Valuentum Securities, Inc. 12/1/2021 Edition 4, Volume 12

HIGH YIELD DIVIDEND NEWSLETTER

ALERT: HIGH YIELD DIVIDEND NEWSLETTER PORTFOLIO CHANGES

NEW* Latest Changes to High Yield Dividend Newsletter

Removed: T – November 8 Added: CVX, XOM – November 8 Changed Weighting: EPD, MMP, SPFF, VNQ – November 8

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"ON NOVEMBER 8, WE MADE SEVERAL BIG CHANGES TO THE HIGH YIELD DIVIDEND NEWSLETTER PORTFOLIO THAT WE COVER IN THIS PUBLICATION. FURTHERMORE, CYRUSONE (CONE) ANNOUNCED IT WAS GETTING ACQUIRED FOR $90.50 PER SHARE IN CASH ON NOVEMBER 15. WE WILL LIKELY MAKE FURTHER CHANGES TO THE HIGH YIELD DIVIDEND NEWSLETTER PORTFOLIO OVER THE COMING MONTHS."

– CALLUM TURCAN

Image Shown: *Shares of CubeSmart, a self-storage REIT included as an idea in our High Yield Dividend Newsletter portfolio, have surged higher over the past year.*

A version of this article was previously emailed to members on November 8. Lightly edited.

Summary of Changes

AT&T (T) – remove
Global X SuperIncome Preferred ETF (SPFF) – to 5% from 10%
Vanguard Real Estate ETF (VNQ) – to 5% from 10%
Chevron Corporation (CVX) – initiate at 5%
ExxonMobil Corporation (XOM) – initiate at 5%
Magellan Midstream Partners, L.P. (MMP) – to 5% from 2.5%
Enterprise Products Partners L.P. (EPD) – to 5% from 2.5%

By Brian Nelson, CFA

A number of weeks ago, we mentioned that we had a change of heart with AT&T (T). On November 8, we removed the company from the High Yield Dividend Newsletter portfolio (we notified members via email at that time). AT&T had been one of our favorite high-yield

dividend considerations prior to the announcement that it will rightsize its payout in May of this year. We were unfortunately blindsided by AT&T's CEO John Stankey's decision (as was most of the market) given that he wrote he would support it in the firm's latest Annual Report (2/8/21).

Months ago, we had thought AT&T posed a nice risk/reward yield situation (despite its huge net debt position), but the company's huge net debt position obviously opened us up to a disappointment (albeit a small one given the diversification of the High Yield Dividend Newsletter portfolio), and shares have languished. We still like AT&T as a yield play, of course, but the pending rightsizing of its payout gives us somewhat of a self-inflicted black eye, especially in light of how excited we were about its income prospects some months ago.

For those wanting to stay the course on AT&T, that's not a terrible idea, however (shares have breached the low end of our fair value estimate range). For us, however, it's just hard to get behind a management team that we feel largely has burned its investor base. We estimate that dividends to be paid on a go-forward run-rate basis post-2022 at AT&T may be ~$8.6+ billion versus ~$15 billion on an annual basis today. That implies a rather sizable impending yield adjustment at AT&T that will likely continue to alienate its investor base.

As a post-mortem on this idea, we knew AT&T was a high-risk yield play (its Dividend Cushion ratio is -0.1; anything less than 1 is considered risky), and we know high yield dividend stocks themselves are not for the faint of heart. For one, there aren't many companies with huge net-cash-rich positions on the balance sheet that also pay lofty dividend yields, so a situation as that which happened with AT&T, where a CEO does a 180 on us, was bound to happen…eventually. **AT&T will still have a very nice dividend payout after the rightsizing of the payout.** Our fair value estimate of AT&T, nonetheless, stands at ~$34 at this time (shares are trading under $25 each).

We still like Global X SuperIncome Preferred ETF (SPFF) and the Vanguard Real Estate ETF (VNQ) as core considerations of any diversified high yield dividend portfolio, but we wanted to gain greater exposure to the juicy yields in the energy complex, given that the portfolio may lose some yield with the AT&T removal. Energy resource prices, too, have, in our view, attained a sustained recovery making many large energy players attractive these days.

Specifically, we reduced both the SPFF's and VNQ's "weightings" to 5% from 10% on November 8, and with the newly raised 15% of the newsletter portfolio from the T, SPFF, and VNQ moves, we "initiated" a 5% weighting in each of Chevron (CVX) and ExxonMobil (XOM), and increased the weightings of Magellan Midstream Partners, L.P. (MMP) to 5% from 2.5% and Enterprise Products Partners L.P. (EPD) to 5% from 2.5%.

During the past few weeks, there were a number of quarterly reports across the High Yield Dividend Newsletter portfolio. You may have read our views on the recent quarterly results at Digital Realty Trust (DLR) and Philip Morris International (PM), but it's worth noting that Magellan Midstream Partners put up better-than-expected third-quarter results November 2 and nudged its quarterly dividend modestly higher October 20--now paying a forward estimated annual dividend yield of ~8.9%!

Several other High Yield Dividend Newsletter portfolio ideas are also performing quite well. Midstream peer Enterprise Products Partners put up an excellent third-quarter report November 2, and the midstream MLP yields an enticing ~8.4% on a forward estimated annual basis. Data center REIT CyrusOne (CONE) reported better-than-expected third-quarter results October 27 and raised its full-year revenue and funds from operations (FFO) guidance. Shares of CONE yield ~2.3% at the time of this writing.

On November 15, CyrusOne announced it had agreed to get bought out by KKR & Co Inc (KKR) and Global Infrastructure Partners ('GIP') through an all-cash deal worth ~$15 billion when including debt (please see our article that starts on Page 3 of this newsletter for more information regarding our thoughts on this deal). KKR and GIP offered $90.50 per share in cash for CyrusOne, representing a nice premium before rumors of a potential deal started spreading in financial markets. Over the coming months, we will likely make further adjustments to our High Yield Dividend Newsletter portfolio.

Public Storage (PSA), which is **up a whopping ~49% year-to-date**, registered nice third-quarter results November 1, beating the market's expectations. Thanks to the self-storage group's strong dividend coverage tendencies with respect to traditional free cash flow, we continue to be huge fans of the space. Self-storage peer CubeSmart (CUBE) is up **an amazing ~68% so far this year**, announcing November 2 that it would hike its dividend more than 26%. Shares of CUBE now yield ~3.2% on a forward estimated annual basis.

Crown Castle International Corp (CCI) did not disappoint when it reported third-quarter results October 20, raising its dividend a very impressive 10.5%. Though its share-price performance thus far hasn't been as impressive as the self-storage space (very little has been as impressive!), CCI's shares yield a very nice ~3.2% at the time of this writing, and we like its moaty characteristics. When it comes to CCI, we're huge fans of the specialized REIT's cell tower business model that allows for large incremental margins as more communications capacity is added to the system.

All in, calendar third-quarter results were solid for constituents, and we look forward to a bright 2022! We're available for any questions.

Disclosure: *Brian Nelson owns shares in SPY, SCHG, DIA, VOT, BITO, and QQQ.*

High-Yielding Idea CyrusOne Gets Bought!

Image Shown: *CyrusOne, an idea in the High Yield Dividend Newsletter portfolio, announced it was getting bought out on November 15.*

By Callum Turcan

CyrusOne (CONE), a data center real estate investment trust ('REIT') included as an idea in the High Yield Dividend Newsletter portfolio, announced on November 15 that the private equity firm KKR & Co Inc (KKR) and the infrastructure investment fund Global Infrastructure Partners ('GIP') **is buying the REIT for $90.50 per share in cash.**

Overview

According to the press release, the ~$15 billion deal (including the assumption of debt) is expected to close by the second quarter of 2022 and has already been unanimously approved by CyrusOne's board of directors. **CyrusOne's shareholders still need to approve of the deal, which we view as likely given that KKR and GIP are offering a roughly 25% premium based on CyrusOne's closing stock price on September 27 before buyout rumors started spreading in public.** Shares of CONE yield ~2.3% as of this writing.

