Valuentum Securities, Inc. 12/1/2020 Edition 3, Volume 12

HIGH YIELD DIVIDEND NEWSLETTER

CubeStart Is One of Our Favorite REITs

Latest Changes to High Yield Dividend Newsletter
Weighting Changes: 2.5% Reduction in PM and T (Reducing Weighting to 5.0% each) – July 21
Removed: BP and SJB – July 21 Added: 5.0% to Both CCI and CONE (5.0% each) – July 21

INSIDE THIS ISSUE

1 CubeStart Is One of Our Favorite REITs
3 Public Storage Continues to Shine
5 Digital Realty's Momentum Continues, Raises Outlook
7 Our Thoughts on Magellan Midstream's Latest Earnings
11 **Spotlight: *NEW* Kimberly-Clark Has a Resilient Business Model and Bright Long-Term Outlook**
16 Exxon Mobil's Weak Forward-Looking Dividend Coverage Is Very Concerning
20 Chevron's Forward-Looking Dividend Coverage Is Becoming Stressed
22 Reality Income Remains Resilient and Its Outlook Is Improving
27 High Yield Dividend Newsletter Portfolio
28 Dividend Report Page 2 - Walgreens Boot Alliance (WBA)

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"RECENT NEWS REGARDING SEVERAL PROMISING COVID-19 VACCINE CANDIDATES COULD SEE DISTRIBUTION OF A SAFE AND VIABLE COVID-19 VACCINE BEGIN BY THE END OF 2020. NOTHING IS FOR CERTAIN AT THIS POINT, THOUGH WE REMAIN OPTIMISTIC."

– CALLUM TURCAN

Image Source: *CubeSmart – October 2020 Deluxe Storage Transaction IR Presentation*

By Callum Turcan

On November 5, the self-storage real estate investment trust ('REIT') and High Yield Dividend Newsletter portfolio holding CubeSmart (CUBE) reported third quarter earnings for 2020 that missed consensus top-line estimates but beat consensus funds from operations ('FFO') estimates. The REIT's financial performance has taken a hit from the ongoing coronavirus ('COVID-19') pandemic, though CubeSmart adjusted by launching its contactless online rental program SmartRental back in April. Furthermore, after suspending its normal schedule for rental rate increases earlier this year, CubeSmart resumed those increases in June and July. CubeSmart has also since resumed its normal delinquency process, on a jurisdiction by jurisdiction basis. **As of this writing, shares of CUBE yield ~4.1%, and we view the self-storage REIT's payout growth trajectory quite favorably.**

The self-storage space is attractive because REITs operating in this arena are generally quite free cash flow positive, something that most REITs are not given their hefty capital expenditure programs. CubeSmart generated ~$140 million in free cash flows during the first half of 2020 (net operating cash flow less 'additions and improvements to storage properties' and 'development costs') and spent ~$129 million on 'distributions paid to common OP unitholders' though please note the REIT also spent a significant amount acquiring new self-storage properties during this period. When the REIT publishes its 10-Q SEC filing covering the third quarter of this year, we expect CubeSmart continued to generate meaningful free cash flows.

Quarterly Update

We appreciate CubeSmart adapting to the changing landscape due to COVID-19. Its same-store occupancy rate stood at 94.1% as of the end of October 2020, up from 92.0% at the end of October 2019, though we caution part of that is potentially due to the inability to go through the normal delinquency process in some jurisdictions. CubeSmart's same-store net operating income ('NOI') fell by 1.6% year-over-year in the third quarter of 2020, as a 0.1% increase in revenues was offset by a 4.2% year-over-year increase in property operating expenses (some of the expense pressures of late have had to do with dealing with the pandemic).

However, **even if the various headwinds CubeSmart has been facing, its FFO per share was flat year-over-year last quarter, coming in at $0.44 per share.** Though an imperfect metric (FFO does not take into account the REIT in question's need to tap capital markets for debt refinancing activities, growth activities, and in order to keep making good on its dividend obligations), FFO is useful for providing a snapshot of a REIT's ability to keep making good on its payout. **In the third quarter of 2020, CubeSmart's FFO payout ratio (dividend per share divided by FFO per share) came in at 75.0%, which we appreciate because payout ratios below 80% are preferred.**

CubeSmart added 37 stores to its third-party management platform last quarter, bringing its third-party managed store count to 733. **On occasion, CubeSmart acquires stores that are not owned by the firm but managed by it through this platform.** A growing third-party management platform provides multiple avenues for additional upside. Given headwinds created by the pandemic, CubeSmart did not provide 2020 guidance during its latest earnings report, though recent events seem to indicate its near-term outlook is improving.

Balance Sheet Update

In October 2020, CubeSmart issued $450 million in 2.00% unsecured senior notes due February 2031 (priced at 99.074% of par). Some of those proceeds were used to redeem $250 million in 4.800% Senior Notes due 2022, and those activities were completed by the end of October. Additionally, the remaining proceeds were used to fully pay down its $750 million revolving credit facility due June 2024 ($37 million was drawn against the facility at the end of September 2020) and for general corporate purposes.

CubeSmart retains access to debt markets at attractive rates, in our view. Given its strong technicals of late, CubeSmart also appears to retain access to equity markets at attractive rates as well. The REIT did not issue out any common shares through its at-the-market equity issuance program in the third quarter, and **CubeSmart has investment grade credit ratings (Baa2/BBB).**

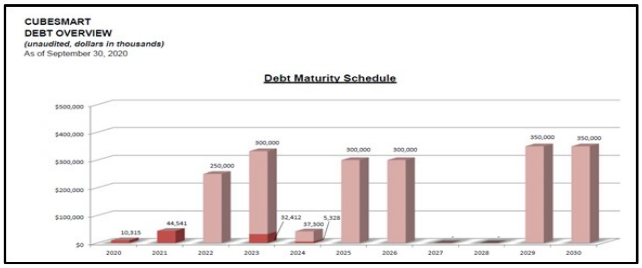

Image Shown: *A look at CubeSmart's debt maturity schedule as of the end of September 2020. Please note this picture does not take more recent refinancing activities into account, though we appreciate the staggered nature of its debt maturity schedule.* ***Image Source:*** *CubeSmart – Financial Supplement covering the third quarter of 2020*

Recent Acquisition

In late-October, CubeSmart announced it was acquiring eight self-storage properties in New York City from privately-held Storage Deluxe for $540 million. This deal is expected to close in two tranches during the fourth quarter of this year, and includes properties in the boroughs of Brookland, Bronx, Queens. Here is what the press release had to say regarding the financial considerations:

> *Consideration for the acquisition will consist of approximately $201.7 million payable in cash, approximately $183.7 million payable in Class B Operating Partnership Units, and the assumption of approximately $154.6 million of existing fixed-rate secured debt. The Company expects to finance the cash portion of the purchase price at closing through cash on hand and borrowings under the unsecured revolving credit facility.*

CubeSmart is expanding its footprint in high-quality regions where the self-storage industry benefits from favorable market dynamics, which we appreciate. CubeSmart views the three aforementioned boroughs in New York City as undersupplied markets (for self-storage needs).

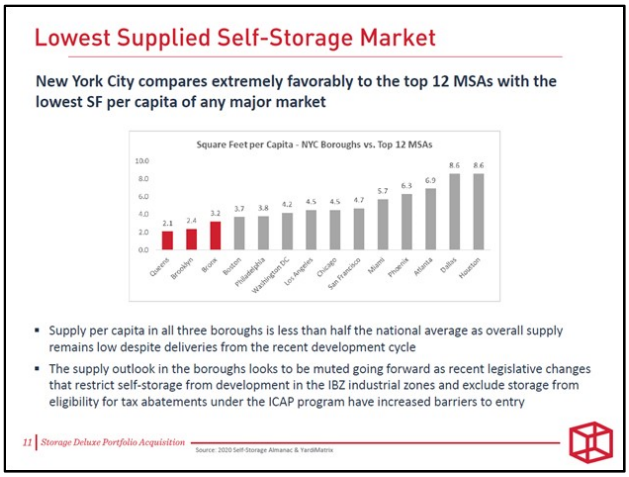

Image Shown: *CubeSmart is expanding its presence in New York City as the REIT views the market dynamics for the self-storage industry as quite favorable in this area.* ***Image Source:*** *CubeSmart – October 2020 Deluxe Storage Transaction IR Presentation*

Concluding Thoughts

We continue to be huge fans of the self-storage industry, and CubeSmart is one of our favorite REITs in the space. The ability for self-storage REITs to generate sizable free cash flows in almost any operating environment highlights the resilience of their business model. Going forward, due to CubeSmart's apparent ability to tap capital markets at attractive rates, we view the REIT's forward-looking payout coverage favorably.

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

Public Storage Continues to Shine

By Callum Turcan

On November 4, Public Storage (PSA) reported earnings for the third quarter of 2020. As expected, headwinds created by the coronavirus ('COVID-19') pandemic weighed on its financial performance during this period; however, that did not stop the self-storage real estate investment trust ('REIT') from being very free cash flow positive. **The long-term outlook for the self-storage industry in metropolitan areas in the US and elsewhere remains quite promising** given the desire for households to maximize living space within their housing unit at a given budget.

We include shares of Public Storage in our High Yield Dividend Newsletter portfolio and shares of PSA yield ~3.6% as of this writing.

Financial Update

During the first nine months of 2020, Public Storage generated almost $1.3 billion in free cash flow (defining capital expenditures here as 'capital expenditures to maintain real estate facilities' and 'development and expansion of real estate facilities') **while spending a little over $1.2 billion covering its payout obligations** (including $1.2 billion in 'distributions paid to preferred shareholders, common shareholders and restricted share unitholders' and a negligible amount of 'distributions paid to noncontrolling interests'). **Unlike most REITs, REITs operating in the self-storage space can generate sizable free cash flows due to the relatively capital-light nature of self-storage properties.** The upcoming graphic down below highlights Public Storage's high-quality cash flow profile.

PUBLIC STORAGE
STATEMENTS OF CASH FLOWS
(Amounts in thousands)
(Unaudited)

	For the Nine Months Ended September 30, 2020	2019
Cash flows from operating activities:		
Net income	$ 1,008,795	$ 1,138,554
Adjustments to reconcile net income to net cash flows from operating activities:		
Gain on real estate investment sales	(1,117)	(341)
Depreciation and amortization	411,851	378,033
Equity in earnings of unconsolidated real estate entities	(62,863)	(55,631)
Distributions from cumulative equity in earnings of unconsolidated real estate entities	52,499	53,999
Foreign currency exchange loss (gain)	52,250	(18,147)
Share-based compensation expense	21,535	19,488
Other	47,390	51,690
Total adjustments	521,545	429,091
Net cash flows from operating activities	1,530,340	1,567,645
Cash flows from investing activities:		
Capital expenditures to maintain real estate facilities	(132,969)	(130,133)
Development and expansion of real estate facilities	(132,476)	(224,664)
Acquisition of real estate facilities and intangible assets	(282,417)	(316,643)
Distributions in excess of cumulative equity in earnings from unconsolidated real estate entities	10,803	-
Repayment of note receivable	7,509	-
Proceeds from sale of real estate investments	1,399	762
Net cash flows used in investing activities	(528,151)	(670,678)
Cash flows from financing activities:		
Repayments on notes payable	(1,505)	(1,432)
Issuance of notes payable, net of issuance costs	545,151	496,900
Issuance of preferred shares	773,741	584,071
Issuance of common shares	5,505	33,009
Redemption of preferred shares	(1,220,000)	(572,500)
Cash paid upon vesting of restricted share units	(9,704)	(10,683)
Acquisition of noncontrolling interests	(33)	(35,000)
Contributions by noncontrolling interests	2,291	2,051
Distributions paid to preferred shareholders, common shareholders and restricted share unitholders	(1,208,321)	(1,207,381)
Distributions paid to noncontrolling interests	(3,968)	(5,420)
Net cash flows used in financing activities	(1,116,843)	(716,385)
Net cash flows (used in) from operating, investing, and financing activities	(114,654)	180,582
Net effect of foreign exchange impact on cash and equivalents, including restricted	(192)	91
(Decrease) increase in cash and equivalents, including restricted cash	$ (114,846)	$ 180,673

Image Shown: *Public Storage's net operating cash flows are underlined in red and its capital expenditure line-items are underlined in blue in the graphic up above.* ***Image Source:*** *Public Storage – 10-Q SEC filing covering the third quarter of 2020 with additions from the author*

Pivoting to Public Storage's balance sheet, the REIT has historically retained a nice amount of cash and cash equivalents on hand to meet its liquidity needs (Public Storage's cash and cash equivalents balance stood at $0.3 billion at the end of September 2020). Additionally, Public Storage has a $0.5 billion revolving credit facility that matures in April 2024, which provides it with additional access to liquidity.

