apple Card continue to add users, content and features while contributing to overall Services growth.*
>
> *As [CEO] Tim [Cook] mentioned, we're well on our way to accomplishing our goal of doubling our fiscal '16 Services revenue during 2020.*
>
> *App Store revenue grew by strong double digits, thanks to robust customer demand for both in-app purchases and subscriptions. Our third-party subscription business grew across multiple categories and increased over 30% year-over-year, reaching a new all-time high. Our first party subscription services also continued to perform very well. Apple Music and cloud services, both set all-time revenue record and AppleCare set a March quarter record. Paid subscriptions for all three of these services were up strong double-digits.*
>
> *Customer engagement in our ecosystem continues to grow strongly, and the number of both transacting and paid accounts on our digital content stores reached a new all-time high during the March quarter. In particular, the number of paid accounts increased double digits in all of our geographic segments. We now have over 515 million paid subscriptions across the services on our platform, up 125 million from a year ago. On a sequential basis, paid subscriptions grew by over 35 million. This is the highest sequential growth we have ever experienced. With this momentum, we're confident we will reach our increased target of 600 million paid subscriptions before the end of calendar 2020." --- Luca Maestri, CFO of Apple*

We appreciate that Apple's Services segment hit an all-time record in terms of revenue in the fiscal second quarter. Going forward, while the ongoing pandemic will create plenty of volatility in Apple's financial and operational performance, we appreciate the strong momentum Apple's Services segment has seen of late.

As it relates to Apple's Hardware segment and its near- to medium-term growth trajectory, some analysts forecast that the firm's first 5G-capable iPhone will potentially get announced in September 2020 for an October 2020 rollout. We will keep our members informed on all related updates as its concerns Apple and its various growth initiatives. On a final note, please keep in mind Apple intends to reach "a net cash neutral position over time" indicating material share repurchases and per share dividend increases will continue over the coming years.

Microsoft

At the end of Microsoft's third quarter of fiscal 2020 (period ended March 31, 2020), the firm carried a net cash position of $71.0 billion (defined as total cash, cash equivalents, and short-term investments less current portion of long-term debt less long-term debt). Additionally, please note Microsoft had $2.7 billion in equity investments at the end of this period, which could be considered cash-like assets. As with Apple, Microsoft has also been repurchasing its stock though at a much more moderate pace. In the third quarter of fiscal 2020, Microsoft's weighted average outstanding diluted share count fell by roughly 1% year-over-year.

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From fiscal 2017 to fiscal 2019 (period ended June 30, 2019), Microsoft generated $34.0 billion in annual free cash flows on average which fully covered $12.8 billion in average annual dividend obligations during this period. Microsoft's annual share repurchases averaged $14.0 billion during this period, which were also fully covered by its average annual free cash flows. **Microsoft's cash flow profile is stellar.**

Shares of MSFT yield ~1.0% as of this writing. As with Apple, we give Microsoft "EXCELLENT" Dividend Safety and Dividend Growth ratings which are supported by its Dividend Cushion ratio of 3.9. We model in double-digit annual per share dividend increases in Microsoft's Dividend Cushion ratio, made possible through its high-quality cash flow profile, pristine balance sheet, and **strong growth outlook that is underpinned by its growing cloud-computing and intelligent business applications businesses.**

Microsoft's 'Intelligent Cloud' segment posted 27% year-over-year revenue growth in the fiscal third quarter (up 29% on a constant-currency basis) which was made possible in part by its Azure revenues growing by 59% year-over-year during this period (up 61% on a constant-currency basis). Azure is Microsoft's cloud computing service provider. Pivoting to Microsoft's 'Productivity and Business Processes' segment, which posted 15% year-over-year revenue growth in the fiscal third quarter (up 16% on a constant-currency basis), that was made possible in part by its Dynamics 365 revenues growing by 47% year-over-year (up 49% on a constant-currency basis). For reference, Dynamics 365 provides customers a set of intelligent business applications that utilize data analytics and artificial intelligence ('AI') to help Microsoft's clients to better understand and ultimately improve their operations and financial performance.

Our recently revised fair value estimate for shares of MSFT sits at $195 per share and the top end of our fair value estimate range sits at $234 per share of Microsoft. The firm's long-term growth trajectory is impressive and secular growth tailwinds are providing an immense amount of support during these challenging times. While Microsoft's Azure operations started off to a relatively slow start compared to some of its peers, namely Amazon Inc (AMZN), **Microsoft is really starting to gain ground in the cloud computing arena.** Here is what Microsoft's management team had to say during the firm's latest quarterly conference call:

> *"Now on to Azure. Now more than ever, organizations are relying on Azure to stay up and running, driving increased usage. We have more data center regions than any other cloud provider. And this quarter, we announced new regions in Mexico as well as in Spain. We are the only cloud that extends to the edge, with consistency across operating models, development environments and infrastructure stack. Now Azure Edge Zones extends Azure to the network edge, connecting directly with the carriers' 5G network to enable immersive real-time experiences that require ultralow latency. And our acquisition of Affirmed Networks will help operators deploy and maintain 5G networks and services cost effectively and securely.*
>
> *From BlackRock (BLK) to Coca-Cola (KO) to Genesys, leading companies in every industry are choosing Azure. The NBA is using Azure and our AI capabilities to build their own direct-to-consumer experiences, and the world's largest companies like AB InBev (BUD) and Mars continue to migrate their SAP (SAP) workloads to our cloud.*
>
> *In AI, customers are applying a comprehensive portfolio of tools and services and infrastructure to address unique challenges, including those created by COVID-19. In health care, we are seeing compute data and AI come together to help speed up response from testing to therapeutics and vaccine development. Health care providers have created more than 1,400 bots using our Healthcare Bot service, helping more than 27 million people access critical health care information." --- Satya Nadella, CEO of Microsoft*

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The Dividend Growth Newsletter Portfolio

By Valuentum Analysts

Most-recently Added: ***NEW*** **SPY Put Option (August 21 expiration, $295 strike) [June 11] --- AAPL, MSFT (June 12)**
Most-recently Removed: ***NEW*** **BAC, CBRL (June 11)**

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

Company Name	Yrly Div's Paid ($) / Shr	Div Yield %	Fair Value Est.	VBI Rating	Price/FV	Last Close	% of Portfolio
S&P Dividend ETF SPDR (SDY)	2.77	3.06%	-	-	-	90.49	8.25%-13.5%
Intel (INTC)	1.32	2.23%	$51.00	3	1.16	59.22	8.25%-13.5%
Johnson & Johnson (JNJ)	4.04	2.88%	$148.00	7	0.95	140.49	8.25%-13.5%
Cisco (CSCO)	1.44	3.12%	$51.00	6	0.91	46.19	6.25%-8.5%
Digital Realty Trust (DLR)	4.48	3.09%	$102.00	4	1.42	145.08	6.25%-8.5%
Health Care Select Sector SPDR ETF (XLV)	2.19	2.18%	-	-	-	100.48	6.25%-8.5%
iShares Int'l Select Dividend (IDV)	2.23	8.86%	-	-	-	25.16	6.25%-8.5%
Invesco Senior Loan (BKLN)	0.73	3.42%	-	-	-	21.43	4.25%-6.5%
Oracle (ORCL)	0.96	1.75%	$55.00	4	1.00	54.96	4.25%-6.5%
Kinder Morgan (KMI)	1.05	6.99%	$17.00	3	0.88	15.03	3.25%-4.5%
Lockheed Martin (LMT)	9.60	2.65%	$432.00	6	0.84	362.51	3.25%-4.5%
Newmont Mining (NEM)	1.00	1.67%	$46.00	6	1.30	59.80	3.25%-4.5%
Realty Income (O)	2.80	4.67%	$52.00	3	1.15	59.99	3.25%-4.5%
Republic Services (RSG)	1.62	1.98%	$94.00	7	0.87	81.75	3.25%-4.5%
Apple (AAPL) ***NEW***	3.28	0.89%	$344.00	6	1.07	366.77	2.75%-4%
Microsoft (MSFT) ***NEW***	2.04	1.00%	$195.00	6	1.05	204.86	2.75%-4%
SPY put options (Aug expiration, $295 strike) ***NEW***							1.0%
Cash Consideration	-	-	-	-	-	-	0.0%

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

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.

Why We Like...**from page 5**

Microsoft announced on June 18 it had acquired ADRM Software which is billed as "a leading provider of large-scale industry data models." We like the deal as it allows for Microsoft to provide more targeted and nuanced intelligent business services and offerings to its existing and potential clients. Financial terms of the deal were not disclosed. Due to the ongoing pandemic, there will be volatility in Microsoft's short-term financial and operational performance going forward, but we remain optimistic on its long-term growth trajectory.

