OUR DIVIDEND GROWTH NEWSLETTER

Valuentum Securities

Stock Analysis: From Value through Momentum Investing

January 1, 2022
Volume 11 Issue 1

Valuentum Securities
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"Consumer spending in the US appeared to come in quite strong during this latest holiday shopping season, highlighting the resilience of the domestic economy in the face of variants of the COVID-19 pandemic, supply chain constraints, and inflationary pressures. Looking ahead, the outlook for the U.S. economy remains bright as we head into 2022."

– Callum Turcan

Dividend Growth Ideas: AAPL, CSCO, CVX, DKS, DLR, HD, HON, IDV, JNJ, LMT, MSFT, NEM, O, ORCL, QCOM, RSG, SDY, UNH, XLV, XOM

Latest Changes

Welcome to 2022! Happy New Year!

Dick's Sporting Goods Is A Quality Dividend Growth Idea

Image Source: Valuentum

Shares of Dick's Sporting Goods (DKS) more than doubled during 2021, advancing more than 110% on the year!

By Callum Turcan

On November 23, Dick's Sporting Goods Inc (DKS) reported third quarter earnings for fiscal 2021 (period ended October 30, 2021) that beat both consensus top- and bottom-line estimates. **The sporting goods retailer once again raised its full-year guidance for fiscal 2021 in conjunction with its latest earnings report.**

Dick's Sporting Goods also raised its guidance when reporting its fiscal second quarter earnings back in August 2021 and its fiscal first quarter earnings back in May 2021, highlighting management's growing confidence in the company's near-term performance. **We include shares of DKS as an idea in our Dividend Growth Newsletter portfolio (see page 5).**

Please see *Dividend Growth Idea Dick's...*on next page

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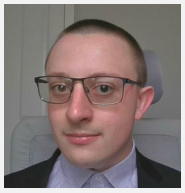

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***NOTE**: The goal of the Dividend Growth Newsletter is to highlight ideas with strong dividend growth potential and update readers about new developments in the market. A simulated portfolio of dividend growth ideas is presented on page 5 of each edition.

*Dividend Growth Idea Dick's…*from previous page

The company recently announced a 21% sequential increase in its regular quarterly dividend alongside a $5.50 per share special dividend that was paid out in September 2021. Dick's Sporting Goods has a history of paying out special dividends (it announced a special dividend of $2.00 per share in December 2012 that was paid out that same month). Shares of DKS yield ~1.6% as of this writing.

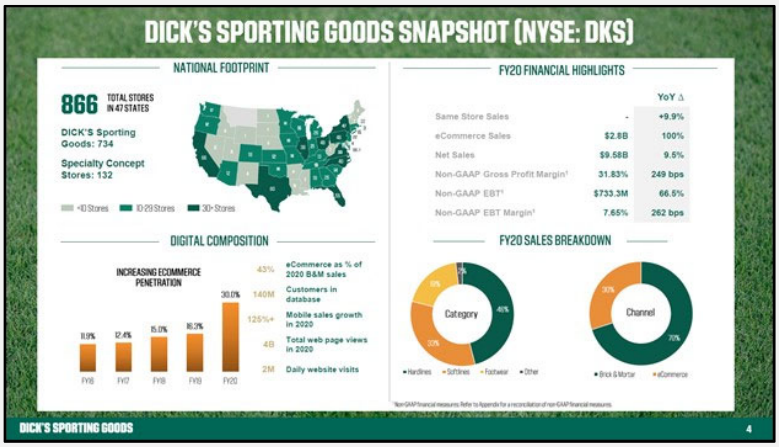

***Image Shown**: An overview of Dick's Sporting Goods Inc's operational presence and recent financial performance. **Image Source**: Dick's Sporting Goods Inc – Third Quarter of Fiscal 2021 IR Earnings Presentation*

Earnings Update

During the third quarter of fiscal 2021, Dick's Sporting Goods' GAAP revenues grew 14% year-over-year, hitting ~$2.75 billion. **Its same-store sales grew 12.2% year-over-year in the fiscal third quarter** as customers returned to its physical stores in the wake of widespread coronavirus ('COVID-19') vaccine distribution efforts. New store concepts such as its 'Dick's House of Sport' stores and adding in-store 'Soccer Shops' played a role in this strong performance. The company's e-commerce sales were up just 1% year-over-year last fiscal quarter, and up 97% over levels seen during the same period in fiscal 2019.

Dick's Sporting Goods has also done a stellar job boosting its profitability. Its GAAP gross margins rose by over 350 basis points year-over-year and its GAAP operating margin grew by almost 510 basis points year-over-year, enabling its GAAP operating incomes to grow by 71% year-over-year last fiscal quarter, coming in north of $0.4 billion. According to management commentary provided during the firm's latest earnings call, reduced promotional activity and a favorable sales mix helped its performance on this front, alongside growing economies of scale.

In the fiscal third quarter, the retailer posted $2.78 in GAAP diluted EPS, up 51% year-over-year. On a non-GAAP basis, management noted the retailer reported $3.19 in diluted EPS in the fiscal third quarter, up 59% year-over-year. Strong sales growth and meaningful margin improvements are a powerful combination, made all the more impressive when considering the sizable headwinds the US retail space has faced of late (with an eye towards labor shortages, inflationary concerns, and supply chain hurdles).

Please see *Dividend Growth Idea Dick's…*on next page

*Dividend Growth Idea Dick's…*from previous page

Dick's Sporting Goods generated $0.8 billion in free cash flow during the first three quarters of fiscal 2021 while spending $0.6 billion covering its dividend obligations (keeping its special dividend payment in mind) and an additional $0.4 billion buying back its stock. **The firm exited the fiscal third quarter with a net cash position of $0.9 billion with no short-term debt on the books,** though it does have sizable operating lease liabilities to be aware of. Stellar free cash flow generating abilities and a pristine balance sheet are immense sources of strength during turbulent times such as these.

Guidance Update

Dick's Sporting Goods is now guiding to generate $14.60-$14.80 in non-GAAP diluted EPS (versus $12.45-$12.95 previously) in fiscal 2021, up 140% on an annual basis at the midpoint of guidance. Additionally, the company forecasts that its comparable store sales will grow by 24%-25% this fiscal year (up from 18%-20% previously) and that its annual sales growth will reach 27% at the midpoint of guidance (versus 21% previously). The firm favorably adjusted other aspects of its fiscal 2021 guidance, and this latest boost may still prove to be a tad conservative given the strength of the US consumer.

Image Shown: *An overview of Dick's Sporting Goods' guidance for fiscal 2021, which was recently increased once again.* ***Image Source:*** *Dick's Sporting Goods – Third Quarter of Fiscal 2021 IR Earnings Presentation*

As of October 30, 2021, the retailer had $2.5 billion in inventory on hand, up from $2.3 billion as of October 31, 2020. This should enable Dick's Sporting Goods to meet robust consumer demand during the current holiday shopping season. Management noted in the company's recent earnings presentation that Dick's Sporting Goods has a 7% market share in the $120 billion total addressable market the firm is catering to (as of fiscal 2019, before the pandemic struck). During the retailer's latest earnings call, management noted that the firm is well-positioned to continue growing its market share (emphasis added):

> *"During a time when consumers are making lasting lifestyle changes with an increased focus on health and fitness, and greater participation in outdoor activities, we believe that DICK'S Sporting Goods has become synonymous with sport in the United States.* ***Nearly our entire category portfolio has re-baselined meaningfully higher versus pre-COVID sales levels.*** *[Continued on the next page]*

Please see *Dividend Growth Idea Dick's…*on next page

Shares of Dividend Growth ...from previous page

> *[Continued from the previous page] We've capitalized on strong consumer demand and have **gained considerable market share in key categories**, driven by enhanced product access, service and omni-channel capabilities. Looking ahead, we're well-positioned to continue gaining share, and we remain optimistic about the long-term demand trends in our most important categories, like Athletic Apparel, Footwear, Team Sports and Golf.*
>
> ***We also remain very optimistic about longer-term EBT margin driven by a number of permanent changes versus pre-COVID levels**. These changes include a highly differentiated product assortment that is less susceptible to broader promotional pressures, more granular management of promotions and **significantly higher profitability of our e-commerce channel."** --- Lauren Hobart, President and CEO of Dick's Sporting Goods*

The company's e-commerce business, customer loyalty programs (which according to recent management commentary have been effective at encouraging existing customers to be "more active" in their spending habits), new store concepts and revamped in-store layouts are supporting the retailer's efforts to grow its market share. **Dick's Sporting Goods has identified multiple ways to grow its business going forward.** Improvements to the profitability of its e-commerce busienss would go a long way in bolstering its company-wide financial performance.