Like almost all REITs, Public Storage still has a sizable net debt load, which stood at $2.2 billion (inclusive of short-term debt) at the end of September 2020. **Here we would like to stress that Public Storage must retain access to capital markets at all times in order to refinance its debt load, fund acquisitions, and continue to make good on its payout obligations.**

In October 2020, Public Storage issued out roughly $0.3 billion in preferred equity (11.3 million depositary shares that each represented 0.001 share of its 3.875% Series N Preferred Shares) after the third quarter ended. Also, please note that after the third quarter ended, Public Storage acquired 54 self-storage facilities with 4.9 million net rentable square feet for approximately $0.7 billion. Given that Public Storage generates meaningful free cash flows and has ample liquidity on hand, we view the REIT retaining quality access to capital markets at attractive rates going forward. **Public Storage retains a top-notch 'A-rated' investment grade credit rating (A/A2).**

PUBLIC STORAGE
BALANCE SHEETS
(Amounts in thousands, except share data)

	September 30, 2020 (Unaudited)	December 31, 2019
ASSETS		
Cash and equivalents	$ 293,955	$ 409,743
Real estate facilities, at cost:		
Land	4,307,686	4,186,873
Buildings	12,476,340	12,102,273
	16,784,026	16,289,146
Accumulated depreciation	(7,013,362)	(6,623,475)
	9,770,664	9,665,671
Construction in process	176,658	141,934
	9,947,322	9,807,605
Investments in unconsolidated real estate entities	769,923	767,816
Goodwill and other intangible assets, net	204,700	205,936
Other assets	169,248	174,344
Total assets	$ 11,385,148	$ 11,365,444
LIABILITIES AND EQUITY		
Notes payable	$ 2,499,570	$ 1,902,493
Accrued and other liabilities	433,524	383,284
Total liabilities	2,933,094	2,285,777
Commitments and contingencies (Note 12)		
Equity:		
Public Storage shareholders' equity:		
Preferred Shares, $0.01 par value, 100,000,000 shares authorized, 145,600 shares issued (in series) and outstanding, (162,600 at December 31, 2019), at liquidation preference	3,640,000	4,065,000
Common Shares, $0.10 par value, 650,000,000 shares authorized, 174,512,070 shares issued and outstanding (174,418,615 shares at December 31, 2019)	17,451	17,442
Paid-in capital	5,706,970	5,710,934
Accumulated deficit	(867,950)	(665,575)
Accumulated other comprehensive loss	(62,344)	(64,890)
Total Public Storage shareholders' equity	8,434,127	9,062,911
Noncontrolling interests	17,927	16,756
Total equity	8,452,054	9,079,667
Total liabilities and equity	$ 11,385,148	$ 11,365,444

Image Shown: *Public Storage has a meaningful net debt position, though its cash and cash equivalents on hand helps the REIT manage its near-term liquidity needs.* ***Image Source:*** *Public Storage – 10-Q SEC filing covering the third quarter of 2020*

In the upcoming graphic on the righthand side at top of this page, Public Storage provides an overview of its debt maturity schedule, specifically for its 'notes payable' balance. **The REIT does not have a significant amount of debt coming due until 2022 at the earliest, putting Public Storage in a prime position to ride out the storm caused by the COVID-19 pandemic.**

PUBLIC STORAGE
NOTES TO FINANCIAL STATEMENTS
September 30, 2020
(Unaudited)

	Unsecured Debt	Mortgage Debt	Total
Remainder of 2020	$ -	$ 515	$ 515
2021	-	1,857	1,857
2022	500,000	2,574	502,574
2023	-	19,219	19,219
2024	117,246	124	117,370
Thereafter	1,869,984	1,462	1,871,446
	$ 2,487,230	$ 25,751	$ 2,512,981
Weighted average effective rate	2.4%	4.0%	2.4%

Image Shown: *We are big fans of Public Storage's staggered debt maturity schedule.* ***Image Source:*** *Public Storage –10-Q SEC filing covering the third quarter of 2020*

Operational Update

In the third quarter of 2020, Public Storage's core funds from operations ('FFO') came in at $2.28 per diluted common share, down from $2.76 per diluted common share in the same period in 2019. This was partially due to the REIT's same store facilities (properties that have been in Public Storage's portfolio long enough to provide meaningful comparison data) reporting a ~4% year-over-year decline in net operating income ('NOI') as the pandemic led to an increase in operating costs and a decrease in revenues, though we see these headwinds as transitory. Going forward, the resumption of normal business activities, including rental rate increases and normal delinquency processes, should result in a significant improvement in Public Storage's financial performance.

Public Storage's square foot occupancy rate (for what appears to be at its same store facilities) stood at 95.5% in the third quarter of 2020, up from 94.2% in the same quarter last year. That may partially be due to the inability to go through the normal delinquency process in some jurisdictions, but to be clear, this also highlights the strength of Public Storage's business model. Households in relatively expensive metropolitan areas need additional space to maximize the living area their housing unit provides (whether that be an apparent, townhouse, condo, multi-family unit, or standalone home), and self-storage options are (generally speaking) the cheapest way to maximize that space.

Concluding Thoughts

We continue to be big fans of self-storage REITs and include our favorite names in the space in our High Yield Dividend Newsletter portfolio. **Public Storage's high-quality cash flow profile and promising long-term growth runway underpins our favorable view on the name, and looking ahead, we see room for significant dividend increases.**

In our view, Public Storage should be able to maintain its payout obligations going forward. To read why we are big fans of CubeSmart (CUBE), another self-storage REIT. On a final note, recent news from Pfizer Inc (PFE) and BioNTech SE (BNTX) regarding favorable interim data from the Phase 3 clinical trial testing out their COVID-19 vaccine candidate could mean a safe and effective COVID-19 vaccine can get rolled out worldwide starting in late-2020 or early-2021. That in turn would help get the global economy back on track while saving millions of lives in the process. We are closely monitoring these events as the venture gets closer to seeking regulatory approval for their COVID-19 vaccine candidate.

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

Digital Realty's Momentum Continues, Raises Outlook

Image Shown: *An overview of Digital Realty Trust Inc's asset base.* ***Image Source:*** *Digital Realty Trust Inc – Third Quarter of 2020 IR Earnings Presentation*

By Callum Turcan

On October 29, the data center real estate investment trust ('REIT') Digital Realty Trust Inc (DLR) reported third quarter 2020 earnings that beat consensus revenue estimates and consensus funds from operations ('FFO') estimates. Demand for data centers has grown tremendously during the initial phases of the coronavirus ('COVID-19) pandemic. That momentum will likely continue going forward, in our view, as enterprises increasingly shift towards cloud-computing offerings as the backbone of their IT operations.

Please note that while FFO is an imperfect metric, particularly because it does not incorporate the REIT-in-question's need to refinance maturing debt and tap capital markets for funds for growth, it provides a useful snapshot of how well the REIT-in-question can maintain its dividend in the near term. Digital Realty posted $1.54 per share in core FFO last quarter (an adjusted non-GAAP figure), down 8% year-over-year but flat sequentially. In this article, we will cover Digital Realty's short-term headwinds and why we expect that the REIT's financial performance will rebound. Shares of DLR yield ~3.3% as of this writing.

Longer term, we use our adjusted Dividend Cushion ratio (includes funds raised via expected equity issuances over the next five full fiscal years) to gauge Digital Realty's ability to keep making good on its dividend obligations. Digital Realty has an adjusted Dividend Cushion ratio of 1.1, earning the REIT a "GOOD" Dividend Safety rating. These metrics incorporate our expectations that the REIT will push through significant dividend increases over the coming years, and Digital Realty has an "EXCELLENT" Dividend Growth rating. We include shares of DLR as a holding in both our Dividend Growth Newsletter and High Yield Dividend Newsletter portfolios.

Near-Term Pressures

In 2019 and 2020, Digital Realty faced significant headwinds due to its legacy rental agreements rolling off and getting renewed at lower rates. **Please note that these legacy rental rates were signed during different times, and the decline in rental rates on lease renewals Digital Realty has been contending with is transitory in nature.** On a cash basis, the rental rates on lease renewals were down 1.5% in the first quarter, down 2.8% in the second quarter, and down 0.2% in the third quarter of 2020.

Going forward, Digital Realty will benefit from its purchase of a large economic interest in the Westin Building (located in Seattle, Washington) and its acquisition of Interxion (focused on major metropolitan areas in Europe). During the REIT's latest earnings call, management noted that "Interxion and the Westin Building are not included in the 2020 same-store pool, but we expect both acquisitions to be accretive to organic growth going forward." Furthermore, management noted that recent renewal activity was "an encouraging sign for pricing" during Digital Realty's latest earnings call. There is a good chance Digital Realty will be able to return to positive growth regarding its cash renewal rates in the near-term, potentially sometime next year.

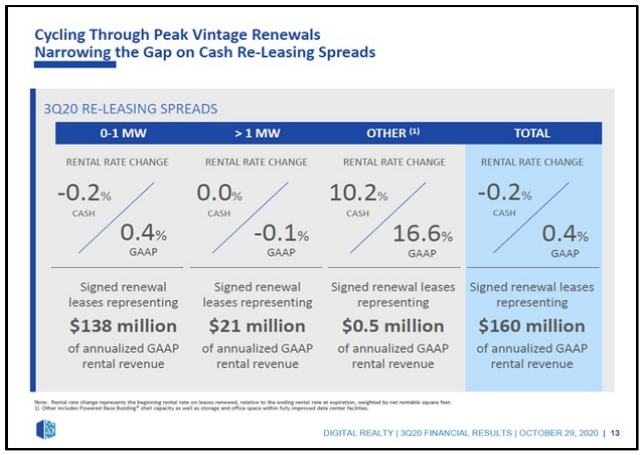

Image Shown: *A look at Digital Realty's renewal rental rate performance during the third quarter of 2020.* ***Image Source:*** *Digital Realty – Third Quarter of 2020 IR Earnings Presentation*

During its third quarter earnings report, Digital Realty raised its full-year guidance for 2020. Now the REIT expects to generate $6.10 - $6.15 in core FFO per share, up from previous guidance calling for $6.00 - $6.10 in core FFO per share. While that is down from the $6.65 in core FFO per share Digital Realty generated in 2019, we appreciate that the REIT's near-term outlook is improving. Additionally, Digital Realty now expects to generate "same-capital cash NOI growth" of negative 1.5% to negative 2.5% in 2020, an improvement versus previous expectations calling for negative 2.5% to negative 3.5% "same-capital cash NOI growth" this year.

During Digital Realty's latest earnings call, management stated that "although we expect to rollout the formal guidance early next year, we are currently targeting mid single-digit growth in both earnings and cash flow per share." This reinforces our thinking as it concerns our view that a potential rebound could soon be underway. We will be monitoring Digital Realty's guidance closely going forward.

Strong Financial Position Maintained

The REIT retained its strong financial position last quarter. **Digital Realty does not have any significant debt maturities until 2022.** The REIT was able to take advantage of its strong stock price performance in the third quarter by raising ~$0.25 billion in gross proceeds through its at-the-market ('ATM') equity issuance program in August 2020, with shares issued at a weighted average price of ~$160 per share. As of the third quarter of 2020, Digital Realty's net debt to adjusted EBITDA ratio stood at 5.6x, down from 6.0x in the third quarter of 2019 and significantly lower compared to the 6.6x ratio seen during the first quarter of 2020.

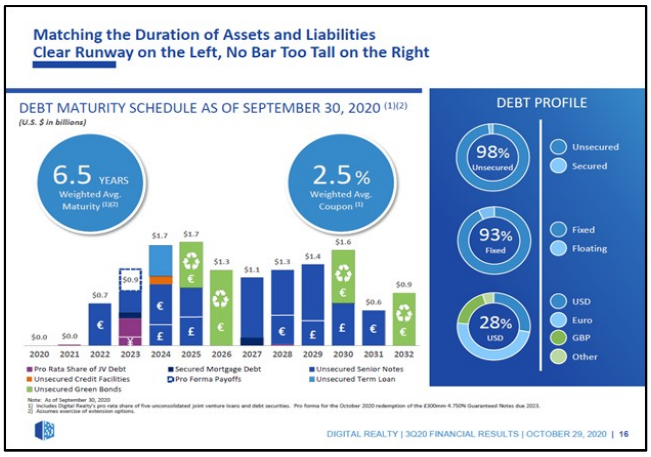

Image Shown: *Digital Realty has a manageable debt maturity schedule given that it does not have a significant amount of debt coming due until 2022 and due to the staggered nature of its debt maturities.* ***Image Source:*** *Digital Realty – Third Quarter of 2020 IR Earnings Presentation*

Access to Capital Markets Maintained

Digital Realty continues to carry investment grade credit ratings (Baa2/BBB/BBB) with stable outlooks, which will help enable the REIT to tap credit markets for funds at attractive rates. In the third quarter, Digital Realty issued out €750 million (~USD$880 million) in 1.0% Euro bonds due 2032 and €300 million (~USD$350 million) in floating rate notes due 2022. **Given Digital Realty's ability to tap both credit and equity markets at attractive rates in the recent past, we see the REIT maintaining quality access to capital markets going forward.**

The REIT settled its remaining forward sale agreements originally entered into during the third quarter of 2018 in late-September 2020, generating net proceeds of ~$1.0 billion. Also, Digital Realty retired various debt tranches and some of its preferred securities last quarter as part of its ongoing balance sheet optimization process.

Considering Digital Realty uses debt and equity issuances to refinance debt maturities, fund acquisitions and major growth investments, and to continue making good on its dividend obligations, **its ability to tap capital markets needs to be closely monitored.**

Digital Realty generates sizable cash flows, but historically its capital investments have consumed most or all of its net operating cash flows. To cover its liquidity needs, Digital Realty had $1.0 billion in cash and cash equivalents on hand at the end of September 2020, along with $2.5 billion in available borrowing capacity under its global revolving credit facilities (matures January 2023 with two six-month extension options available).

Concluding Thoughts

We continue to be big fans of Digital Realty and appreciate that management sees the potential for the REIT's financial performance (particularly its organic growth rates) to begin rebounding starting in 2021. The company should be able to continue meeting its dividend obligations going forward, with room for significant income growth upside.

