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HIGH YIELD DIVIDEND NEWSLETTER

EXXON MOBIL'S BRIGHT GROWTH OUTLOOK

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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"THE HIGH YIELD DIVIDEND NEWSLETTER PORTFOLIO DID EXCEPTIONALLY WELL IN 2021. PUBLIC STORAGE (PSA), CUBESMART (CUBE), CYRUSONE (CONE), AND THE VANGUARD CONSUMER STAPLES INDEX FUND ETF (VDC) REPRESENT SOME OF THE BEST IDEAS HIGHLIGHTED BY OUR HYDN PORTFOLIO. LOOKING AHEAD, WE VIEW THE HYDN PORTFOLIO AS WELL-POSITIONED TO NAVIGATE EXPECTED CHANGES IN US MONETARY POLICY IN 2022."

– CALLUM TURCAN

Image Source: *Exxon Mobil Corporation – December 2021 IR Presentation*

By Callum Turcan

At the start of December 2021, Exxon Mobil Corporation (XOM)---**5.8% yield**---provided its longer-term strategy for this decade. Let's cover that outlook, the state of the global energy complex, Exxon Mobil's stellar and improving financial position, and what to expect going forward. Exxon Mobil is a tremendous enterprise and one of our favorite energy names out there. **We include shares of XOM as an idea in the High Yield Dividend Newsletter portfolio.**

Outlook Overview

The company noted in its early December update that its capital expenditures would come in around ~$20-$25 billion from 2022-2027. Its investments are focused on its operations in the Permian Basin, Guyana, Brazil, its liquefied natural gas ('LNG') business, and its petrochemical businesses. While up from ~$16-$19 billion versus expected 2021 capital expenditure levels (during Exxon Mobil's third quarter of 2021 update, the firm noted that it would spend at the lower end of that range), please note that its 2022-2027 capital expenditure

target is well below levels seen during previous periods of strong raw energy resources pricing. From 2010-2014, ExxonMobil's annual capital expenditures averaged ~$33 billion.

Predicting the exact trajectory that raw energy resources pricing will take over the coming years is a near-impossible, if not impossible, task. However, operating under the assumption that raw energy resources pricing will remain at "comfortable" levels in the coming years (meaning at levels in which energy majors like Exxon Mobil can generate sizable net operating cash flows and ultimately free cash flows when keeping a lid on capital expenditures) is reasonable, in our view, as the longer-term outlook for global energy complex is quite favorable.

After raw energy resources pricing tanked starting in late 2014, and largely remained subdued through 2020, investment in upstream developments (those focused on extracting oil & gas from the ground) shifted materially lower according to data from the International Energy Agency ('IEA'). In nominal terms, the IEA notes that upstream oil & gas investment levels fell from $779 billion in 2014 to $483 billion in 2019 and further still to $328 billion in 2020 in the wake of the coronavirus ('COVID-19') pandemic. **During the 2014-2019 period, demand for raw energy resources largely continued to grow.**

The IEA notes that in 2014, global crude oil demand stood at 4.2 billion metric tons which rose to 4.5 billion metric tons by 2019 before dropping to 4.1 billion metric tons in the wake of the COVID-19 pandemic. Data provided by BP plc's (BP) 2021 edition of its Statical Review of World Energy backs this up. From 2014 to 2019, global crude oil demand rose from 90.7 million barrels per day to 97.6 million barrels per day, before dropping to 88.5 million barrels per day in 2020.

Please note that these figures are different than global "liquids" consumption, which according to BP's calculations also includes such items as bio-gasoline, biodiesel, and derivatives of coal and natural gas. Broadly speaking, whether one includes items such as biofuels, natural gas liquids (such as propane and butane), and condensate in the consumption mix can change these figures, though the demand growth trajectory generally remains the same. Additionally, whether one is looking at the input consumption levels (the raw energy resources) or the consumption levels of refined petroleum products (such as gasoline, diesel, marine bunker fuel, and aviation fuel) could change these figures somewhat, though again, the demand growth trajectory remains the same.