Supply Chain and Inventory Concerns

During Dick's Sporting Goods latest earnings call, management mentioned how the retailer was handling its supply chain and inventory concerns (emphasis added):

> *"Before concluding, I want to spend a moment on the supply chain. Amidst a very dynamic environment our team has done an excellent job working with our vendor partners and with our vertical brand manufacturers to ensure a robust flow of product to meet strong demand. **We ordered aggressively to get ahead of the disruption**, and our quarter ending inventory levels increased 7.3% compared to the end of the same period last year.*
>
> *While there will continue to be inventory challenges across the marketplace, **our fourth quarter is off to a strong start, and we feel that we are well-positioned within our industry this holiday season**. In closing, we have exciting growth opportunities ahead of us." --- President and CEO of Dick's Sporting Goods*

Concluding Thoughts

Though shares of DKS sold off initially after its latest earnings update, we liked what we saw. The retailer boosted its guidance once again, continues to generate gobs of free cash flow, has a plan to grow its market share in an attractive market, and exited the fiscal third quarter with a pristine balance sheet. Management remains committed to rewarding shareholders. **Our fair value estimate for Dick's Sporting Goods is $148 per share.**

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

The Dividend Growth Newsletter Portfolio

By Valuentum Analysts

The Dividend Growth Newsletter portfolio is not a real money portfolio. Results are hypothetical and do not represent actual trading. Actual results may differ from the simulated performance presented.

Recent Changes:

Welcome to 2022! Happy New Year!

DIVIDEND GROWTH IDEAS -- as of January 1, 2022

Company Name	Yrly Div's Paid ($) / Shr	Dividend Yield %	Fair Value Estimate	Dividend Cushion Ratio	VBI Rating	Price/FV	Last Close	% of Portfolio
Johnson & Johnson (JNJ)	4.24	2.48%	$161.00	2.25	3	1.06	171.07	8.0%-12.0%
S&P Dividend ETF SPDR (SDY)	3.40	2.63%	-	-	-	-	129.12	8.0%-12.0%
Cisco (CSCO)	1.48	2.34%	$62.00	2.89	7	1.02	63.37	5.0%-7.0%
Digital Realty Trust (DLR)	4.64	2.62%	$163.00	1.08	6	1.09	176.87	5.0%-7.0%
Exxon Mobil (XOM)	3.52	5.75%	$92.00	1.22	3	0.67	61.19	5.0%-7.0%
Health Care Sector SPDR ETF (XLV)	1.87	1.33%	-	-	-	-	140.89	5.0%-7.0%
iShares Int'l Select Dividend (IDV)	1.80	5.78%	-	-	-	-	31.18	5.0%-7.0%
Lockheed Martin (LMT)	11.20	3.15%	$366.00	1.63	4	0.97	355.41	5.0%-7.0%
Microsoft (MSFT)	2.48	0.74%	$342.00	4.85	6	0.98	336.32	5.0%-7.0%
Oracle (ORCL)	1.28	1.47%	$84.00	1.96	6	1.04	87.21	5.0%-7.0%
Apple (AAPL)	0.88	0.50%	$160.00	7.47	6	1.11	177.57	3.0%-4.0%
Chevron (CVX)	5.36	4.57%	$140.00	1.63	6	0.84	117.35	3.0%-4.0%
Newmont Mining (NEM)	2.20	3.55%	$58.00	2.49	3	1.07	62.02	3.0%-4.0%
Realty Income (O)	2.96	4.13%	$74.00	2.33	3	0.97	71.59	3.0%-4.0%
Republic Services (RSG)	1.84	1.32%	$112.00	1.97	6	1.25	139.45	3.0%-4.0%
Qualcomm (QCOM)	2.72	1.49%	$172.00	3.76	7	1.06	182.87	1.0%-2.0%
Home Depot (HD)	6.60	1.59%	$331.00	1.61	7	1.25	415.01	1.0%-2.0%
Honeywell Intl (HON)	3.92	1.88%	$243.00	2.55	3	0.86	208.51	1.0%-2.0%
UnitedHealth Group (UNH)	5.80	1.16%	$409.00	3.38	6	1.23	502.14	1.0%-2.0%
Dick's Sporting Goods (DKS)	1.75	1.52%	$148.00	6.29	7	0.78	114.99	1.0%-2.0%

UR = Under Review

Last close and dividend per share information for equities retrieved from Seeking Alpha. Dividend yield information for ETFs retrieved from Seeking Alpha.

This portfolio is not a real money portfolio. Data as of January 1, 2022

Goal:

The goal of the Dividend Growth Newsletter portfolio is to highlight ideas with strong dividend growth potential and update readers about new developments in the market. The Dividend Growth Newsletter portfolio seeks to find underpriced dividend growth gems that generate strong levels of free cash flow and have solid balance sheets, translating into excellent Valuentum Dividend Cushion ratios. *Given market conditions and the importance of diversification, not all stocks in the newsletter portfolio can be undervalued, however*. Stocks in the Dividend Growth Newsletter portfolio may have lengthy dividend growth track records spanning decades, but we focus most of our efforts on assessing the future safety and dividend growth potential of ideas.

Every subscriber has different goals and different risk tolerances, so where before in the newsletter portfolios, we would outline the specific percentage weighting, we think providing weighting ranges makes much more sense. For example, depending on someone's risk tolerances, a larger cash position in an overheated market may be prudent. On the other hand, the longer one's time horizon, perhaps a smaller cash position may make more sense. The Dividend Cushion ratios are so important, so please stay up to date with them. By our estimates, the efficacy of the Dividend Cushion ratio in warning about dividend cuts is roughly 90%. We're available for any questions.

The cash weighting in the Dividend Growth Newsletter portfolio is now **~0%.** The midpoints of our respective weighting ranges approximately sum to 100% to reflect the range of possible combinations that may result in various allocations.

Standard Disclaimer: The simulated Dividend Growth Newsletter portfolio is for information purposes only and should not be considered a solicitation to buy or sell any security. Valuentum is not responsible for any errors or omissions or for results obtained from the use of the simulated Dividend Growth Newsletter portfolio and accepts no liability for how readers may choose to utilize the content.

Some Questions Answered: The Fair Value Estimate Range and ROIC

Q: In the 16-page stock reports, why doesn't the 'percentage undervalued / overvalued' match up to the actual discount/premium to Valuentum's fair value estimate of the company?

A: We view the intrinsic value of a company as a Fair Value Range, not necessarily a single point estimate, so the undervalued and overvalued calculations match up to either the low fair value estimate or high fair value estimate, respectively. Within the context of a margin of safety, we wouldn't necessarily view a company to be worth precisely $55 per share, for example; instead we'd view the company as worth between $50 (low end fair value estimate) and $60 per share (high end fair value estimate), with the low and high fair value estimates comprising the Fair Value Range in this hypothetical example.