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

Our Thoughts on Magellan Midstream's Latest Earnings

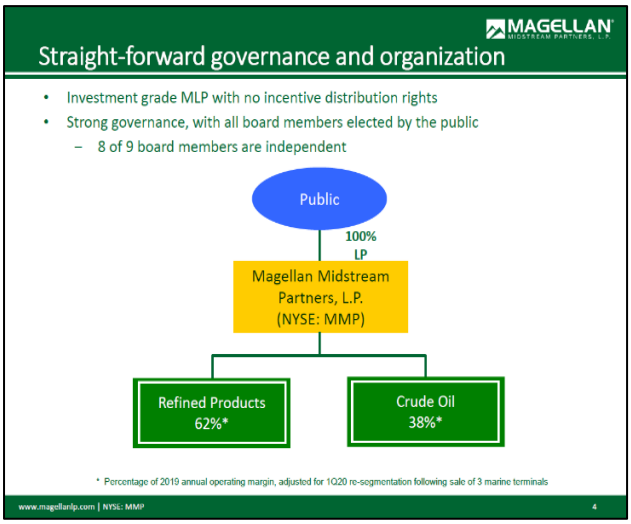

Image Shown: *Magellan Midstream Partners LP remains one of our favorite midstream master limited partnerships.* ***Image Source:*** *Magellan Midstream Partners LP – October 2020 IR Presentation*

By Callum Turcan

On October 30, Magellan Midstream Partners LP (MMP) reported third quarter 2020 earnings that beat both top- and bottom-line consensus estimates. The midstream master limited partnership ('MLP') space has faced enormous headwinds due to the ongoing coronavirus ('COVID-19') pandemic, **though the firm was still able to generate sizable free cash flows during the first nine months of 2020.** Magellan Midstream is a modestly-weighted holding in the High Yield Dividend Newsletter portfolio, and as of this writing, units of MMP yield ~10.0%.

Though that yield is quite high, **given that the firm's free cash flows should grow significantly going forward, we are optimistic the firm will be able to continue making good on its payout obligations for the time being.**

Cash Flow Update

Magellan Midstream generated almost $0.5 billion in free cash flows during the first nine months of 2020, up from $0.2 billion in the same period in 2019. That increase was largely due to a sharp decline in Magellan Midstream's capital expenditures. While that did not fully cover $0.7 billion in 'distributions paid' during the first nine months of 2020, please note **Magellan Midstream's capital expenditures are expected to continue shifting materially lower over the coming years as the firm lets growth-related spend roll off.**

However, should the midstream MLP approve new major projects in the future, its capital expenditure expectations would increase, though management has communicated in the recent past that the days of large growth investments are over. Management had this to say during the firm's latest earnings call (emphasis added):

> *"Our current expansion spending estimates for approved projects are $400 million this year, with $310 million of that already spent through September 30 and $40 million in 2021. We continue to evaluate several attractive, relatively smaller potential growth projects that may be approved in the near term.* ***But to be clear, we anticipate significantly reduced capital spending programs over the next few years.***
>
> *For instance, if we include these potential projects that may be approved in the near term, we would expect the actual 2021 growth spending likely to be in the range of $100 million." --- Michael Mears, Chairman of the Board, President and CEO of the General Partner*

The upcoming graphic at the top of the next page highlights the expected downward shift in Magellan Midstreams' capital expenditures. What makes this so important is that the midstream MLP could finally be in a position to generate meaningful free cash flows after a decade of making major growth investments.

Please note that Magellan Midstream will need to invest enough it maintenance-related capital expenditures to preserve the functionality of its asset base, though those capital expenditures are much more modest in nature (the midstream MLP forecasts its 2020 capital expenditures will come in at ~$95 million, compared to ~$400 million in forecasted growth-related capital expenditures in 2020). Maintenance-related projects are required in order for Magellan Midstream to continue safely transporting vast amounts of crude oil and refined petroleum products all across the US through its expansive pipeline network, and to continue safely running its marine terminal assets and other operations.

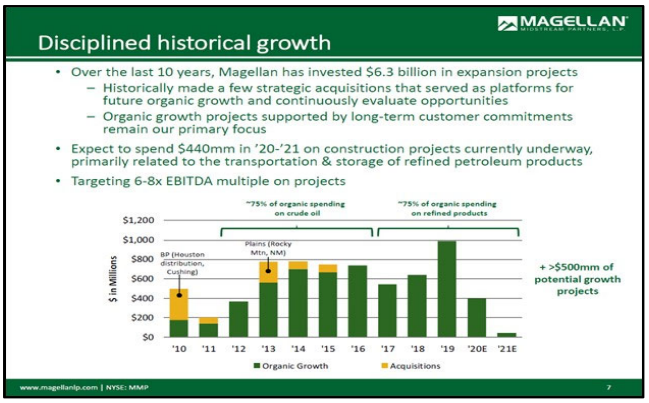

Image Shown: *Magellan Midstream's capital expenditures are expected to slide meaningful lower going forward. However, the midstream MLP may approve additional growth-oriented projects which in turn would raise its future capital expenditure expectations, though off a low base as things stand today.* ***Image Source:*** *Magellan Midstream – September 2020 IR Presentation*

The midstream MLP also repurchased ~$0.25 billion of its common units during the first nine months of 2020, though we would prefer the company consider deleveraging activities instead. **Reducing its net debt load, which stood at $4.9 billion at the end of September 2020 (no short-term debt on the books), and capital expenditure expectations would go a long way in improving Magellan Midstream's dividend coverage on a forward-looking basis.** Management remains committed to rewarding investors, but fiscal prudence is paramount when contending with the volatile environment the energy sector is currently facing.

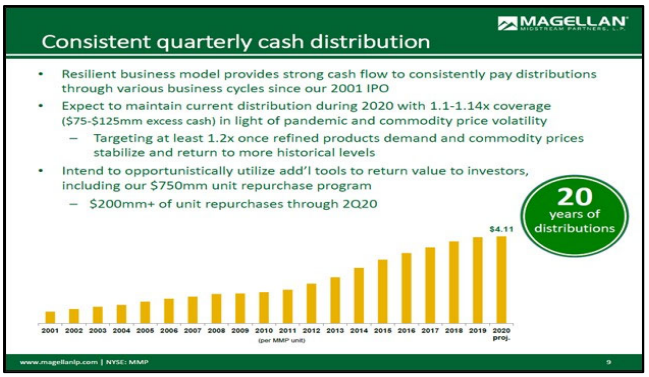

Image Shown: *Magellan Midstream has steadily increased its distribution per unit since 2001.* ***Image Source:*** *Magellan Midstream – October 2020 IR Presentation*

Recent Divestments

At the start of this year, Magellan Midstream announced it was selling off three of its marine terminals to now privately-held Buckeye Partners for $250 million in cash (those terminals are in Connecticut, Delaware, and Louisiana), a deal which has since closed.

Magellan Midstream announced a structural change in its business reporting units following that sale to just two; 'Crude Oil' and 'Refined Products.' The two marine terminals in the East Coast region were not in a very geographically relevant area in terms of North America's energy complex.

Magellan Midstream will retain its sizable marine terminal presence along the US Gulf Coast region, particularly in Texas, which has grown significantly over the past few years. For instance, Magellan Midstream teamed up with Valero Energy Corporation (VLO) back in 2017 through a 50/50 joint-venture to expand a marine terminal and related storage operations in Pasadena, Texas. The second phase of the growth project was completed by the first quarter of 2020, and the Pasadena marine terminal is situated along the Houston Ship Channel (this region is a major export/import hub for raw energy resources, refined petroleum products, and petrochemicals).

Magellan Midstream also owns the Galena Park marine terminal which is situated along the Houston Ship Channel, and that marine terminal has become a much bigger operation in the recent past as significant growth developments were completed. Additionally, Magellan Midstream sold off a 10% stake in the Saddlehorn crude oil pipeline (transports crude oil from the DJ Basin and Powder River Basin to the oil hub in Cushing, Oklahoma) to Black Diamond Gathering LLC, majority owned by Noble Midstream Partners LP (NBLX), earlier this year for $80 million in cash. Magellan Midstream retained a 30% stake in the Saddlehorn pipeline.

Balance Sheet Update

Proceeds from these divestments are being utilized to fund its unit repurchases (Magellan Midstream announced a $0.75 billion unit buyback program in conjunction with the sale of the three aforementioned marine terminals). Liquidity needs are being met through Magellan Midstream's $1.0 billion revolving credit line (matures May 2024) and debt markets, as the midstream MLP historically has not issued out a significant amount of equity. In May 2020, Magellan Midstream issued out $0.5 billion in 3.25% senior notes due 2030 (99.98% of par), and the company used those proceeds to retire $0.55 billion in senior notes due 2021.

In our view, Magellan Midstream retains quality access to capital markets at attractive rates, particularly debt markets. On a final note here, the firm has a $1.0 billion commercial paper program (~$0.25 billion in commercial paper was outstanding at the end of September 2020) which can be used to meet its near-term liquidity needs.

According to Magellan Midstream, "the maturities of the commercial paper notes vary, but may not exceed 397 days from the date of issuance." Maintaining access to capital markets is essential given Magellan Midstream's need to refinance its debt and cover its payout obligations.

Going forward, Magellan Midstream would be wise to build up a sizable cash position on the books (which was negligible at the end of September 2020). Here is a key quote from management during the firm's latest earnings call (emphasis added):

> *"Moving to capital allocation, balance sheet metrics and liquidity. During the quarter, we repurchased nearly 1.4 million units at an average purchase price of $36.87, for a total spend of $50 million. That brings the total number of units repurchased year-to-date to 5 million units at a total cost of $252 million.*
>
> *As we have consistently noted in discussions of our repurchase program, the timing, price and volume of any unit repurchases will depend on a number of factors, including but not limited to: our expected expansion capital spending, excess cash available, balance sheet metrics, legal and regulatory requirements as well as market conditions and the trading price of our common units.*
>
> *In terms of liquidity and leverage, we continue to have $1 billion credit facility available to us through mid-2024, with $248 million drawn on our commercial paper program at September 30.* ***Our next bond maturity isn't until 2025, and our leverage ratio remains strong at 3.2x for compliance purposes at the end of the quarter, well below our long-stated limit of 4x."*** *--- Jeff Holman, CFO of Magellan Midstream*

We appreciate that Magellan Midstream does not have a significant amount of debt coming due for several years. Its leverage appears manageable and remains well below its long-term target. Should the firm build up its cash position, it would become a lot less dependent on capital markets going forward, especially if it focuses more so on growing its free cash flows instead of growing its asset base (which appears to be the case).

Though the midstream industry's outlook is quite dour as things stand today given the sharp decline in raw energy resources production in the US and subdued global demand for refined petroleum products (among other things), Magellan Midstream's outlook is significantly brighter.

Concluding Thoughts

Out of all the publicly-traded midstream MLPs out there, Magellan Midstream is clearly one of the best. As global energy demand returns, Magellan Midstream's financial performance should improve considerably over the coming years, supported by a reduction in its capital expenditures.

We continue to like Magellan Midstream, at a modest-weighting, in our High Yield Dividend Newsletter portfolio and in our view, the firm should be able to continue making good on its payout obligations going forward.

On a final note here, the recent favorable news regarding several COVID-19 vaccine candidates currently in late stage clinical trials could go a long way in improving Magellan Midstream's medium- and long-term outlook, should any of those vaccines get approved by the US Food and Drug Administration ('FDA'). Nothing is for certain at this point, but it appears a safe and viable COVID-19 vaccine may begin getting distributed by the end of 2020, ahead of expectations.

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

[Please see next page for a summary of portfolio activity during 2019.]

Tracking the High Yield Dividend Newsletter	Price -- 12/31/2018 or at open*	Interim Dividends	Price -- 12/31/2019 or at close**
CORE			
Alerian MLP ETF (AMLP) -- *removed* November 18	8.73	0.78	7.83
Added 2.5pts of AT&T (T) -- November 18	*39.21*	-	39.08
Added 2.5pts of Philip Morris (PM) -- November 18	*84.57*	1.17	85.09
Global X SuperDividend ETF (SDIV)	17.10	1.54	17.69
Global X SuperIncome Preferred ETF (SPFF)	11.03	0.71	11.74
iShares International Select Dividend ETF (IDV)	28.71	1.73	33.57
iShares MSCI Australia ETF (EWA)	19.25	0.90	22.64
iShares U.S. Preferred Stock ETF (PFF)	34.23	2.00	37.59
Invesco Senior Loan Portfolio (BKLN)	21.78	1.11	22.82
ProShares High Yield -- Interest Rate Hedged (HYHG)	62.09	3.97	65.44
Utilities Select Sector SPDR (XLU) -- *added August 22*	*61.61*	0.99	64.62
Vanguard Real Estate ETF (VNQ) - *added April 1*	*85.91*	2.53	92.79
EQUITY			
AT&T (T)	28.54	2.04	39.08
BP PLC (BP)	37.92	2.46	37.74
CubeSmart (CUBE) -- *added August 22*	*35.13*	0.65	31.48
Digital Realty Trust (DLR)	106.55	4.32	119.74
Enterprise Products Partners (EPD)	24.59	1.76	28.16
Iron Mountain (IRM) -- *removed August 1*	32.41	1.22	29.97
Magellan Midstram Partners (MMP)	57.06	4.04	62.87
Omega Healthcare Investors (OHI) -- *removed March 1*	35.15	0.66	34.72
Philip Morris (PM) -- *added August 1*	*82.41*	2.34	85.09
Public Storage (PSA)	202.41	8.00	212.96
Schlumberger*, added January 18, removed August 1*	*43.00*	1.00	38.07
Realty Income Corporation (O) -- *removed April 1*	63.04	0.68	72.03
Tallgrass Energy LP (TGE) -- *removed August 1*	24.34	1.59	18.25

* As shown in the January 2019 edition of the High Yield Dividend Newsletter, or price at entry point

** Price as of December 31, 2019, or price at close

-- THE HIGH YIELD DIVIDEND SPOTLIGHT IS ON THE NEXT PAGE --

Kimberly-Clark Has a Resilient Business Model and Bright Long-Term Outlook

Our **High Yield Spotlight for December 2020** is the Dividend Aristocrat Kimberly-Clark Corporation (KMB)---**3.1% yield**---as we are big fans of the company's forward-looking dividend coverage and potential income growth opportunities. During the consumer staples giant's third quarter of 2020 earnings report, **management raised Kimberly-Clark's full-year guidance for 2020.** Now the company is expecting annual non-GAAP organic net sales growth of 5% (up from 4%-5% previously) and non-GAAP adjusted diluted EPS of $7.50 - $7.65 (up from $7.40 - $7.60 previously) this year.

