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HIGH YIELD DIVIDEND NEWSLETTER

TWO HIGH-QUALITY SELF-STORAGE REITS FOR THE LONG HAUL

Latest Changes to High Yield Dividend Newsletter
Removed: EWA – April 27 Added: SPYD – April 27

INSIDE THIS ISSUE

1 Two High-Quality Self-Storage REITs For the Long Haul
4 High Yielding Idea CyrusOne Beats Estimates and Raises Guidance
7 **Spotlight: *NEW* Sonoco Products' Pricing Power Supports Its Outlook**
12 PPL Corp Updates Investors, Launches Share Buyback Program
20 High Yield Dividend Newsletter Portfolio
21 Dividend Report Page 2 – LyondellBasell (LYB)

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"EQUITIES OF SELF-STORAGE REITS, INCLUDING TWO OF OUR FAVORITES PUBLIC STORAGE (PSA) AND CUBESMART (CUBE), HAVE BEEN SURGING HIGHER OF LATE. THE GROWTH TRAJECTORY FOR THE SELF-STORAGE INDUSTRY IS SUPPORTED BY POWERFUL SECULAR GROWTH TAILWINDS, PARTICULARLY IN THE US, AS HOUSEHOLDS SEEK TO MAXIMIZE THEIR LIVING SPACE IN AN ECONOMICAL MANNER. WE INCLUDE BOTH PUBLIC STORAGE AND CUBESMART AS IDEAS IN THE HIGH YIELD DIVIDEND NEWSLETTER PORTFOLIO."

– CALLUM TURCAN

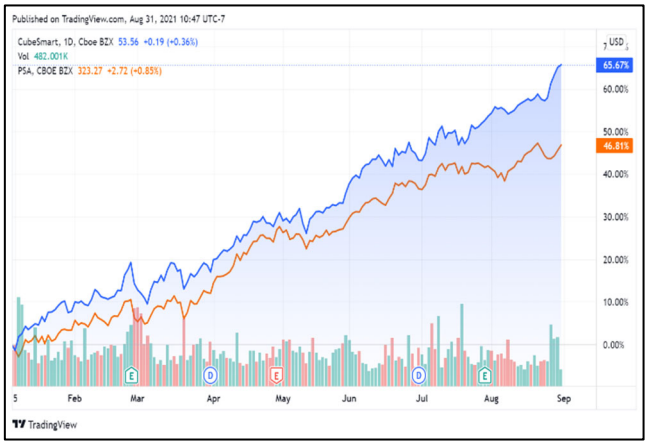


Image Shown: *Shares of CubeSmart (depicted by the blue line) and Public Storage (depicted by the orange line), two self-storage REITs that are included as ideas in the High Yield Dividend Newsletter portfolio, have surged higher year-to-date.*

By Callum Turcan

We are big fans of the self-storage real estate investment trust ('REIT') industry, particularly in the US. These REITs offer their customers an economical way to maximize their living space at a time when domestic housing prices are surging from a baseline that is already quite high.

Additionally, **self-storage REITs are well-positioned to push through continuous rent increases** given that the monthly rental expense for a self-storage unit for an ordinary US household likely represents just a sliver of their monthly budget, as compared to a monthly rental expense for a primary home or the monthly groceries budget, etc.

This dynamic (generally speaking) enables self-storage REITs to post strong and consistent organic growth, outside of extenuating circumstances. **Even during the worst of the coronavirus ('COVID-19') pandemic in the US last year, it did not take long for the self-storage REIT industry to resume rental rate increases and other normal business practices**, such as evicting long overdue tenants (meaning their stuff) from self-storage units.

Unlike primary housing units, the US government, at least at the federal and most state levels (if at all), did not intervene on a mass scale to prevent self-storage operators from kicking out the "stuff" of overdue tenants. Please note many firms in the industry did offer a couple to a few months reprieve during the worst of the COVID-19 pandemic to those that couldn't or wouldn't pay.

Overview of CubeSmart and Public Storage

Our favorite two names in the space are CubeSmart (CUBE) and Public Storage (PSA). **Both companies are included as ideas in the High Yield Dividend Newsletter portfolio, and we continue to be huge fans of CUBE and PSA.**

CubeSmart's asset base is located entirely in the US as of the end of 2020, which included ~540 self-storage facilities along with a sizable third-party self-storage management platform. **What makes CubeSmart stand out is the size of its third-party management platform, especially compared to that of its peers.**

At the end of 2020, CubeSmart managed over 720 self-storage facilities for third parties, which included just under 110 facilities managed via five separate unconsolidated ventures. These management platforms are an important way to source future growth opportunities and in the meantime, these operations can generate meaningful cash flows and insights into the industry at-large.

Public Storage has a sizable international presence, though its core asset base and most of its operations are in the US. At the end of 2020, Public Storage's asset base consisted of ~2,550 self-storage facilities (a small portion of which Public Storage had only a noncontrolling interest in) along with a third-party self-storage management platform. **Public Storage managed over 90 self-storage facilities at the end of 2020, and more recently, growing this operation has become a core focus for the REIT.**

Furthermore, Public Storage owned a ~42% equity interest in PS Business Parks Inc (PSB), a REIT that focuses on multi-tenant industrial, flex and office space, at the end of 2020, along with a ~35% equity interest in Shurgard Self Storage SA, which owns and operates self-storage facilities in seven countries across Western Europe and trades on the Euronext Brussels stock exchange.

In 2020, CubeSmart generated ~$0.25 billion in *positive* free cash flow (defined here as net operating cash flow less 'additions and improvements to storage properties' and 'development costs'), while spending a similar amount covering its total payout obligations. **Public Storage generated ~$1.7 billion in *positive* free cash flow last year** (defined as net operating cash flow less 'capital expenditures to maintain real estate facilities' and 'development and expansion of real estate facilities') while spending ~$1.6 billion covering its total payout obligations.

Most REITs tend to generate sizable *negative* free cash flows *after dividend payments*, though given the less capital-intensive nature of the self-storage industry versus most other types of REITs, there is room for top-quality entities here to generate substantial positive free cash flows *after dividend payments*. This is another reason why we are huge fans of the space.

Now, let us take a look at each REIT's latest earnings update and guidance boost.

CubeSmart

On July 29, CubeSmart reported second-quarter 2021 earnings that beat both consensus top- and bottom-line estimates. **Its same-storage net operating income ('NOI') surged higher 18% year-over-year last quarter as 14% revenue growth outpaced 7% operating expense growth.**

CubeSmart's same-store occupancy levels stood at a nice 95.6% during the second quarter and exited June 2021 at 96.1%, highlighting the REIT's ongoing strength in this arena. In our June 2021 article *CubeSmart Outperforms and Boosts Its Full-Year Guidance*, we highlighted how the REIT's same-store occupancy rates were steadily trending upwards (from 93.4% at the end of December 2020) which in turn helped CubeSmart boost its full-year guidance in April 2021. CubeSmart's non-GAAP adjusted funds from operations ('FFO') per share stood at $0.50 in the second quarter of 2021, up 22% versus year-ago levels. Furthermore, **CubeSmart once again boosted its full-year guidance for 2021**.

Among other things, CubeSmart significantly raised its same-store revenue and NOI growth forecasts along with its expected adjusted FFO per share in 2021 (please see upcoming graphic down below). **We are incredibly pleased with CubeSmart's latest earnings update.**

2021 Full Year Guidance Range Summary	Current Ranges for Annual Assumptions			Prior Guidance[1]		
Same-store revenue growth	10.25%	to	11.25%	4.75%	to	5.75%
Same-store expense growth	4.00%	to	5.00%	4.00%	to	5.00%
Same-store NOI growth	13.00%	to	14.00%	5.25%	to	6.25%
Acquisition of consolidated operating properties	$150.0M	to	$250.0M	$100.0M	to	$200.0M
Acquisition of properties at C/O	$ 0.0M		$ 0.0M	$ 0.0M		$ 0.0M
New development openings	$ 96.1M	to	$ 96.1M	$ 88.9M	to	$ 88.9M
Dispositions	$ 0.0M	to	$ 50.0M	$ 0.0M	to	$ 50.0M
Dilution from properties in lease-up	$ (0.05)	to	$ (0.06)	$ (0.05)	to	$ (0.06)
Property management fee income	$ 29.5M	to	$ 31.5M	$ 27.5M	to	$ 29.5M
General and administrative expenses	$ 45.0M	to	$ 46.0M	$ 45.0M	to	$ 46.0M
Interest and loan amortization expense	$ 80.0M	to	$ 82.0M	$ 80.0M	to	$ 82.0M
Full year weighted average shares and units	209.9M		209.9M	208.7M		208.7M
Earnings per diluted share allocated to common shareholders	$ 0.93	to	$ 0.97	$ 0.75	to	$ 0.81
Plus: real estate depreciation and amortization	$ 1.06		$ 1.06	$ 1.05		$ 1.05
FFO per diluted share, as adjusted	**$ 1.99**	**to**	**$ 2.03**	**$ 1.80**	**to**	**$ 1.86**

(1) Prior guidance as included in our first quarter earnings release dated April 29, 2021.