Concluding Thoughts

Companies with pristine balance sheets and high quality cash flow profiles that are also supported by secular growth tailwinds offer investors some of the best ways to navigate the current market environment. Apple and Microsoft offer a combination of capital appreciation and dividend growth upside to investors that we find very appealing. In the upcoming two graphics down below, we provide an overview of our base case scenario assumptions for Apple and Microsoft, keeping in mind there is room for significant upside should either firm exceed these expectations.

Valuation Analysis

Valuation Assumptions

In Millions of USD (except for per share items)	5-year Projections	
Revenue CAGR %	7.2%	
Avg. EBIT Margin %	26.1%	
Avg. Cash Tax Rate %	15.0%	
Earnings Before Interest CAGR %	9.5%	
Earnings Per Share CAGR %	11.2%	
Free Cash Flow to the Firm CAGR %	13.6%	
Earnings before interest = Net operating profits less adjusted taxes	Long-term Projections	
Phase II --> III FCFF CAGR %	2.3% (II)	3% (III)
Cost of Equity %	8.5%	
After-tax Cost of Debt %	4.1%	
Discount Rate (WACC) %	8.3%	
Synthetic credit spread = 1.727%	Results	
Phase I Present Value	323,921	
Phase II Present Value	636,819	
Phase III Present Value	539,346	
Total Firm Value	1,500,085	
Net Balance Sheet Impact	97,851	
Total Equity Value	1,597,936	
Diluted Shares Outstanding	4,648.9	
Fair Value per Share	$344.00	

Valuation Breakdown

In the chart below, we show the build up to our estimate of total enterprise value for Apple and the break down to the firm's total equity value, which we estimate to be about 1597.94USD billion. The present value of the enterprise free cash flows generated during each phase of our model and the net balance sheet impact is displayed. We divide total equity value by diluted shares outstanding to arrive at our $344 per share fair value estimate.

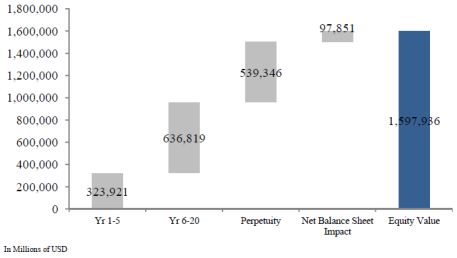

Image Shown*: An overview of the key valuation assumptions used in our enterprise cash flow models covering Apple's base case scenario.*

Valuation Analysis

Valuation Assumptions

In Millions of USD (except for per share items)	5-year Projections	
Revenue CAGR %	9.8%	
Avg. EBIT Margin %	35.8%	
Avg. Cash Tax Rate %	10.0%	
Earnings Before Interest CAGR %	14.9%	
Earnings Per Share CAGR %	12.4%	
Free Cash Flow to the Firm CAGR %	18.0%	
Earnings before interest = Net operating profits less adjusted taxes	Long-term Projections	
Phase II --> III FCFF CAGR %	4.5% (II)	3% (III)
Cost of Equity %	8.5%	
After-tax Cost of Debt %	4.9%	
Discount Rate (WACC) %	8.4%	
Synthetic credit spread = 1.18%	Results	
Phase I Present Value	245,162	
Phase II Present Value	624,523	
Phase III Present Value	582,292	
Total Firm Value	1,451,976	
Net Balance Sheet Impact	61,641	
Total Equity Value	1,513,617	
Diluted Shares Outstanding	7,753.0	
Fair Value per Share	$195.00	

Valuation Breakdown

In the chart below, we show the build up to our estimate of total enterprise value for Microsoft and the break down to the firm's total equity value, which we estimate to be about 1513.62USD billion. The present value of the enterprise free cash flows generated during each phase of our model and the net balance sheet impact is displayed. We divide total equity value by diluted shares outstanding to arrive at our $195 per share fair value estimate.

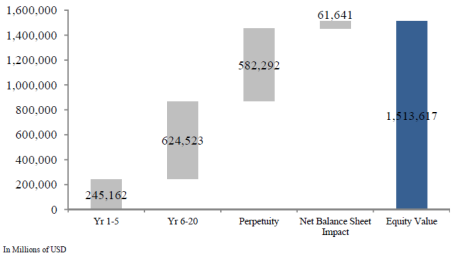

Image Shown*: An overview of the key valuation assumptions used in our enterprise cash flow models covering Microsoft's base case scenario.*

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

Turbulent Fiscal Fourth Quarter Aside, Oracle Paints a Promising Outlook for Fiscal 2021

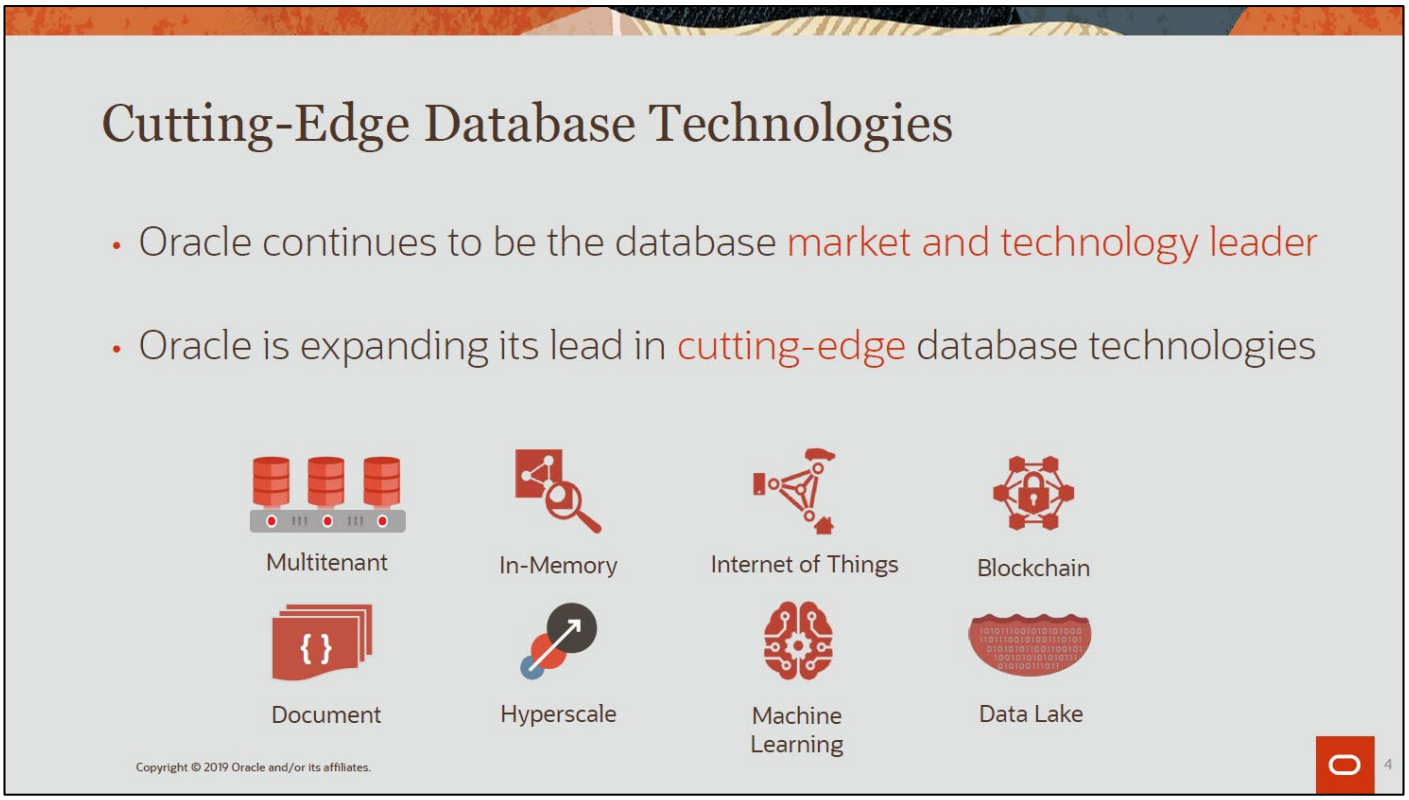

Image Source: *Oracle Corporation – Oracle Database Update September 2019 Presentation*

By Callum Turcan

On June 16, Oracle Corp (ORCL) reported fourth quarter fiscal 2020 earnings (period ended May 31, 2020) that beat consensus bottom-line estimates and missed consensus top-line estimates, though there is some noise given the turbulence created by the ongoing coronavirus ('COVID-19') pandemic. Additionally, Oracle declared a $0.24 per share quarterly dividend that is slated to get paid out in July, which was flat on a sequential basis.