We apply sensitivity analysis and scenario analysis with respect to a company's future enterprise free cash flow stream to help inform the Fair Value Range of each stock, with the fair value estimate to be viewed as the most likely fair value estimate. As a result, the 'percentage undervalued / overvalued' is calculated by comparing the company's current price, as of the date of the report, with the low end and high end of its fair value range (not the single fair value point estimate), respectively.

If a stock's price falls below the low end of our fair value range, we'd view it as very cheap. If the stock price is above our fair value range, we think the company's shares are very expensive. If the stock falls within the fair value estimate range, we'd view it as fairly valued, though we still find valuable information in assessing the stock price's relationship to the point fair value estimate, too.

As it relates to the percentage 'Undervalued' as shown in the case of Meta Platform Inc's (FB) [previously known as Facebook] report (dated December 3, 2021), specifically, the share price as of December 3 was $306.84, while the low end of its fair value estimate range as of the report date is $380 per share. Here is the calculation for the percentage 'Undervalued' in Facebook's case, as shown in that report: [$380-$306.84]/$306.84 = 23.8%.

Q: I was wondering if you could provide more insight into Valuentum's ROIC calculations.

A: ROIC is the holy grail when it comes to assessing economic value creation!
Our ROIC calculation measures earnings before interest after taxes relative to the net operating assets of the firm. Some ROIC measures stick to GAAP data, but our measure is non-GAAP. We make a number of assumptions with respect to cash taxes in the numerator as in the process of enterprise valuation, and at times, adjustments to the denominator for entities with negative invested capital and others, which at times may impact the presentation of the ROIC percentage in the 16-page reports relative to our in-house valuation models.

Please see *Some Questions Answered* ...on next page

Some Questions Answered…**from previous page**

For example, in some cases, we may exclude certain 'Other Current Liabilities' within our valuation model to arrive at a positive number in the denominator in order to reflect the economic substance of the business, where otherwise a great value-creating business would show a negative ROIC as the denominator would be negative because the business is very asset light. There may be additional 'other assets' (e.g. 'Other Non Current Assets') and 'other liabilities' that may be adjusted in our valuation model depending on analyst judgment on a case by case basis as each firm has different considerations. The goal of our ROIC calculation is to develop a metric to best reflect how to interpret the value-generating capacity of a business.

In the case of Facebook's 16-page report, dated December 3, 2021, in particular, the 'Invested Capital, with goodwill' and 'Invested Capital, without goodwill' excludes both 'Other Non Current Assets' and 'Other Current Liabilities' within our valuation model, while the 'Return on Invested Capital' both with and without goodwill, as presented in the 16-page report excludes the 'Other Current Liabilities' line item as it uses a form of Adjusted Invested Capital in the denominator within the valuation model. Please note also that the Invested Capital in any ROIC calculation is the average of the past two years in the denominator.

As in the case of the Facebook example, these adjustments to our in-house valuation models can at times impact the presentation in the 16-page reports. The calculation to arrive at the 60.0% return on invested capital in 2018 for Facebook is as follows: {25,053/[36,918+46,627]/2} = 60.0%. To better explain these adjustments, we've included the following images to show how the data is transferred from our valuation infrastructure into the reports. The blue highlighted cells in the valuation model snippet (first image below) are the ones found in the 16-page report for Facebook, for example, while the yellow cells include areas where subjective analyst determinations are made whether to include or exclude "other' items, among other line items, where appropriate.

In most cases, our analysts make a determination within the 'Invested Capital' calculation by assessing "Other Non Current Assets" and "Other Non-Current Liabilities," among other adjustments. The 'Invested Capital' items shown in the 16-page report may exclude both of these items, as in the Facebook example, while the 'Adjusted Invested Capital' in the valuation model may exclude 'Other Current Liabilities,' among other adjustments, as in the case of Facebook. Though our team may not make such adjustments as these for all companies, there are certain instances where analytical adjustments are made to enhance the meaning behind the measure and to better reflect the economic substance of the business, most often with negative or low invested capital companies, but also with other companies such as Facebook.

Modeling best practices often suggest to limit the impact of items where less insight can be gleaned, too (often, as in the case of 'other assets and other liabilities'). We emphasize the occurrence of these unique circumstances in a note at the bottom of the ROIC calculation page in the 16-page report: "Note: Valuentum may provide an adjusted ROIC measure to better reflect the economic substance of a company's operations, as in the case of companies with negative invested capital." We believe such adjustments are necessary for negative invested capital companies and help to augment the calculation in other cases.

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Here is a snapshot of the valuation model (clarifications added) as well as the 16-page report of the ROIC calculation for Meta Platforms (Facebook).

From the model (clarifications added):

RETURN ON INVESTED CAPITAL				
In Millions of USD (except for per share items)	12/27/2021	12/28/2021	12/29/2021	12/30/2021
Fiscal Year	12/31/2017	12/31/2018	12/31/2019	12/31/2020
Inventories	0	0	0	0
Receivables	5,832	7,587	9,518	11,335
Current Deferred Income Taxes	0	0	0	0
Other Current Assets + Prepaid Expenses - Balance Sheet	1,020	1,779	1,852	2,381
Net Property Plant & Equipment	13,721	24,683	35,323	45,633
Goodwill, Net (Cost in Excess)	18,221	18,301	18,715	19,050
Intangibles	1,884	1,294	894	623
Non Current Deferred Income Taxes	0	0	0	0
Other Non Current Assets	2,135	2,576	12,219	18,340
Other	0	0	0	0
Accounts Payable	770	1,361	1,363	1,331
Accrued Expenses and Accrued Liabilities - Balance Sheet	1,691	3,225	11,735	11,152
Other Current Liabilities	1,299	2,431	1,955	2,498
Invested Capital, with goodwill	38,217	**49,058**	**53,204**	**66,539**
Invested Capital, without goodwill	19,996	30,757	34,489	47,489
Adjusted Invested Capital, with goodwill	36,918	46,627	51,249	64,041
Adjusted Invested Capital, without goodwill	18,697	28,326	32,534	44,991
Return on Invested Capital, with goodwill	applies average IC -->	**60.0%**	**50.9%**	**56.3%**
Return on Invested Capital, without goodwill		106.6%	81.9%	83.7%

As translated into the report:

ROIC Calculation	---------- Actual ----------		
Fiscal Year End:	Dec-18	Dec-19	Dec-20
Earnings before Interest			
Operating Income after Depreciation	24,913	23,986	32,671
- Adjusted Taxes (at 18% of EBIT)	4,484	4,317	5,881
+ Amortization	0	0	0
+ Non-cash Operating Items	4,625	5,264	5,643
- Minority Interest	1	0	0
Earnings before Interest	**25,053**	**24,933**	**32,433**
Invested Capital			
Inventories	0	0	0
+ Receivables	7,587	9,518	11,335
+ Current Deferred Income Taxes	0	0	0
+ Other Current Assets	1,779	1,852	2,381
+ Property, Plant and Equipment, Net	24,683	35,323	45,633
+ Goodwill, Net (Cost in Excess)	18,301	18,715	19,050
+ Intangibles	1,294	894	623
+ Non Current Deferred Income Taxes	0	0	0
- Accounts Payable	1,361	1,363	1,331
- Other Current Liabilities	3,225	11,735	11,152
Invested Capital, with goodwill	**49,058**	**53,204**	**66,539**
Invested Capital, without goodwill	**30,757**	**34,489**	**47,489**
Return on Invested Capital, with goodwill	**60.0%**	**50.9%**	**56.3%**
Return on Invested Capital, without goodwill	**106.6%**	**81.9%**	**83.7%**

In Millions of USD

Note: Valuentum may provide an adjusted ROIC measure to better reflect the economic substance of a company's operations, as in the case of companies with negative invested capital.