3rd Quarter 2021 Guidance	Range or Value		
Earnings per diluted share allocated to common shareholders	$ 0.24	to	$ 0.26
Plus: real estate depreciation and amortization	0.27		0.27
FFO per diluted share, as adjusted	**$ 0.51**	**to**	**$ 0.53**

Image Shown: *CubeSmart raised its full-year guidance for 2021 once again during its latest earnings report.* ***Image Source:*** *CubeSmart – Second Quarter of 2021 Earnings Press Release*

CubeSmart's third-party management platform continued to perform well during the first half of 2021, though please note that as the REIT will often acquire properties affiliated with this offering, its total managed store count has stayed largely flat this year (even though the REIT added a significant amount of new self-storage facilities to the operation on a gross basis in both the first and second quarters of 2021). Here is what CubeSmart's management team had to say on the firm's recent performance during the REIT's second quarter earnings call (emphasis added):

> *"Broad-based consumer demand for our space, when combined with positive trends in customer behavior,* ***has contributed to our record levels of physical occupancy and an extremely strong pricing power across our portfolio.*** *These positive trends when combined with our award-winning customer service and innovative technology resulted in 14% same-store revenue growth in the second quarter, the highest such growth in our history.*
>
> ***Rates to new customers were up 47% over 2019 levels during the quarter, and we were more aggressive in rate increases to existing customers. This pricing power has continued into the third quarter and is contributing to our significantly raised expectations for the back half of the year."*** *-- - Christopher Marr, CEO of CubeSmart*

During the first half of 2021, **CubeSmart generated $166 million in free cash flow and spent $139 million covering its total payout obligations during this period.** While CubeSmart exited June 2021 with a sizable net debt load, the REIT retains ample access to capital markets at attractive rates, in our view, supported by its stellar free cash flow generating abilities.

In the second quarter, CubeSmart "sold 1.0 million common shares of beneficial interest through its at-the-market ("ATM") equity program at an average sales price of $41.02 per share, resulting in net proceeds of $42.4 million, after deducting offering costs" and its stock price has only climbed higher since. Going forward, CubeSmart possess the financial capacity to keep making good on its payout obligations while managing its refinancing needs and continuing to invest in the business.

Public Storage

On August 3, Public Storage reported second quarter 2021 earnings that beat both consensus top- and bottom-line estimates. **Public Storage's same-store NOI surged higher by 21% year-over-year last quarter due to a combination of an 11% increase in same-store revenues and a 16% decrease in same-store direct cost of operations.** Public Storage's non-GAAP core FFO per share climbed higher by 28% year-over-year in the second quarter, hitting $3.15. The self-storage REIT's occupancy rate by square footage stood at 96.5% at the end of last quarter, up sharply from 94.2% at the end of December 2020.

Public Storage boosted its full-year guidance in conjunction with its latest earnings update. Among other things, Public Storage raised its same-store revenue and NOI growth to 7.0%-8.0% (from 4.0%-5.0% previously) and 9.4%-11.9% (from 4.8%-7.3% previously), respectively.

We appreciate the large guidance boost. Furthermore, Public Storage now expects to generate $11.90-$12.30 in core FFO per share this year, up from previous guidance that called for $11.35-$11.75 in core FFO per share in 2021 (please see the graphic at the top of the next page on the left hand side).

Outlook for the Twelve Months Ending December 31, 2021

The following table outlines the Company's Core FFO per share estimate and certain underlying assumptions for the year ending December 31, 2021:

	Guidance Ranges for 2021	
	Low	High
	(Amounts in thousands, except per share data)	
Same Store:		
Revenue growth	7.00%	8.50%
Expense growth	0.00%	1.00%
Net operating income growth	9.40%	11.90%
Acquisitions	$3,100,000	
Development openings	$215,000	
Non-Same Store net operating income	$225,000	$240,000
Ancillary net operating income	$137,000	$141,000
General and administrative expense	$96,000	$99,000
Interest expense	$94,000	$96,000
Preferred dividends	$182,000	
Capital expenditures	$250,000	$300,000
Core FFO per share	$11.90	$12.30

Image Shown: *Public Storage significantly boosted its full-year guidance for 2021 during its latest earnings report.* ***Image Source:*** *Public Storage – Second Quarter of 2021 Earnings Press Release*

In April 2021, Public Storage closed its $1.8 billion acquisition of ezStorage which further bolstered its self-storage portfolio in the US. We covered that deal in an article published on June 2021 and also provided our thoughts on Public Storage's long-term growth ambitions and financial targets in that note.

Last quarter, Public Storage grew its third-party management platform to ~130 self-storage properties and aims to grow that figure to 500 by 2025, according to management commentary provided during the REIT's second quarter earnings call. Additionally, Public Storage's management team had this to say regarding the REIT's pricing strength during the earnings call (emphasis added, moderately edited):

> *"Our financial performance accelerated into the second quarter driven by both strong demand from customers and execution from the team. Our same store revenue increased 10.8% compared to the second quarter of 2020.* ***That performance represented the sequential improvement and growth of 7.4% from the first quarter driven by [rental] rate [increases]. Two factors led to the acceleration in realize[d] rate per foot.***
>
> *First,* ***about half came from strong demand and limited inventory which allowed us to achieve moving rates that were up 48% versus 2020.*** *And as [Joseph Russell, President and CEO of Public Storage] mentioned* ***27% versus pre-pandemic 2019.*** *Secondly,* ***existing tenant rate increases also made up about half of the improvement****, comparing against the period when we did not send increases at the onset of the pandemic in 2020." --- Thomas Boyle, CFO of Public Storage*

During the first half of 2021, **Public Storage generated $0.9 billion in free cash flow and spent $0.8 billion covering its total payout obligations.** Like CubeSmart and virtually every other REIT, Public Storage exited June 2021 with a hefty net debt load. In our view, Public Storage retains quality access to capital markets at attractive rates and should be able to continue meeting its dividend obligations and refinancing requirements while investing in the business going forward. During the second quarter, Public Storage "refinanced $525.0 million of 5.02% weighted average preferred equity with $604 million of 4.00% preferred equity, continuing to lower our in place cost of capital" which we appreciate.

Concluding Thoughts

We are big fans of the self-storage industry. **CubeSmart and Public Storage are two of the best names in the business.** Both REITs recently beat consensus estimates and raised their full-year guidance, highlighting the ongoing momentum in their respective operational and financial performance. Shares of CUBE yield ~2.5% and shares of PSA yield ~2.5% as of this writing after a stellar run up in their respective stock prices year-to-date.

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

High Yielding Idea CyrusOne Beats Estimates and Raises Guidance

Image Source: *CyrusOne Inc – Second Quarter of 2021 IR Earnings Presentation*

By Callum Turcan

The data center and colocation service provider CyrusOne Inc (CONE) is a real estate investment trust ('REIT') that is included as an idea in the High Yield Dividend Newsletter portfolio. We liked what we saw in CyrusOne's latest earnings report.

CyrusOne reported second quarter 2021 earnings July 28 **that beat both consensus top- and bottom-line estimates, and CyrusOne also increased its full-year guidance in conjunction with its latest earnings update.**

Earnings Update

Last quarter, CyrusOne's GAAP revenues advanced 11% year-over-year while its non-GAAP normalized funds from operations ('FFO') increased 4% year-over-year, though on a per-share basis, its normalized FFO per share dropped modestly during this period as CyrusOne worked through headwinds stemming from the coronavirus ('COVID-19') pandemic. New leasing activity and reduced rent churn versus year-ago levels supported CyrusOne's performance last quarter, though management noted during the REIT's latest earnings call that some of its expected churn activity had been pushed into this quarter for various reasons. The REIT had leased out 86% of the colocation square feet ('CSF') of its stabilized properties and 83% of its total CSF at the end of the second quarter of 2021.