Back on October 13, we published a note titled *High-Yield Idea CyrusOne Considers Selling Itself* and are pleased that the buyout rumors came true. That article was included in the November 2021 edition of the High Yield Dividend Newsletter publication.

We are glad to have gotten this idea out front and center for our members and continue to be huge fans of the data center space. Digital Realty Trust Inc (DLR), another high-quality data center REIT and shares of DLR yield ~2.8% as of this writing. We cover our latest thoughts on Digital Realty in an article that starts of Page 8 of this newsletter.

Concluding Thoughts

In our view, the High Yield Dividend Newsletter portfolio is well-positioned to navigate any potential increases in interest rates in the face of ongoing inflationary pressures. Please note that as the yield on the 10-year U.S. Treasury remains relatively low (around 1.6% as of this writing), it appears that investors do not expect interest rates to rise at a brisk pace over the medium term.

The Fed recently announced it was winding down its QE program and monthly purchases of US Treasuries and mortgage-backed securities ('MBS') are set to end by the middle of next year. In any event, Digital Realty should be able to grow its cash flows at a robust pace going forward, aided by powerful secular tailwinds as data consumption continues to surge around the globe in the face of the proliferation of cloud computing operations, the Internet of Things ('IoT') trend, and the emergence of the autonomous vehicle industry.

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

HIGH YIELD SPOTLIGHT

HP's Improving Cost Structure Amid Robust Demand Supports Outlook

Our **High Yield Spotlight for December 2021** is the computer and printing giant HP Inc (HPQ)---**2.8%** yield---as the firm's sleepy business model is starting to show signs of life. **HP is a tremendous free cash flow generator focused on returning excess cash flow to shareholders, and its outlook has improved considerably of late**, even in the face of major supply chain hurdles and headwinds from the coronavirus ('COVID-19') pandemic.

HP's business model consists of two key operations. The first is its 'Personal Systems' segment that sells desktops, laptops, workstations (designed for commercial uses), and related offerings and the second is its 'Printing' segment that sells printers and printing supplies to both enterprises and consumers.

During the initial phases of the COVID-19 pandemic, consumer demand for laptops surged as the work-from-home ('WFH') trend took off. However, that surge was not enough to offset sales declines of its desktops and workstations, which saw net revenue from HP's Personal Systems segment grow only marginally on a year-over-year basis in fiscal 2020 (period ended October 31, 2020) while sales at its Printing segment declined by double-digits during this period with weakness reported across the board. **However, a lot has changed since then as offices have reopened, resulting in robust demand from both consumers and enterprises for HP's offerings.**

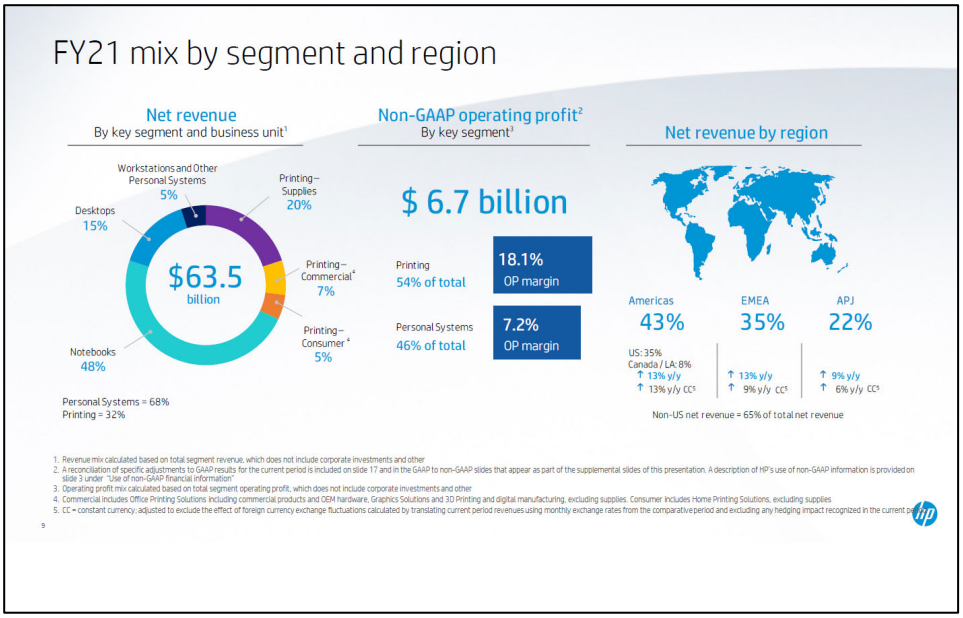


Image Shown: *An overview of HP's financial performance in fiscal 2021.* ***Image Source:*** *HP – Fourth Quarter of Fiscal 2021 IR Earnings Presentation*

In fiscal 2021 (period ended October 31, 2021), net revenue at HP's Personal Systems segment grew by 11% year-over-year, aided by 18% growth in its laptop sales and 11% growth at its 'other' sales in this segment offsetting weakness at its desktop and workstation offerings. As the economy continues to reopen around the globe, sales of its desktops and workstations should eventually rebound at a time when its laptop sales are booming. **The firm's Printing segment saw its net revenues grow by 14% year-over-year in fiscal 2021** with growth coming from both its commercial and consumer customer base. Strong performance on both fronts enabled HP to grow its GAAP net revenues by 12% year-over-year to reach $63.5 billion in fiscal 2021.

During HP's latest earnings call, management highlighted the firm's pricing power as offsetting supply chain hurdles, to a degree. Management had this to say regarding HP's outlook and the current supply chain situation during the firm's latest earnings call (emphasis added, lightly edited):

> *"Consumer demand remained solid. However, revenue across both home and office was constrained by the current supply and factory environment. The commercial recovery should further progress with a double-digit hardware revenue growth with triple-digit increases in industrial printing hardware.* ***We expect to see a continued gradual and uneven recovery in commercial extending into [fiscal 2022].*** *" --- Marie Myers, CFO of HP*

Strong demand for its offerings combined with its pricing power enabled HP to grow its GAAP gross margin by ~270 basis points year-over-year in fiscal 2021, hitting 21.1%. The company's GAAP operating margin climbed higher by ~225 basis points year-over-year, hitting 8.4%, as HP decided to step up its R&D investments. Its GAAP operating income rose by 53% year-over-year to reach $5.3 billion.

Please note these figures do not incorporate the net income impact of HP's recent legal victory over Oracle Corporation (ORCL), which according to its fourth quarter of fiscal 2021 earnings presentation came in at roughly $1.8 billion. In July 2021, the California Court of Appeal issued a ruling that Oracle must pay HP ~$3.0 billion after violating a 2010 settlement between HP and Oracle. For reference, in 2011, HP sued Oracle over the infringement of the settlement, with the lengthy legal battle culminating in a legal victory for HP. Interest accumulated on the legal award was another consideration as it concerns the final payout figure. This agreement was established before HP split into two entities, one being HP and the other being Hewlett Packard Enterprise Company (HPE). According to HP's 10-Q SEC filing covering the third quarter of fiscal 2021:

> Pursuant to the terms of the separation and distribution agreement, HP and Hewlett Packard Enterprise will share equally in any recovery from Oracle once Hewlett Packard Enterprise has been reimbursed for all costs incurred in the prosecution of the action prior to the Separation.

The proceeds from this legal victory supported HP's cash flow position in fiscal 2021, though please note that its underlying cash flow generating abilities remained strong.