Thank you!

Oracle Posts Solid Earnings Report

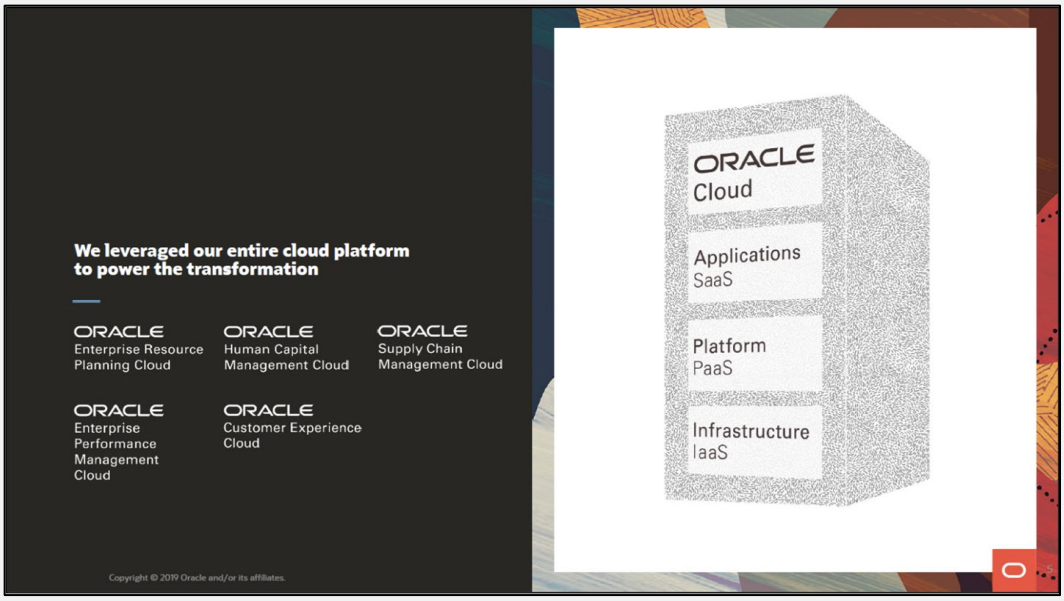

Image Source: *Oracle Corporation – November 2019 IR Presentation*

By Callum Turcan

Oracle Corporation (ORCL) reported its second-quarter fiscal 2022 earnings (period ended November 30, 2021) on December 9, which beat both consensus top- and bottom-line estimates. Its pivot towards cloud-oriented offerings is playing out quite well. **We include shares of ORCL as an idea in our Dividend Growth Newsletter portfolio.**

Earnings Update and Outlook

Oracle's GAAP revenues were up 6% year-over-year last fiscal quarter, hitting $10.4 billion. This was made possible via strong growth at its 'cloud services and license support' (up 6%), 'cloud license and on-premise license' (up 13%), and 'services' (up 7%) offerings, which offset a moderate decline at its 'hardware' sales. **Its cloud-based enterprise resource planning ('ERP') offerings continue to perform exceptionally well** as its Fusion ERP business posted 35% year-over-year revenue growth, while revenue at its NetSuite ERP business was up 29% year-over-year in the fiscal second quarter.

During Oracle's latest earnings call, management had this to say in regards to the firm's cloud growth trajectory and near-term guidance (emphasis added, moderately edited):

> *"So total cloud services and license support revenues for the quarter were $7.6 billion, up 6% in constant currency and accounted for 73% of total company revenue.* ***Total cloud revenues, when annualized, are now $10.7 billion and grew 22%, with cloud bookings growing faster than our cloud revenue growth rate.*** *[Continued on the next page]*

Please see *Oracle Posts Solid*...on next page

*Oracle Posts Solid…*from previous page

*[Continued from the previous page] And as a result, **we expect cloud revenue will accelerate further and exit the fiscal year in the mid-20s, potentially higher**. GAAP application subscription revenues were $3.1 billion, up 8% organically in constant currency and our highest growth rate in four years…*

***Let me now turn to my guidance for Q3**, which I'll provide on a non-GAAP basis. The U.S. dollar strengthened dramatically in November… And assuming currency exchange rates remain the same as they are now, which we have no idea if they will or not, I expect we will see a currency headwind of 3% for revenue and $0.05 for EPS in Q3. **Total revenue for Q3 is expected to grow between 6% to 8% in constant currency** and grow between 3% to 5% in USD [terms].*

*Clearly, the midpoint of the range is 7%, and that is higher than the 6% we just reported in Q2 and higher than the 2% we reported in Q1. So everything is trending in the right direction. **Cloud service and license support revenue for Q3 is expected to grow between 6% to 8% in constant currency** and grow between 3% to 5% in USD [terms]. Non-GAAP EPS for Q3 is expected to grow between 2% and 6% in constant currency and be between $1.19 and $1.23 in constant currency [terms]." --- Safra Catz, CEO of Oracle and member of the firm's board*

Litigation charges that date back to a dispute between Oracle and HP before HP split into two firms, HP Inc (HPQ) and Hewlett Packard Enterprise Company (HPE), saw Oracle's GAAP net income swing negative last fiscal quarter. On a non-GAAP basis, its adjusted EPS grew by 14% year-over-year last fiscal quarter, hitting $1.21. Excluding the litigation charges, which date back to a legal saga that began roughly a decade ago, Oracle remained an incredibly profitable enterprise in the fiscal second quarter.

In conjunction with its latest earnings update, Oracle announced it had increased its share-repurchase authorization by ~$10 billion. According to the firm, its operating cash flow on a trailing-twelve month basis stood at $10.3 billion, and it exited the second quarter of fiscal 2022 with $7.9 billion in short-term deferred revenue. **The highly visible nature of its near term cash flows, a product of its sizable recurring revenue stream**, enables Oracle to reward shareholders in a sustainable manner.

We caution that Oracle exited November 2021 with a net debt load of $55.6 billion (inclusive of short-term debt). However, the firm's $22.8 billion in cash, cash equivalents, and current marketable securities on hand at the end of this period, providing Oracle with ample liquidity to meet its near term financing needs. In our view, we would like to see Oracle pare down its net debt load over time, though that does not appear likely for the foreseeable future.

Operational Update

Oracle is optimistic that recent improvement in its cloud-based ERP businesses will continue over the coming years, ultimately resulting in an enormous and incredibly lucrative operation. Improving the business-to-business ('B2B') capabilities of its ERP offerings represents a key growth opportunity according to Larry Ellison (co-founder, Chairman, and CTO of Oracle).

Please see *Oracle Posts Solid …*on next page

*Oracle Posts Solid...*from previous page

Mr. Ellison noted during Oracle's latest earnings call that "we are not on our way to building a $20 billion cloud ERP business in five years. I think it's going to be a lot bigger than that" and went on further to state (emphasis added):

> *"We are working in concert with our banking and logistics partners to originate purchase financing, products shipped, delivery tracking, invoicing and payments right inside the two transacting Oracle Cloud ERP procurement systems.* ***Oracle Cloud ERP will soon bring an entirely new level of automation to B2B commerce****, one that very much resembles the ease of doing business and efficiency of B2C [business-to-consumer] e-commerce. This new ERP automation system, all these new capabilities will dramatically simplify our customers' procurement and supply chain processes.* ***And as such, it represents a huge new opportunity for Oracle to grow its cloud ERP ecosystems."*** *--- Co-founder, Chairman, and CTO of Oracle*

Oracle's pivot to providing cloud-oriented offerings and away from its legacy IT services and hardware has been steadily unfolding over the past decade, though more recently, the company's growth trajectory has started to really pick up steam. As Oracle's CEO (Safra Catz) noted, this part of the firm's business is set to exit the current fiscal year with revenue growth in the "mid-20s" percent, which is an incredibly big deal. Oracle is proving that it can become a serious player in the space, and investors are starting to take notice. We are intrigued by the planned improvements at Oracle's cloud-based ERP businesses, with an eye towards enhanced B2B offerings.