YEAR OVER YEAR P&L ANALYSIS / CHURN

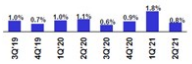
($MM)	Three Months Ended 2Q'21	2Q'20	Fav/(Unfav) $	%
Revenue	$284.6	$256.4	$28.2	11%
Property operating expenses	121.8	99.0	22.8	(23)%
Net Operating Income (NOI)	**$162.8**	**$157.4**	**$5.4**	**3%**
NOI Margin	*57.2%*	*61.4%*		
Selling, general & administrative[1]	$25.2	$24.0	$(1.2)	(5)%
Less: Stock-based compensation	(4.3)	(3.4)	0.9	26%
Adjusted EBITDA	**$141.9**	**$136.8**	**$5.1**	**4%**
Adjusted EBITDA Margin	*49.9%*	*53.4%*		
Adjusted EBITDA Margin ex. MP Reimbursements	*61.3%*	*62.4%*		
Normalized FFO	**$123.1**	**$118.9**	**$4.2**	**4%**
Normalized FFO per diluted common share[2]	**$1.00**	**$1.03**	**$(0.03)**	**(3)%**

- Revenue growth of 11% compared to 2Q'20 primarily driven by 9% increase in occupied CSF and higher metered power reimbursements
- 4% increase in Adjusted EBITDA compared to 2Q'20, driven by increase in lease and other revenues from customers
- Increase in Normalized FFO driven by increase in Adjusted EBITDA

Rent Churn

- 2Q'21 churn of 0.8%
- Expected FY'21 churn of 4-6%

Recurring Rent Quarterly Churn %[3]



2Q'21 Like-for-Like Renewal Rates (%)[4]

Notes:
1. A credit to legal claim costs of $(4.9)MM in 2Q'21 is omitted from this presentation as this line item is excluded from Adjusted EBITDA. Legal claim costs of $0.1MM in 2Q'20 are omitted from this presentation as this line item is excluded from Adjusted EBITDA. See Adjusted EBITDA reconciliation on slide 19 for more information.
2. Weighted average diluted common shares for 2Q'21 and 2Q'20 were 122.7MM and 115.7MM, respectively.
3. Recurring rent churn percentage is calculated as any reduction in recurring rent due to customer terminations, service reductions or net pricing decreases as a percentage of rent at the beginning of the period, excluding any impact from metered power reimbursements or other usage-based billing. 3Q'19 churn excludes additional 0.4% impact of a customer exit associated with legal settlement and termination fee received during the quarter; recurring revenue from that lease has not been recognized since mid-2016.
4. Renewed leases for which there is no change in the customer deployment or meaningful lease terms. The cash comparison is the initial cash rate on the new lease compared to the last cash rate on the previous lease.

2Q'21 Earnings Presentation 11 CyrusOne

Image Shown: *An overview of CyrusOne's financial performance last quarter.* ***Image Source:*** *CyrusOne – Second Quarter of 2021 IR Earnings Presentation*

CyrusOne raised its full-year guidance in conjunction with its second-quarter earnings report, boosting both its revenue and normalized FFO per share forecast, among other items, for 2021. In the upcoming graphic at the top righthand of this page, CyrusOne highlights its updated forecasts for 2021 versus its previous guidance. Timing effects are primarily responsible for the adjustment in the REIT's capital expenditure expectations this year, which shifted moderately lower versus previous forecasts (as some of its capital investments were pushed into early-2022 according to recent management commentary).

REVISED 2021 GUIDANCE

Category ($MM except for Normalized FFO per diluted common share)	Previous 2021 Guidance	Revised 2021 Guidance
Total Revenue	$1,135 - 1,175	$1,155 - 1,185
Lease and Other Revenues from Customers	$920 - 950	$930 - 950
Metered Power Reimbursements	$215 - 225	$225 - 235
Adjusted EBITDA	$570 - 590	$575 - 590
Normalized FFO per diluted common share	$3.90 - 4.00	$3.95 - 4.05
Capital Expenditures	$925 - 1,025	$875 - 975
Development[1]	$905 - 985	$855 - 935
Recurring	$20 - 40	$20 - 40

Note:
1. Development capital expenditures include the acquisition of land for future development.

2Q'21 Earnings Presentation 17 CyrusOne

Image Shown: *An overview of CyrusOne's updated full-year guidance for 2021, which saw its revenue and normalized FFO per share forecast shift higher versus previous expectations, a welcome sign.* ***Image Source:*** *CyrusOne – Second Quarter of 2021 IR Earnings Presentation*

CyrusOne also announced on July 28 that its then-CEO and President, Bruce Duncan, was leaving the company and that CyrusOne's co-founder and former CEO, David Ferdman, was taking over as interim President and CEO when CyrusOne files its 10-Q SEC filing covering the second quarter of 2021.

That occurred on July 29. Not much else was said in the press release regarding the former President and CEO or the reasons for the departure. The chairwoman of the board of directors, Lynn Wentworth, offered praise to the new interim President and CEO within the press release announcing the management change. We are monitoring the situation as this was an unexpected announcement.

Pivoting here, in conjunction with its second quarter earnings update, **CyrusOne announced that it was increasing its quarterly dividend to $0.52 per share from $0.51 per share previously starting in the third quarter of 2021.**

We appreciate the modest payout bump as CyrusOne's business continues to recover from the COVID-19 pandemic. **CyrusOne does not have any significant debt tranches coming due until 2024 as its debt maturity schedule remained well-staggered at the end of June 2021**, providing it with ample financial flexibility.

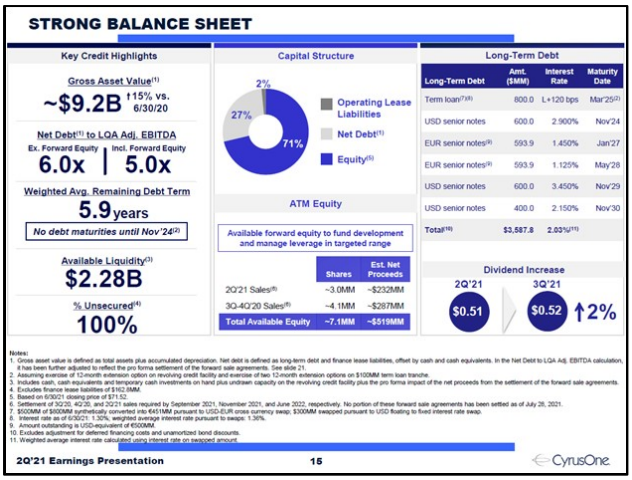


Image Shown: *CyrusOne had ample liquidity and access to liquidity at the end of June 2021, and in our view, retains solid access to capital markets at attractive rates.* ***Image Source:*** *CyrusOne – Second Quarter of 2021 IR Earnings Presentation*

In the second quarter of 2021, CyrusOne raised EUR€500 million via 1.125% green senior notes due 2028 and an additional USD$0.2 billion via an at-the-market ('ATM') equity issuance program. **CyrusOne, in our view, retains solid access to capital markets at attractive rates and should be able to continue meeting its dividend obligations, refinancing obligations, and investment needs going forward.**

The REIT completed construction on new facilities in Dublin, London, San Antonio, and Northern Virginia last quarter that had 146,000 in combined CSF and 45 megawatts ('MW') of power capacity. Additionally, CyrusOne had projects underway in Frankfurt, London, Paris, Phoenix, Northern Virginia, the New York Metro area, and Cincinnati at the end of the second quarter of 2021.

During CyrusOne's second-quarter earnings call, management mentioned that the REIT was "now in six markets in Europe, up from two, when (it) entered in late 2018. Upon completion of the projects in our development pipeline, (it has) more than 200 megawatts of power capacity in Europe, representing approximately 20% of our total portfolio." **We view CyrusOne's growth outlook quite favorably as it continues to grow its position in Europe while maintaining its strength in the US.**

Concluding Thoughts

CyrusOne's financial and operational performance is moving in the right direction, and we continue to like the data center REIT as an idea in the High Yield Dividend Newsletter portfolio.

Shares of CONE yield ~2.7% as of this writing on a forward-looking basis, and we expect the REIT will steadily grow its payout over the coming years.

Our fair value estimate for CyrusOne sits at $78 per share, comfortably above where shares of CONE are trading as of this writing. The REIT's adjusted (taking the REIT's access to capital markets into account) Dividend Cushion ratio sits at 1.9, earning CyrusOne a "GOOD" Dividend Safety rating. Please note our Dividend Cushion metric incorporates our expectations that CyrusOne will steadily grow its payout going forward as the REIT has a "GOOD" Dividend Growth rating as well.

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

HIGH YIELD SPOTLIGHT

Sonoco Products' Pricing Power Supports Its Outlook

Our **High Yield Spotlight for September 2021** is Sonoco Products Company---**2.8% yield**---a diversified packaging company that has paid out ~385 consecutive quarterly dividends. **Sonoco Products is a Dividend Aristocrat that has boosted its annual payout for 38 consecutive years, and we appreciate management's commitment to rewarding income seeking investors.** The company has operations in roughly three dozen countries that meet demand in ~85 countries. Its four core business operating segments are 'Consumer Packaging,' 'Paper and Industrial Converted Products,' 'Protective Solutions,' and 'Display and Packaging.' Its Consumer Packaging and Paper and Industrial Converted Products segments combined generate over 80% of Sonoco Products' annual revenues.

Image Shown: *An overview of Sonoco Products' operations and recent financial performance.* ***Image Source:*** *Sonoco Products – August 2021 IR Presentation*

Sonoco Products is a consistent free cash flow generator. From fiscal 2018 to fiscal 2020 (the company's fiscal year ends on December 31, though its fiscal quarters do not always match up with calendar year quarters), **its annual free cash flows averaged ~$0.4 billion** while its run-rate dividend obligations were approximately $0.2 billion at the end of fiscal 2020.