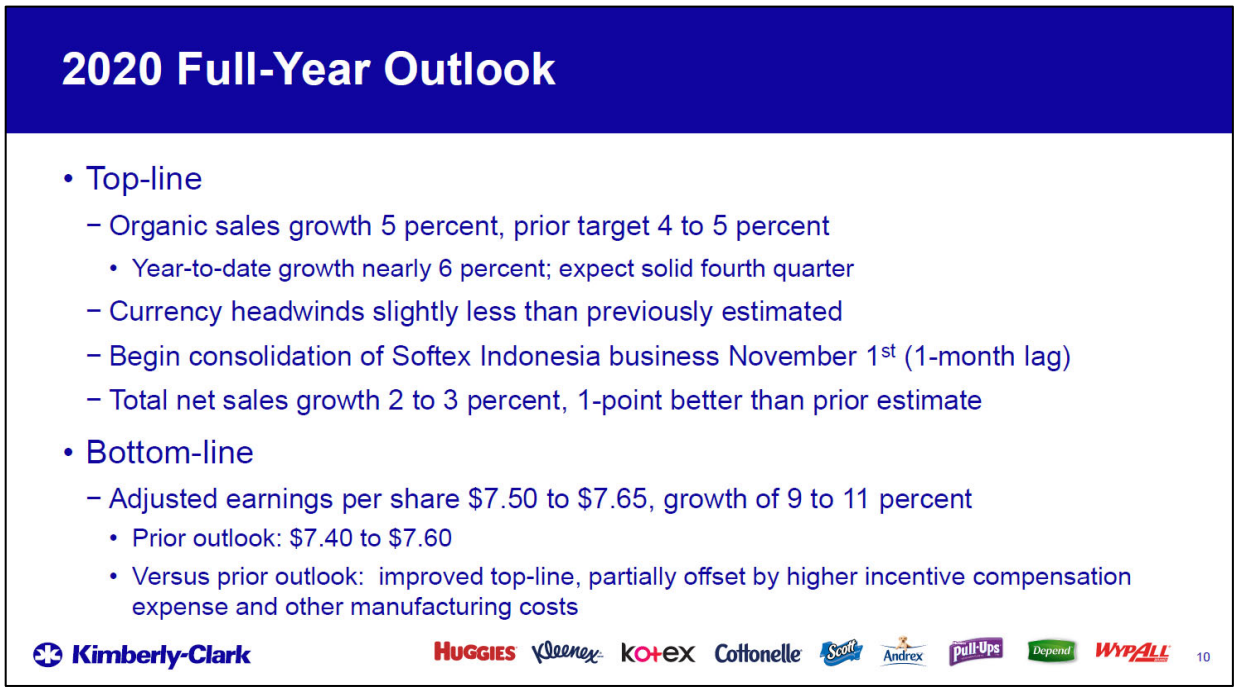

Image Shown: *An overview of Kimberly-Clark's full-year guidance for 2020.* ***Image Source:*** *Kimberly-Clark – Third Quarter of 2020 Earnings IR Presentation*

We appreciate the resilience of Kimberly-Clark's business model in the face of the ongoing coronavirus ('COVID-19') pandemic. The pandemic has upended "normal" daily activities worldwide, though Kimberly-Clark's supply chain has been able to keep up with strong levels of demand. During the first nine months of 2020, Kimberly-Clark's GAAP revenues grew by 3% as its GAAP gross profit rose by 15% year-over-year. Management cited market share gains as being key here.

The firm's GAAP gross margin rose by over 380 basis points year-over-year during the first nine months of 2020, assisted by pricing strength and economies of scale. Please note that reduced commodity prices have been a tailwind for Kimberly-Clark's gross margins this year, with an eye towards (paper) pulp and other raw materials. Going forward, commodity price swings could cause volatility in Kimberly-Clark's future financial performance. Kimberly-Clark has also been making large digital advertising investments to maintain its recent market share gains, which has put upward pressure on its operating expenses. Management expects the firm's SG&A expenses will be elevated in the fourth quarter of this year due to seasonal factors and the resumption of projects that were delayed earlier on in 2020.

However, **the firm's GAAP operating margin still expanded by approximately 130 basis points year-over-year during the first nine months of 2020**, as the uplift from its gross margin expansion more than offset the headwinds created by its rising operating expenses. Digital advertising campaigns are an effective way of reaching consumers, and **Kimberly-Clark's goal of maintaining its market share momentum by stepping up investments in this space is the right call, in our view.**

Image Shown: *A snapshot of Kimberly-Clark's advertising strategy.* ***Image Source:*** *Kimberly-Clark – September 2020 IR Presentation*

Looking ahead, demand for hygiene and health products should remain healthy considering that households worldwide are opting to keep their pantries full of essential consumer staples products. Kimberly-Clark has three main business operating segments: 'Consumer tissue,' 'Personal care' and 'K-C Profession.' The company's core brands include Huggies, Kleenex, Kotex, Cottonelle, Scott, Andrex, Pull-Ups, Depend, and WypAll. Consumers have been flocking to higher priced consumer staples brands of late (brands households trust), and that has played a big role in supporting Kimberly-Clark's margin and market share performance of late. In the upcoming graphic down below, Kimberly-Clark highlights its medium-term financial goals.

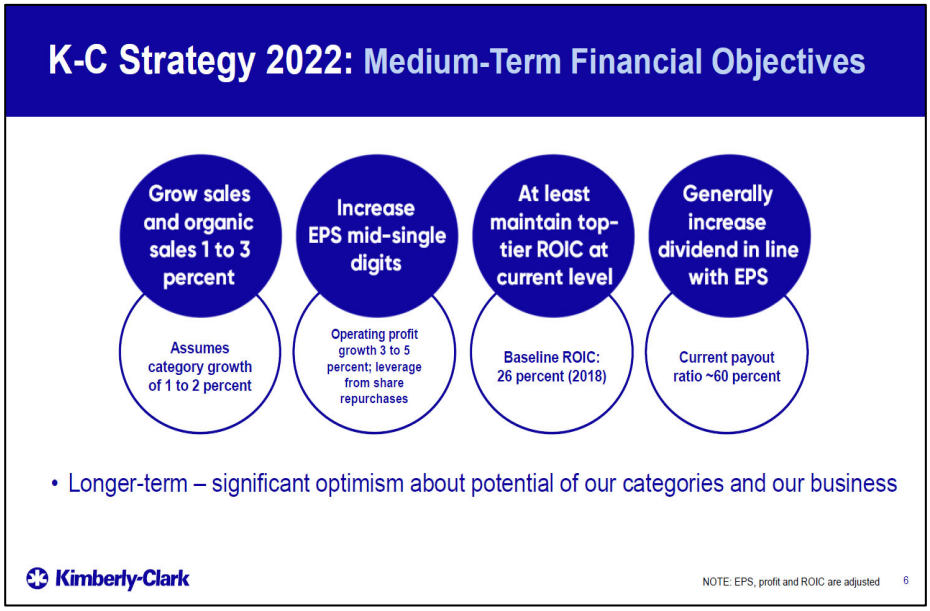

Image Shown: *Kimberly-Clark forecasts it will generate modest organic sales growth and decent EPS growth over the coming years, which will support its ability to grow its per share dividend.* ***Image Source:*** *Kimberly-Clark – September 2020 IR Presentation*

Cost cutting measures are expected to improve the company's cost structure over the long haul. That includes savings from its Focused on Reducing Costs Everywhere ('FORCE') program. During Kimberly-Clark's second quarter of 2020 earnings call, management noted that:

> *"We are now targeting full year cost savings of $510 million to $560 million. That's up nicely compared to our original range of $425 million to $500 million. Commodities were a benefit of $80 million in the quarter driven by pulp. We now expect full year commodity deflation of $150 million to $250 million. On average that's $75 million better than our original outlook." --- Maria Henry, CFO of Kimberly-Clark*

During the firm's third quarter of 2020 earnings call, management noted:

> *"We had excellent cost savings performance in the quarter. Combined savings from our FORCE and restructuring programs totaled $140 million, including continued strong productivity improvements. Commodities were a benefit of $25 million in the quarter driven by pulp and other raw materials." --- CFO of Kimberly-Clark*

Please note that foreign currency movements and elevated manufacturing/operating/other costs relating to the need to adapt to hurdles created by COVID-19 are key downside considerations to be aware of. The company expects foreign currency headwinds will be a drag on its 2020 financial performance. With all of this in mind, Kimberly-Clark's financials are trending in the right direction.

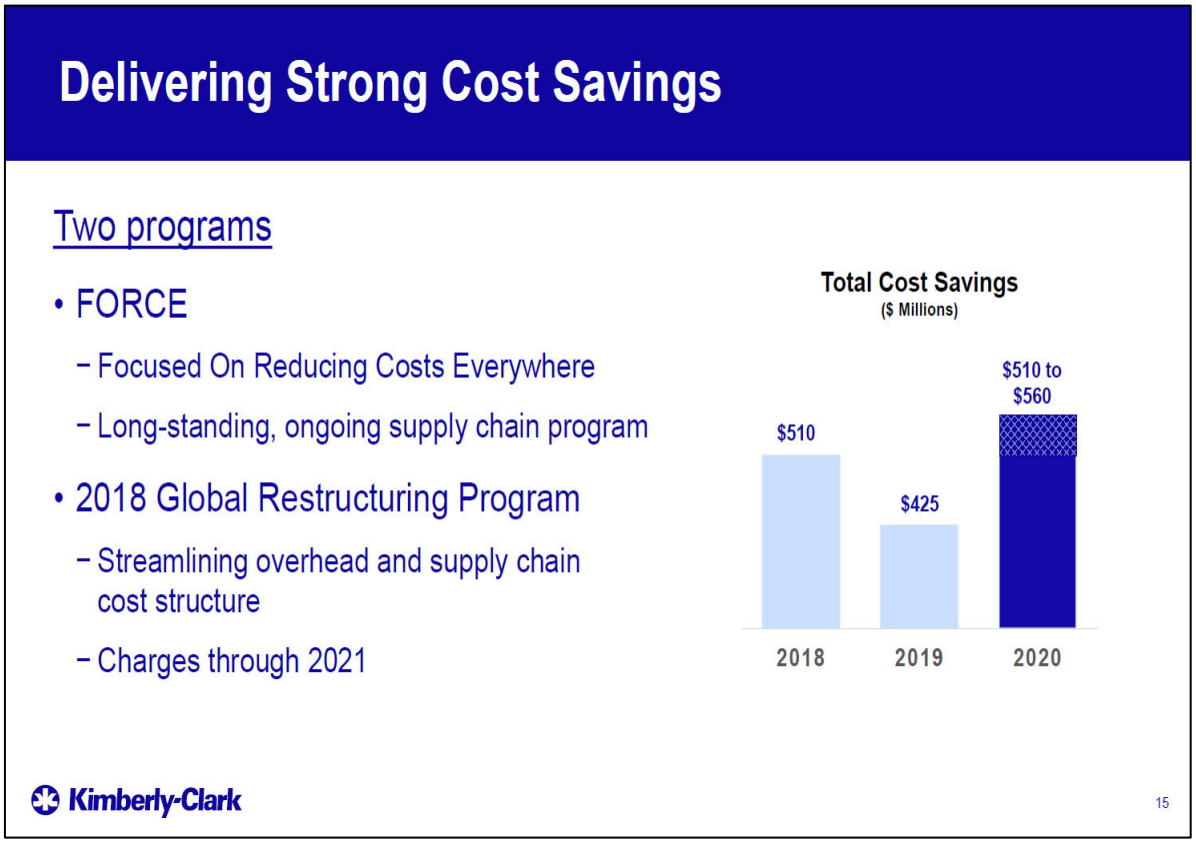

Image Shown: *Kimberly-Clark is focused on improving its cost structure over time.* ***Image Source:*** *Kimberly-Clark – September 2020 IR Presentation*

From 2017-2019, Kimberly-Clark generated ~$1.9 billion in annual free cash flows on average while its run-rate dividend obligations stood at ~$1.4 billion in 2019. We appreciate the very stable nature of its cash flow

profile. However, share repurchases made during this period averaged ~$0.8 billion per year, which were funded in part by the firm's balance sheet.

During the first three quarters of 2020, Kimberly-Clark generated $1.9 billion in free cash flow while spending $1.1 billion covering its dividend obligations and $0.4 billion on its share repurchases. **We appreciate that Kimberly-Clark's net debt load, inclusive of short-term debt, dropped by just under $0.5 billion from the end of 2019 to the end of September 2020.** This was made possible in large part by the firm building up cash on the books.