Recent Acquisition

On December 20, Oracle announced it was acquiring Cerner Corporation (CERN) for $95 per share in cash through a deal with an equity value of roughly $28.3 billion. Cerner provides electronic health records ('EHR') services, analytical services for healthcare providers, and various back office offerings for the healthcare sector. This deal is primarily a way for Oracle to push its cloud computing offerings into a new vertical.

According to the press release, this deal will be "accretive to Oracle's earnings on a non-GAAP basis in the first full fiscal year after closing and will contribute substantially more to earnings in the second fiscal year and thereafter." However, please note that Oracle will likely need to slow down the pace of its share buybacks to maintain its balance sheet strength (the stated goal is for Oracle to maintain its investment grade credit rating once the acquisition closes).

Concluding Thoughts

We are huge fans of Oracle and its stellar cash flow generating abilities. The top end of our fair value estimate range sits at $101 per share of Oracle. As it concerns its Cerner deal, we are worried that Oracle is taking on too much additional debt given its existing net debt position. As of this writing, shares of ORCL yield ~1.5%, and the firm remains committed to its dividend.

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

FedEx Beats Estimates, Raises Guidance

Image Source: *FedEx Corporation – Second Quarter of Fiscal 2022 Earnings Infographic*

By Callum Turcan

On December 16, the logistics giant FedEx Corporation (FDX) reported second quarter earnings for fiscal 2022 (period ended November 30, 2021) that beat both consensus top- and bottom-line estimates. **The firm also moderately raised its earnings guidance for fiscal 2022 in conjunction with its earnings update** after previously reducing its full fiscal year guidance when reporting its fiscal first quarter earnings update.

FedEx noted in its fiscal second quarter earnings press release that "higher revenue per shipment at all transportation segments" positively benefited its operating income performance and helped offset headwinds from labor shortages and related supply chain constraints. The company also recently announced a new $5.0 billion share buyback program that includes a $1.5 billion accelerated share repurchase program component.

Earnings Update

FedEx's GAAP revenues reached $23.5 billion last fiscal quarter, up 14% year-over-year, **aided by past pricing increases.** In September 2020, FedEx drove mid-single-digit pricing increases across virtually all of its shipping offerings (FedEx Express, FedEx Ground, FedEx Freight) that went into effect in January 2021. **FedEx has done a stellar job pushing through pricing increases to offset rising costs.** In September 2021, FedEx announced another round of pricing increases that will be effective starting in January 2022. These latest pricing increases are slightly more robust than the previous round.

The proliferation of e-commerce activities accelerated during the coronavirus ('COVID-19') pandemic, helping to drive up demand for last-mile distribution services. FedEx has made meaningful investments in automation (such as robotic package sorting "arms" at its major fulfillment center in Memphis, Tennessee) and has embarked on major additions to its warehouse and distribution operations in recent years to keep up.

Please see *FedEx Beats Estimates...*on next page

FedEx Beats Estimates **...from previous page**

Since the start of the COVID-19 pandemic, labor shortages have hampered FedEx's ability to meet robust demand for its logistical services. However, it appears that FedEx has been able to improve its situation on this front in recent months. Within FedEx's latest earnings press release, its management team noted that:

> *"Strategic investments that we have made to our networks and systems have enabled us to provide critical delivery capacity and supply chain expertise to support the needs of our customers, while also making it possible for us to capitalize on the growing e-commerce parcel market." --- Raj Subramaniam, President and COO of FedEx*

Additionally, during FedEx's latest earnings call, management noted (emphasis added, moderately edited):

> *"We continued to take bold actions in [the fiscal second quarter] to hire and invest in our frontline team members and thus increase network efficiency. These actions [included] pay premiums, increased paid time off and tuition reimbursement.* ***I am pleased to share that we have made considerable traction in recruiting frontline positions. Last week, we exceeded 111,000 applications, the highest level in FedEx history****. To put this in perspective, we had 52,000 applications the week of May 8. This has led to appropriate staffing levels…" --- President and COO of FedEx*

However, there are some downsides to be aware of, as FedEx's cost structure is on the rise. Management also noted in FedEx's latest earnings press release that "the challenging labor market affected the availability and cost of labor resulting in network inefficiencies, higher purchased transportation costs, and higher wage rates, which increased costs by an estimated $470 million year over year, primarily at FedEx Ground" which is why pricing increases are so important.

Last fiscal quarter, FedEx's GAAP operating income rose 9% year-over-year, hitting $1.6 billion. Its GAAP operating margin dropped by a little over 30 basis points during this period due to the aforementioned headwinds offsetting recent pricing increases and productivity improvements from past automation investments.

Even on an adjusted non-GAAP basis, FedEx's operating margin dropped last fiscal quarter on a year-over-year basis. During the second quarter of fiscal 2022, FedEx reported $1.7 billion in adjusted operating income and an adjusted operating margin of 7.1%, versus $1.5 billion in adjusted operating income and an adjusted operating margin of 7.4% in the second quarter of fiscal 2021 (period ended November 30, 2020).

As an aside, FedEx acquired TNT Express (offers logistical services in Europe) through a EUR€4.4 billion deal back in May 2016, though FedEx is still incurring meaningful integration expenses. This is one of the reasons FedEx provides adjusted financial metrics.

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FedEx Beats Estimates ...from previous page

Cash Flow, Capital Allocation, and Balance Sheet Considerations

FedEx generated $0.9 billion in free cash flow during the first half of fiscal 2022, while spending $0.4 billion covering its dividend obligations and another $0.7 billion buying back its stock during this period. As noted previously, FedEx recently launched a new $5.0 billion share buyback program with an accelerated share repurchase program component. Its new buyback program is in addition to the program announced in January 2016 that allowed for up to 25 million in shares to be bought back (which had 2.3 million in remaining share buyback authority according to FedEx's earnings press release).

Our fair value estimate for FedEx sits at $295 per share indicating that its share buybacks, in moderation, are a good use of capital in the current environment given that shares of FDX are trading at a steep discount to their intrinsic value as of this writing. However, **the company exited November 2021 with a net debt load of $13.7 billion** (inclusive of short-term debt). While it did have $6.8 billion in cash and cash equivalents on hand at the end of this period, FedEx's financial flexibility is still somewhat limited.

FedEx is investing heavily in its business to meet robust demand for its offerings while staying ahead of the competition such as Amazon Inc (AMZN) and United Parcel Service Inc (UPS). These investments are pressuring its abilities to generate free cash flows. Put another way, FedEx operates in a capital-intensive industry and its capital investments in any given period will likely be quite substantial. FedEx's management team needs to be cognizant that share repurchases, while a good use of capital, need to be limited in nature or else the firm will run the risk of becoming overly levered.

Outlook

The company moderately revised its fiscal 2022 guidance during its latest earnings update. FedEx left its full fiscal year capital expenditure guidance the same at $7.2 billion, though it now expects its adjusted diluted EPS to come in at $20.50-$21.50 in fiscal 2022 (up from $19.75-$21.00 previously) which does not include any integration expenses relating to its TNT Express and excludes other expenses as well (such as mark-to-market accounting activities relating to its retirement plans and various business restructuring activities, among other things). For reference, FedEx reported $18.17 in adjusted diluted EPS and spent $5.9 billion on its capital expenditures in fiscal 2021 (period ended May 31, 2021). **FedEx expects its financial performance will improve considerably in fiscal 2022 versus fiscal 2021 levels, though its capital expenditure expectations are also on the rise.**

Concluding Thoughts

Shares of FDX moved higher in the wake of FedEx's latest earnings report and are steadily converging towards our fair value estimate as of this writing. FedEx may be a leader in its field, though we see better opportunities out there. Shares of FDX yield ~1.2% as of this writing.