Shares of ORCL yield ~1.8% as of this writing, and we continue to like the idea as a holding in the Dividend Growth Newsletter portfolio. While shares of ORCL sold off on June 17, **management painted a more optimistic outlook for the firm's fiscal 2021 performance than initial trading action suggests** which is potentially why shares of ORCL recovered all of their lost ground through the end of June (as of this writing on June 29).

Operational Update

During the fiscal fourth quarter, Oracle's GAAP revenues dropped by 6% year-over-year, though that decline was a more modest 4% in constant-currency terms. This decline was felt across the board as enterprises delayed major IT projects in the face of the pandemic. Oracle's 'cloud license and on-premise license,' 'hardware,' and 'services' segments all posted material year-over-year sales declines. However, **we appreciate that Oracle's 'cloud services and license support' segment posted 3% year-over-year sales growth on a constant-currency basis as that indicates its cloud computing offerings continued to win over new customers.**

Please see *Turbulent Fiscal…*on next page

*Turbulent Fiscal…*from previous page

Here is what Oracle's founder and current chief technology officer, Larry Ellison, had to say regarding some of the successes Oracle has had in the cloud computing realm recently during the firm's latest quarterly conference call:

> *"Look, this quarter, we announced new customer relationships with Zoom [Video Communications] (ZM) and 8x8 (EGHT). They were great wins but there were many others. And before I start listing the additional wins, I want to explain why we're winning. Oracle Cloud Infrastructure is the world's only second-generation autonomous cloud. Autonomous software technology, the Oracle Autonomous Database, Oracle Autonomous Linux, autonomy is the defining technology that separates our Gen2 cloud from Amazon's (AMZN), Microsoft's (MSFT) and [Alphabet's] Google's (GOOG) (GOOGL) generation-one cloud."*

Mr. Ellison is known for being very competitive and that is the kind of mentality needed to win in the highly competitive world of IT. Oracle's founder noted that demand for Zoom Video Communications' telecommunications services had surged 20x since January which meant "Zoom needed additional cloud capacity immediately" and Oracle's highly scalable offerings were there to meet the challenge. It did not take long for Oracle to begin supporting "hundreds of thousands of simultaneous meeting participants" which quickly grew to "millions of simultaneous meeting participants."

Oracle's ability to win over Zoom Video Communications as a major client is not only is a big win on a financial standing but **serves as a powerful advertisement to both potential and existing customers that Oracle Cloud Infrastructure is up to any challenge.** Companies selling cloud computing and hybrid cloud solutions need to be able to prove that their IT infrastructure and related offerings are capable of handling the various challenges that arise in the wake of the ongoing pandemic, as volatile and unpredictable as that may be. Here's additionally commentary from Mr. Ellison that ties into the excerpt up above (emphasis added):

> *"Another win, in addition to Zoom, 8x8, a great example of our sales process, the customer began by moving some services to OCI [Oracle Cloud Infrastructure] for performance enhancements. 8x8 was very surprised by the extent of their performance gains by moving out of AWS [Amazon Web Services], moving part of their system out of AWS and into OCI.* ***They were so surprised by the performance gains they achieved and the cost savings they achieved, that they decided to move all of their services out of AWS and into Oracle****."*

8x8 is a provider of telecommunication services for entities of all sizes, and according to its website, its customer base includes corporate giants like McDonald's (MCD), the Japanese manufacturer Shimano (SMNNY), and other large enterprises. Oracle's recent victories in the telecommunications space are promising signs, in our view.

Furthermore, Oracle provided an update on how its relatively new "Autonomous Database" offering performed. We covered the offering in our pre-earnings article, noting Oracle had experienced strong demand for the service though these are still early days. During the firm's fiscal fourth quarter conference call, Oracle's management team noted "the ACR [appears to be annualized consumption revenue] for Autonomous Database grew nearly 70% in Q4" after growing by triple-digits in the fiscal third quarter.

Part of the selling point of Oracle's Autonomous Database offering is that it helps eliminate human labor and ultimately helps eliminate human error for both mundane and crucial tasks (such as autonomous driving services) which cuts down on costs and bolsters uptime. Additionally, Oracle sees its Autonomous Database offering having high quality cybersecurity capabilities built into the system, which are crucial during these times as we are witnessing rising cyberattacks from malevolent parties.

Please see *Turbulent Fiscal…*on next page

*Turbulent Fiscal...*from previous page

Here's another excerpt from Mr. Ellison from Oracle's latest quarterly conference call (emphasis added):

> *"The Oracle Autonomous Database provisions itself, configures itself, **encrypts the data itself**, patches itself and updates itself, automatically scales itself up and down and continuously tunes itself as the database grows and user access patterns change, and it does all of those things while the system is running. There's no downtime required to patch. There's no downtime required to installing new version. There's no downtime required to double the number of processors that you're currently using or reduce the number of processors to have.*
>
> ***It all happens while the system is running. Oracle Autonomous Linux is the world's only autonomous operating system**, which provides 99.95% [ph] availability while maintaining itself with **continuous security and monitoring, continuous patching and remediation while the system is running.**"*

As of September 2019, users of autonomous databases came from all types of industries and sectors as you can see in the upcoming graphic down below. This indicates that Oracle's growth runway on this front is quite large as customers with far different IT needs are turning to Oracle to bolster their operational uptime and improve their network security, all while reducing their costs. In other words, Oracle is not catering to a niche with a limited growth runway, but all types of customers.

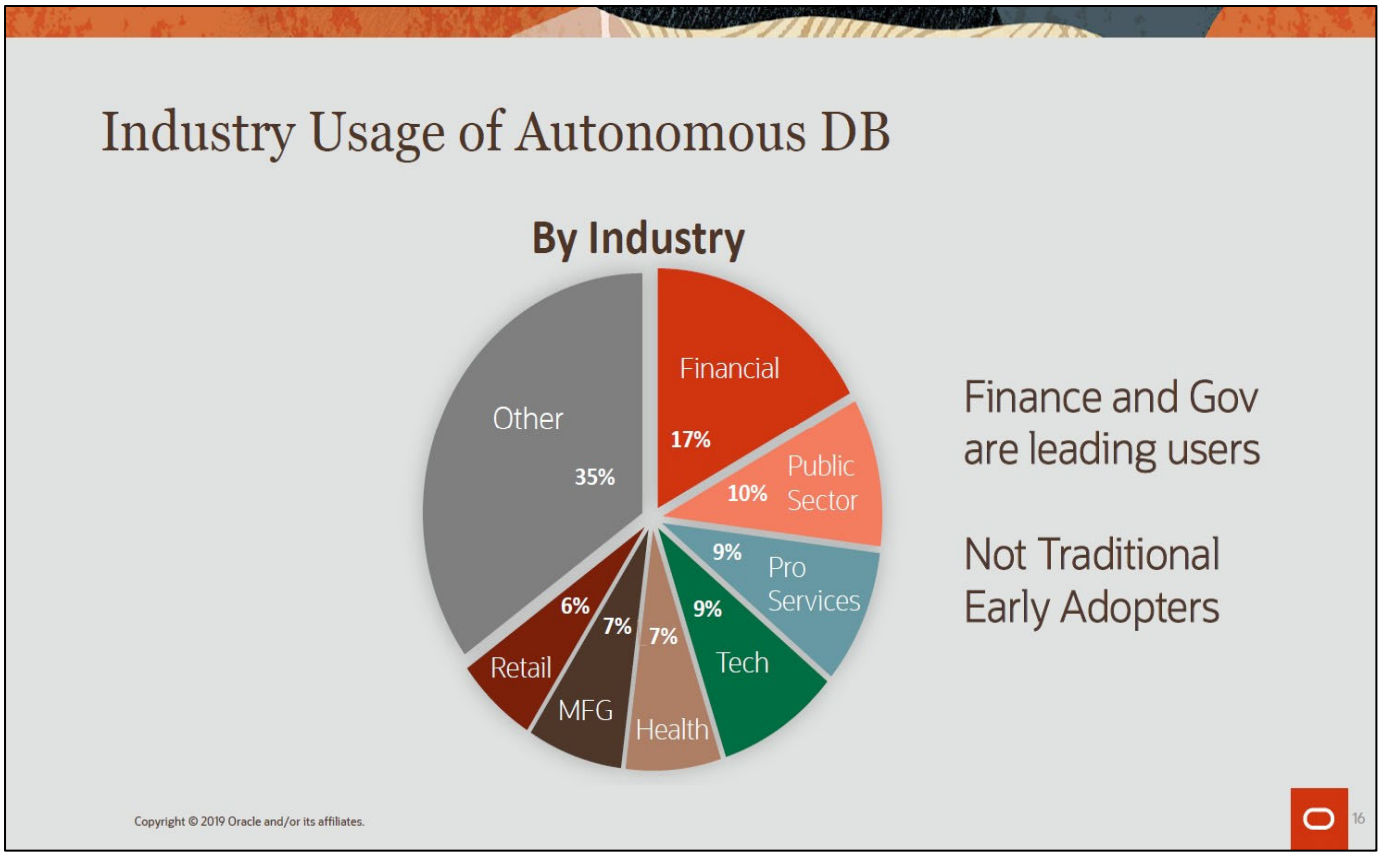

***Image Shown:** Oracle is seeing demand for its Autonomous Database offering from customers in numerous industries. **Image Source:** Oracle Corporation - Oracle Database Update September 2019 Presentation*