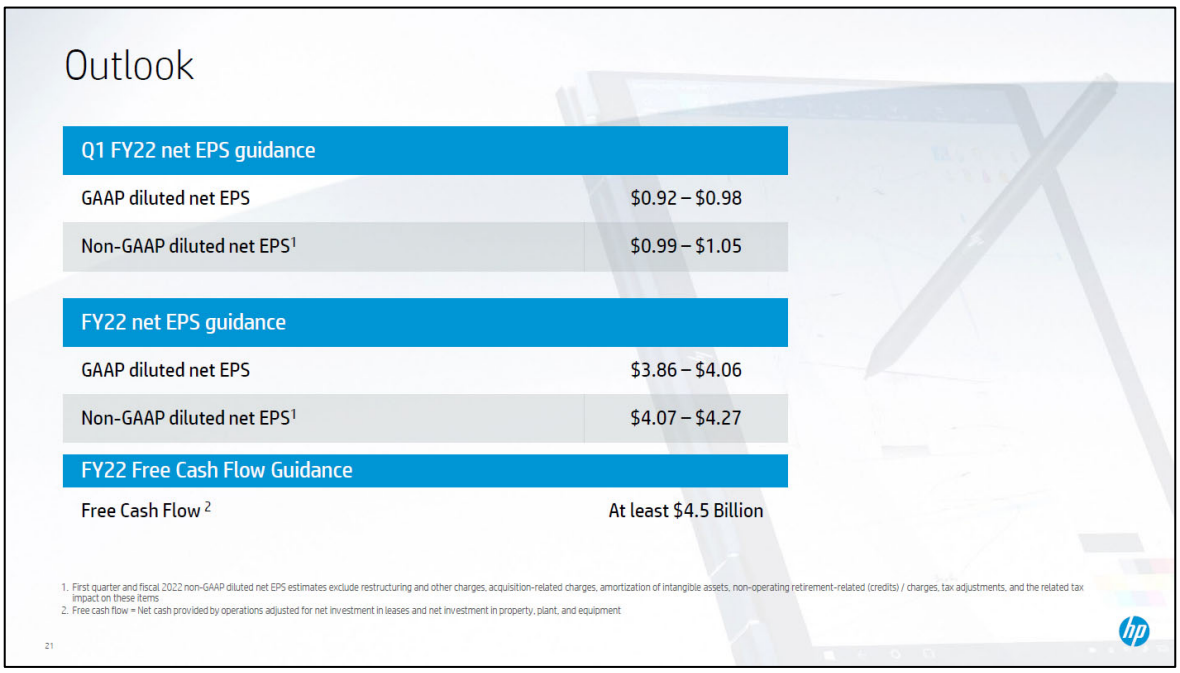


Image Shown: *HP intends to continue generating "gobs" of free cash flow in fiscal 2022.* ***Image Source:*** *HP – Fourth Quarter of Fiscal 2021 IR Earnings Presentation*

HP is a free cash flow generating juggernaut. **In fiscal 2021, HP generated $5.8 billion in free cash flow** (up from $3.7 billion in fiscal 2020) while spending $0.9 billion covering its dividend obligations and another $6.2 billion buying back its stock. The company's dividend obligations have historically been well-covered by its free cash flows, and we expect that to continue going forward. During its latest earnings report, **HP forecasted that it would generate "at least $4.5 billion" in free cash flow in fiscal 2022.** As an aside, HP also intends to generate $4.07-$4.27 in non-GAAP adjusted diluted EPS in fiscal 2022, up 10% year-over-year at the midpoint of guidance.

At the end of October 2021, HP had $4.3 billion in cash and cash equivalents on hand versus $1.1 billion in short-term debt and $6.4 billion in long-term debt on the books, equal to a net debt load of $3.2 billion. **We view HP's net debt load as manageable given its stellar "excess" free cash flows, meaning free cash flows after covering its payout obligations.**

On November 16, HP increased its quarterly dividend by 29% on a sequential basis, bringing its annualized payout up to $1.00 per share. In fiscal 2021, HP's outstanding diluted share count fell by 14% versus fiscal 2020 levels due to its sizable share repurchases.

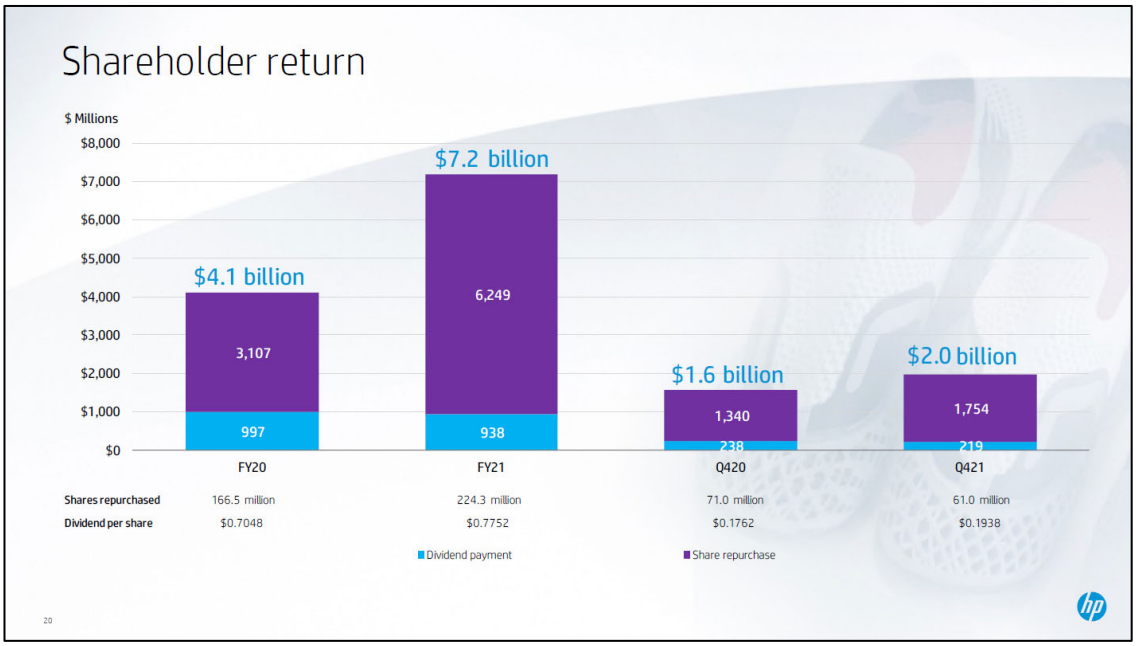


Image Shown: *HP is incredibly shareholder friendly.* ***Image Source:*** *HP – Fourth Quarter of Fiscal 2021 IR Earnings Presentation*

During HP's latest earnings call, management noted that the company intends to spend at least $4.0 billion towards share buybacks in fiscal 2022. As it concerns HP's near term outlook, management noted that (emphasis added, lightly edited):

> *"For Personal Systems, we continue to see strong demand for our PCs, particularly in commercial, as well as favorable pricing.* ***We expect solid [Personal Systems] revenue growth to continue into fiscal '22 with the shift to higher growth categories, including commercial, premium and peripherals.*** *We expect [Personal Systems] margins to be toward the high-end of our 5% to 7% long-term range.*
>
> ***In Print, we expect solid demand in consumer, a continued normalization in mix as commercial gradually improves through 2022 and disciplined cost management.*** *We expect Print margins to be towards the high end, about 16% to 18% long-term range.* *[Continued on the next page]*

[Continued from the previous page] For Personal Systems, ***we expect the component shortages, as well as manufacturing port and transit disruptions will continue to constrain revenue due to the ongoing pandemic in many parts of the world.*** *In Print, we expect similar, but more acute challenges, particularly with regard to factory disruptions and component shortages.* ***We expect these challenges across [Personal Systems] and Print to persist at least through the first half of 2022."*** *--- CFO of HP*

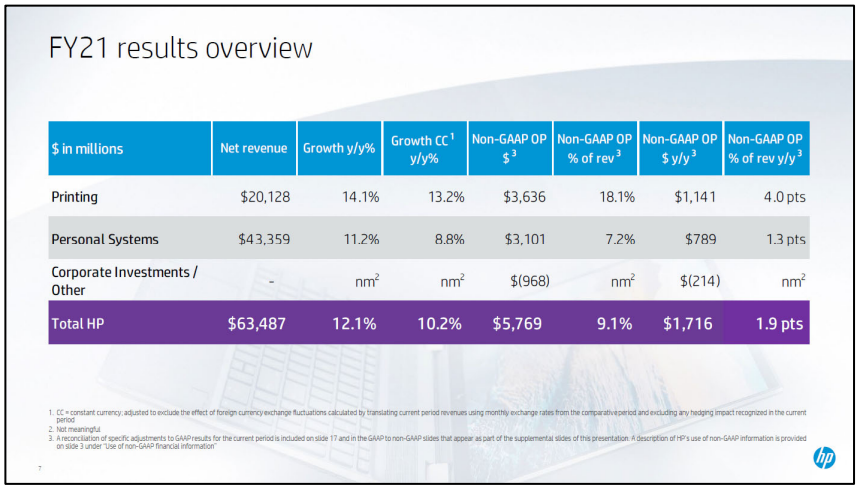
Supply chain headwinds are expected to persist into fiscal 2022, though HP is adeptly navigating these hurdles. The company's competitors are facing similar constraints.