At the end of September 2020, Kimberly-Clark had $1.5 billion in cash and cash equivalents on hand versus $0.5 billion in short-term debt and $7.9 billion in long-term debt, **good for a net debt position of ~$6.85 billion.** In our view, Kimberly-Clark's stable cash flow profile and ample liquidity on hand should enable the firm to continue refinancing its debt load at attractive rates going forward, while still being able to make good on its dividend obligations.

We use our Dividend Cushion ratio to gauge the strength of a company's dividend coverage on a forward-looking basis. The numerator in the ratio is the sum of the company's forecasted free cash flows over the next five full fiscal years, less its net debt or plus its net cash position at the end of its latest fiscal year (please note that we are only taking long-term debt into account in this calculation). Other balance sheet considerations are at times considered in this calculation as well, such as pension, legal or environmental liabilities.

Pivoting now to the denominator, this is represented by the sum of the company's forecasted dividend obligations over the next five full fiscal years. In the upcoming graphic down below, we highlight Kimberly-Clark's Dividend Cushion Cash Flow Bridge. The company's Dividend Cushion ratio of 1.1 earns the firm a "GOOD" Dividend Safety rating, and please note this includes our expectations that Kimberly-Clark will push through decent dividend growth over the coming years. Kimberly-Clark has a "GOOD" Dividend Growth rating.

Dividend Cushion Ratio Evaluation

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

Dividend Cushion Ratio Deconstruction

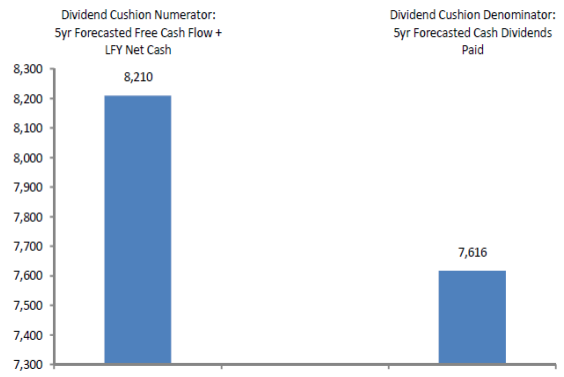

Image Shown: *A visual breakdown of Kimberly-Clark's Dividend Cushion ratio, which sits just above parity (1) indicating the company will likely be able to continue meeting its dividend obligations going forward.*

We appreciate Kimberly-Clark's solid Dividend Cushion ratio, though we would prefer the firm allocate its "excess" free cash flows (remaining free cash flows after covering its dividend obligations) towards improving its balance sheet instead of buying back its stock. **A stronger balance sheet would go a long way in improving the company's outlook. Considering its balance sheet strength has been improving of late, we see things moving in the right direction on this front.**

Though serious near-term headwinds remain due to the ongoing COVID-19 pandemic and uncertainty over whether additional fiscal stimulus measures in the US will materialize in the near-future, we have a favorable view of Kimberly-Clark's long-term outlook. Its cost structure improvements should further improve the company's already impressive cash flow profile, and Kimberly-Clark's top-line growth trajectory remains bright. Kimberly-Clark should be able to continue meeting its dividend obligations going forward, in our view, with room for decent income growth over the coming years.

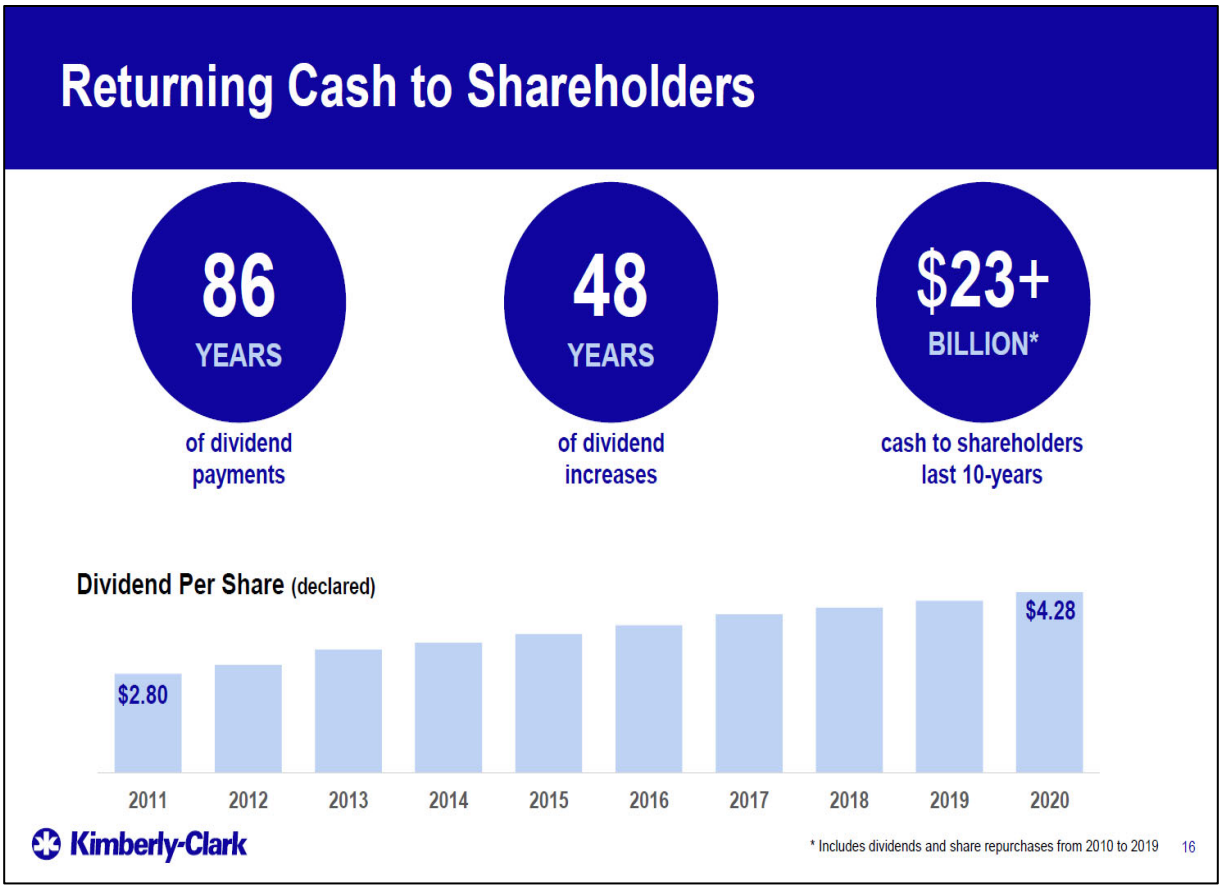

Image Shown: *Kimberly-Clark is a Dividend Aristocrat.* ***Image Source:*** *Kimberly-Clark – September 2020 IR Presentation*

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

Exxon Mobil's Weak Forward-Looking Dividend Coverage Is Very Concerning

Image Source: *Exxon Mobil Corporation – Third Quarter of 2020 IR Earnings Presentation*

By Callum Turcan

Exxon Mobil Corporation (XOM) has contended with enormous headwinds so far in 2020 due to the ongoing coronavirus ('COVID-19') pandemic, **and that has put its dividend at risk.** Over the past couple of years, the company has come nowhere close to generating enough free cash flow to cover its dividend obligations. Exxon Mobil's forward-looking dividend coverage appears quite weak and **the company is currently leaning heavily on debt markets to keep making good on those obligations.** As of this writing, shares of XOM yield ~9.1% as investors are increasingly pricing in the chance for a meaningful payout cut.

Deteriorating Upstream Outlook

The long-term slide in Exxon Mobil's upstream production base (the side of the energy industry responsible for extracting oil, natural gas, and natural gas liquids from the ground) will be hard to reverse. Declines at its legacy upstream operations are largely responsible here. Exxon Mobil pumped out ~4.2 million barrels of oil equivalent per day ('BOE/d') in 2012, which fell down to ~3.8 million BOE/d in 2018 before rebounding to just under 4.0 million BOE/d in 2019. That rebound was made possible in large part through enormous investments in its unconventional upstream operations in the Permian Basin that stretches across West Texas and Southeastern New Mexico. Horizontal wells that are completed with hydraulic fracturing activities, known as "fracked" wells, represent the bulk of Exxon Mobil's investment in this region.

Exxon Mobil's major capital investments in the Permian Basin have helped (to a degree) offset natural production declines seen at other parts of its upstream asset base over the past few years. Additionally, Exxon Mobil's upstream operations in Guyana (which achieved first-oil in late-2019) have more recently started helping the firm prop up its production of raw energy resources.

With that in mind, Exxon Mobil's upstream output continued to slip lower in 2020. During the third quarter of 2020, the firm's upstream production came in below 3.7 million BOE/d. Looking at its output during the first nine months of 2020, Exxon Mobil still reported a meaningful decline compared to year-ago levels (the firm's output stood below 3.8 million BOE/d during the first three quarters of this year, down from 3.9 million BOE/d in the year-ago period).

Shale Treadmill

Some of these pressures were due to the company and its partners curtailing output in the face of low raw energy resources pricing, and in certain regions, due to government mandates. Also, Exxon Mobil is forced to contend with the "shale treadmill" given that unconventional upstream operations now represent a much bigger part of its overall upstream portfolio than they did just five years ago. The shale treadmill means that upstream operators need to continuously invest enormous sums towards developing unconventional assets or face significant production declines (which in turn greatly limits their revenue generating and ultimately cash flow generating abilities). This dynamic significantly limits the ability for the upstream shale-focus industry to generate free cash flows.

Exxon Mobil cut its capital expenditure budget for 2020 versus year-ago levels given management's desire to defend the company's dividend, and in light of subdued raw energy resources pricing. In 2019, Exxon Mobil spent about $24.4 billion on its capital expenditures, which the company aims to bring down to ~$23.0 billion in 2020 (the firm was initially targeting ~$33 billion in capital expenditures this year). In 2021, that figure is forecasted to fall to $16.0 - $19.0 billion according to management. Some of the capital expenditure expectation reductions are coming from Exxon Mobil cutting its Permian Basin development budget.

Now that Exxon Mobil is taking its foot off the gas pedal when it comes to its capital expenditure expectations, sharp production decline rates in the region ("fracked" wells experience production declines in their first year that range from 45%-80%) will weigh very negatively on the trajectory of its upstream production in the medium-term. Though the company aims to keep growing its Permian Basin production in the near-term, given the drop off in capital expenditures planned for 2021, that growth trajectory is at risk of stalling out. **More broadly, even a slowing of Exxon Mobil's Permian growth story could see its upstream production base move much lower in the short-term due to output declines at its legacy assets.**

In the upcoming graphics down below, we highlight Exxon Mobil's historical upstream production growth in the Permian Basin, along with its forecasts made before and after the pandemic. The first graphic is from an investor presentation given back in October 2018 and the second is from Exxon Mobil's latest earnings update.

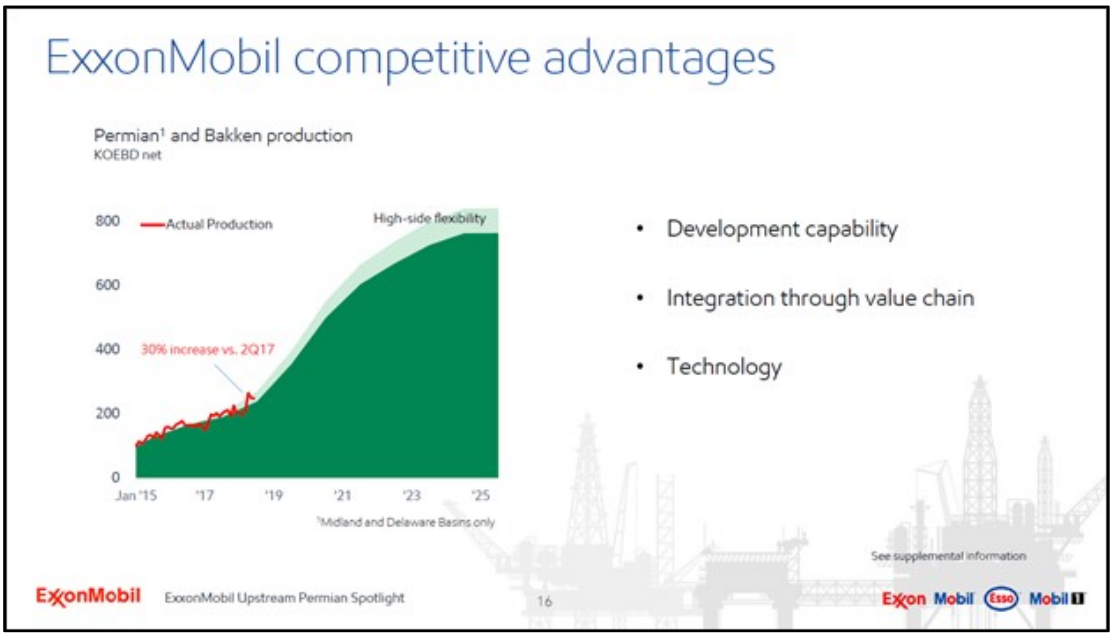

Image Shown: *After making the Permian Basin a core part of its business profile in the middle of the 2010s decade, Exxon Mobil started dedicating enormous sums towards developing unconventional upstream opportunities in the region. These short-cycle projects soon yielded material production growth, helping Exxon Mobil offset production declines elsewhere.* ***Image Source:*** *Exxon Mobil – October 2018 IR Presentation*