At the end of the second quarter of fiscal 2021 (period ended July 4, 2021), **Sonoco Products had $1.3 billion in net debt on the books** (inclusive of short-term debt) along with sizable operating lease liabilities to be aware of. To better meet its immediate funding needs, Sonoco Products entered into a new $0.75 billion five-year revolving credit line in June 2021 that replaced its old revolving credit facility which had $0.5 billion in borrowing capacity. Additionally, **Sonoco Products recently made some significant process managing its non-cancellable financial obligations.**

To better manage its long-term liabilities, Sonoco Products contributed ~$0.15 billion to its pension plan in the second quarter of this fiscal year to enable the plan to settle $0.5 billion in liabilities via lump sum payments to plan participants in May 2021. Afterwards, Sonoco Products entered into an agreement with Athene Holding Ltd (ATH) in June 2021 to further manage its pension liabilities. This move saw Sonoco Products purchase group annuity contracts from Athene which effectively transferred $0.9 billion of Sonoco Products' US pension plan liabilities to Athene Annuity and Life Company and Athene Annuity & Life Assurance Company of New York, a wholly owned subsidiary of Athene.

Sonoco Products recorded a large pension charge in the second quarter of fiscal 2021 as part of these efforts, and Athene will take over the administration and distribution of pension benefits starting September 2021. We appreciate the company's efforts to manage its long-term obligations as that will help prevent unwarranted surprises down the road.

The company is also actively working towards improving its operations via significant capital expenditure programs and M&A activity. In August 2020, Sonoco Products announced it had acquired privately-held French firm Can Packaging for ~$0.05 billion in US dollar terms. Can Packaging designed and manufactured sustainable paper packaging products and the related manufacturing equipment via two paper plants in France along with an R&D center where it designed and built packaging machines and sealing equipment. This deal is expected to enhance Sonoco Products' ability to push deeper into growth markets going forward, particularly as it concerns its Consumer Packaging segment.

Image Shown: *Sonoco Products is excited about the potential upside its acquisition of the French firm Can Packaging could generate going forward.*
Image Source: *Sonoco Products – August 2021 IR Presentation*

Sonoco Products is also pursuing 'Project Horizon' which aims to upgrade a corrugated medium machine at the firm's plant in Hartsville, South Carolina, to a state-of-the-art uncoated recycled paperboard operation. The endeavor is also seeking to enhance the infrastructure of the Hartsville Mill Complex to improve the handling of raw materials and finished goods. In a July 2021 press release, management noted that Sonoco Products was on track to complete the upgrade of the machine by the end of the second quarter of 2022. Sonoco Products is working to exit the corrugated medium market by the end of next year and will retire some of its machines at the Hartsville plant in the near future (management has not committed to a schedule yet on this front).

The company expects that Project Horizon will incur just over $0.1 billion in capital expenditures to complete, and by 2023, should generate $30 *million* in annualized cost savings. Before then, a new stock prep system should become operational at the Hartsville plant by October 2021 as the various initiatives Project Horizon aims to accomplish are steadily rolled out. **We appreciate that Sonoco Products is optimizing its asset base and focusing on both cost structure improvements and new growth opportunities.** Last year, Sonoco Products shut down a machine at its Hartsville plant and shut down its paper mill in Trent Valley, Ontario, as part of these efforts.

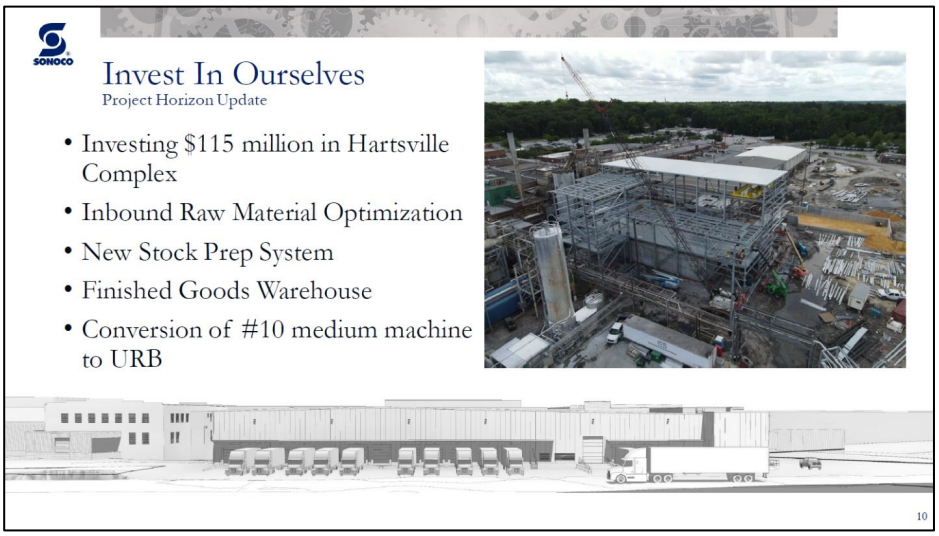


Image Shown: *Sonoco Products' Project Horizon represents one of the ways the packaging company is modernizing its manufacturing operations to both improve its cost structure and pivot towards better growth opportunities.* ***Image Source:*** *Sonoco Products – August 2021 IR Presentation*

In April 2021, Sonoco Products announced it had closed the sale of its domestic 'Display and Packaging' business to the family-owned firm Hood Container Corporation for just under $0.1 billion in cash. Back in December 2020, Sonoco Products announced it had closed the sale of its contract packaging business in Europe for just over $0.1 billion in cash to a subsidiary of Prairie Industries Holdings. Management noted that these endeavors will enable Sonoco Products to focus more attention on its consumer and industrial businesses while raising a significant amount of cash in the process.

Sonoco Products' business has been booming. In the second quarter of fiscal 2021, Sonoco Products reported that its GAAP revenues surged higher by 11% year-over-year while its GAAP operating profit jumped by 30% during this period. While Sonoco Products' GAAP gross margin faced significant inflationary headwinds last fiscal quarter and were down over 90 basis points year-over-year, **we will stress here that the company has announced several series of pricing increases across many of its products this year.**

In August 2021, Sonoco Products announced that the prices for its paperboard tubes and cores offerings would increase by a minimum of 8% and that the prices for uncoated recycled paperboard ('URB') would go up by $70 per ton starting this September (particularly for shipments in the US and Canada). These announcements came on the heels of pricing increases for these products that the firm announced back in June 2021 which were implemented in July 2021 (which in turn came on the announcement of pricing increases for these products a few months prior). Please note that these moves represent just some of the pricing increases Sonoco Products has announced in 2021, as the firm also announced pricing increases on its other products this year as well (such as pricing increases for its rigid paper containers and closures offerings).

Recent pricing increases should go a long way in offsetting the inflationary pressures Sonoco Products has been contending with of late and should significantly improve its profitability going forward assuming demand stays steady. That appears likely given the strong demand Sonoco Products has seen for its offerings over the past few fiscal quarters. It will take another fiscal quarter or two for these endeavors to be reflected in the company's financial performance, and we appreciate Sonoco Products' pricing strength and willingness to react quickly to changes in raw materials pricing and other inflationary pressures.

Sonoco Products approved a $0.35 billion share repurchase authorization program in April 2021 and followed that up with a $0.15 billion accelerated share repurchase ('ASR') transaction in May 2021 which is expected to settle in the third quarter of this year. We caution that competing capital allocation priorities will weigh against its dividend growth trajectory. Additionally, Sonoco Products' large net debt load and other non-cancellable financial liabilities weigh negatively on its dividend coverage strength, **though we still view its forward-looking dividend coverage quite favorably.**

Our recently updated Dividend Cushion ratio for Sonoco Products stands above parity at 1.2, earning the firm a "GOOD" Dividend Safety rating. Please note that this metric incorporates our expectations that Sonoco Products will steadily grow its per share dividend going forward. We give the firm 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, Sonoco'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

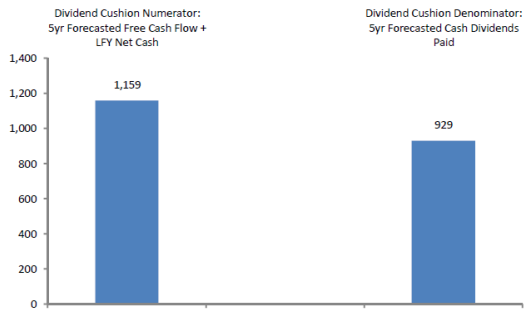


Image Shown: *Sonoco Products' Dividend Cushion ratio sits above parity at 1.2, indicating the firm's forward-looking dividend coverage strength is quite strong.*

In the upcoming graphic down below, Sonoco Products provides an overview of its guidance for fiscal 2021. Please note that these are adjusted figures (for example, the free cash flow guidance does not include the aforementioned ~$0.15 billion pension plan contribution according to management commentary provided during Sonoco Products' second quarter of fiscal 2021 earnings call). This guidance assumes "continued solid demand for our products, but also continued inflation headwinds" according to recent management commentary.