HP is steadily working towards improving its cost structure. In February 2020, HP announced plans to achieve $1.2 billion in annualized structural cost reductions by fiscal 2022. According to recent management commentary, HP had already realized roughly 80% of those targeted cost savings and is actively reviewing additional cost savings initiatives. **Improvements in HP's cost structure should go a long way in supporting its free cash flow growth outlook.**

As it concerns improving HP's revenue growth trajectory, the firm recently launched HP Wolf Security Pro, a cybersecurity software subscription service geared towards enterprises. Cyber threats are proliferating around the world, and insufficient cybersecurity capabilities can have an incredibly detrimental impact on an enterprise's operations. HP is capitalizing on booming demand for such offerings while bulking up its recurring revenue streams. At its Printing business, HP is bulking up its recurring revenue streams by leaning on its ink and related offerings, a strategy seen through its HP Instant Ink subscription service (monthly supplies of ink and toner).

There are some downside risks to be aware of here. HP does have a net debt load, and its plans to aggressively buy back its stock will likely see that burden grow going forward. Additionally, HP operates in highly cyclical and competitive industries, and will need to invest aggressively in its R&D operations to stay ahead of the curve. Its R&D expenses were up 29% year-over-year in fiscal 2021, reaching $1.9 billion.

HP's cost structure improvement initiatives and robust demand for its offerings should enable the firm to ride out supply chain hurdles with its growth trajectory intact. **The company is a tremendous free cash flow generator and is incredibly shareholder friendly, which we really appreciate.** As supply chain hurdles fade, in large part through widespread COVID-19 vaccine distributions eventually putting an end to pandemic-related quarantine measures and other disruptions, HP should eventually be able to better meet robust demand for its offerings. **We like HP as our High Yield Spotlight for December 2021.**



FY21 results overview

$ in millions	Net revenue	Growth y/y%	Growth CC [1] y/y%	Non-GAAP OP $ [3]	Non-GAAP OP % of rev [3]	Non-GAAP OP $ y/y [3]	Non-GAAP OP % of rev y/y [3]
Printing	$20,128	14.1%	13.2%	$3,636	18.1%	$1,141	4.0 pts
Personal Systems	$43,359	11.2%	8.8%	$3,101	7.2%	$789	1.3 pts
Corporate Investments / Other	-	nm[2]	nm[2]	$(968)	nm[2]	$(214)	nm[2]
Total HP	$63,487	12.1%	10.2%	$5,769	9.1%	$1,716	1.9 pts

1. CC = constant currency, adjusted to exclude the effect of foreign currency exchange fluctuations calculated by translating current period revenues using monthly exchange rates from the comparative period and excluding any hedging impact recognized in the current period
2. Not meaningful
3. A reconciliation of specific adjustments to GAAP results for the current period is included on slide 17 and in the GAAP to non-GAAP slides that appear as part of the supplemental slides of this presentation. A description of HP's use of non-GAAP information is provided on slide 3 under "Use of non-GAAP financial information"

Image Shown: *HP put up stellar performance in fiscal 2021.* ***Image Source:*** *HP – Fourth Quarter of Fiscal 2021 IR Earnings Presentation*

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

Digital Realty Boosts Guidance and Further Extends Growth Runway

Image Source: *Digital Realty Trust Inc – Third Quarter of 2021 IR Earnings Presentation*

By Callum Turcan

On October 26, Digital Realty Trust Inc (DLR) posted third quarter 2021 earnings that beat both consensus top- and bottom-line estimates. The data center real estate investment trust ('REIT') saw its GAAP operating revenues come in at $1.1 billion (up 11% year-over-year) and its non-GAAP core funds from operations ('FFO') per share come in at $1.65 per share (up 7% year-over-year) last quarter. **Digital Realty also increased its guidance in conjunction with its latest earnings report,** which we appreciate, as that signals the REIT is growing confident that it will exit 2021 on a high note.

Shares of DLR are included as an idea in our High Yield Dividend Newsletter portfolio. Digital Realty's business is steadily recovering after taking a meaningful hit during the initial phases of the coronavirus ('COVID-19') pandemic. **Shares of DLR yield ~2.8% as of this writing** and in our view, the REIT has ample room to grow its payout going forward as its financial performance bounces back from the subdued levels seen in 2020.

When taking into consideration Digital Realty's ability to tap capital markets at attractive rates (something we cover in this article), we give the REIT a "GOOD" Dividend Safety rating as its adjusted Dividend Cushion ratio is near parity at 0.7, which factors in expected dividend growth over the coming years. Additionally, we give Digital Realty a "GOOD" Dividend Safety rating, underpinned by its bright cash flow growth outlook. The top end of our fair value estimate range sits at $186 per share of DLR, well above where Digital Realty is trading at as of this writing.

Guidance Boost

Digital Realty recently boosted its full-year guidance for 2021 and now expects to post $4.4 billion-$4.425 billion in total revenue (up 13% from 2020 levels at the midpoint) and $6.50-$6.55 in core FFO per share (up 5% from 2020 levels at the midpoint) this year. Please note that Digital Realty has adjusted its 2021 guidance several times so far this year, and that its current outlook represents a nice improvement from the guidance it put out back in February 2021.

Balance Sheet Update

When Digital Realty announced a secondary equity offering in September 2021, shares of DLR initially took a hit though its stock price has since recovered, even in the face of rising interest rates. Once the forward sale agreements associated with the secondary offering has been completed, something that is expected to occur by March 2022, Digital Realty will have raised ~$1.0 billion net through this offering.

The REIT had $14.1 billion in total debt outstanding, inclusive of short-term debt, at the end of September 2021. As a capital market dependent entity, Digital Realty is constantly issuing debt and equity to raise funds to cover its refinancing needs, growth ambitions, and to keep making good on its payout obligations. For instance, in July 2021, Digital Realty issued the equivalent of ~USD $0.6 billion in Swiss "green bonds" with a weighted-average coupon of just under 0.4% and a weighted-average maturity of roughly 6.6 years. Based on recent capital market activities, we see Digital Realty retaining solid access to debt and equity markets at attractive rates going forward.