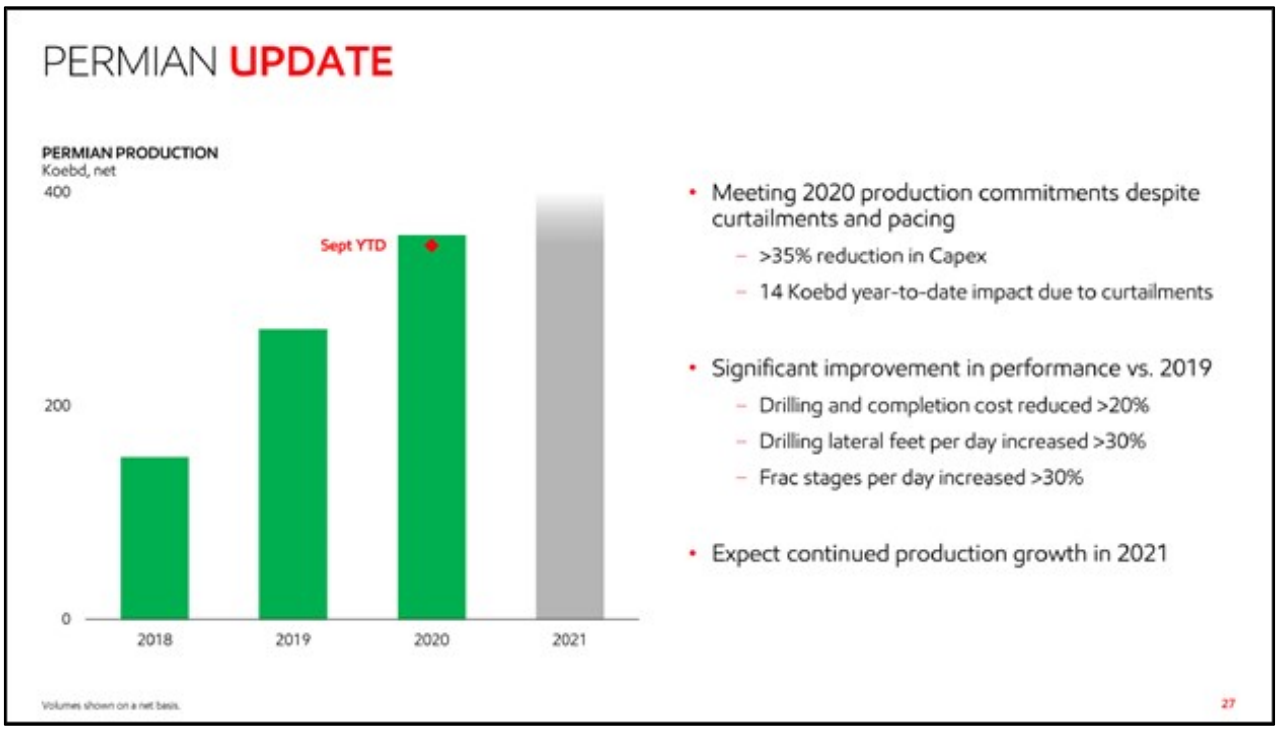

Image Shown: *Exxon Mobil expects its Permian Basin production will continue to grow in 2021, though at a much slower pace than in the recent past.* ***Image Source:*** *Exxon Mobil – Third Quarter of 2020 IR Earnings Presentation*

Upstream Operations and Exxon Mobil's Weak Dividend Coverage

Exxon Mobil's refining, petrochemical, and distribution operations are impressive. **However, it is the upstream assets of large energy companies that generate the bulk of their cash flows in most instances** (save for when raw energy resources pricing gets exceptionally low). Therefore, we pay close attention to the upstream performance of these energy giants. Please be aware that in terms of cash flow, its upstream segment generally is even a larger part of Exxon Mobil's financial performance than its segment-level operating income/loss would indicate due to significant non-cash DD&A expenses (a product of sizable upstream capital investments).

In the third quarter of 2020, Exxon Mobil's 'Chemicals' segment generated ~$0.55 billion in adjusted segment-level operating income, more than double year-ago levels. Stronger sales volumes of its petrochemical products were the main reason for the improvement. However, Exxon Mobil's 'Upstream' segment reported a $0.4 billion adjusted segment-level operating loss in the third quarter of 2020, down sharply from a $2.2 billion adjusted segment-level operating profit in the same period last year. Lower raw energy resources pricing was the main culprit here, though modestly lower production volumes also weighed negatively on Exxon Mobil's upstream performance.

Usually Exxon Mobil's 'Downstream' segment (includes its refineries and various distribution operations) lends a helping hand. However, as global refined petroleum product demand remains subdued due to the COVID-19 pandemic, this segment reported an adjusted segment-level operating loss of $0.2 billion in the third quarter of 2020, down from an adjusted segment-level operating profit of $1.2 billion in the same quarter last year. **Exxon Mobil's refining margins have been crushed by the pandemic, as has its sales volumes.**

In 2019, Exxon Mobil generated $5.4 billion in free cash flow which covered just a portion of the $14.7 billion it spent covering dividend payments to its common shareholders. During the first nine months of 2020, Exxon Mobil generated -$3.0 billion (negative $3.0 billion) in free cash flow yet spent $11.2 billion covering dividend payments to its common shareholders. **We are not fond of Exxon Mobil's forward-looking dividend coverage.** The company is entirely reliant upon its ability to keep tapping capital markets for funds to cover these obligations, debt markets in particular given its weak stock price performance over the past few years.

Exxon Mobil exited September 2020 with a **net debt position of $60.0 billion** (inclusive of short-term debt), and **that burden will only continue to grow as long as its dividend remains as is.** Exxon Mobil's net debt load stood at $43.8 billion (inclusive of short-term debt) at the end of 2019.

Our Dividend Cushion ratio for Exxon Mobil sits at 0.1 and the firm has a "VERY POOR" Dividend Safety rating. The numerator in the Dividend Cushion ratio is the sum of Exxon Mobil's forecasted free cash flows over the next five full fiscal years, less its net debt position at the end of its latest fiscal year (net debt is defined as long-term debt less its cash-like assets), while the denominator is Exxon Mobil's forecasted total dividend obligations during this period. Given that its net debt load increased during the first three quarters of 2020, Exxon Mobil's Dividend Cushion ratio likely deteriorated further this year.

Unless raw energy resources pricing improves considerably, Exxon Mobil will be forced to continue accumulating a lot of debt on the books in order to keep making good on its onerous dividend obligations. **In our view, there is a very real chance Exxon Mobil will be forced to cut its dividend in the medium-term.** Though management has pledged to push through sizable operating expense reductions (this strategy involves headcount reductions as well as other cost savings initiatives) on top of planned cuts in the firm's capital expenditure expectations, that can only do so much in a world with subdued refined petroleum product demand and low raw energy resources pricing. Here is what management had to say during Exxon Mobil's latest earnings call (emphasis added):

> *"In terms of cash OpEx, in April [2020],* ***we gave the organization a target to reduce operating expenses for the year by 15%.*** *We're well on our way to delivering even larger reductions and will achieve further structural efficiencies next year. We reduced this year's CapEx plan by 30% to $23 billion and similar to OpEx, expect to finish the year below our reduction target. To achieve this, we took steps to delay or postponed projects in construction. We challenged our organization and partners to offset any value impact from these delays with additional execution efficiencies, and our project teams delivered.*
>
> *In 2021, we expect to drive CapEx lower than this year to between $16 billion and $19 billion. Portfolio high grading activities are continuing. Our current conditions are challenging. We're making progress and anticipate additional assets in the market over the next 12 months.*
>
> ***And finally, there will be no change to our capital allocation priorities of investing in industry advantaged projects, maintaining a strong balance sheet and paying a reliable dividend.*** *The progress we've made this year gives us confidence as we head into 2021. The work done over the last couple of years to improve our organization and drive efficiencies paid off in responding to the pandemic." --- Jack Williams, Senior VP of Exxon Mobil*

We find to hard to believe that Exxon Mobil can continue investing heavily in its asset base (though the company's capital expenditure expectations have come down considerably, they remain elevated due in part to the shale treadmill dynamic) while "maintaining a strong balance sheet and paying a reliable dividend." There is no way Exxon Mobil, in the current environment, can accomplish those three things. Asset sales will only do so much, especially given how difficult it will be to get a good price for those assets in the current environment.

Concluding Thoughts

The ongoing COVID-19 pandemic has devastated the oil & gas industry, and the pain goes well beyond just low oil prices. Exxon Mobil has put on a brave face, though we caution that its financial position is becoming precarious. OPEC and OPEC+ members may consider extending and/or deepening their existing production curtailments agreement, but that would be a hard sell for some countries, and furthermore, this task is made more difficult now that most of Libya's oil production is back online. Soon Exxon Mobil may have to make some very tough, but necessary, decisions regarding its capital allocation priorities.

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

Chevron's Forward-Looking Dividend Coverage is Becoming Stressed

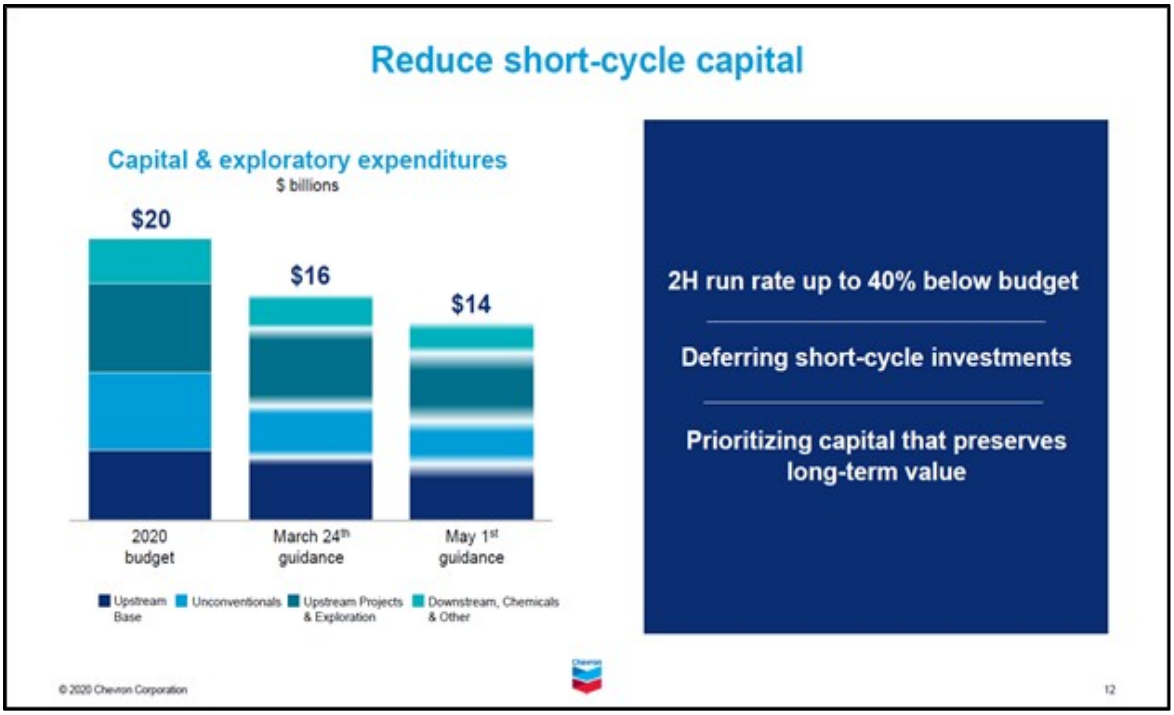

Image Shown: *Chevron Corporation reduced its capital expenditure expectations a couple of times this year, though that still has not enabled the firm to generate meaningful free cash flows given the various headwinds facing its businesses.* ***Image Source:*** *Chevron Corporation – November 2020 IR Presentation*

By Callum Turcan

On October 30, Chevron Corporation (CVX) reported third quarter earnings for 2020. As expected, it was a brutal report from Chevron. The ongoing coronavirus ('COVID-19') pandemic decimated global energy demand and severely weakened raw energy resources pricing at a time when refining margins are quite weak. **This double whammy saw Chevron post a $0.2 billion GAAP net loss in the third quarter of 2020 as its revenues tanked.**

Dividend Coverage Facing Serious Headwinds

Chevron's 'Upstream' segment (responsible for the production of raw energy resources like crude oil, natural gas liquids, and natural gas from the ground) reported $0.2 billion in segment-level operating profit last quarter, down 91% year-over-year. The company's 'Downstream' segment (responsible for its refining and petrochemical operations) reported $0.3 billion in segment-level operating profit last quarter, down 65% year-over-year. Additionally, Chevron's 'All Other' segment reported a segment-level operating loss of $0.8 billion last quarter (however, that loss was 23% smaller than year-ago levels). Pain is widespread. **Low raw energy resources pricing played a leading role in dragging down its upstream performance, while lower sales volumes and weak refining margins were key in hampering Chevron's downstream performance last quarter.**

Even more troublesome, **Chevron has so far refused to cut its dividend on conserve cash.** The company generated almost $1.5 billion in free cash flow during the first nine months of 2020, though Chevron spent $7.2 billion on its dividend payments and another $1.5 billion repurchasing its shares on a net basis during this period (according to the firm's latest 10-Q SEC filing). Considering Chevron exited September 2020 with a net debt position of $27.9 billion (inclusive of short-term debt), up from a net debt position of $21.2 billion (inclusive of short-term debt) at the end of 2019, **it is clear that Chevron's balance sheet is becoming stressed in order to keeping making good on its dividend obligations.**

Management's strategy, like those of some of Chevron's peers, seems to be heavily rooted in the belief that raw energy resources pricing will improve come 2021. **If that is not the case, then Chevron will need to make some tough choices.** There is a limit to how much debt Chevron can take on to fund its cash flow outspend. Divestments are sometimes touted as a way to bring the gap, though there is a limit to how many assets Chevron can sell off before its cash flow generating abilities are negatively impacted in a big way. After the third quarter closed, Chevron entered into an agreement to sell its Appalachian natural gas-oriented assets for a little more than $0.7 billion to EQT Corporation (EQT), and management noted that Chevron aims to close the deal by the end of this year according to commentary given during the firm's latest earnings call.