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

Kroger Beats Estimates and Once Again Raises Guidance

Image Source: *Kroger Co - Third Quarter of Fiscal 2021 IR Earnings Presentation*

By Callum Turcan

Kroger Co (KR) recently reported third quarter earnings for fiscal 2021 (period ended November 6, 2021) that beat both consensus top- and bottom-line estimates, and **the retailer also once again boosted its full-year guidance for fiscal 2021.** Kroger's operations include retail store brands such as City Market, Food 4 Less, Fred Meyers, Metro Market, and more, along with its private label brands of consumer staples offerings. Shares of KR have shifted materially higher since early-December 2021 as of this writing.

Earnings Update

In fiscal 2020 (period ended January 30, 2021), Kroger put up banner performance due in large part to the "panic" shopping spree brought on by the early phases of the coronavirus ('COVID-19') pandemic and sharp increases in at-home cooking activities. Kroger's identical sales excluding fuel sales (which are inherently volatile) grew 14.1% on an annual basis while its digital sales surged by 116% in fiscal 2020.

For this reason, Kroger stressed its two-year stack performance as compared to its year-over-year performance within its latest earnings press release, a common theme in the retail industry. **Kroger noted that its two-year stack identical sales (excluding fuel sales) grew by 14.0% last fiscal quarter and was up 3.1% on a year-over-year basis.** Additionally, Kroger noted that its digital sales advanced 103% on a two-stack basis in the fiscal third quarter.

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Kroger Beats Estimates...from previous page

Kroger posted 7% year-over-year growth in its GAAP revenues in the third quarter of fiscal 2021 as the company was able to keep its shelves stocked during a period of robust consumer demand. According to Kroger's earnings press release, its FIFO gross margin excluding fuel fell ~40 basis points year-over-year last fiscal quarter to ~21.7%, with the decline due primarily to "higher supply chain costs and continued price investments partially offset by sourcing benefits." By price investments, Kroger is referring to discounts to maintain its market share in the incredibly competitive retail space.

The company's GAAP operating margin climbed modestly higher year-over-year in the fiscal third quarter (up roughly six basis points), hitting just over 2.7%. Economies of scale were key here as its 'operating, general & administrative' expenses as a percent of revenue fell sharply year-over-year last fiscal quarter, offsetting its ex-fuel FIFO gross margin decline. Kroger's GAAP diluted EPS fell to $0.64 last fiscal quarter versus $0.80 in the same quarter in fiscal 2020, primarily due to unfavorable swings in its pension plan benefit/costs and investment gains/losses.

During the first three quarters of fiscal 2021, Kroger remained a cash flow cow. It generated $4.8 billion in net cash from operating activities while spending $2.0 billion on capital expenditures, **allowing for $2.8 billion in free cash flow.** Kroger spent $0.4 billion covering its dividend obligations during this period along with another $1.0 billion buying back its stock.

The company exited the third quarter of fiscal 2021 with an $11.4 billion net debt position (inclusive of short-term debt and finance lease obligations, exclusive of store deposits in-transit) **or $11.8 billion when excluding its 'cash' line-item**, given the need to maintain a level of cash at its physical store operations (including in its cash registers). Kroger's $2.0 billion in 'temporary cash investments' line-item at the end of its fiscal third quarter better reflects the cash pile that it can use to pay down debt, expand its business, and repurchase its stock, along with other corporate purposes.

Kroger noted in its latest earnings press release that it generated $7.0 billion in non-GAAP adjusted EBITDA during the four quarter period that ended last fiscal quarter, allowing the firm to exit the fiscal third quarter with a net debt to adjusted EBITDA ratio of 1.68x (down from 1.74x in the same period last fiscal year). Please note that while Kroger included its 'temporary cash investments' line-item in this calculation, it did not include its 'cash' line-item as it concerns the calculation of its net debt to adjusted EBITDA ratio. Over the long haul, Kroger is targeting a net debt to adjusted EBITDA ratio of 2.30x-2.50x. As its leverage ratio was well below that target last fiscal quarter, Kroger sees itself retaining ample financial firepower. However, we caution that the company's net debt load, relatively to its free cash flows, remains rather high. **Share buybacks and dividend growth are core capital allocation priorities for Kroger.**

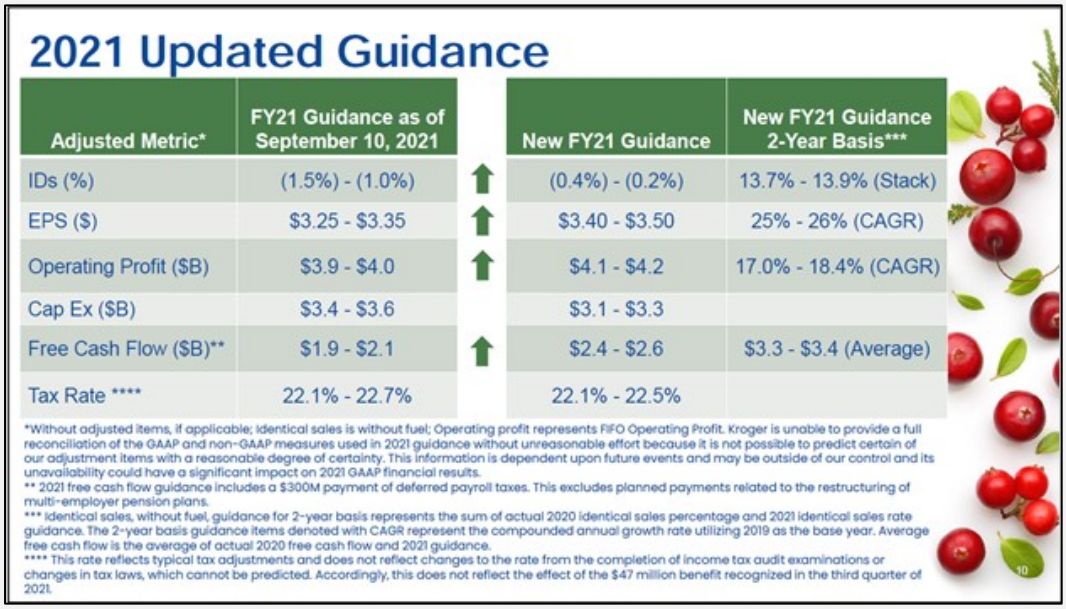
Guidance Update

The retailer exited the fiscal third quarter with $7.5 billion in inventory, up marginally year-over-year, and appears well-positioned to meet robust consumer demand during this current holiday shopping season.

Please see *Kroger Beats Estimates*...on next page

Kroger Beats Estimates ...from previous page

In the upcoming graphic down below, Kroger lays out its improved guidance for fiscal 2021 (provided in conjunction with its latest earnings report) versus its previous expectations laid out in September 2021. Please note Kroger also raised its full-year guidance when reporting its first and second fiscal quarter earnings updates. **We appreciate that Kroger now expects to generate $2.4-$2.6 billion in free cash flow (as defined by the company) this fiscal year,** up from previous guidance.