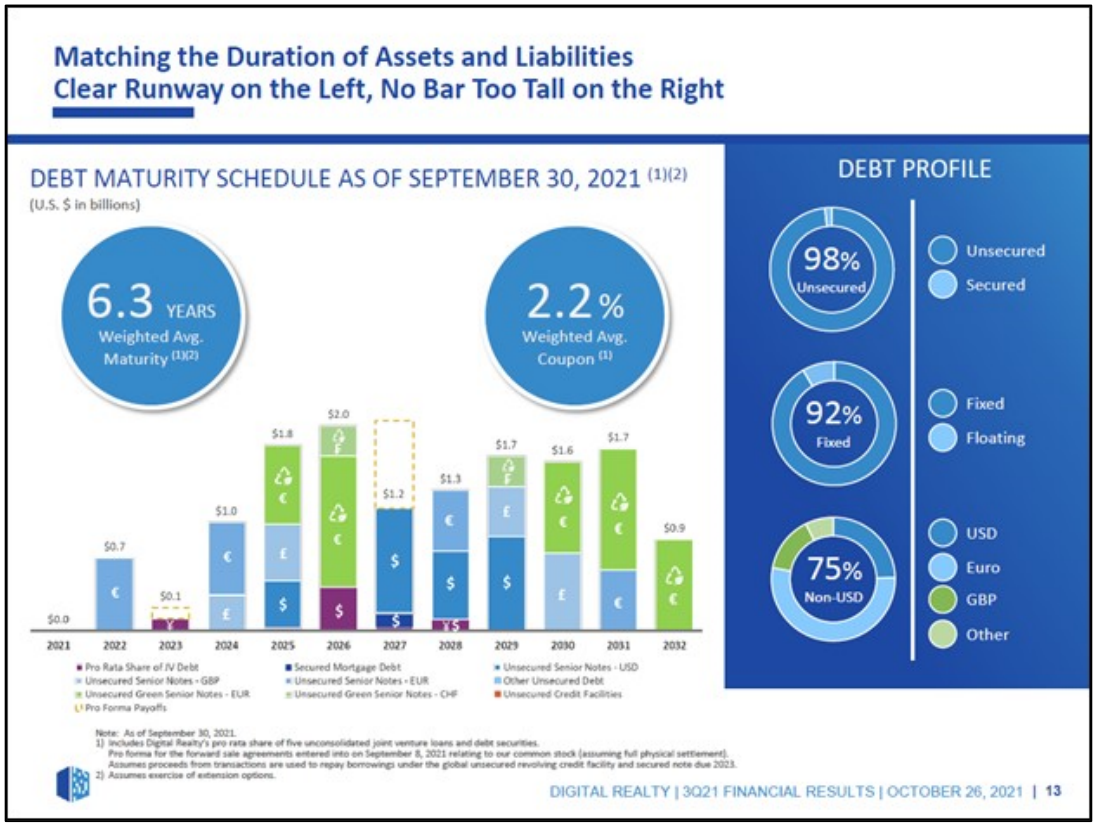


Image Shown: *Digital Realty's debt maturity schedule remained well-staggered at the end of September 2021, which should make future refinancing activities easier to manage.* ***Image Source:*** *Digital Realty – Third Quarter of 2021 IR Earnings Presentation*

Bookings Performance Coming in Strong

Digital Realty's bookings performance has held up well in recent quarters as it concerns both signing new leases and renewing existing leases. As we have noted in the past, Digital Realty faces headwinds from legacy leases expiring as it concerns its rental rate performance, though those headwinds should eventually fade.

Last quarter, the REIT signed total bookings that are expected to generate $113 million in annualized GAAP revenue, which includes a $12 million contribution from its interconnection offerings. Additionally, the REIT signed lease renewals worth $223 million in annualized GAAP revenue last quarter, though its cash and GAAP rental rates both rolled down by single-digits as legacy leases were replaced.

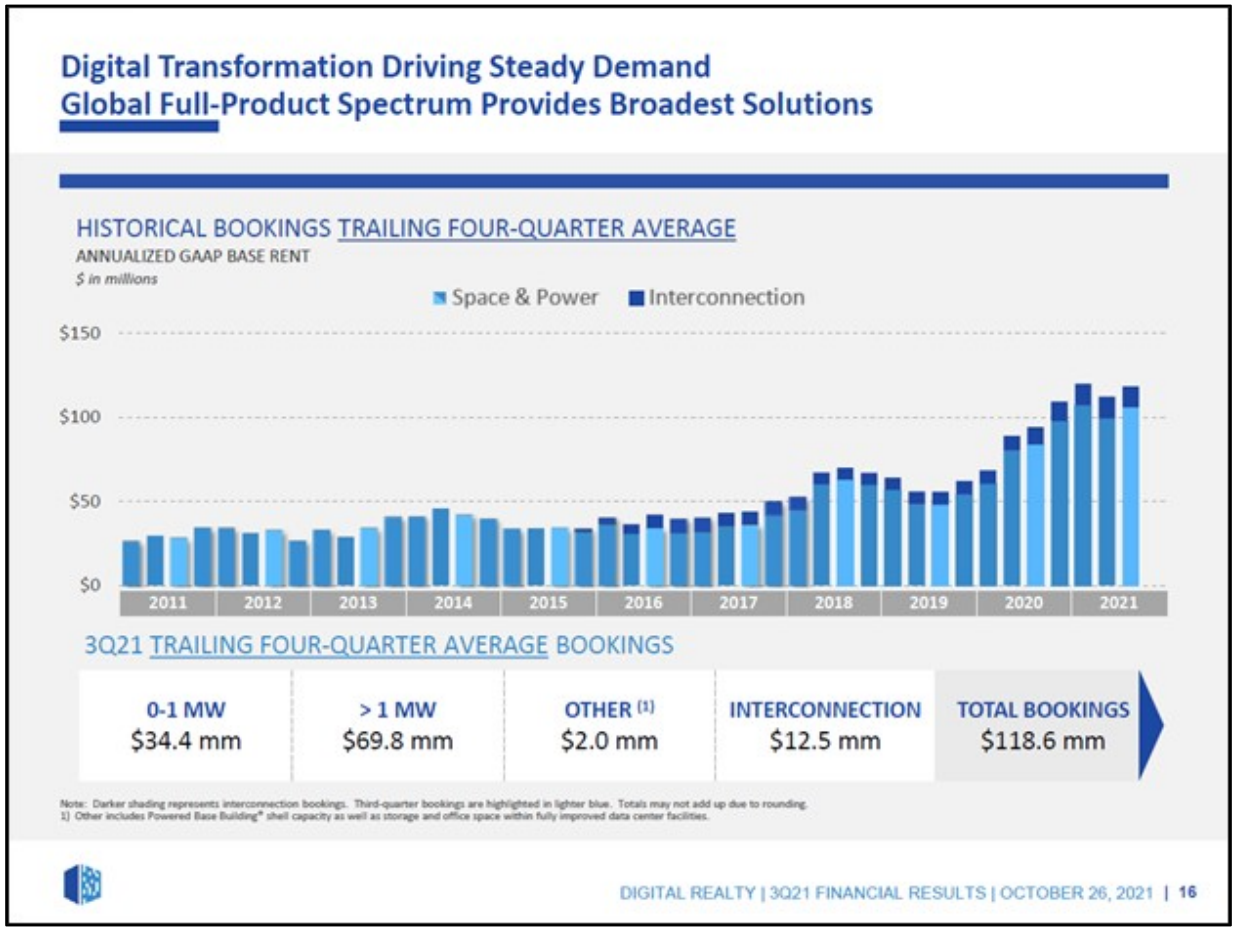


Image Shown: *Digital Realty has done a solid job securing new business and renewing existing leases in recent quarters.* ***Image Source:*** *Digital Realty – Third Quarter of 2021 IR Earnings Presentation*

International Expansion

Digital Realty closed its India-focused joint venture with Brookfield Infrastructure Partners LP (BIP) last quarter. In our view, this joint venture should significantly extend Digital Realty's growth runway given India's promising growth outlook as its economy continues to modernize. Currently, Digital Realty does not own or operate any data centers in India.

Early on in the fourth quarter of 2021, Digital Realty announced it had made a strategic investment in AtlasEdge Data Centres which is billed as "a European edge data center provider." Additionally, Giuliano Di Vitantonio (Executive Vice President, Strategy & Business Segments at Digital Realty) is set to become CEO of AtlasEdge starting in January 2022. Here is what the press release announcing the deal had to say:

> AtlasEdge delivers seamless, localized and ultra-low latency digital infrastructure through an extensive network of more than 100 facilities across Europe located close to consumer and enterprise end users, at the edge of the last-mile network. The company aims to serve the growing demand from cloud providers, streaming services and enterprises for high-performance, scalable and secure facilities through which they can distribute low-latency applications and services such as 5G, gaming and IoT.
>
> AtlasEdge is an ideal partner for Digital Realty's edge strategy, given the unique last-mile network reach of AtlasEdge's assets in addition to their highly distributed reach across Europe. As interconnection and other data center solutions move towards the edge, Digital Realty's expertise in designing and operating solutions at scale enhances the value of partnerships for both parties.