Chevron completed its all-stock acquisition of Noble Energy in early-October, and that deal will add to Chevron's net debt load given Noble Energy had a net debt position. Additionally, Chevron will have a modestly larger outstanding diluted share count to make dividend payments to as roughly 58 million shares of CVX were issued to fund the Noble Energy deal. Noble Energy's former midstream spin-off (which owns various energy infrastructure assets like gathering networks and processing facilities), Noble Midstream Partners LP (NBLX), also has a meaningful net debt load. Chevron now owns Noble Midstream Partners' general partner and has a large economic stake in the midstream firm.

As of this writing, shares of CVX yield ~5.9% as investors are becoming increasingly worried Chevron will not be able to keep supporting its generous dividend payouts going forward, short of a significant increase in raw energy resources pricing materializing in the near-future. Chevron has a Dividend Cushion ratio of 0.7, though we still give the firm a "VERY POOR" Dividend Safety rating given that the company is very reliant on volatile commodity prices and carries a large (and growing) net debt load.

Concluding Thoughts

Many energy giants have so far refused to cut their dividend payments in the face of the ongoing COVID-19 pandemic, subdued raw energy resources pricing, and lackluster refining margins. Some areas of the petrochemical space have held up better, but ultimately, it is the upstream operations of these energy giants that generate the bulk of their cash flows (generally speaking). If raw energy resources pricing remains subdued, payouts are at risk across the board. Almost no energy firm's dividend payouts are truly safe in this environment. In our view, Magellan Midstream Partners L.P. (MMP) will be able to keep making good on its generous payout obligations going forward, which is why we include units of MMP in our High Yield Dividend Newsletter portfolio.

Image Shown: *Shares of Chevron are down significantly year-to-date as of this writing.*

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

Realty Income Remains Resilient and Its Outlook is Improving

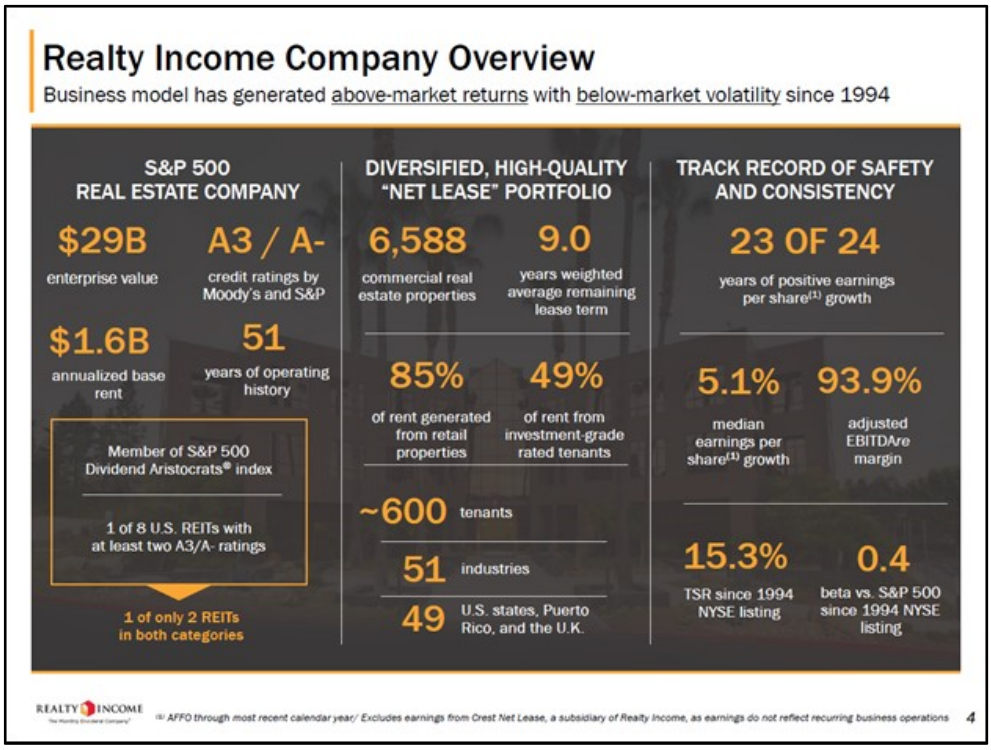

Image Shown: *An overview of Realty Income Corporation's asset base and historical financial performance.* ***Image Source:*** *Realty Income Corporation – Third Quarter of 2020 IR Earnings Presentation*

By Callum Turcan

On November 2, Realty Income Corporation (O) posted third quarter earnings for 2020 that saw the real estate investment trust's ('REIT') funds from operations ('FFO') come in flat year-over-year at $0.82 per share, while its adjusted funds from operations ('AFFO') declined by 2% year-over-year, hitting $0.81 per share. Realty Income invests in single-tenant commercial properties, and its business has faced headwinds from the ongoing coronavirus ('COVID-19') pandemic. However, **things are starting to improve**, though there is ample room for additional improvement. We like the relative resilience of Realty Income's financials and continue to include shares of O at a modest weighting in our Dividend Growth Newsletter portfolio. As of this writing, shares of Realty Income yield ~4.7% and for reference, the REIT pays out a monthly dividend.

Please note FFO and AFFO are heavily adjusted non-GAAP figures, though these metrics are useful for gauging the trajectory of a REIT's financial performance. **In September 2020, Realty Income pushed through its 108th dividend increase since going public back in 1994.** The REIT's monthly dividend now stands at $0.234. On an annualized basis based on its current monthly per share dividend and AFFO per share performance in the third quarter, Realty Income's payout ratio stood at ~87% in the third quarter of 2020. Though we prefer payout ratios below 80%, we expect Realty Income's financial performance will improve significantly over the coming months (which we will cover in just a moment).

It is imperative that Realty Income retain constant access to capital markets at attractive rates to refinance its debt maturities, fund its growth investments, and to be able to continue meeting its payout obligations going forward. **Realty Income retains solid "A-rated" investment grade credit ratings (A3/A-) which has helped the REIT tap debt markets at attractive rates in the recent past.** In October 2020, Realty Income issued out £400 million in 1.625% senior unsecured notes due December 2030 at 99.191% of par.

Quarterly Update

During the third quarter, Realty Income collected on 93.1% of the contractual rent it is owed according to management commentary during the REIT's latest earnings call. That figure dropped down to 92.9% for the month of October, **with most of the trouble coming from its movie theater tenants given the immense financial stress facing that industry due to the COVID-19 pandemic.**

Management noted during Realty Income's latest earnings call that "our confidence level associated with the collectability of a portion of our outstanding theater receivables has diminished" and additionally that "we believe it is prudent to establish a full reserve for the outstanding receivable balance for 37 of our 78 total theater assets, and to move to cash accounting for revenue recognition purposes, for these 37 assets going forward. We deemed the collectability of rents for these 37 theater assets to be less than probable, based on a variety of factors including the store level performance of these assets." **This weighed on Realty Income's FFO and AFFO performance last quarter, though eventually there will be a resolution on this front.**

In the upcoming graphic down below, Realty Income highlights which type of tenants have been paying rent and where the REIT has had problems collecting rent. **Most of Realty Income's tenants have been able to keep paying rent during the pandemic**, it is largely just tenants operating within the movie theater industry that have been weighing down its financial performance.

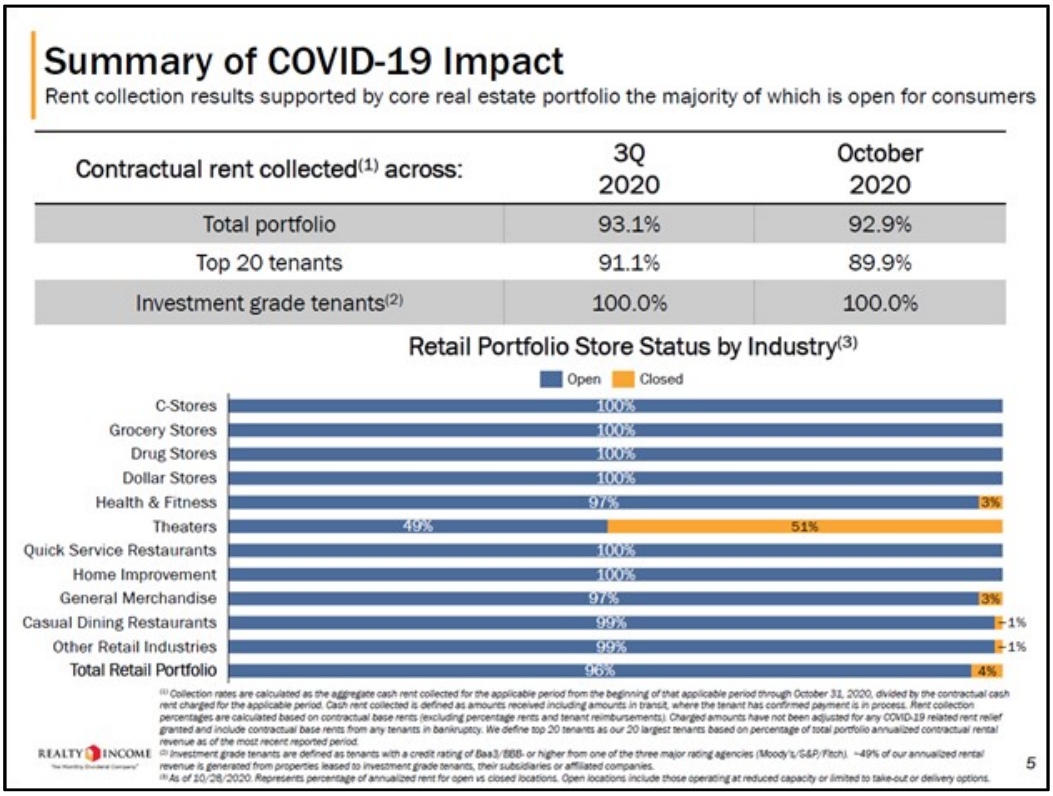

Image Shown: *While the vast majority of Realty Income's tenant base has continued to pay rent contractually owed to the REIT during the COVID-19 pandemic, a large chunk of its movie theater tenant base has not.* ***Image Source:*** *Realty Income – Third Quarter of 2020 IR Earnings Presentation*

As it concerns Realty Income's non-rent paying tenants, the recent news that Pfizer Inc (PFE) and BioNTech (BNTX) are getting much closer to potentially receiving regulatory approval for their COVID-19 vaccine candidate (though nothing is for certain at this point) is a very promising sign that things could soon begin to "return to normal." **By that we mean movie theaters would be able to open back up at full capacity (eventually) and in theory, resume rent payments to Realty Income should a safe and viable COVID-19 vaccine get discovered.**

Management noted that the REIT's "theater portfolio is one of very high-quality, and we estimate that 82% of theatres in our portfolio are in the top two quartiles of each operator's portfolio in terms of store level performance." With that in mind, management also mentioned that they expect there will be a "rationalization in the overall theatre industry, which may require repositioning some of our properties." Whatever the outcome, we view Realty Income as eventually coming to a resolution on this front.

Some of the other tenants Realty Income has had trouble collecting rent from, such as those operating in the 'health & fitness' and 'general merchandising' industries, would likely see their financial performance improve in the event the global economy starts to return to pre-pandemic activities.

Realty Income was able to collect 100% of the contractually owed rent it was due in both the third quarter of 2020 and the month of October from its tenants with investment grade credit ratings. The REIT's recent acquisitions have focused on adding investment grade tenants to its tenant base, which we appreciate. Additionally, Realty Income receives ~37% of its rental revenues from tenants that operate "convenience stores, drug stores, grocery stores and dollar stores" which sell "essential goods" according to the REIT's management team's recent commentary. Realty Income noted that "we have received nearly all of the contractual rent due to us from tenants in these industries since the pandemic began" during its latest earnings call.