Please see *Cisco Systems...*on page 11

Dividend Increases/Decreases for the Week Ending June 26

By Christopher Araos

Firms Raising Their Dividends This Week

Andlauer Healthcare Group Inc. (ANDHF): now $0.05 per share quarterly dividend.

ARMOUR Residential REIT (ARR): now $0.10 per share monthly dividend, was $0.09.

AT&T 4.750% PFD SER C (T.PC): now $0.2969 per share quarterly dividend, was $0.2408.

Delmar Bancorp (DBCP): now $0.025 per share dividend.

Deswell Industries (DSWL): now $0.09 per share semi-annual dividend, was $0.08.

Dynex Capital, Inc. 6.9% Series C PFD (DX.PC): now $0.4313 per share dividend, was $0.259.

First Bancorp (FNLC): now $0.31 per share quarterly dividend, was $0.30.

Gerresheimer AG (GRRMF): now EUR 1.20 per share annual dividend, was EUR 1.15.

Hingham Institution for Savings (HIFS): now $0.43 per share quarterly dividend, was $0.42.

John Wiley & Sons (JW.A): now $0.3425 per share quarterly dividend, was $0.3400.

Kroger (KR): now $0.18 per share quarterly dividend, was $0.16.

Matson (MATX): now $0.23 per share quarterly dividend, was $0.22.

New Residential Investment (NRZ): now $0.10 per share quarterly dividend, was $0.05.

Worthington (WOR): now $0.25 per share quarterly dividend, was $0.24.

Firms Lowering Their Dividends This Week

Abitibi Royalties (ATBYF): now CAD 0.0125 per share monthly dividend, was CAD 0.0300.

Ark Restaurants Corp. (ARKR): suspends its quarterly dividend, was $0.25.

Bancolombia S.A. (CIB): now $0.318 per share quarterly dividend, was $0.664.

Guangshen Railway Company Limited (GSH): now $0.4234 per share annual dividend, was $0.4358.

Invesco Mortgage Capital Inc. (IVR): now $0.02 per share quarterly dividend, was $0.50.

New Residential Investment 6.375 CUM PFD C (NRZ.PC): now $0.3984 per share quarterly dividend, was $0.4028.

Western Asset Mortgage Capital Corporation (WMC): suspends its Q2 dividend, was $0.31.

Turbulent Fiscal...from page 9

In the upcoming graphic down below, Oracle highlights the greater functionally of its database offerings relative to its major competitors, like Amazon. **Management sees Oracle's Autonomous Database as playing a key role in helping Oracle win market share in the incredibly competitive space of cloud computing.**

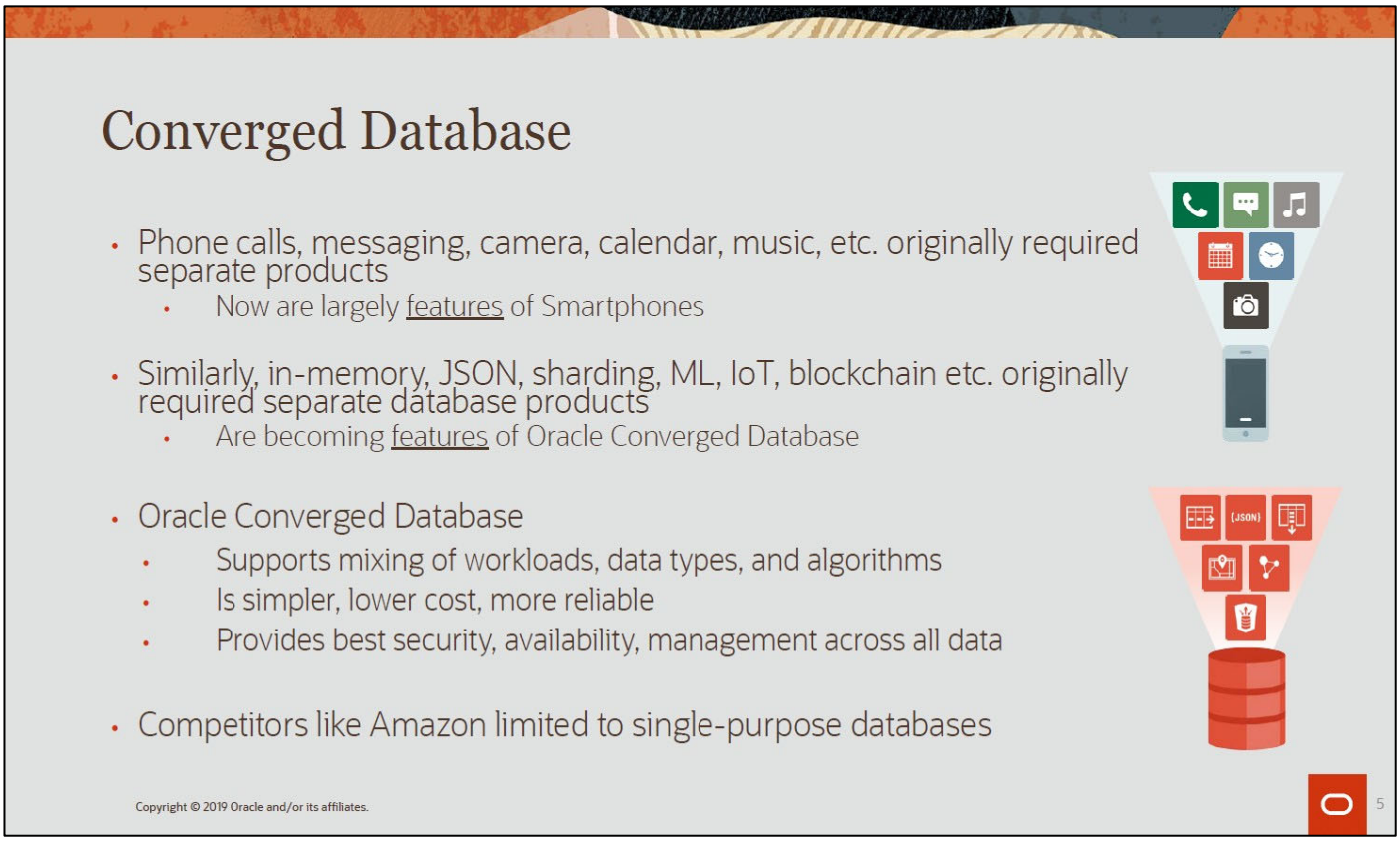

***Image Shown**: Oracle sees its Autonomous Database offering as providing the firm with way to grow its market share in the hypercompetitive world of cloud computing. **Image Source**: Oracle Corporation - Oracle Database Update September 2019 Presentation*

Safra Catz, Oracle's CEO, noted that "industry analysts are universally recognizing our technology innovation and leadership in the cloud" which is expected to play a leading role in allowing for Oracle to "accelerate" its revenue growth going forward. Mrs. Catz noted that "it's the continuation of leading technologies favorable mix shifts in our existing businesses and higher growth rates from our growing businesses that give me the confidence that our revenue growth will accelerate this [fiscal] year."

Here, we would like to stress that pandemic-related headwinds aside, Oracle is signaling that the firm expects revenue growth will return this fiscal year (fiscal 2021). Though the firm did not provide guidance for fiscal 2021 given the ongoing pandemic and the inability to forecast with any reasonable accuracy Oracle's future performance over an entire fiscal year, we appreciate that Oracle's management team is communicating to investors the firm expects to return to its growth trajectory seen pre-pandemic.