As of early November 2021, the US Energy Information Administration ('EIA') noted that global petroleum and liquids fuels consumption rose by 4.5 million barrels per day in October 2021 versus October 2020 levels, though were still down 1.9 million barrels per day from October 2019 levels. Please note that the EIA updates its Short-Term Energy Outlook webpage and related data roughly once a month. The privately held consulting firm McKinsey expects global oil demand will steadily recover in the coming years according to its February 2021 outlook and should recover its 2019 levels by late-2021 or early-2022 according to the company's forecasts.

Pivoting to natural gas demand, BP notes that global natural gas consumption stood at 3.4 trillion cubic meters in 2014 and rose to 3.9 trillion cubic meters in 2019, before dropping to 3.8 trillion cubic meters in 2020. Data provided by the IEA also indicates strong natural gas demand occurred from 2014-2019 across the globe, before global demand dipped modestly in 2020 versus 2019 levels. McKinsey expects global natural gas demand will grow by 0.8% CAGR from 2020-2029 according to its February 2021 outlook.

In our view, global energy demand is steadily recovering though headwinds from variants of the COVID-19 pandemic remain. Keeping near-term headwinds from COVID-19 variants, such as the new Omicron variant, in mind, we see global energy consumption steadily reaching pre-pandemic levels in the coming quarters. In turn, this supports the longer-term outlook for raw energy resources pricing.

Stellar Financials

What makes this particularly important for Exxon Mobil is that its stated strategy is to not chase raw energy resources pricing higher by perpetually raising its capital expenditure expectations. **This strategy will better enable Exxon Mobil to generate substantial free cash flows going forward as it invests in its most promising assets while paying down debt, buying back its stock, and continuing to make good on its sizable dividend obligations going forward.**

During its third-quarter 2021 earnings update, Exxon Mobil announced that starting in 2022, it would begin repurchasing sizable amounts its stock (buybacks were subdued during the 2018-2020 period). Its new stock buyback program will see the firm repurchase up to $10.0 billion of its shares over the 12-24 months starting in 2022. The company continued to make good on its dividend obligations during the pandemic which we appreciate.

Recently, **Exxon Mobil has been taking advantage of its stellar free cash flows during the first three quarters of 2021 to pare back its net debt load.** Inclusive of short-term debt, Exxon Mobil's net debt load dropped by $11.4 billion from the end of December 2020 to the end of September 2021. During the first nine months of 2021, Exxon Mobil generated $23.0 billion in free cash flow and spent $11.3 billion covering its total dividend obligations. Cash raised via asset sales and its "excess" free cash flows (after paying out its total dividends) enabled the firm to improve its balance sheet strength. Exxon Mobil has a lot going for it.

Green Energy Considerations

From 2022-2027, Exxon Mobil intends to spend ~$15 billion on "lower emission investments" including carbon capture and storage, hydrogen, and biofuel ventures according to guidance put forward during its December 2021 update. The company is committed to reducing the greenhouse gas ('GHG') intensity of its operations substantially, meaning its GHG emissions on a per unit basis. While there will be plenty of individuals and institutions that stay this does not go far enough, please note that Exxon Mobil is now making a serious effort on this front, particularly after the activist fund Engine No 1 secured three of its board seats in 2021 (two in May and another in June).

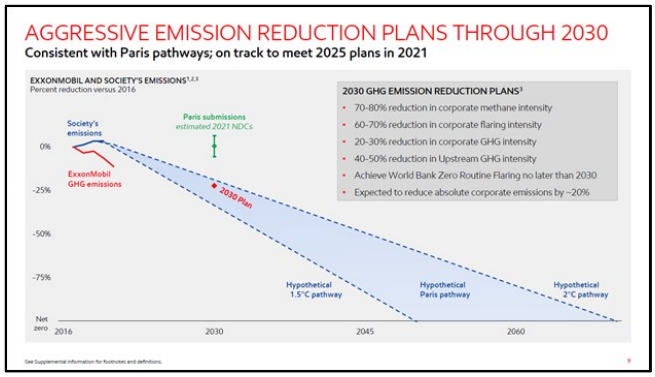


Image Shown: *Exxon Mobil is reacting to changing regulatory environments, investor concerns, and societal changes by focusing on reducing its emissions on a per unit basis.* ***Image Source:*** *Exxon Mobil – December 2021 IR Presentation*

Earnings Boost

The company is also focused on improving its cost structure, a strategy was that accelerated by the COVID-19 pandemic. Specifically, Exxon Mobil is targeting "structural savings" or put another way, improvements in its cost structure that can be maintained for years to come. **By 2023, Exxon Mobil aims to achieve ~$6 in annual cost structure improvements versus 2019 levels and had already achieved $4.5 billion of those savings by the end of the third quarter of 2021.** These savings should go a long way towards improving Exxon Mobil's future free cash flow generating abilities.