2021 Updated Guidance

Adjusted Metric*	FY21 Guidance as of September 10, 2021		New FY21 Guidance	New FY21 Guidance 2-Year Basis***
IDs (%)	(1.5%) - (1.0%)	↑	(0.4%) - (0.2%)	13.7% - 13.9% (Stack)
EPS ($)	$3.25 - $3.35	↑	$3.40 - $3.50	25% - 26% (CAGR)
Operating Profit ($B)	$3.9 - $4.0	↑	$4.1 - $4.2	17.0% - 18.4% (CAGR)
Cap Ex ($B)	$3.4 - $3.6		$3.1 - $3.3	
Free Cash Flow ($B)**	$1.9 - $2.1	↑	$2.4 - $2.6	$3.3 - $3.4 (Average)
Tax Rate ****	22.1% - 22.7%		22.1% - 22.5%	

*Without adjusted items, if applicable; identical sales is without fuel; Operating profit represents FIFO Operating Profit. Kroger is unable to provide a full reconciliation of the GAAP and non-GAAP measures used in 2021 guidance without unreasonable effort because it is not possible to predict certain of our adjustment items with a reasonable degree of certainty. This information is dependent upon future events and may be outside of our control and its unavailability could have a significant impact on 2021 GAAP financial results.
** 2021 free cash flow guidance includes a $300M payment of deferred payroll taxes. This excludes planned payments related to the restructuring of multi-employer pension plans.
*** Identical sales, without fuel, guidance for 2-year basis represents the sum of actual 2020 identical sales percentage and 2021 identical sales rate guidance. The 2-year basis guidance items denoted with CAGR represent the compounded annual growth rate utilizing 2019 as the base year. Average free cash flow is the average of actual 2020 free cash flow and 2021 guidance.
**** This rate reflects typical tax adjustments and does not reflect changes to the rate from the completion of income tax audit examinations or changes in tax laws, which cannot be predicted. Accordingly, this does not reflect the effect of the $47 million benefit recognized in the third quarter of 2021.

Image Shown: Kroger raised its full-year guidance for fiscal 2021 in conjunction with its third quarter of fiscal 2021 earnings update. Image Source: Kroger - Third Quarter of Fiscal 2021 IR Earnings Presentation

Digital Update

In September 2021, Kroger launched its 'Kroger Delivery Now' offering in a partnership with privately-held Instacart to provide quick home delivery services. Kroger also recently launched an annual membership program, Boost by Kroger Plus, that offers free delivery services and enhanced fuel points for customers. The firm is supporting its e-commerce growth initiatives by expanding and upgrading its fulfillment operations.

Kroger and Bed Bath & Beyond Inc (BBBY) announced a strategic partnership in November 2021 that involves starting off with relatively small pilot projects at some of Kroger's retail locations as well as an e-commerce collaboration component focused on home and baby products. During Kroger's fiscal third quarter earnings call, management had this to say on the retailer's digital operations (emphasis added, moderately edited):

> ***"We launched three new offerings during the quarter that support the plan to double digital sales and digital profitability by 2023.*** *First, Boost by Kroger [Plus] builds on our industry leading loyalty program to deliver additional savings and personalized offers to our members.* ***We are encouraged by the initial engagement in the program, which is ahead of internal expectations.*** *[Continued on the next page]*

Please see *Kroger Beats Estimates*...on next page

Kroger Beats Estimates **...from previous page**

> *[Continued from the previous page] Second, we launched Kroger Delivery Now in partnership with Instacart. This unique convenience and immediacy offering positions us to win more trips with current customers and to bring new customers to the Kroger ecosystem by offering the largest selection of quality fresh products at affordable prices in 30 minutes.* ***Here's what's so special about this offering. It was profitable on day one, contributing to our goal to double digital profitability [by] 2023 that was announced during our 2021 Investor Day.***
>
> *And third, we announced a strategic collaboration with Bed Bath & Beyond… that will expand our current marketplace offering and provide Kroger shoppers easy access to essential home and baby products. This exclusive offering will be available through both Kroger.com and on a small scale physical store pilot and select stores beginning in 2022." --- Rodney McMullen, CEO of Kroger*

In March 2021, Kroger hosted a big investor day event and laid out how it would aggressively grow its digital sales and profitability levels going forward. Management appears comfortable with Kroger's performance on this front so far, though competition in this industry remains fierce.

Concluding Thoughts

Kroger has been performing well of late, though as of this writing, shares of KR are trading above the top end of our fair value estimate range (which sits at $43 per share). Shares of KR yield ~1.9% as of this writing, though its large net debt load weighs negatively on its dividend strength. We see better opportunities out there.

Image Shown: *After a nice run up in its stock price over the past year, shares of Kroger are now trading above the top end of our fair value estimate range.*

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

About the Valuentum Dividend Cushion™ Ratio

By Valuentum Analysts

History has revealed that the best performing stocks during the previous decades have been those that shelled out ever-increasing cash to shareholders in the form of dividends. In a recent study by Ned Davis Research, S&P 500 stocks that initiated dividends or grew them over time registered roughly a 9.6% annualized return since 1972 (through 2010), while stocks that did not pay out dividends or cut them performed poorly over the same time period.

Such analysis is difficult to ignore, and we believe investors may be well-rewarded in future periods by finding the best dividend-growth stocks out there. As such, we've developed a rigorous dividend investment methodology that uncovers firms that not only have the strongest dividends but also ones that are poised to grow them long into the future.

How did we do this? Well, first of all, we scoured our stock universe for firms that have cut their dividends in the past to uncover the major drivers behind the dividend cut. This is what we found out: The major reasons why firms cut their dividend had to do with preserving cash in the midst of a secular or cyclical downturn in demand for their products/services or when faced with excessive leverage (how much debt they held on their respective balance sheets) during tightening credit markets.

The Importance of Forward-Looking Dividend Analysis

Informed with this knowledge, we developed the forward-looking Valuentum Dividend Cushion™, which is a ratio that gauges the safety of a dividend over time.

Most dividend analysis that we've seen out there is backward-looking – meaning it rests on what the firm has done in the past. Although analyzing historical trends is important, we think assessing what may happen in the future is even more important. The S&P 500 Dividend Aristocrat list, or a grouping of firms that have raised their dividends for the past 25 years, is a great example of why backward-looking analysis can be painful. One only has to look over the past few years to see the removal of well-known names from the Dividend Aristocrat List (including General Electric and Pfizer) to understand that backward-looking analysis is only part of the story. After all, you're investing for the future, so the future is what you should care about more.

We want to find stocks that will increase their dividends for 25 years into the future, not use a rear-view mirror to build a portfolio of names that may already be past their prime dividend growth years. The Valuentum Dividend Cushion™ ratio measures just how safe the dividend is in the future. It considers the firm's net cash on its balance sheet (cash and cash equivalents less debt) and adds that to its forecasted future free cash flows (cash from operations less capital expenditures) and divides that sum by the firm's future expected dividend payments. At its core, it tells investors whether the firm has enough cash to pay out its dividends in the future, while considering its debt load. If a firm has a Valuentum Dividend Cushion™ above 1, it can cover its dividend on the basis of our estimates, but if it falls below 1, trouble may be on the horizon.

In the study, the Valuentum Dividend Cushion™ process caught every dividend cut made by a non-financial, operating firm that we have in our database, except for one (Marriott). But interestingly, the Valuentum Dividend Cushion™ indicated that Marriott should have never cut its dividend, and sure enough, two years after the firm did so, it raised it to levels that were higher than before the cut.

Here are the results of the study (a Valuentum Dividend Cushion™ below 1 indicates the dividend may be in trouble). The Valuentum Dividend Cushion™ ratio shown in the table below is the measure in the year before the firm cut its dividend, so it represents a predictive indicator. The measure continues to do well by members in walk-forward analysis (beyond the limitations of a back-tested academic study).