SONOCO

EPS and Cash Flow Guidance

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Full Year
2019 Base EPS	$0.85	$0.95	$0.97	$0.75	$3.53
2020 Base EPS	$0.94	$0.79	$0.86	$0.82	$3.41
2021 Actual Q1 & Guidance	$0.90	$0.84	$0.87 - $0.93		$3.50 - $3.60

($ millions)	December 31, 2021	
Full Year Cash Flow Guidance	Est. Low End	Est. High End
Operating Cash Flow	$ 570	$ 600
Free Cash Flow	$ 270	$ 300

* 2021 Cash flow guidance excludes an estimated pension contribution related to the U.S. pension plan termination. Projected contribution is estimated to be $150 million.

18

Image Shown: *An overview of Sonoco Products' guidance for fiscal 2021.* ***Image Source:*** *Sonoco Products – August 2021 IR Presentation*

Management allocated recent divestment proceeds towards retiring some of Sonoco Products' debt including a portion of the company's outstanding 5.75% senior notes due 2040 and some Euro-denominated debt, which saw the firm's total debt

load fall by roughly $0.1 billion from the end of fiscal 2020 to the end of the second quarter of fiscal 2021. According to recent management commentary, these debt reduction efforts were somewhat offset by the firm returning to the commercial paper markets this fiscal year (Sonoco Products has a $0.5 billion commercial paper program at its disposal for its near term funding needs, supported by its recently upsized revolving credit facility which supports its medium-term funding needs). While the company's net debt load is a concern, we expect Sonoco Products will be able to stay on top of that burden going forward.

Sonoco Products is contending with some serious inflationary headwinds with management citing rising resin, film, old corrugated containers (also referred to as "recovered paper"), metals, freight, and paper packaging prices as concerns on this front during the firm's second quarter of fiscal 2021 earnings call. However, **demand for the company's products remains strong and the recent series of pricing increases should go a long way in offsetting inflationary headwinds.** Management also recently noted that the firm is optimistic that demand from industrial markets should continue to improve while demand from certain consumer-facing markets, such as food service, is expected to hold up well going forward. Please note that over 80% of the company's Consumer Packaging products are for food.

The company also sells packaging offerings used in the healthcare space including cold chain solutions sold through its Sonoco ThermoSafe a division. Recently, Sonoco ThermoSafe entered into an agreement with Korea Air that involves one of the world's largest cargo carriers leasing Pegasus ULD temperature controlled bulk shipping containers. Here is what the press release had to say:

> The agreement enables pharmaceutical freight forwarders access to Pegasus ULD containers directly from Korean Air. Korean Air and mutual clients will also have access to other Sonoco ThermoSafe containers as part of this agreement. Sonoco ThermoSafe will support this partnership by adding ICN airport [Incheon International Airport, the largest airport in South Korea] to its global service network.
>
> Services including ground handling, repairs, and preconditioning of Pegasus ULDs at ICN will be provided through Sonoco ThermoSafe's global partnership with Unilode [an aviation solutions company]. Sonoco ThermoSafe's Pegasus ULD is the world's first FAA and EASA-approved passive bulk temperature-controlled ULD container for pharmaceutical use, which enables it to speed through international air freight handling and customs processes at the lowest possible cost.

Cold chain storage solutions and similar products enable Sonoco Products, through its Sonoco ThermoSafe division, to provide "temperature assurance packaging for the safe and efficient transport of pharmaceuticals, biologics, vaccines and other temperature-sensitive products" according to the press release covering the deal with Korean Air. Sonoco Products caters to a variety of end markets, and we appreciate the company's focus on innovation and deal making.

We like Sonoco Products' initiatives to improve its cost structure and pivot towards better growth opportunities. The company's management team is focused on rewarding income-seeking investors, seen through Sonoco Products' highly coveted Dividend Aristocrat status. **We like Sonoco Products as our High Yield Spotlight for September 2021.**

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

PPL Corp Updates Investors, Launches Share Buyback Program

Strategic Repositioning Update

Sale of U.K. business complete; On track in Rhode Island

ppl

Highlights Since 1st Quarter Investor Update

- **Completed sale of U.K. utility business on June 14th**
  - Resulted in net cash proceeds of $10.4 billion[1]
- **Successful execution of liability management to strengthen balance sheet**
  - $3.5 billion reduction in outstanding debt at PPL Capital Funding[2]
- **Board authorization for up to $3.0 billion of share repurchases[3]**
  - Company plans to repurchase approximately $500 million by year-end
  - Retains flexibility to assess best use of proceeds to maximize shareowner value, including a review of capital plans for incremental investment opportunities
- **Rhode Island utility acquisition progressing**
  - Hart-Scott-Rodino waiting period expired, received Federal Communications Commission approval, and waiver granted by Massachusetts Department of Public Utilities
  - Remain on track to complete transaction by March 2022
  - Announced planned leadership team for Rhode Island upon transaction's close[4]

(1) Represents expected net proceeds after taxes and fees and inclusive of currency hedges.
(2) Reflects principal amount of debt retired. Does not reflect approximately $0.4 billion for tender premiums, make-whole payments, accrued interest and related fees.
(3) The actual amount of share repurchases will depend on several factors including the share price, market conditions and potential other uses of proceeds from the U.K. utility business sale, including for incremental capital investments.
(4) Pending regulatory approval and completion of acquisition.

PPL 2nd Quarter Investor Update – August 5, 2021 4

***Image Source**: PPL Corporation – Second Quarter of 2021 IR Earnings Presentation*

By Callum Turcan

On August 5, PPL Corporation (PPL) posted second quarter 2021 earnings and shares of PPL initially moved higher after the report. Though the gas and electric utility, which has a major regulated utility presence in Kentucky and Pennsylvania, missed both top- and bottom-line estimates, **what investors were likely focused on most was the announcement that PPL Corp had approved a $3.0 billion share buyback program.** The firm expects to spend $0.5 billion buying back its shares in 2021, and we view this as a solid use of PPL Corp's capital given our fair value estimate sits at $45 per share of PPL, well above where the utility is trading at as of this writing.

Here, we must highlight that this buyback program is being funded from the approximately $10.4 billion in net cash proceeds (after taxes and fees) PPL Corp received when it exited the UK utility space, something we covered extensively in our May 2021 article *Utility PPL Is Pursuing a Major Transformation and Has a VBI Rating of 9* that we included in the June 2021 edition of the High Yield Dividend Newsletter publication.

General Update and Debt Reduction

PPL Corp is also using some of the net cash proceeds to acquire Rhode Island's main utility, The Narragansett Electric Company, through a deal with an equity value of $3.8 billion. During PPL Corp's latest earnings update, management reiterated that the transaction was on track to close in March 2022. Currently, PPL Corp is waiting for approval from the US Federal Energy Regulatory Commission ('FERC') and the Rhode Island Division of Public Utilities and Carriers. The firm filed the relevant paperwork at both entities in May 2021.

Recently, PPL Corp paid down $3.5 billion of its debt through various tender offerings that were concluded in July 2021 (some of these activities were completed in the second quarter and some in the third quarter of this year). **We are pleased to see PPL Corp putting its net cash infusion to good use.** In the upcoming graphic down below, PPL Corp highlights the well-staggered nature of its debt maturity schedule.

Debt Maturities

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Debt Maturities at June 30, 2021:

($ in millions)	2021	2022	2023	2024	2025	2026 and Beyond	Total
PPL Capital Funding	$0	$527	$389	$156	$0	$2,496	$3,568
PPL Electric Utilities[1]	$400	$474	$340	$650	$0	$3,075	$4,939
LG&E and KU Energy	$250	$0	$0	$0	$0	$0	$250
Louisville Gas & Electric[1]	$28	$0	$0	$0	$300	$1,697	$2,024
Kentucky Utilities[1]	$0	$0	$13	$0	$250	$2,379	$2,642
Total Debt Maturities[2]	**$678**	**$1,001**	**$742**	**$806**	**$550**	**$9,647**	**$13,423**

Debt Maturities at July 31, 2021 (reflects July financing activities):

($ in millions)	2021	2022	2023	2024	2025	2026 and Beyond	Total
PPL Capital Funding	$0	$0	$0	$0	$0	$2,046	$2,046
PPL Electric Utilities[1]	$0	$474	$340	$650	$0	$3,075	$4,539
Louisville Gas & Electric[1]	$28	$0	$0	$0	$300	$1,697	$2,024
Kentucky Utilities[1]	$0	$0	$13	$0	$250	$2,379	$2,642
Total Debt Maturities[2]	**$28**	**$474**	**$353**	**$650**	**$550**	**$9,197**	**$11,251**

(1) Amounts include the timing of any put option on municipal bonds that may be put by the holders before the bonds' final maturities.
(2) Does not reflect unamortized debt issuance costs, unamortized premiums (discounts), and fair market valuation adjustments. At June 30, 2021, this represented a total amount of ($128 million).