In fiscal 2020, keeping headwinds in mind as it relates to its fiscal fourth quarter performance, Oracle posted a 1% year-over-year decline in its GAAP revenues (and flat performance on a constant-currency basis). For reference, Oracle's GAAP revenues grew by roughly 5% from fiscal 2017 to fiscal 2019 after stagnating for several fiscal years.

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Financial Update

Oracle ended May 2020 with $37.2 billion in cash and cash equivalents on hand along with $5.8 billion in marketable securities. Stacked up against $2.4 billion in short-term debt and $69.2 billion in long-term debt, **Oracle's liquidity position is incredibly strong**, and we view its net debt load as manageable given the high quality nature of its cash flow profile.

In fiscal 2020, Oracle generated $7.4 billion in free cash flow and spent $3.0 billion covering its dividend obligations. The firm spent $19.4 billion repurchasing its common stock, a program that was largely funded by its balance sheet. Oracle's management team seems share buybacks as one of the firm's levers to reward investors via potential capital appreciation upside. **Given that shares of ORCL are trading at a decent discount to our fair value estimate as of this writing, we view manageable share repurchases as a good use of Oracle's capital.** Mrs. Catz had this to say during the company's latest quarterly conference call (emphasis added):

> *"As we've said before, we're committed to returning value to our shareholder through technical innovation, strategic acquisitions, stock repurchases, prudent use of debt and a dividend. This quarter [fourth quarter of fiscal 2020], we repurchased nearly 107 million shares for a total of $5.2 billion. Over the last 12 months, we've repurchased 361 million shares for a total of $19.2 billion.* ***Over the last 10 years, we have reduced the shares outstanding by nearly 40%.*** *In addition, we have paid out dividends of $3.1 billion over the last 12 months, and the Board of Directors again declared a quarterly dividend of $0.24 per share."*

From fiscal 2019 to fiscal 2020, Oracle's outstanding weighted-average diluted share count fell by approximately 12%. That helped grow the firm's GAAP diluted EPS by 4% year-over-year in fiscal 2020, keeping in mind the pressures Oracle's bottom-line faced during the last quarter of fiscal 2020. Oracle cut its 'sales and marketing' spend by $0.4 billion or 5% year-over-year last fiscal year while marginally growing its R&D spend year-over-year, largely to maintain its momentum in the cloud computing space and to support the rollout and expansion of its Autonomous Database offering. Additionally, Oracle's G&A spend fell by $0.1 billion or 7% year-over-year in fiscal 2020. **We appreciate Oracle's cost control measures in the face of the pandemic.**

Concluding Thoughts

Shares of ORCL moved moderately lower on June 17 before recovering all of their lost ground through the end of June as of this writing. We continue to like the name as a holding in the Dividend Growth Newsletter portfolio as we viewed the initial reaction from investors as too focused on Oracle's historical performance and not focused enough on the firm's improving outlook. **Oracle possess the financial strength to emerge on the other side of this pandemic with its current dividend payout intact, and management has communicated to investors that Oracle should be in a position to return to a trajectory of positive growth this fiscal year**, keeping the ongoing pandemic in mind.

Our fair value estimate for shares of ORCL sits at $55 with room for upside as the top end of our fair value estimate range sits at $66 per share. Our Dividend Cushion ratio of 2.7 provides for a "GOOD" Dividend Safety rating and an "EXCELLENT" Dividend Growth rating as we are very optimistic on the growth trajectory of Oracle's per share dividend payout over the coming fiscal years. Given Oracle's strong liquidity position and high quality cash flow profile, the firm may push through a per share dividend increase this calendar year once the global health authorities get a better handle on COVID-19.

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

Good News for Intel

Image Source: *Intel Corporation – January 2020 Presentation*

By Callum Turcan

In this article, we cover recent events in the semiconductor industry and how a bill that was just introduced in the US Congress could positively impact Intel Corporation (INTC). We include shares of INTC as a holding in both our Best Ideas Newsletter and Dividend Growth Newsletter portfolios and continue to like the company for numerous reasons that we will cover in this piece. Shares of INTC yield ~2.2% as of this writing.

Introducing the CHIPS for America Act

On June 10, a bipartisan group of US lawmakers introduced a bill that would support the existing domestic semiconductor manufacturing industry and encourage a new production facility to be built in the US. Currently, the bill is known as the Creating Helpful Incentives to Produce Semiconductors ('CHIPS') for America Act. **As of this writing in late-June, the bill has yet to become law.**

The approximately $22.8 billion bill includes ~$12.0 billion in additional R&D funding, ~$10.0 billion in federal funds for the purpose of matching state funds that are used to incentivize the construction of domestic production facilities and a 40% refundable tax credit for semiconductor manufacturing equipment (which would be reduced in stages and phased out in 2027 according to the *WSJ*). Also, the bill would create a ~$0.75 billion fund to help establish a consortium of foreign governments that would work together to promote transparency in the industry and attempt to align those nation's policies as it relates to working with non-market oriented economies (i.e. statist economies run by a central authority, such as China).

The *WSJ* reports that some of the R&D funds would go towards an initiative by the Department of Defense to ensure the Pentagon has access to cutting-edge "chips" ($2.0 billion in funds within the bill are allocated to this initiative), another $5.0 billion would go towards general federal research, and another $5.0 billion would go towards supporting manufacturing activities that occur after the chips are made.

Many of the proposals in this bill have long been sought after by the Semiconductor Industry Association ('SIA') which was founded in 1977 and represents the US semiconductor industry. Senator Cornyn (R, Texas) and Senator Warner (D, Virginia) introduced the bill in the US Senate on June 10 while Representative McCaul (R, Texas) and Representative Matsui (D, California) introduced a similar version of the bill in the US House of Representatives a day later.

This news comes on the heels of Taiwan Semiconductor Manufacturing Company Limited (TSM) announcing plans to build a new cutting edge semiconductor fabrication plant in Arizona back in May 2020. That plant will cost roughly $12.0 billion to build, and please note this fabrication plant is being built to produce semiconductors for third-parties.

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As it relates to Intel, the company's CEO Bob Swan sent a letter to the Pentagon back in late-April 2020 (according to the *WSJ*) expressing interest in building a semiconductor fabrication plant (possibly a fabrication plant that would be geared towards meeting third-party production needs) in the US in partnership with the Department of Defense. This bill could play a role in such a partnership, and/or additional legislation could be crafted in the future to support such a development.

Intel already has very meaningful domestic production capabilities with semiconductor fabrication hubs in Hillsboro, Oregon (expansion activities are starting to get underway as Intel has noted it plans to build another semiconductor plant at its hub here), Chandler, Arizona (Intel relaunched a major ~$7.0 billion expansion program here back in 2017 that had previously gotten cancelled), and Rio Rancho, New Mexico (whether the firm has been growing its workforce in the recent past). Intel also has a significant presence in Hudson, Massachusetts, where it has an R&D hub. In fiscal 2019 (period ended December 28, 2019), Intel spent $13.4 billion on R&D expenses worldwide (on a GAAP basis).

Given Intel has been steadily bulking up its domestic production capabilities and plans to continue doing so, it appears the company is well-positioned to benefit from the CHIPS for American Act if passed. Other senators have signaled their support for the bill including Senator Risch (R, Idaho), Senator Rubio (R, Florida), and Senator Sinema (D, Arizona) by co-sponsoring the bill.

Looking at Intel

We covered the ongoing US-China technological arms race in the past, and please note the CHIPS for America Act is entirely about shoring up technology supply chains in the US in the face of rising tensions between the US and China. For Intel, the firm should benefit from the federal funds and tax credits that the bill would provide if enacted into law. Furthermore, should Intel team up with the Pentagon to build a semiconductor foundry in the US (to meet third-party needs as well as Intel's), that could provide for additional upside.

This news is entirely incremental to our discounted free cash flow model valuing Intel. We include Intel as a top-weighted holding in our Dividend Growth Newsletter portfolio because we like its stellar cash flow profile and strong liquidity levels. As of this writing in late-June, shares of INTC yield ~2.3%. Our Dividend Cushion ratio sits at 2.1, providing for a "GOOD" Dividend Safety rating. Please note these are forward-looking and our enterprise cash flow models factor in our expectation that Intel will push through high-single-digit per share annual payout growth over the coming years. We give Intel an "EXCELLENT" Dividend Growth rating.