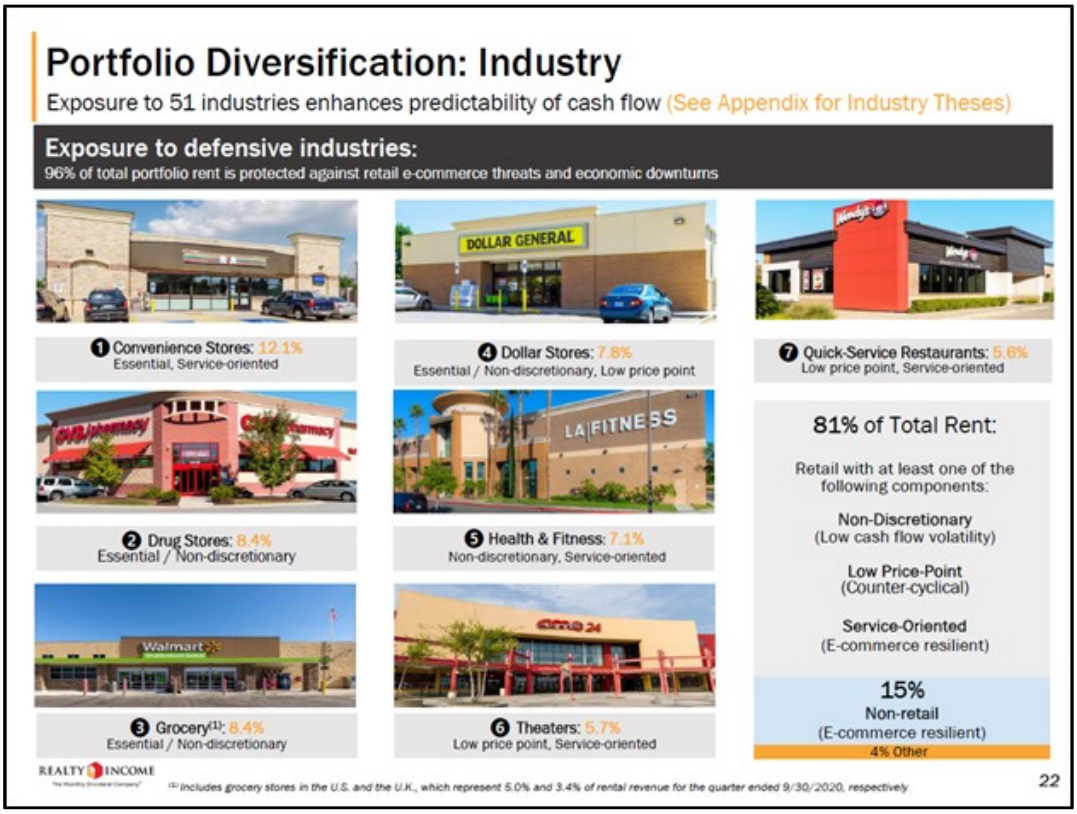

Image Shown: *Many of Realty Income's tenants sell essential goods and have been able to continue operating throughout the pandemic, enabling those tenants to keep making rent payments to Realty Income.* ***Image Source:*** *Realty Income – Third Quarter of 2020 IR Earnings Presentation*

Balance Sheet Update

At the end of the third quarter of 2020, Realty Income had $8.4 billion in total debt (inclusive of short-term debt) and $0.7 billion in cash and cash equivalents on hand. **Given its enormous growth-related capital expenditures, Realty Income generated negative free cash flows during the first nine months of 2020.** As stated previously, the REIT's access to capital markets needs to be monitored at all times, and part of that process involves keeping a close eye on Realty Income's balance sheet.

In the upcoming graphic down below, Realty Income provides an overview of its debt maturity schedule as of the end of September 2020 (specifically for its 'notes payable' balance, and there are other debt-like items to be aware of here). Please note that the firm issued out debt after the third quarter closed, as mentioned previously, with some of those proceeds going towards paying down its $3.0 billion revolving credit facility (which matures in March 2023, with two six-month extension options).

8. Notes Payable

A. General

Our senior unsecured notes and bonds consist of the following, sorted by maturity date (dollars in millions):

	September 30, 2020	December 31, 2019
5.750% notes, issued in June 2010 and due in January 2021	$ —	$ 250
3.250% notes, $450 issued in October 2012 and $500 issued in December 2017, both due in October 2022	950	950
4.650% notes, issued in July 2013 and due in August 2023	750	750
3.875% notes, issued in June 2014 and due in July 2024	350	350
3.875% notes, issued in April 2018 and due in April 2025	500	500
4.125% notes, $250 issued in September 2014 and $400 issued in March 2017, both due in October 2026	650	650
3.000% notes, issued in October 2016 and due in January 2027	600	600
3.650% notes, issued in December 2017 and due in January 2028	550	550
3.250% notes, issued in June 2019 and due in June 2029	500	500
3.250% notes, $600 issued in May 2020 and $350 issued in July 2020, both due in January 2031	950	—
2.730% notes, issued in May 2019 and due in May 2034 [1]	407	418
5.875% bonds, $100 issued in March 2005 and $150 issued in June 2011, both due in March 2035	250	250
4.650% notes, $300 issued in March 2017 and $250 issued in December 2017, both due in March 2047	550	550
Total principal amount	7,007	6,318
Unamortized net original issuance premiums and deferred financing costs	(12)	(30)
	$ 6,995	$ 6,288

[1] Represents the principal balance (in U.S. dollars) of the Sterling-denominated private placement of £315.0 million converted at the applicable exchange rates on September 30, 2020, and December 31, 2019, respectively.

Image Shown: *We appreciate the staggered nature of Realty Income's debt maturity schedule.* ***Image Source:*** *Realty Income – 10-Q SEC filing covering the third quarter of 2020*

Realty Income's cash on hand, the access to liquidity provided by its revolving credit line, its apparent ability to tap capital markets at attractive rates, and the staggered nature of its debt maturity schedule should put Realty Income in a position to keep refinancing its debt load at reasonable rates going forward. We appreciate that Realty Income does not have a significant amount of debt coming due until 2022, though we caution its net debt load is sizable.

As it concerns Realty Income's 'mortgages payable' balance, it had a negligible amount due for the remainder of 2020 (less than $11 million in principal due) and 2021 (less than $70 million in principal due) at the end of the third quarter. In 2022, the REIT has approximately $112 million in principal due from its mortgages payable balance, though that is a relatively modest sum given Realty Income's size (in total, the firm has roughly $335 million in principal due from its mortgages payable balance, as of the end of September 2020). On a final note here, Realty Income also has a $250 million term loan maturing in March 2024 to be aware of.

We view Realty Income's debt maturity schedule and financial needs at-large as manageable. In the third quarter of 2020, the REIT raised roughly $0.35 billion through its at-the-market ('ATM') equity issuance program. The REIT also issued $0.35 billion in 3.250% senior unsecured notes due 2031 at 108.241% of par in July 2020, raising north of $0.35 billion in gross proceeds. **Realty Income will likely retain solid access to capital markets at attractive rates going forward.**

Concluding Thoughts

Realty Income's outlook is improving and we expect its FFO and AFFO performance will improve significant over the coming months as the REIT bulks up its tenant base with investment grade credit ratings and starts to move forward with a resolution regarding the rent it is owed from its movie theater tenants. Most of Realty Income's tenant base has continued to pay rent during the pandemic, and we appreciate its exposure to retailer's selling essential goods. Through future acquisition activities, Realty Income should be able to continue adding high quality tenants (those with investment grade credit ratings and/or those that operate in attractive industries) to its tenant base.

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

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

THE SIMULATED HIGH YIELD DIVIDEND NEWSLETTER PORTFOLIO

We think the High Yield Dividend Newsletter portfolio positions us fairly well for whatever the market may throw at us, whether it's COVID-19 or another calamity. The newsletter portfolio is pretty well-diversified, and we've started to identify some pretty good individual equity ideas of late. That said, **high yield investing is inherently risky.**

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

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

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

Idea	Symbol	Weighting	Est Div Yield
CORE			
PowerShares Senior Loan Portfolio	BKLN	5.0%	3.82%
iShares MSCI Australia ETF	EWA	5.0%	3.26%
ProShares High Yield—Interest Rate Hedged	HYHG	5.0%	5.42%
iShares International Select Dividend ETF	IDV	5.0%	6.31%
iShares U.S. Preferred Stock ETF	PFF	5.0%	5.19%
Global X SuperDividend ETF	SDIV	5.0%	7.35%
Global X SuperIncome Preferred ETF	SPFF	10.0%	5.80%
Vanguard Consumer Staples ETF	VDC	5.0%	2.86%
Vanguard Real Estate ETF	VNQ	10.0%	3.51%
Utilities Select Sector SPDR	XLU	5.0%	3.10%
EQUITY			
AT&T	T	5.0%	7.23%
Crown Castle	CCI	5.0%	3.17%
CyrusOne Inc.	CONE	5.0%	2.92%
CubeSmart	CUBE	5.0%	4.06%
Digital Realty Trust	DLR	5.0%	3.32%
Enterprise Products Partners	EPD	2.5%	9.18%
Magellan Midstream Partners	MMP	2.5%	9.99%
Philip Morris	PM	5.0%	6.34%
Public Storage	PSA	5.0%	3.56%
Cash**	-	0.0%	0.00%
		100.0%	**4.81%**

This is not a real money portfolio. Inception 1/1/2018. Data as of 12/1/2020. Est. Div. Yield information retrieved from SeekingAlpha.

*** Reflects federal funds target rate range*

Valuentum's Stock Dividend Research | Visit us at www.valuentum.com | Ratings as of 9-Nov-2020 | Data as of 6-Nov-2020

Walgreens Boots Alliance WBA FAIRLY VALUED

Buying Index™ 6 Value Rating

Economic Castle	Stock Fair Value Range	Dividend Track Record	Dividend Safety / Cushion™	Div Growth Potential	Dividend Yield
Attractive	$34.00 - $52.00	HEALTHY	POOR / 0.5	POOR	5.01%

Assessment of Company Dividend Strategy

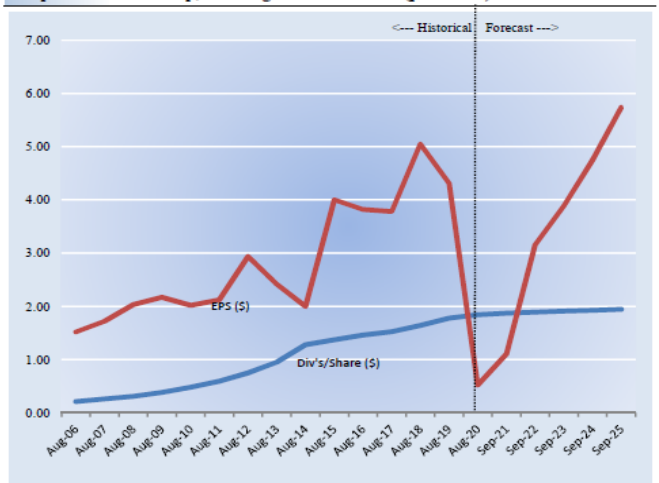
Key Strengths

When it comes to being the biggest, Walgreens Boots has something to say about it. The company has an economic interest in over 21,000 stores across ~11 countries, one of the largest global pharma wholesale and distribution networks, and substantial purchasing power for prescription drugs and wellbeing products. Walgreens has paid cash dividends every quarter since 1933, and its latest streak of consecutive annual dividend increases puts it on the coveted Dividend Aristocrats list. Free cash flow has averaged ~$5.0 billion during the past three fiscal years (2018-2020), well more than its annual run-rate cash dividend obligations of just over $1.7 billion (as of fiscal 2020).

Potential Weaknesses

Walgreens Boots' cost structure has been moving in the wrong direction over the past couple of fiscal years, and that is weighing negatively on its cash flow generating abilities. Management launched a major cost restructuring program that aims to generate at least $2.0 billion in cost savings annually by fiscal 2022, though we need to see Walgreens' financial performance improve first. Going forward, we expect Walgreens' dividend increases will be modest in nature given its large net debt load and the significant headwinds the company is contending with. There is plenty to like about Walgreens, but competitive pressures are growing.

Graphical Relationship, Earnings and Dividends (per share)

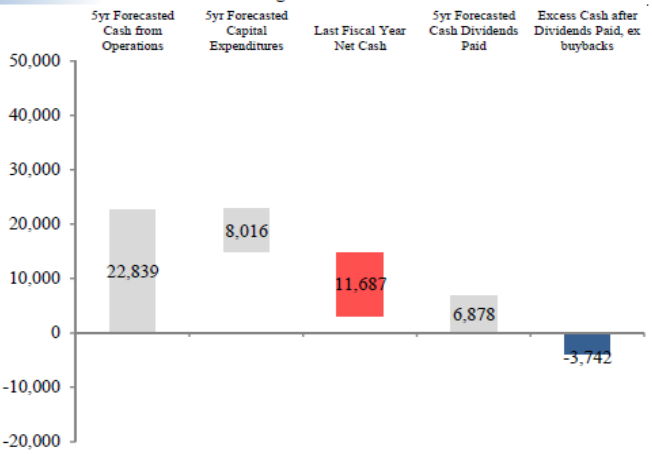


The graph above shows the relationship between a firm's earnings per share and its dividends per share.

Dividend Cushion Cash Flow Bridge Evaluation

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

Dividend Cushion Cash Flow Bridge

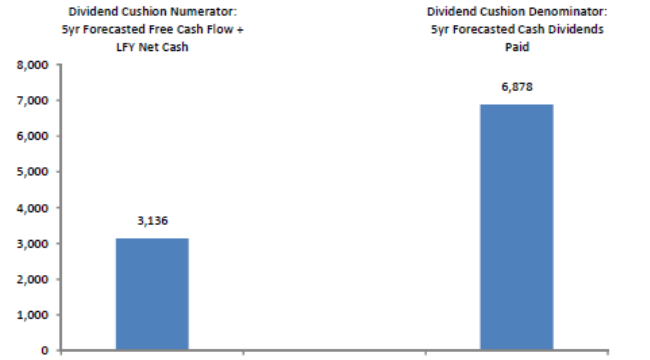


Source: Company Filings, Valuentum Projections

Dividend Cushion Ratio Evaluation

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

Dividend Cushion Ratio Deconstruction



DEFINITIONS

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

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

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

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