PPL 2nd Quarter Investor Update – August 5, 2021 23

Image Shown: *PPL Corp, on a pro forma basis when taking its recent debt tender offerings into account, has a relatively modest amount of debt coming due on an annual basis through 2025. We appreciate the well-staggered nature of its debt maturity schedule as that should go a long way in supporting its future refinancing activities.* ***Image Source****: PPL Corp – Second Quarter of 2021 IR Earnings Presentation*

Green Energy Push, In Moderation

PPL Corp committed to achieving net-zero emissions by 2050 in conjunction with its latest earnings update, with a 70% reduction targeted by 2035 and an 80% reduction targeted by 2040 using 2010 levels as a baseline (excluding its former UK operations). This is important from an investing perspective in the sense that if PPL Corp gets the relevant regulatory bodies to sign off on its plan, the company's growth runway will become much longer as it spends billions upon billions revamping its transmission, distribution, and power generation operations. During the utility's latest earnings call, management noted that PPL Corp had withdrawn its rate base growth projections over the coming years due to its ongoing transformation, and that the firm would provide an update on that trajectory down the road.

The company has a sizable coal-fired power generation fleet in Kentucky that is now quite old (save for its newer Trimble County Unit 2 operation), and older power plants are far less economical than newer operations all else being equal. **PPL Corp plans to grow its natural gas-fired power generation capacity and renewable energy power generation capacity in the state going forward**, aided by its major cash infusion and ability to tap capital markets at attractive rates. **Please note growing regulatory headwinds, both realized and expected, are a key factor here.**

Baseload Generation Summary

Key Attributes of Kentucky's baseload generation fleet

ppl

PPL's Kentucky Baseload Generation Resources

Power Plant	Unit	COD	Owned Capacity MW	Capacity Factor 2019A	Capacity Factor 2020A	Currently Projected End of Economic Useful Life [1]
Coal						
Mill Creek	1	1972	300	57%	64%	2024
E.W. Brown	3	1971	412	25%	29%	2028
Mill Creek	2	1974	297	70%	35%	2028
Ghent	1	1974	475	64%	63%	2034
Ghent	2	1977	485	62%	59%	2034
Ghent	3	1981	481	56%	60%	2037
Ghent	4	1984	478	59%	53%	2037
Mill Creek	3	1978	391	53%	50%	2039
Mill Creek	4	1982	477	73%	54%	2039
Trimble County	1	1990	370	75%	81%	2045
Trimble County	2	2011	549	70%	74%	2066
Natural Gas						
Cane Run (CCGT)	7	2015	662	85%	75%	2055
Total Baseload			5,377			

(1) Per most recent depreciation study filed in Case Nos. 2020-00349 and 2020-00350.

PPL 2nd Quarter Investor Update – August 5, 2021 19

Image Shown: *Many of PPL Corp's coal-fired power plants in Kentucky are quite old and have been operating at subdued capacity factors in recent years due primarily to rising competition from modern natural gas-fired power plants.* ***Image Source****: PPL Corp – Second Quarter of 2021 IR Earnings Presentation*

Modern natural gas power plants (specifically, combined-cycle operations) **are incredibly economical in the current environment** as "fracking" activities have aggressively reduced domestic natural gas prices. Furthermore, **these facilities are baseload generators**, otherwise referred to as dispatchable energy sources (meaning power grid operators can request for additional power supply as needed).

Renewable energy operations, such as solar and wind, have become significantly more economical over the past decade though the intermittent nature of these power sources requires dispatchable energy sources to ensure the lights stay on around the clock. Battery storage aims to solve this problem, though these offerings are prohibitively expensive now, which could change over the coming years.

The upcoming graphic on the top of the next page highlights how PPL Corp intends to change its power generation mix over the coming decades, though this only focuses on the power plant retirement side of the equation.

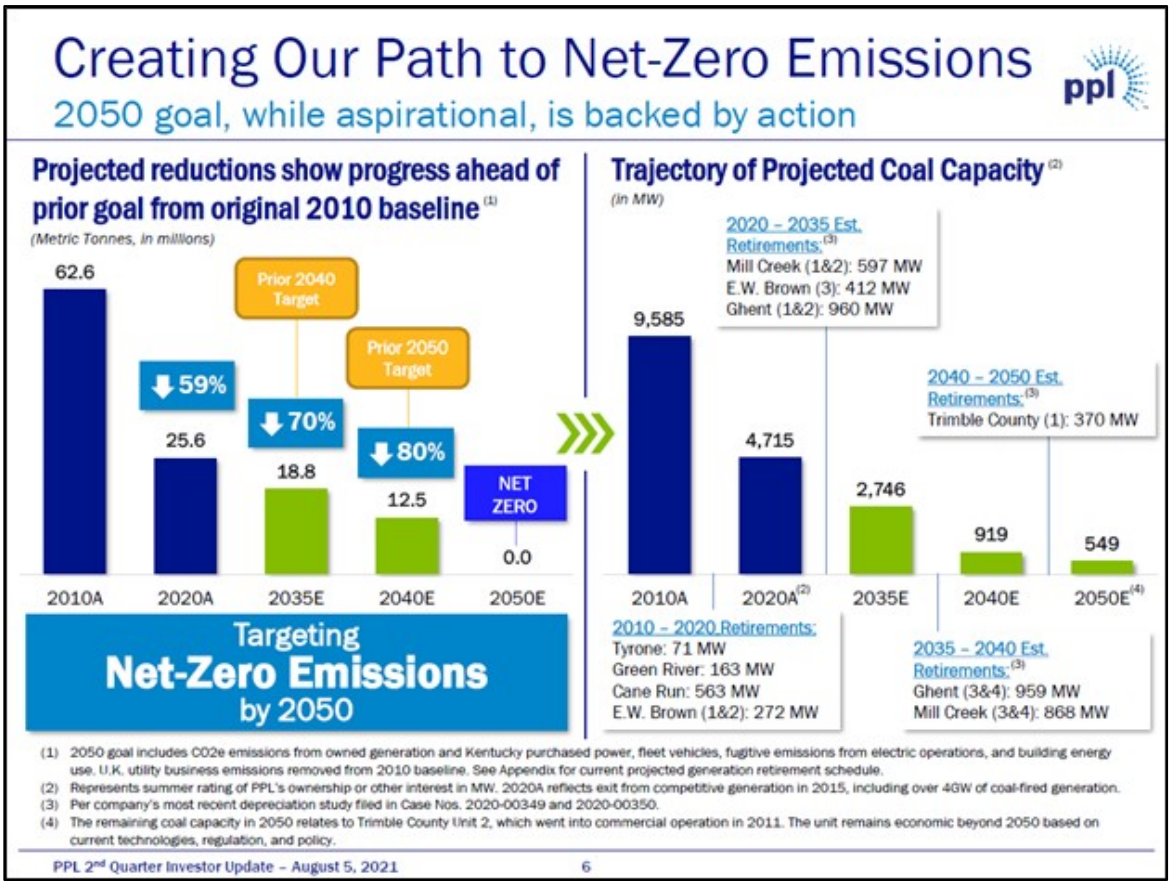

Image Shown: *PPL Corp plans to steadily retire most of its coal-fired power plant fleet over the coming decades.* ***Image Source****: PPL Corp – Second Quarter of 2021 IR Earnings Presentation*

Management had this to say on the issue during the company's latest earnings call (lightly edited, emphasis added):

> *"We've outlined our updated path to net-zero carbon emissions on [the slide depicted in the above graphic on this article], along with our current expectations on coal fire generation capacity in Kentucky, which is consistent with the generation planning and analysis study included in our recently approved rate case filings. We'll need to advance technology to achieve net-zero emissions by 2050 as we balance the need for affordable, reliable, and sustainable energy for our customers.*
>
> ***Based on these current factors and consistent with our most recent rate case filings in Kentucky, we currently expect to achieve a reduction in our coal-fired capacity of 70% by 2035, 90% by 2040, and 95% by 2050 from our baseline in 2010.***
>
> ***We anticipate having about 550 megawatts of remaining coal-fired generation in 2050 due to our highly efficient and relatively new Trimble County Unit 2 that started commercial operation in 2011.*** *Therefore, our objective is to continue to explore innovative ways through our R&D efforts to economically drive these reductions further, while supporting our customers and local communities. We have also assessed the implications of advancing these goals even further.*
>
> *Our internal view of what it could take to achieve 100% carbon-free generation by 2035, as proposed by the Biden administration, using current technologies would create significant affordability issues for our customers." --- Vincent Sorgi, President and CEO of PPL Corp*

The company is attempting to find a middle ground between affordability and the environment. **At the end of the day, the trajectory of subsidies and regulatory hurdles (or lack thereof) geared towards the power grid and power generation operations from the federal government are likely to play an outsized role here.** We are keeping an eye on the situation.