Intel is also included as a moderate-weighted holding in our Best Ideas Newsletter portfolio because we like its capital appreciation potential. The company's ability to capitalize on secular growth tailwinds and its resilience in the face of the ongoing coronavirus ('COVID-19') pandemic on both a financial and operational basis highlights why we like the firm.

Covering Intel's Financials

At the end of its first quarter of fiscal 2020 (period ended March 28, 2020), Intel carried $20.8 billion in cash and cash equivalents, short-term investments, and trading assets on the books along with $3.9 billion in equity investments (that consisted primarily of marketable and non-marketable equity securities) and $2.9 billion in other long-term assets (that consisted primarily of corporate debt, financial institution debt, and government debt).

That was stacked up against $3.5 billion in short-term debt and $36.5 billion in long-term debt. **Though Intel carries a net debt load we view that as very manageable given its extensive cash and cash-like assets on hand.** Intel raised a significant amount of money in debt markets at attractive rates back in February 2020 by issuing long-term senior notes with staggered maturities, highlighting its ability to tap capital markets as needed.

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The company generated $2.9 billion in free cash flow in the fiscal first quarter which fully covered $1.5 billion in dividend payments, though $4.2 billion in share repurchases were funded in part by the balance sheet. Intel has since suspended its share buyback program (announced back in March 2020) in the wake of the pandemic. Additionally, Intel noted it would remain committed to its current dividend policy. Here's what Intel had to say in its March 24 8-K filing (emphasis added):

> *On March 24, 2020, Intel Corporation ("Intel") announced that it is suspending stock repurchases in light of the COVID-19 pandemic. To date, Intel has kept its factories operational while safeguarding the health and safety of employees and continues to have a strong balance sheet. Intel's management believes the suspension, while conservative, is prudent given uncertainty regarding the length and severity of the pandemic.*
>
> ***The suspension of stock repurchases will not impact dividend payments to stockholders** and the company has the ability to reinstate repurchases as circumstances warrant. In October 2019, Intel announced its intention to repurchase $20 billion in shares over the next 15 to 18 months. Intel has repurchased a total of approximately $7.6 billion in shares in the fourth quarter of 2019 and first quarter of 2020, prior to the suspension.*

Additionally, during Intel's first quarter of fiscal 2020 conference call, management reiterated the company's commitment to its dividend. Intel's management also stated that the company was still committed to completing the $20.0 billion share repurchase program once "dynamics stabilize[d]." Management wants to preserve Intel's financial position until the pandemic subsides which is a prudent decision, in our view. When Intel reported its first quarter of fiscal 2020 earnings report, the firm had reduced its weighted-average outstanding diluted share count by almost 6% year-over-year via aggressive share repurchases.

Monitoring Intel's Operational Performance

Intel's operations appeared to have continued functioning properly and near full capacity in the face of COVID-19. Some expansion activities were temporarily delayed, but not in a significant way according to Intel. Management had this to say during Intel's latest quarterly conference call (emphasis added):

> *"Our world-class safety standards have **allowed our factories to continue to operate safely on a relatively normal basis with greater than 90% on-time delivery**. We only allow employees in our factories who are essential to the factories' operations. By design, our clean rooms and factories are among the cleanest places in the world.*
>
> ***While most of our construction projects have remained operational, we have had to temporarily pause a few projects due to local government restrictions at a small number of our sites. We will restart those projects in due course**, and we expect these interruptions to have minimal impact on our ramp and no impact on our process technology transition timeline." – Bob Swan, CEO of Intel*

Since reporting its fiscal first quarter earnings, Intel has not released (as of June 29) another press release or published an 8-K filing indicating things have changed in a significant manner.

The latest current report the company published was on June 17 and that 8-K filing announced that Dion Weisler had been elected to Intel's board of directors. Mr. Weisler served as HP Inc's (HPQ) President and CEO from 2015 to 2019 and was a member of HP's board of directors from 2015 to May 2020. Additionally, Mr. Weisler currently serves as a director on the board of the analytical laboratory equipment manufacturer Thermo Fisher Scientific Inc (TMO) and as a director on the board of the global mining giant BHP Group (BHP) (BBL). Mr. Weisler will be able to bring plenty of experience to the table at Intel.

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During Intel's fiscal 2020 annual stockholders meeting which was held on May 14, the company published a Q&A sheet answering questions management was not able to answer during the meeting providing an update on Intel's affairs. Here are some key excerpts from the Q&A sheet (emphasis added):

> *First, we will address enterprise risk management. Throughout this evolving situation, Intel has managed to continue operating its manufacturing, assembly, test and supply chain operations in Oregon, New Mexico, California and Arizona as well as in Israel, Ireland, China, Malaysia, Vietnam and other Intel and partner locations around the world.* ***In fact, the company was able to maintain a greater than 90% on-time delivery rate.*** *This required close coordination and cooperation with suppliers as well as with local and national governments to help ensure worker safety while allowing critical operations to continue…*
>
> *The second point is financial implications. And in light of the uncertainty, we took some very specific actions to dramatically strengthen our liquidity position that we felt were prudent. We raised $10.3 billion in debt to further underpin our already strong balance sheet [this was primarily done in February 2020 as mentioned previously], and we suspended share buybacks. We think this level of conservatism is appropriate at this phase, and we intend to reinstate our buyback program as circumstances warrant. Our focus now is on investing in our products and process technology and ensuring that we have the capacity to meet our customers' needs.*

It appears Intel's operations have continued to function near full capacity during the first phase of the pandemic, allowing the firm to meet the needs of its customers. A recent *WSJ* piece highlighted how Intel used augmented reality ('AR') to conduct crucial maintenance and repairs during the pandemic. The article highlighted how in March 2020, Intel needed to perform work at its manufacturing hub in Chandler but the engineer who would normally do that work was stuck in Germany due to COVID-19 containment efforts. AR goggles allowed the engineer to relay the necessary information to Intel's employees in Arizona to get the work done, allowing manufacturing activities to resume. **We appreciate Intel's resourcefulness.**

Looking Ahead

When Intel reports its fiscal second quarter earnings, we will get a better look at its financial and operational performance. Though the earnings report might be brutal, we are more interested in how Intel expects its financial performance will hold up going forward. As the US economy and global economy at-large have started to reopen, the firm's near-term outlook appears to have improved significantly in recent weeks.

Within its fiscal first quarter earnings report, Intel provided guidance for the fiscal second quarter, though please keep in mind predicting financial performance during a pandemic is no easy task. Intel forecasted on a GAAP basis it would generate $18.5 billion in revenues and carry an operating margin of 28% during the period. On a non-GAAP basis, Intel forecasted it would generate $18.5+ billion in revenues and carry an operating margin of 30% in the quarter. For reference, Intel generated $19.8 billion in GAAP revenue and carried a GAAP operating margin of 35.5% in the first quarter of fiscal 2020. For comparison purposes, in the second quarter of fiscal 2019 (period ended June 29, 2019), Intel generated $16.5 billion in GAAP revenues and carried a GAAP operating margin of 28%.

It appears Intel (on a GAAP basis) is guiding for nice year-over-year growth in its revenues this fiscal quarter, and for its operating margin to stay broadly flat. Strength at its 'Data Center' segment will be key, as that segment saw its revenues rise by 43% last fiscal quarter on a year-over-year basis. In the first quarter of fiscal 2020, Intel's Data Center segment generated $7.0 billion in sales and segment-level operating income of $3.5 billion.

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During Intel's latest quarterly conference call, management noted that demand from cloud-related customers was quite strong in the fiscal first quarter and was expected to remain strong in the fiscal second quarter. While demand from government-related entities and certain enterprises was expected to soften (in the near term), strength from the cloud computing space could lend material support to Intel's near-term financials going forward (as has been the case in the recent past).

Concluding Thoughts

Things are looking up for Intel, relating speaking, and we continue to like shares of INTC as a holding in our Dividend Growth Newsletter portfolio. When Intel reports its fiscal second quarter results and provides investors with an update on how its operations and financials have performed during the worst of the first phase of the COVID-19 pandemic (particularly for Europe and North America), we will have much more to say on the name.

Image Shown: *Shares of Intel have performed very well over the past year as of this writing in late-June.*

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

Covering One of Newmont's Lowest Cost Gold Mining Operations

Image Shown: *Newmont Corporation has been a big winner in the Dividend Growth Newsletter portfolio since joining the portfolio on January 13, 2020.*

By Callum Turcan

We covered Newmont's first quarter 2020 earnings back in early-May and continue to like the gold miner in the Dividend Growth Newsletter portfolio. Newmont's Dividend Cushion ratio stands at 2.2 which provides for a "GOOD" Dividend Safety rating and we like the firm's payout growth trajectory which earns the firm a "GOOD" Dividend Growth rating as well. Please note our Dividend Cushion ratio and Dividend Safety rating incorporates our expectations that Newmont will push through modest dividend increases over the coming years.