Digital Realty also announced in October 2021 that it had formed a joint venture with Pembani Remgro Infrastructure Fund (an infrastructure fund focused on Africa) that aims to acquire Medallion Data Centres. The press release billed Medallion as "Nigeria's leading colocation and interconnection provider" and had this to say on the venture:

> Medallion operates two data centers, one in Lagos, the most populous urban metropolitan area in Africa with approximately 15 million people, and one in Abuja, the capital of Nigeria. Medallion's Lagos data center is the leading connectivity hub in Western Africa with over 70 carriers and internet service providers, over 80% of the public peering traffic on the Nigerian Internet Exchange, and a peering point for all subsea cables currently operating in Nigeria with plans to serve as a peering point for the nine new subsea cables scheduled to be in operation in Lagos by 2023.
>
> With a population of over 200 million, Nigeria is Africa's most populous country and the seventh most populous in the world. Its GDP is the largest in Africa and was the 26th largest globally in 2019. With a large and young population, a growing and diversifying economy as well as a maturing regulatory environment, Nigeria has experienced strong economic growth in recent years.

In conjunction with that announcement, Digital Realty also announced that Pembani Remgro Infrastructure Fund and their partner iColo, a Kenyan data center operator (the partnership has been around since 2019), were expanding into Mozambique. iColo intends to build a data center in Maputo, its first in Mozambique. Additionally, iColo recently expanded its campus in Nairobi, Kenyan, via a land acquisition that should support its growth efforts in its home country.

According to Digital Realty's 2020 Annual Report, the REIT acquired a controlling stake in iColo last year. **We are big fans of Digital Realty's growth ambitions in Africa and India as that complements its expansion strategy in its core markets of North America and Europe.**

During Digital Realty's latest earnings call, management noted that "as of September 30, (it) had 44 projects underway around the world, totaling almost 270 megawatts of incremental capacity, with over 250 megawatts scheduled for delivery before the end of 2022." Europe, the Middle East, and Africa ('EMEA') represented 27 of those projects with around 150 megawatts of incremental capacity.

Management noted in the REIT's latest earnings call that Digital Realty was "being a bit more selective in North America" with an eye towards growth projects in Portland (Oregon), Northern Virginia, New York, and Toronto. The REIT expects to bring additional capacity online in Hong Kong this quarter and in early 2022, Digital Realty aims to bring a carrier-neutral data center facility online in Seoul.

Looking ahead, Digital Realty's management team noted that "we're optimistic in terms of where our same store [net operating income] growth goes for 2022" during the REIT's third-quarter earnings call, aided by some of its recent acquisitions in attractive markets entering the same store category. On a side note, here is what management had to say regarding the recent surge in energy prices seen in Europe and elsewhere during Digital Realty's latest earnings call (emphasis added):

> *"While on the topic of energy,* ***I'm pleased to report that Digital Realty experienced only a small negative impact from the substantial rise in energy costs during the third quarter.*** *In Europe, where concerns of an energy crisis were most acute, we typically contract for energy supplies a year or more in advance, providing price feasibility and certainty for our customers.*
>
> *Elsewhere around the world, energy costs are typically passed through to customers, minimizing our direct exposure.* ***We continue to keep a close eye on energy prices, but given the resiliency of our business model, we do not expect rising energy costs to impact our reported results by more than a few pennies."*** *--- Bill Stein, CEO of Digital Realty*

We appreciate the resiliency of Digital Realty's business model.

ESG Considerations

A major theme we have written about in the recent past is the rise of "sustainable" and "ethical" investing practices, specifically the proliferation of environmental, social, and governance ('ESG') investing strategies.

The proliferation of ESG investing is impacting corporate board rooms and reporting practices around the world, and this trend extends into equity, debt, and structured credit markets. Digital Realty is actively capitalizing on the proliferation of ESG investing strategies. For instance, as mentioned previously, the REIT was able to issue out Swiss green bonds with a relatively low coupon last quarter.

During Digital Realty's latest earnings call, management noted that the REIT utilized proceeds from a Euro green bond issued out in 2020 to fund "sustainable data [center] development projects in 4 countries across 3 continents, certified in accordance with leading sustainable rating standards." The REIT first started issuing out green bonds in 2015, according to its website. Generally speaking, green bonds often have a slightly lower cost of capital than traditional bonds, though the proceeds need to be allocated towards certain projects instead of general corporate purposes.

Looking ahead, Digital Realty has made several changes to its business to bolster its ESG reporting practices and to ensure it appeals to fund managers, individual investors, and other entities with ESG credentials in mind. In the upcoming graphic down below, Digital Realty highlights some of its recent accomplishments in the realm of ESG.

Image Shown: *Digital Realty is doing what it can to appeal to investors with ESG practices in mind.* ***Image Source:*** *Digital Realty – Third Quarter of 2021 IR Earnings Presentation*

Digital Realty is making the right call by taking the proliferation of ESG investing practices seriously.

Concluding Thoughts

We liked what we saw in Digital Realty's latest earnings report. The data center REIT is steadily expanding its global growth runway, heavily aided by its various strategic partnerships, which in turn supports its long-term cash flow growth outlook. **Digital Realty is well-positioned to capitalize on numerous secular growth tailwinds going forward** such as the Internet of Things ('IoT') trend, the proliferation of 5G technologies and e-commerce, and surging data consumption. **We continue to be huge fans of Digital Realty and its impressive income generation upside.**

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

Tyson's Pricing Strength Enables Margin Expansion During Turbulent Time

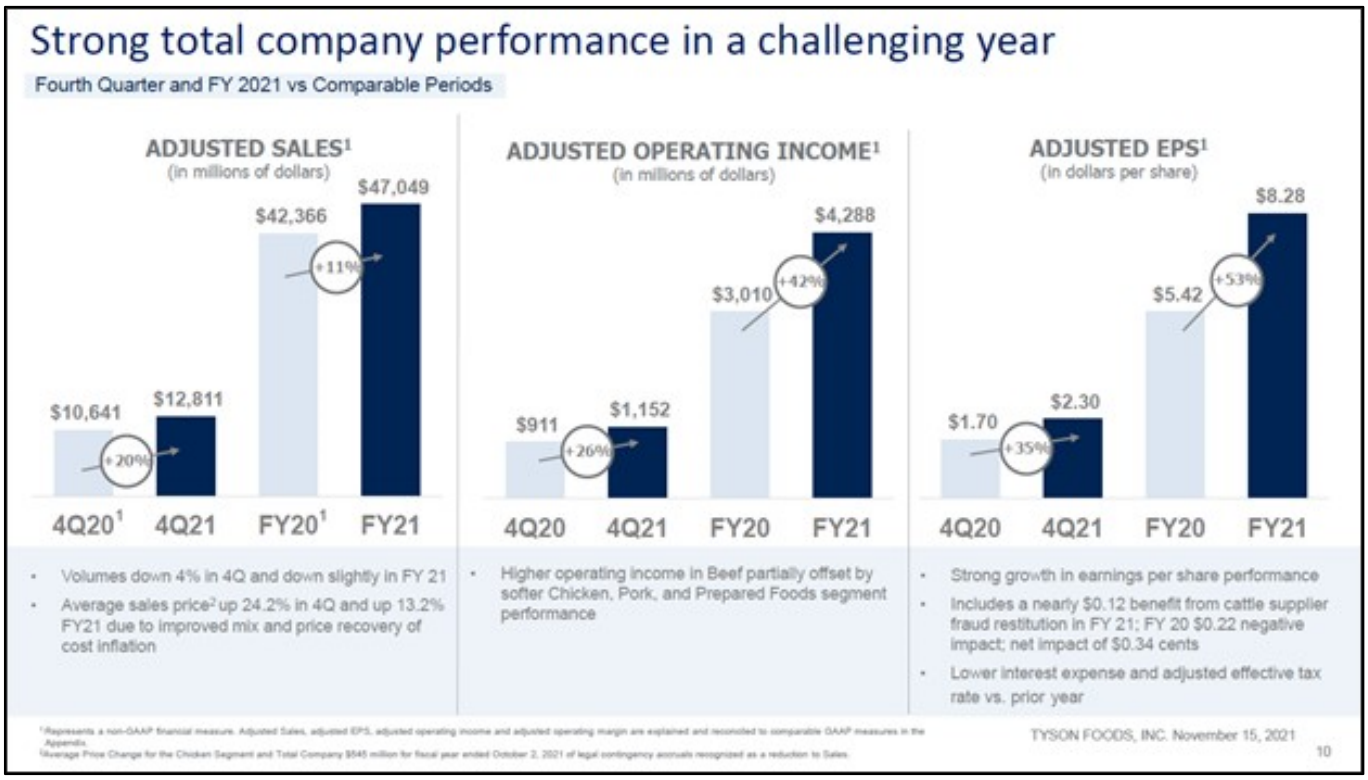


Image Shown: *Tyson Foods Inc put up stellar results for fiscal 2021.* ***Image Source:*** *Tyson Foods Inc – Fourth Quarter of Fiscal 2021 IR Earnings Presentation*

By Callum Turcan

On November 15, Tyson Foods Inc (TSN)---**2.3% yield**---reported fourth quarter earnings for fiscal 2021 (period ended October 2, 2021) that beat both consensus top- and bottom-line estimates **largely due to the firm's impressive pricing strength, the focus of this article.** The company is facing major headwinds from the coronavirus ('COVID-19') pandemic, from labor shortages to supply chain bottlenecks to rising input costs, though Tyson has adeptly navigated this turbulence while bolstering both its revenues and its margins. For reference, please note that Tyson's fiscal year ends around late-September or early October.