Please see *About the Valuentum Dividend Cushion…*on next page

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

The following link, for example, provides more information of the Dividend Cushion ratio tested in a robust out-of-sample walk-forward study across our coverage universe from its inception in 2012 through 2017:

Our Dividend Growth Methodology Is Rocking! ***http://www.valuentum.com/articles/20130528***

The Valuentum Dividend Cushion Caught These Dividend Cuts in Advance

A Valuentum Dividend Cushion Score Below 1 Indicates a Firm's Dividend is At Risk in the Years Ahead

Dividend Cutter	Cut Date	Dividend Cushion (Before Cut)	Reason for Dividend Cut
Avery Dennison (AVY)	31-Jul-09	0.66	Reduced dividend to support debt-reduction efforts.
ConAgra Foods (CAG)	16-Mar-06	-0.59 (1)	Restructuring, divestitures.
Constellation (CEG)	18-Feb-09	-4.36	Refocus on core business of generating and selling power.
DR Horton (DHI)	6-May-08	-0.03	Housing turmoil.
Gannett Co. (GCI)	25-Feb-09	-0.06	Excessive debt; preserve cash amid downturn of newspaper industry.
La-Z-Boy (LZB)	17-Feb-09	0.89	Suspended dividend to preserve cash amid downturn in home furnishings.
Marriott Intl (MAR)	1-May-09	2.18 (2)	Suspended dividend in the wake of weak business travel, but dividend achieved record highs again, May 6, 2011.
Masco Corp (MAS)	11-Feb-09	-0.74	Cut dividend to ensure ability to fund operations and service debt coming due.
New York Times (NYT)	20-Nov-08	0.04	Effort to preserve cash. Downturn in newspaper industry. Loss of investment-grade credit rating.
Pfizer (PFE)	26-Jan-09	0.54	Bought Wyeth to diversify revenue base. Raised $22 billion+ in debt.
Sara Lee Corp (SLE)	8-Aug-06	0.70	Streamlining operations, business unit divestitures to raise cash.
Sunoco Inc. (SUN)	6-Oct-09	-0.85 (3)	Poor margins, overseas competition.
SuperValu (SVU)	20-Oct-09	-5.78	Rising unemployment, competition from Wal-Mart, etc.
Valero Energy (VLO)	27-Jan-10	0.15	Lower demand for gas and diesel.
Vulcan Materials (VMC)	14-Oct-11	-1.42	Free up much-needed cash amid downturn in aggregate demand.

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

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

(3) Forecast is adjusted to reflect Sunoco's spoor free cash flow trends beyond last reported year.

Backtesting Methodology: Net balance sheet (year prior to dividend cut). Free cash flow for years beginning in year of dividend cut through reported years. If reported years do not total five, last reported year is extrapolated for remainder of forecast period. Dividends paid reflects what the dividends would be ex dividend cut.

Please see *About the Valuentum Dividend Cushion…*on next page

*About the Valuentum Dividend Cushion…*from previous page

At the very least, using the Valuentum Dividend Cushion can help you avoid firms that are at risk of cutting their dividends in the future. And we are the only firm out there that does this type of in-depth analysis for you. We provide the Valuentum Dividend Cushion ratio in the dividend reports and monthly Dividend Growth Newsletter, and we also scale the safety of a firm's dividend based on this measure in simple terms: Excellent, Good, Poor, Very Poor.

Here's a glimpse of the Valuentum Dividend Cushion ratio **(as of November 2017)** for a sample set of firms in our coverage universe. Please note that the current score on these and hundreds more are available with a membership to our website:

Company Name	Symbol	Sector	Div Cushion
Coca-Cola	KO	Consumer Staples	1.4
PepsiCo	PEP	Consumer Staples	1.2
Air Products & Chemicals	APD	Materials	1.3
Ecolab	ECL	Materials	1.2
PPG Industries	PPG	Materials	2.5
Cintas Corp	CTAS	Industrials	2.7
3M	MMM	Industrials	1.6
W.W. Grainger	GWW	Industrials	1.4
Emerson Electric	EMR	Industrials	2.1
Hormel Foods	HRL	Consumer Staples	2.2
McCormick	MKC	Consumer Staples	1.7
Archer-Daniels-Midland	ADM	Consumer Staples	2.1
Sysco	SYY	Consumer Staples	1.4
Target	TGT	Consumer Staples	1.4
Walgreens Boots Alliance	WBA	Consumer Staples	2.0
Wal-Mart	WMT	Consumer Staples	1.6
Leggett & Platt	LEG	Consumer Discretionary	1.3
Clorox	CLX	Consumer Staples	1.2
Colgate-Palmolive	CL	Consumer Staples	1.8
Johnson & Johnson	JNJ	Consumer Staples	2.2
Kimberly-Clark	KMB	Consumer Staples	1.2
Procter & Gamble	PG	Consumer Staples	1.8
VF Corp	VFC	Consumer Discretionary	1.6
Dover	DOV	Industrials	1.2
Illinois Tool Works	ITW	Industrials	1.6

Understanding Dividend Growth

It takes time to accumulate wealth through dividends, so dividend growth investing requires a long-term perspective. We assess the long-term future growth potential of a firm's dividend, and we don't take management's word for it. Instead, we dive into the financial statements and make our own forecasts of the future to see if what management is saying is actually achievable. We use the Valuentum Dividend Cushion™ as a way to judge the capacity for management to raise its dividend – how much cushion it has – and we couple that assessment with the firm's dividend track record, or management's willingness to raise the dividend.

Please see *About the Valuentum Dividend Cushion…*on next page

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

In many cases, we may have a different view of a firm's dividend growth potential than what may be widely held in the investment community. That's fine by us, as our dividend-growth investment horizon is often longer than others'. We want to make sure that the firm has the capacity and willingness to increase the dividend years into the future and will not be weighed down by an excessive debt load or cyclical or secular problems in fundamental demand for their products/services. We scale our dividend-growth assessment in an easily interpreted fashion: Excellent, Good, Poor, Very Poor.

What Are the Dividend Ideas We Seek to Deliver to You in Our Newsletter?

First of all, we're looking for stocks with dividend yields that are greater than the average of the S&P 500, or about 2% (but preferably north of 3%). This excludes many names, but we think such a cutoff eliminates firms whose dividend streams aren't yet large enough to generate sufficient income. Second, we're looking for firms that register an 'EXCELLENT' or 'GOOD' rating on our scale for both safety and future potential growth. And third, we're looking for firms that have a relatively lower risk of capital loss, as measured by our estimate of the company's fair value.

The Dividend Cushion Ratio Helps Income Investors

$$\frac{\sum_{t=1}^{5}[A(t) - B(t)] + C(0) - D(0)}{\sum_{t=1}^{5} E(t)}$$

A = cash flow from operations (from the operating section of the cash flow statement),
B = capital expenditures or additions to property plant and equipment (from the investing section of the cash flow statement),
C = cash and cash equivalents (from the balance sheet),
D = long-term debt (from the balance sheet), and
E = cash dividends paid (from the financing section of the cash flow statement).

"All else equal, a firm with billions of net cash on the balance sheet is better positioned to keep paying a dividend than a firm with billions of net debt on the balance sheet. More cash on the books relative to debt reveals significantly more financial flexibility. The dividend payout ratio ignores this important concept, while the Dividend Cushion ratio embraces it." – Valuentum's Brian Nelson, CFA

The Valuentum Dividend Cushion™ ratio has an excellent track record of predicting dividend cuts. For more information, please select the following link (login required):

http://www.valuentum.com/articles/20130528

Valuentum Dividend Growth Newsletter: Volume 11, Issue 1

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

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

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

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

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

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

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

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

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Amended June 1, 2021