Newmont Corporation (NEM) is our favorite gold miner and we added shares of NEM to our Dividend Growth Newsletter portfolio back on January 13, 2020. Shares of NEM are trading in the upper bound of our fair value estimate range as of this writing, which is partially because gold futures have been very strong year-to-date and partially because the company has been performing very well since acquiring Goldcorp last year (for a total consideration of ~$9.5 billion). **That deal is now expected to generate $500 million in annualized synergies by 2021, up from $365 million initially** as we have covered previously. Shares of NEM yield ~1.7% on a forward-looking basis as of this writing in late-June. As an aside, Newmont paid out a substantial special dividend of $0.88 per share in 2019.

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Tanami Overview

The Tanami gold mining operation located in Australia's Northern Territory is 100% owned by Newmont. Gold was first discovered in the area around 1900. Last year, Newmont's Tanami operation produced 500,000 ounces of gold and at the end of 2019, the gold miner reported the asset had 5.7 million ounces of gold reserves (it is not made readily clear if these are troy ounces or ounces in Newmont's press releases and SEC filings). Underground mining operations are located at Dead Bullock Soak mining camp and processing facilities are located 25 miles away from mining operations. Newmont uses road trains (long combination trucking vehicles) to ship ore from the mine to the processing facilities.

In 2019, Newmont added 1.5 million ounces of gold reserves to its asset base from the Tanami mining operation. Newmont is primarily targeting Callie and Auron ore bodies at the underground Dead Bullock Soak mining camp, though the Federation and Liberator ore bodies could provide additional upside. Furthermore, Newmont is interested in exploring the Oberon ore body for potential gold resources and reserves.

From 2020 to 2024, Newmont expects its Tanami gold mining operation will produce 500,000 – 600,000 ounces of gold per year. **Even better, Newmont sees its Tanami mining operation as being one of its lowest cost assets** (lowest all-in sustaining costs ['AISC'] per ounce of gold produced across Newmont's core properties), as you can see in the upcoming graphic down below.

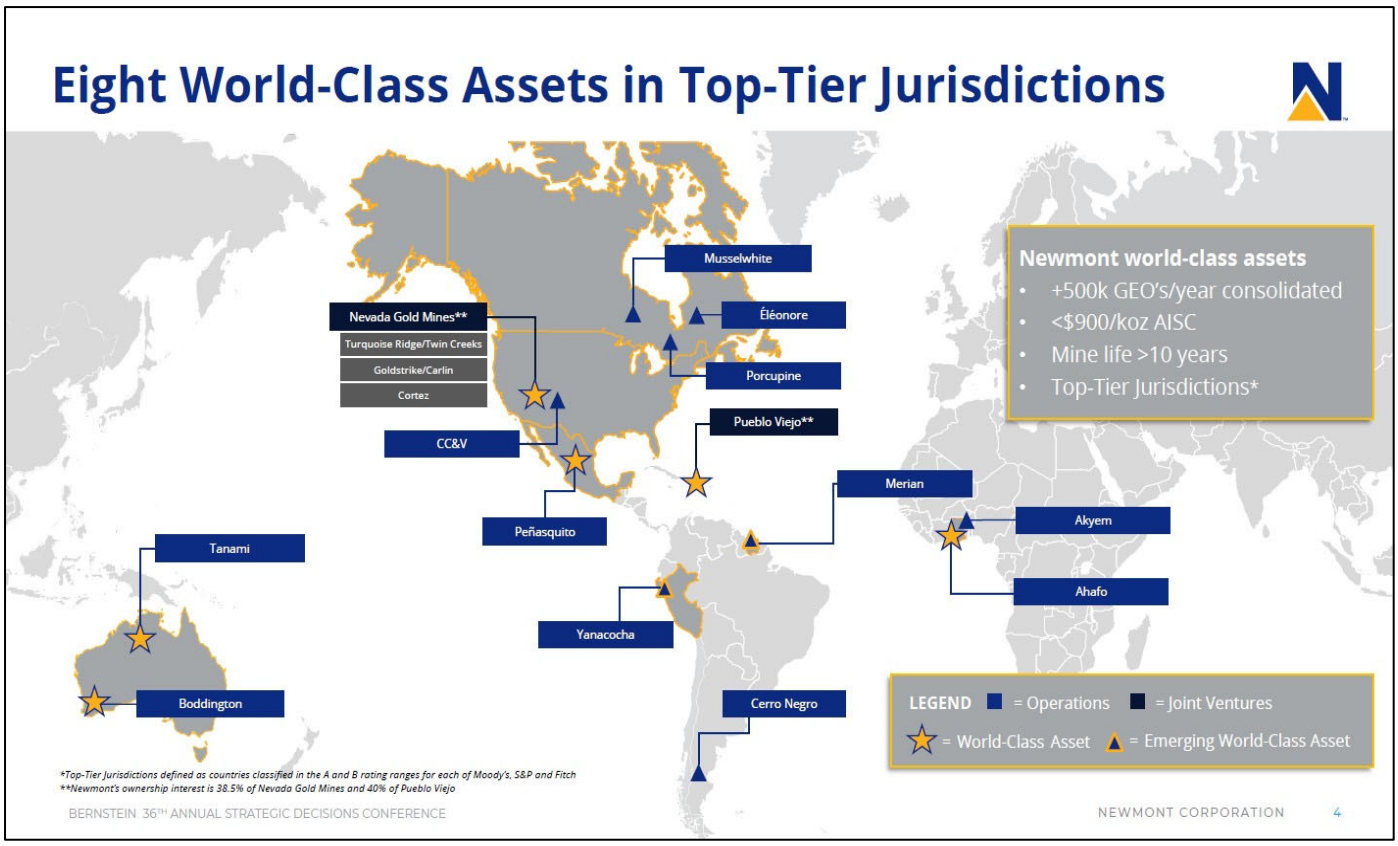

Image Shown: *Newmont's Tanami gold mining operations in Australia represent one of the company's most lucrative operations.* ***Image Source:*** *Newmont – May 2020 IR Presentation*

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Expansion Underway

Management approved fully funding for the 'Tanami Expansion 2' project back in October 2019, which seeks to extend the life of the mining operation out to 2040. The project will add an almost one-mile long hoisting shaft and supporting infrastructure to the mining operation which are expected to increase the asset's gold production by 150,000 – 200,000 ounces of gold per year for the first five years starting in 2023 (when commercial production from the development are expected to begin).

Newmont forecasts the development will cost between $700 million - $800 million to complete, and the endeavor is forecasted to cut operating costs on a per unit basis by roughly 10%. In the upcoming graphic down below, management provides an overview of how the project will impact Newmont's Tanami gold production profile.