Pricing Strength Powering Margin Improvements

Tyson's ability to push through meaningful pricing increases is simply stunning as its GAAP operating margin was up in fiscal 2021 versus both fiscal 2019 and fiscal 2020 levels. Its pricing power to offset inflationary and other headwinds is one of the reasons shares of TSN are up over 31% year-to-date (before taking dividend considerations in account) as of this writing.

In the upcoming graphic at the top of the next page, we highlight Tyson's GAAP financial performance from fiscal 2019-2021. The company's net sales have grown at a nice clip while its gross and operating margins expanded robustly during this period. Additionally, please note Tyson's margins continued to expand even though it incurred meaningful incremental expenses related to keeping its workforce safe from the COVID-19 pandemic.

GAAP Figures (In millions of USD)			
Fiscal Year	FY2019	FY2020	FY2021
Net Sales	42,405	43,185	47,049
Gross Profit	5,022	5,384	6,526
Gross Margin	11.8%	12.5%	13.9%
Operating Income	2,827	3,008	4,396
Operating Margin	6.7%	7.0%	9.3%

Image Shown: *Tyson's financial performance has trended in the right direction over the past few years, seen through its nice net sales growth and meaningful margin expansion from fiscal 2019 to fiscal 2021.* ***Image Source:*** *The author, with data from Tyson provided by its earnings press releases covering the fourth quarter of fiscal 2019, fiscal 2020, and fiscal 2021*

The upcoming two tables down below (including one at the top of the next page) highlight Tyson's ability to use its pricing strength to offset headwinds from reduced selling volumes and rising costs. Please note Tyson's fiscal 2020 had an extra week, and management adjusted the volume and average selling prices for fiscal 2020 for comparison purposes.

FY2020 to FY2019 Comparison		
Product Segment	Adjusted Volume Change	Adjusted Average Pricing Change
Beef	-6.5%	4.0%
Pork	-0.2%	2.2%
Chicken	-1.7%	-0.6%
Prepared Foods	-3.7%	3.1%
International/Other	47.7%	-6.5%

Image Shown: *Tyson's pricing power at its beef and pork offerings and volume strength at its 'International/Other' segment helped mitigate headwinds from the COVID-19 pandemic during fiscal 2020.* ***Image Source:*** *The author, with data from Tyson provided by its earning press release covering the fourth quarter of fiscal 2020*

Looking now at Tyson's fiscal 2021 performance versus fiscal 2020, it is clear the company has tremendous pricing power. What makes its pricing strength particularly noteworthy is that it covers all its major product segments**. Tyson has been steadily buying up brand name consumer staples firms in the food/meat industry** (such as Hillshire Brands and Keystone Foods) **over the past decade to support its margin performance, and this strategy appears to be playing out quite favorably.**

Inflationary pressures and related pricing increases pushed through by Tyson's competitors can't be ignored, as those factors are partially why these average pricing changes are so material. However, there is more to the story given Tyson's expanding GAAP gross and operating margins of late while its GAAP net sales continue to grow.

FY2021 to FY2020 Comparison		
Product Segment	Volume Change	Average Pricing Change
Beef	0.3%	14.0%
Pork	-2.7%	25.1%
Chicken	-3.3%	11.2%
Prepared Foods	-5.4%	9.2%
International/Other	-0.3%	7.5%

Image Shown: *Tyson's pricing power is simply stunning.* ***Image Source:*** *The author, with data from Tyson provided through its earning press releases covering the fourth quarter of fiscal 2021*

Financial Overview

Pivoting now to Tyson's cash flow performance, **the firm generated $2.6 billion in free cash flow** in fiscal 2021 and spent $0.6 billion covering its dividend obligations along with another $0.1 billion buying back its Class A common stock (Tyson has a dual class structure that we will cover later). **From fiscal 2019-2021, Tyson's annual free cash flows averaged ~$2.2 billion.**

Tyson exited fiscal 2021 with a net debt load of $6.8 billon (inclusive of short-term debt) with $2.5 billion in cash and cash equivalents on the books at the end of this period providing the firm with ample liquidity. In July 2021, Tyson completed the divestment of its pet food business to General Mills Inc (GIS) for $1.2 billion in cash.

Recently, the company boosted its quarterly dividend on a sequential basis by ~3% on both its Class A and Class B common stock (announced in its latest earnings press release), encouraged by its stellar free cash flow generating abilities and promising outlook. Tyson Limited Partnership owned virtually all of Tyson's Class B common stock (which have ten votes per share) at the end of fiscal 2021, which gives the Tyson family and related entities control of over 71% of the total voting power at Tyson.

During its acquisition spree seen over the past decade, Tyson took on a lot of (net) debt to fund those deals. More recently, **Tyson has been focused on paring its leverage ratios back down to more manageable levels.** At the end of fiscal 2019, Tyson had a net debt to (non-GAAP) adjusted EBITDA ratio of 2.8x, **which fell down to 1.2x by the end of fiscal 2021** in large part due to its improving financial performance, rock-solid free cash flows, and the sale of its pet foods business to General Mills. We appreciate that Tyson brought its leverage ratios down sharply and that management remained committed to deleveraging activities throughout the COVID-19 pandemic.

Productivity Initiatives Announced

During Tyson's latest earnings call, management announced a major productivity initiative that aims **to generate ~$1 billion in annualized cost savings by the end of fiscal 2024 from fiscal 2021 levels.** Here is what management had to say on the issue during the earnings call (emphasis added, lightly edited):

> *"Relating to operational excellence and market competitiveness… we are announcing the launch of a new productivity program, designed to drive a better, faster, and more agile organization that is supported by a culture of continuous improvement and faster decision-making. The program is targeted to deliver $1 billion in recurring productivity savings of the end of fiscal '24 relative to fiscal 2021 cost baseline…* *[Continued on the next page]*

[Continued from the previous page] Execution of the effort will be supported by a program management office that will ensure delivery of key project milestones and report on savings achievements connected to 3 imperatives. ***The first is operational and functional excellence and is targeted to deliver greater than $300 million in recurring savings.*** *This includes functional efficiency efforts in finance, HR, and procurement that are focused on applying best practices to reduce cost.*

The second is digital solutions, which is targeted to deliver more than $250 million in recurring savings. *We'll achieve this goal by leveraging new digital solutions like artificial intelligence and predictive analytics to drive efficiency and operations, supply chain planning, logistics, and warehousing. For example, we're using technology to ensure that our shipments are optimally loaded to [save on] freight costs and enhance customer service levels. In many ways, the pandemic has already accelerated our push to more digital footing and our commitment in this space will continue that focus.*

The third is automation. *We will leverage automation and robotics technologies to automate difficult and higher turnover positions. For example, we have substantial opportunity to automate the deboned process within our poultry harvest facilities using a combination of both third-party and proprietary technologies." --- Donnie King, CEO and President of Tyson*

Tyson also issued favorable guidance for fiscal 2022 in conjunction with its latest earnings update that at the midpoint calls for ~6% revenue growth over fiscal 2021 levels and broadly speaking, for its margins to hold up relatively well across its business. However, Tyson does expect its capital expenditures in fiscal 2022 will jump up to ~$2 billion from $1.2 billion in fiscal 2021 as it embarks on its productivity enhancement drive. Tyson is also forecasting decent volume growth (in terms of sales of its protein and other products) in fiscal 2022 over fiscal 2021 levels.