In Pennsylvania, the firm owns the regulated PPL Electric utility which provides electric distribution and transmission services. Modernizing the power grid represents how PPL Corp can capitalize on green energy investments and potential subsidies in that market. PPL Corp's pending acquisition of Rhode Island's major regulated utility will create new growth opportunities in the realm of green energy investments as well.

Financial Firepower

At the end of June 2021, PPL Corp had $7.6 billion in cash and cash equivalents on hand versus $2.2 billion in short-term debt and $11.1 billion in long-term debt, though please note this does not take all of its latest debt tendering activities into account (its total debt load dropped by $2.6 billion from the end of December 2020 to the end of June 2021). PPL Corp also had $3.1 billion in remaining borrowing capacity across its revolving credit lines at the end of June 2021 as you can see in the upcoming graphic down below, most of which do not mature until 2024. **The utility has ample liquidity and access to liquidity on hand to fund its pending purchase of The Narragansett Electric Company and its planned share repurchases while still being able to invest in the business.**

Liquidity Profile

Entity	Facility	Expiration Date	Capacity (Millions)	Borrowed (Millions)	Letters of Credit & Commercial Paper Issued (Millions)	Unused Capacity (Millions)
PPL Capital Funding	Syndicated Credit Facility	Jan-2024	$1,450	$0	$0	$1,450
	Bilateral Credit Facility	Mar-2022	50	0	0	50
	Uncommitted Credit Facility	Mar-2022	50	0	15	35
			$1,550	$0	$15	$1,535
PPL Electric Utilities	Syndicated Credit Facility	Jan-2024	$650	$0	$1	$649
Louisville Gas & Electric	Syndicated Credit Facility	Jan-2024	$500	$0	$0	$500
Kentucky Utilities	Syndicated Credit Facility	Jan-2024	$400	$0	$0	$400
	Total Credit Facilities		$3,100	$0	$16	$3,084

Note: As of June 30, 2021.

PPL 2nd Quarter Investor Update – August 5, 2021 24

Image Shown: *PPL Corp has ample access to liquidity via its numerous revolving credit lines.* ***Image Source****: PPL Corp – Second Quarter of 2021 IR Earnings Presentation*

As it concerns access to capital markets, PPL Corp's various financing entities and subsidiaries retained rock-solid investment grade credit ratings as you can see in the upcoming graphic at the top of the next page. **We expect PPL Corp to retain solid access to capital markets at attractive rates going forward.**

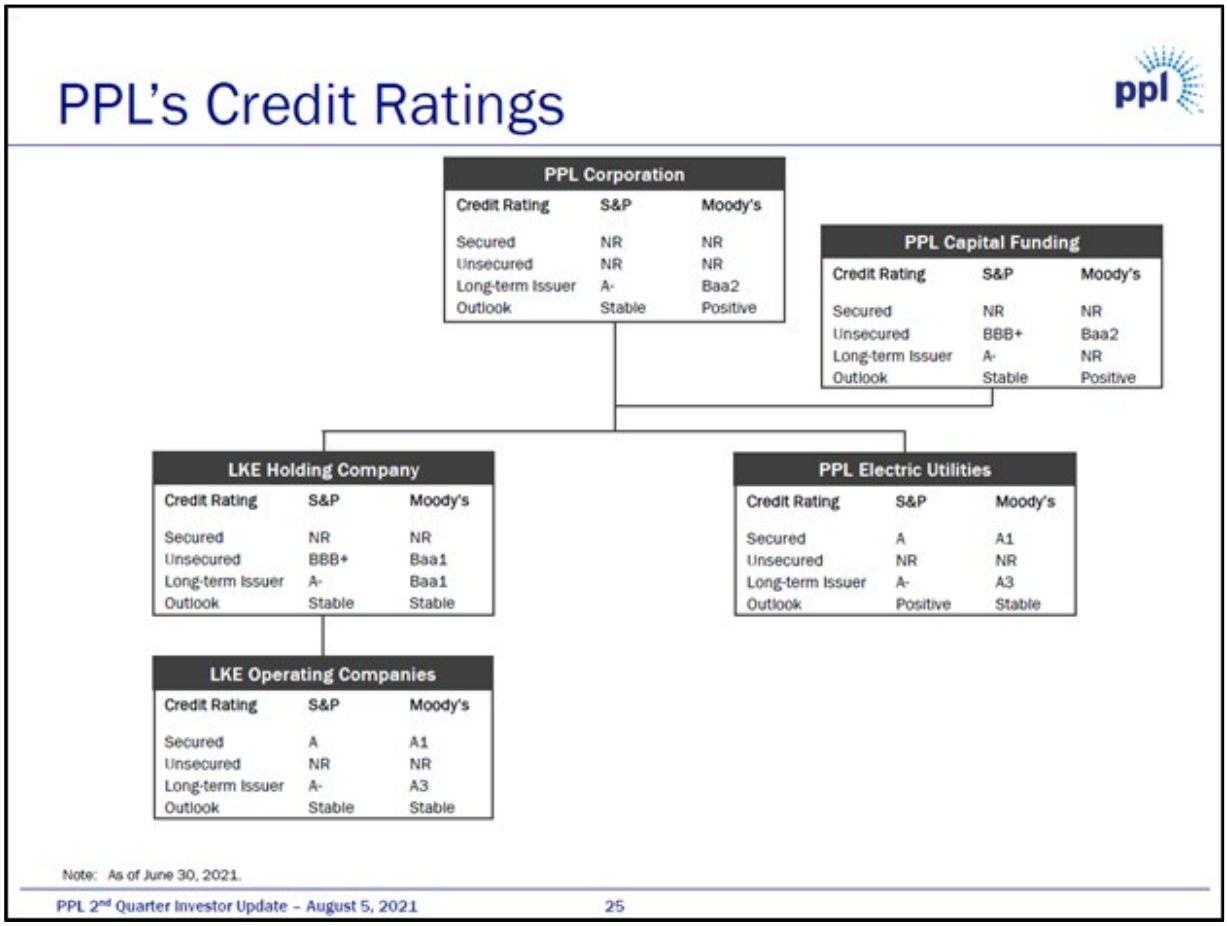

Image Shown: *PPL Corp and its affiliated entities had strong investment grade credit ratings as of the end of June 2021.* ***Image Source****: PPL Corp – Second Quarter of 2021 IR Earnings Presentation*

PPL Corp is targeting a CFO to debt ratio of 16%-18%, a holding company to total debt ratio below 25%, and a debt-to-total capitalization ratio of 45%-55% going forward. During PPL Corp's latest earnings call management noted that while the firm intended to wait until its pending Rhode Island utility acquisition closes before announcing its dividend adjustment, the firm would likely target a payout ratio in the 60%-65% range. Its dividend is expected to grow alongside its earnings once that adjustment takes place.

In our view, **PPL Corp is communicating to investors that a right-sizing of the payout is likely due to the reduction in cash flows from its UK divestment combined with its growth ambitions and recent share buyback strategy.** We expect PPL Corp's dividend will remain competitive going forward. A payout ratio in the 60s% range is on the lower end of things compared to its peers, probably due to PPL Corp wanting to retain capital to aggressively grow its rate base and buy back its stock going forward.

Rate Base Increase

In April 2021, the Kentucky Public Service Commission ('KPSC') approved rate increases at PPL Corp's two regulated utilities in Kentucky, Louisville Gas and Electric Company ('LG&E') and Kentucky Utilities Company ('KU'), which went into effect July 1, 2021. Here is an overview of the rate increases from a related 8-K SEC filing:

> The KPSC orders provide for increases in annual electricity revenues of $73 million and $106 million at LG&E and KU, respectively, and an increase in annual gas revenues of $20 million at LG&E. The orders include an authorized 9.425% return on equity in such base rate calculations and an authorized 9.35% return on equity for environmental compliance recovery and gas line tracker mechanisms. The orders approved annual revenue amounts that represent increases of approximately 6.4%, 6.5% and 5.7%, respectively, from LG&E and KU annual electricity revenues and LG&E annual gas revenues.

Additionally, this order involved a $53 million billing credit for customers of LG&E and KU (termed as "one-year billing adjustments") to help its customers adjust to the new rates. This will be reflected in PPL Corp's financial performance going forward. Beyond rate increases, this agreement will help PPL Corp roll out advanced metering infrastructure at KG&E and KU. During PPL Corp's latest earnings call, management noted these advanced meters should result in meaningful operating and maintenance ('O&M') expense reductions and ultimately cost savings for its customers over the long haul.