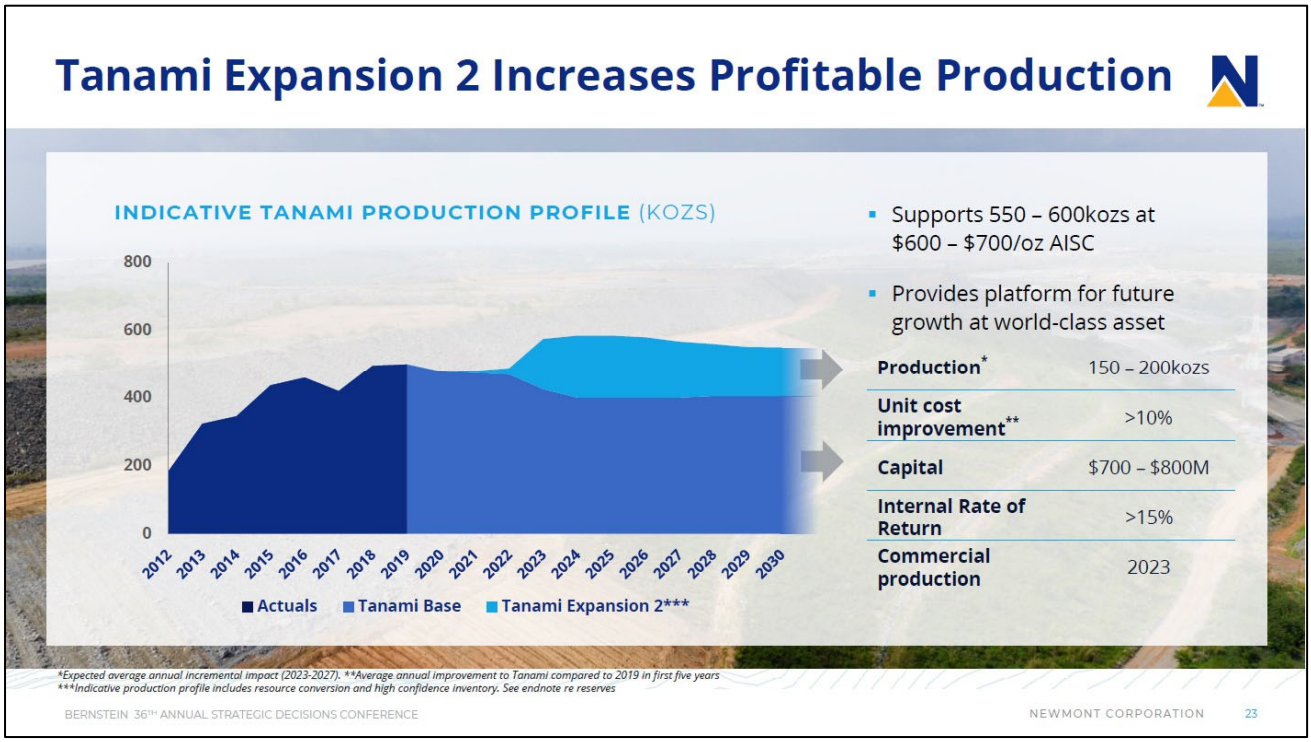

Image Shown: *Newmont needs to bring the Tanami Expansion 2 project online to offset expected declines in the asset's gold production base.* ***Image Source:*** *Newmont – May 2020 IR Presentation*

Past Projects

Back in March 2019, Newmont completed the 'Tanami Power' project on schedule. That endeavor involved installing two power stations, a 41-mile long interconnected power line, and a 275-mile long natural gas pipeline that connects the mining operation to the Amadeus Gas Pipeline owned by APA Group (APAJF). Third-parties built and are managing most of those new assets.

For Newmont, the "completed project is expected to provide the Tanami gold mine a safe and reliable energy source while lowering power costs and carbon emission by 20 percent. The project is expected to generate net cash savings of $34 per ounce from 2019 to 2023, delivering an Internal Rate of Return of greater than 50 percent" according to the press release announcing the successful completion of the development. **We appreciate the various cost saving and mine life extension programs Newmont has embarked on and completed at the Tanami gold mining operation in recent years.**

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Concluding Thoughts

We covered Newmont's first quarter 2020 earnings back in early-May and continue to like the gold miner in the Dividend Growth Newsletter portfolio. Newmont's Dividend Cushion ratio stands at 2.2 which provides for a "GOOD" Dividend Safety rating and we like the firm's payout growth trajectory which earns the firm a "GOOD" Dividend Growth rating as well. Please note our Dividend Cushion ratio and Dividend Safety rating incorporates our expectations that Newmont will push through modest dividend increases over the coming years.

In the event gold prices remain elevated for a sustained period of time over the coming quarters and potentially years, Newmont's ability to push through meaningful per share dividend increases while paring down its debt load would be enhanced significantly. Newmont exited the first quarter of 2020 with $3.7 billion in cash and cash equivalents on hand versus $0.1 billion in short-term debt and $6.0 billion in long-term debt. Please keep in mind that as of this writing in late-June, COMEX gold futures for August 2020 deliveries are trading just under $1,800 per troy ounce. During Newmont's latest quarterly conference call the firm noted (emphasis added):

> *"**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*

While we include shares of Newmont in our Dividend Growth Newsletter portfolio namely for its dividend growth potential and due to its high quality dividend coverage on a forward-looking basis, the gold miner also offers meaningful capital appreciation upside in the current economic environment. Gold prices are supported by very dovish monetary policies enacted across the developed world and the dovish monetary policies seen in most developing and emerging markets as well. Strong top-line performance combined with material improvements in Newmont's cost structure and a disciplined approach to capital investments paints a promising outlook for the gold miner's future free cash flows. The upcoming graphic down below highlights Newmont's revenue growth trajectory over the coming years.

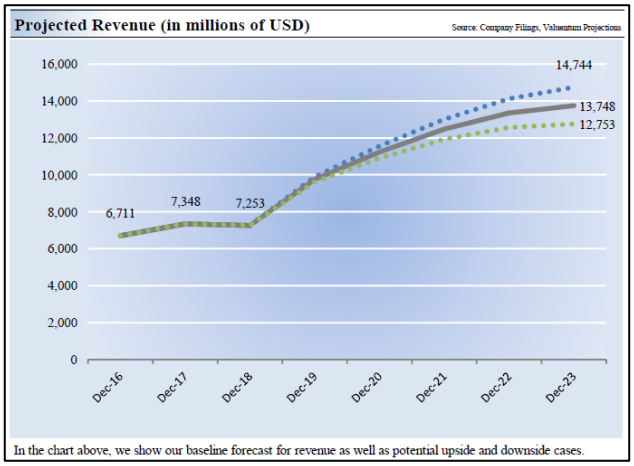

Image Shown: *Newmont's near- and medium-term revenue growth outlook is supported by strong gold prices of late.*

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

Nike Doubles Down on Its Digital Strategy

By Callum Turcan

Retailers of consumer discretionary products that invested heavily in their digital presence and direct-to-consumer sales/distribution systems before the coronavirus ('COVID-19') pandemic put themselves in a much better position to ride out the storm. Nike Inc (NKE) reported that its digital sales in the fourth quarter of fiscal 2020 (period ended May 31, 2020) rose by 75% year-over-year (up 79% on a constant-currency basis) and represented roughly 30% of its total revenues last fiscal quarter. **The ability to offset headwinds facing Nike's in-store revenue generation abilities (at both its company-owned stores and at third-party retailers that sell Nike products) through its digital sales channels is a source of strength for Nike's dividend coverage on a forward-looking basis.** Though Nike's digital and direct-to-consumer strategies are playing out well, relatively speaking, **the retailer's GAAP revenues still fell by 38% year-over-year last fiscal quarter** as pandemic containment efforts took their toll.

As of this writing in late-June, shares of NKE yield ~1.0% and we give the firm a Dividend Cushion ratio of 3.4 earning Nike an "EXCELLENT" Dividend Safety rating. Please note both of these metrics factor in our expectation that Nike will grow its per share dividend payout by double-digits annually over the coming fiscal years, which in turn earns Nike an "EXCELLENT" Dividend Growth rating as well.

Management cited rising online engagement at the firm's Nike Training Club app and other past digital investments as signs that Nike's strategy is working. Here's a slightly edited excerpt of what the firm's management had to say during Nike's latest quarterly conference call (emphasis added):

> *"This quarter was certainly like no other in Nike's history… **Digital quickly became the primary channel that we could engage with and serve consumer demand**, and Nike was well positioned to respond. We accelerated growth of our digital business to 79% on a currency neutral basis and drove nearly triple digit acceleration in member digital demand. All told Nike digital represented nearly 30% of our total business in the fourth quarter, and reached $5.5 billion for the full year…*
>
> ***In [fiscal] Q4, we already pivoted our new adaptive distribution facility in North America to fully support digital demand. And we plan to open a new regional service center on the West Coast before the holiday season to forward deployed digital inventory**, leveraging advanced analytics and demand sensing capabilities from our acquisition of Celect…*
>
> *…**a more digitally connected Nike is a more valuable Nike**. The underlying value proposition of Nike's Consumer Direct Offense is that the consumer adoption of digital across all aspects of life now provides Nike with an opportunity to create deeper, more direct to consumer relationships at scale… As we've said before, **the transformation to a more digital and direct business is financially accretive to Nike**." --- Matthew Friend, CFO of Nike*

In August 2019, Nike acquired the predictive analytics and demand modelling firm Celect, though financial terms were not disclosed. As Nike gets a better understanding of its customer base through its direct-to-consumer businesses (Nike Store, Nike App), the firm will be able to adapt faster to changing consumer trends and that in turn will allow for Nike to further optimize its supply chain. **Better inventory management practices should put upward pressure on Nike's gross and operating margins over time.** That is on top of the potential upside Nike could generate by creating a closer connection (e.g. the consumer using Nike's training or running apps on a consistent basis) between its operations and its customer base in terms of sales growth.

We see Nike as well-positioned to ride out the storm with its current dividend payout intact, though its share price of late indicates Nike is already fully valued as of this writing in late-June.

***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

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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 7

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

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

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

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

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

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

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

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

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

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