Image Shown: *Tyson's guidance for fiscal 2022 indicates its strong performance is expected to continue going forward, keeping various headwinds in mind.* ***Image Source:*** *Tyson – Fourth Quarter of Fiscal 2021 IR Earnings Presentation*

Concluding Thoughts

Tyson has done a great job building up a brand portfolio with ample pricing strength while steadily improving its cost structure and paring down its leverage ratio in recent years. In light of these major improvements, Tyson's Dividend Cushion ratio will likely improve materially when we roll our cash flow model forward.

We don't include Tyson in any of the simulated newsletter portfolios, though we include the Vanguard Consumer Staples Index Fund ETF (VDC) in our High Yield Dividend Newsletter portfolio which had modest exposure to Tyson as of the end of October 2021.

The VDC ETF is a solid way to gain diversified access to top quality names within the consumer staples space, many of which have ample pricing power and have proven capable of adeptly navigating both inflationary and supply chain headwinds seen of late (as it concerns managing their financial performance).

Investors should not overlook the valuations of many in the consumer staples space, however, as net debt positions and meager top-line growth should not necessarily translate into 20x forward earnings numbers, the levels at which many are trading.

Image Shown: *Shares of the VDC ETF, an idea included in the High Yield Dividend Newsletter portfolio, have surged higher over the past year aided by the pricing power of the names included within the ETF.*

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%	5.16%
ProShares High Yield—Interest Rate Hedged	HYHG	5.0%	4.72%
iShares International Select Dividend ETF	IDV	5.0%	5.75%
iShares U.S. Preferred Stock ETF	PFF	5.0%	4.47%
Global X SuperDividend ETF	SDIV	5.0%	8.33%
Global X SuperIncome Preferred ETF -- **REDUCED**	SPFF	**5.0%**	5.83%
Vanguard Consumer Staples ETF	VDC	5.0%	2.51%
Vanguard Real Estate ETF -- **REDUCED**	VNQ	**5.0%**	3.04%
Utilities Select Sector SPDR	XLU	5.0%	3.04%
EQUITY			
Chevron Corp. ***NEW***	CVX	5.0%	4.75%
Crown Castle	CCI	5.0%	3.24%
CyrusOne Inc.	CONE	5.0%	2.34%
CubeSmart	CUBE	5.0%	3.19%
Digital Realty Trust	DLR	5.0%	2.77%
ExxonMobil Corp ***NEW***	XOM	5.0%	5.88%
Philip Morris	PM	5.0%	5.82%
Public Storage	PSA	5.0%	2.44%
Enterprise Products Partners -- **INCREASED**	EPD	**5.0%**	8.42%
Magellan Midstream Partners -- **INCREASED**	MMP	**5.0%**	8.95%
Cash*	-	0.0%	0.00%
		100.0%	**4.69%**

This is not a real money portfolio. Inception 1/1/2018. Data as of 12/1/2021. Est. Forward Div. Yield information retrieved from SeekingAlpha, YF.

** Reflects federal funds target rate range*

Valuentum Stock Dividend Research | Visit us at www.valuentum.com | Ratings as of 15-Nov-2021 | Data as of 15-Nov-2021

Silicon Motion Technology SIMO FAIRLY VALUED

Buying Index™ 4 Value Rating

Economic Castle	Stock Fair Value Range	Dividend Track Record	Dividend Safety / Cushion™	Div Growth Potential	Dividend Yield
Neutral	$54.00 - $90.00	HEALTHY	EXCELLENT / 3.3	EXCELLENT	2.91%

Assessment of Company Dividend Strategy

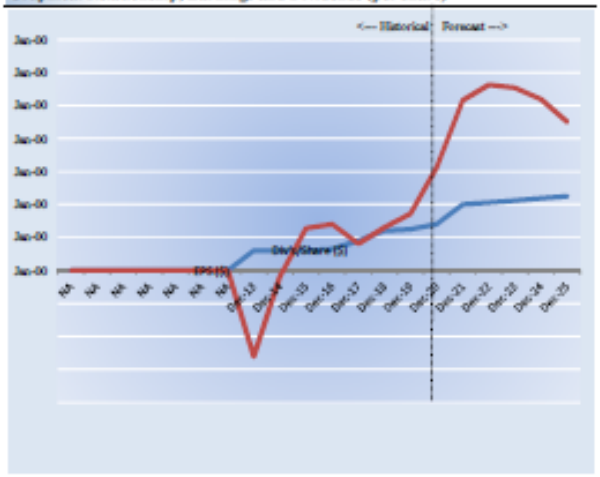
Key Strengths

There's a lot to like about Silicon Motion Technology's dividend, which is heavily supported by tremendous free cash flow generation and a very healthy balance sheet (at the end of fiscal 2020, Silicon Motion had a net cash position). Routine capital expenditures are minimal, and its dividend coverage, as measured by the forward-looking Dividend Cushion ratio, remains excellent. The cyclical tendencies and the pricing pressures innate to its business are something to watch closely, but SIMO is currently experiencing tremendous demand for its eMMC+UFS controllers. It's hard not to like its dividend strength at the moment.

Potential Weaknesses

Risks with respect to Silicon Motion Technology's dividend payment are low probability but highly adverse. The company has heavy customer concentration risk, and a loss of a key customer would be harmful. Its operations in Taiwan are exposed to geopolitical issues, and the business impact from the escalation of tensions between Taiwan and China is uncertain. Rapid technology change, obsolescence risk, and cyclical product pricing pressures are concerns. Demand for SIMO's products remains robust and its balance sheet remains very healthy, however. Absent some fat tail concerns, it's hard to see much going wrong with Silicon Motion's dividend.

Graphical Relationship, Earnings and Dividends (per share)

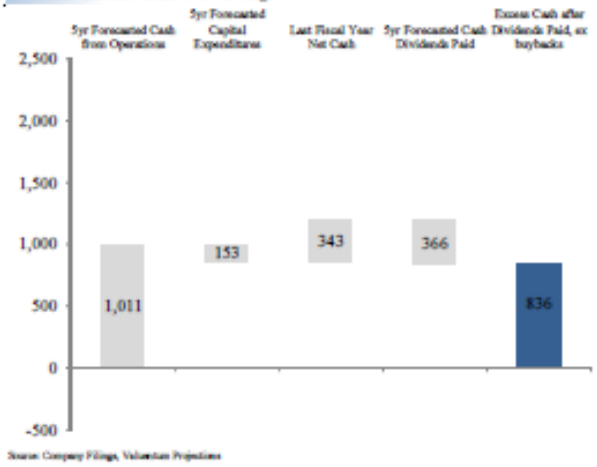


The graph above shows the relationship between a firm's earnings per share and its dividends per share.

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. Silicon Motion Technology'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 greater 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

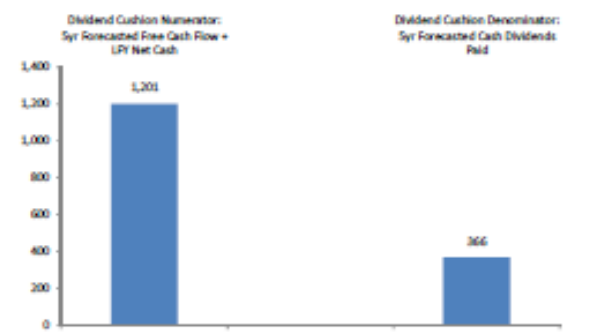


Source: Company Filings, Valuentum Projections

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, Silicon Motion Technology'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



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VALUENTUM

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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, BITO, and IWM. Brian Nelson's household owns shares in HON, DIS, HAS, NKE.*

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Amended June 1, 2021.