Kentucky Rate Case Update

New rate orders completed with rates effective July 1, 2021

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Settlement Outcome

Revenue Increase ($ in millions)	
KU: Electric	$106
LG&E: Electric	$73
LG&E: Gas	$20
Total	$199
ROE	
Base	9.425%
ECR & GLT Mechanisms	9.35%
Capitalization (1) ($ in billions)	
KU: Electric	$5.2
LG&E: Electric	$3.5
LG&E: Gas	$1.1
Total	$9.8
Capital Structure	
Equity	53%
Debt	47%

Key Considerations of Approved Settlement

- Annual revenue increase of $199 million
  - First year includes a $53 million billing credit for customers
- Approved CPCN requests for Advanced Metering Infrastructure (AMI) project
  - ~$350 million capital investment
  - Investment to be recorded as CWIP and accrue AFUDC during the implementation period
- Establishment of Retired Asset Recovery Rider (2)
  - Provides recovery of and return on remaining NBV at time of retirement, with recovery over 10 years from retirement date
- Four-year "stay out" commitment
  - No base rate increases before July 1, 2025, subject to certain exceptions

Note: KPSC docket numbers 2020-00349 for KU and 2020-00350 for LG&E.
(1) Does not include approximately $1.5 billion capitalization recovered via other rate mechanisms or other jurisdictions.
(2) Retired Asset Recovery Riders applies to the generating plants of LG&E and KU.

PPL 2nd Quarter Investor Update – August 5, 2021 7

Image Shown: *An overview of PPL Corp's recent rate increases at its regulated Kentucky utilities.* ***Image Source****: PPL Corp – Second Quarter of 2021 IR Earnings Presentation*

Concluding Thoughts

PPL Corp earns a VBI rating of 9 and its outlook is quite bright. The company is trading well below its intrinsic value as of this writing, and in light of its share buyback program and technical strength of late, shares of PPL Corp may start to gain some real traction here.

Investors are waiting for its major Rhode Island utility acquisition to close, and everything is progressing in the right direction on that front. **PPL Corp should benefit from a simplification of its business model** now that it is a pure play on the US utility space. The company was able to further streamline its corporate structure by recently retiring the remaining debt at an intermediate holding company and subsequently deregistering that entity according to recent management commentary, offering incremental upside on this front which we appreciate.

PPL Corp appears to be positioning itself to take advantage of the potential for greater green energy subsidies from the US federal government while also attempting to get out of the way of growing regulatory hurdles as it concerns the domestic electric and gas utility space, in our view. That strategy makes perfect sense in the current environment. Shares of PPL yield ~5.7% as of this writing.

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

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Disclosure: *Unless otherwise noted, 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%	3.19%
SPDR Portfolio S&P 500 High Dividend ETF	SPYD	5.0%	4.71%
ProShares High Yield—Interest Rate Hedged	HYHG	5.0%	4.76%
iShares International Select Dividend ETF	IDV	5.0%	4.34%
iShares U.S. Preferred Stock ETF	PFF	5.0%	4.41%
Global X SuperDividend ETF	SDIV	5.0%	7.20%
Global X SuperIncome Preferred ETF	SPFF	10.0%	5.64%
Vanguard Consumer Staples ETF	VDC	5.0%	2.36%
Vanguard Real Estate ETF	VNQ	10.0%	2.93%
Utilities Select Sector SPDR	XLU	5.0%	2.88%
EQUITY			
AT&T	T	5.0%	7.59%
Crown Castle	CCI	5.0%	2.73%
CyrusOne Inc.	CONE	5.0%	2.70%
CubeSmart	CUBE	5.0%	2.54%
Digital Realty Trust	DLR	5.0%	2.83%
Philip Morris	PM	5.0%	4.66%
Public Storage	PSA	5.0%	2.47%
Enterprise Products Partners	EPD	2.5%	8.09%
Magellan Midstream Partners	MMP	2.5%	8.35%
Cash*	-	0.0%	0.00%
		100.0%	**4.24%**

This is not a real money portfolio. Inception 1/1/2018. Data as of 9/1/2021. Est. Forward Div. Yield information retrieved from SeekingAlpha, YF.

** Reflects federal funds target rate range*

Valuentum's Stock Dividend Research | Visit us at www.valuentum.com | Ratings as of 1-Aug-2021 | Data as of 30-Jul-2021

LyondellBasell LYB FAIRLY VALUED

Buying Index™ 4 Value Rating

Economic Castle	Stock Fair Value Range	Dividend Track Record	Dividend Safety / Cushion™	Div Growth Potential	Dividend Yield
Attractive	$78.00 - $118.00	HEALTHY	POOR / 0.2	POOR	4.55%

Assessment of Company Dividend Strategy

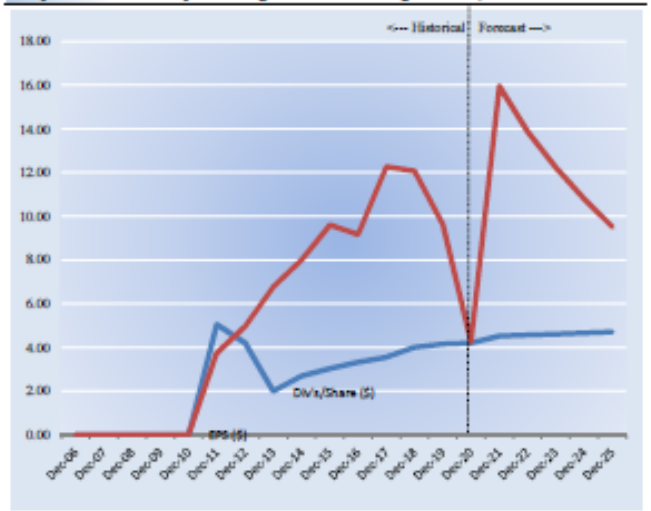
Key Strengths

LyondellBasell operates in the ultra-cyclical and volatile chemicals/refining business. Its operations are tied to the supply-demand balance of chemical/refining margins, which can be subject to wild swings. The commodity-based end markets it serves also makes it difficult for the company to carve out any sustainable competitive advantages. Despite the volatility, the firm is a solid free cash flow generator which averaged ~$2.4 billion annually over the past three years (2018-2020), and we are expecting continued strong performance in this area. LyondellBasell's outlook is supported by the ongoing global economic recovery from the worst of the COVID-19 pandemic.

Potential Weaknesses

LyondellBasell's cyclical end markets are the largest cause of concern for the firm's dividend growth; it will be important to keep a watchful eye on chemical/refining margins. Though the firm's ability to generate sizable free cash flows should enable LyondellBasell to handle its debt load, the cyclicality of its business could provide some pressure to cash flows. Other capital allocation options could provide headwinds in the pace of future dividend growth as well, but M&A should not be a concern for the firm since it has strict requirements for the consideration of any deal. Inflationary headwinds, such as rising raw material expenses, need to be monitored going forward.

Graphical Relationship, Earnings and Dividends (per share)

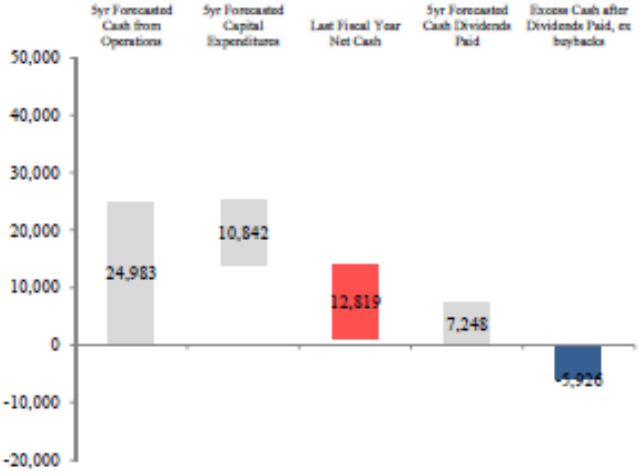


The graph above shows the relationship between a firm's earnings per share and its dividends per share.

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. LyondellBasell'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

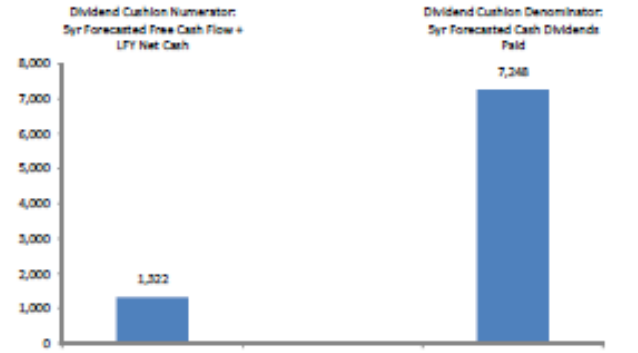


Source: Company Filings, Valuentum Projections

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, LyondellBasell'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.

Disclosure: *Brian Nelson owns shares in SPY, SCHG, QQQ, DIA, VOT, and IWM. Brian Nelson's household owns shares in HON, DIS, HAS.*

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Amended June 1, 2021.