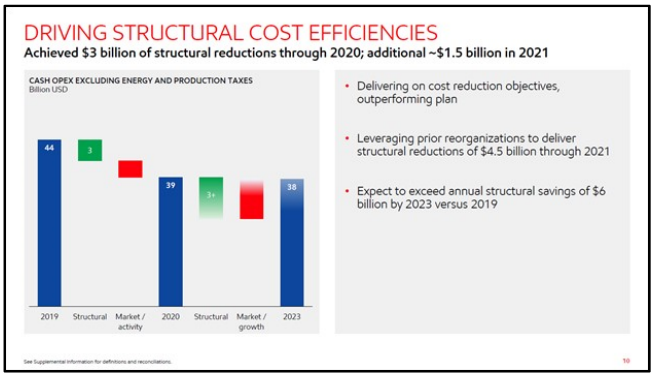


Image Shown: *Exxon Mobil is steadily improving its cost structure which supports its free cash flow growth outlook.* ***Image Source:*** *Exxon Mobil – December 2021 IR Presentation*

Put together, all of Exxon Mobil's initiatives are forecasted to double its earnings by 2027 from 2019 levels. The company also aims to boost its return on capital employed ('ROCE') to 14% by 2025 and 17% by 2027. For reference, Exxon Mobil's ROCE stood at 9.0% in 2017, 9.2% in 2018, and 6.5% in 2019 before hitting negative 9.3% in 2020. Furthermore, in 2019, Exxon Mobil generated $14.3 billion in GAAP net income attributed to common stockholders and $3.36 in GAAP diluted EPS.

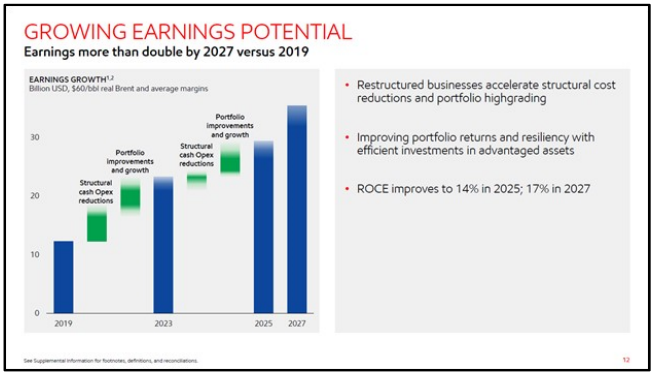


Image Shown: *Exxon Mobil aims to double its earnings by 2027 versus 2019 levels.* ***Image Source:*** *Exxon Mobil – December 2021 IR Presentation*

Exxon Mobil also noted during its December 2021 update that it intends to double its operating cash flows by 2027 from 2019 levels. The state of the global energy complex will play an outsized role regarding whether this guidance is achieved or not, but we appreciate Exxon Mobil's optimism. For reference, Exxon Mobil generated $29.7 billion in net operating cash flow in 2019.

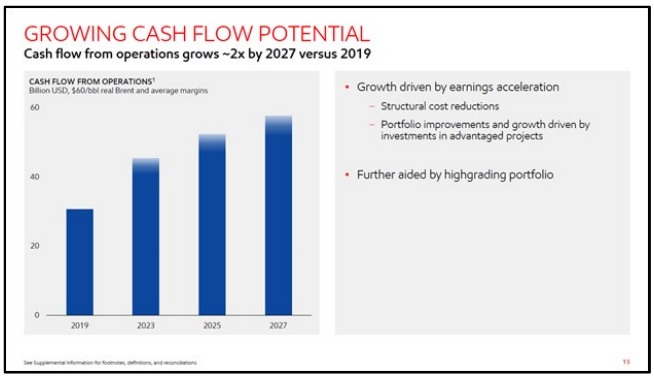


Image Shown: *Exxon Mobil aims to double its operating cash flows by 2027 versus 2019 levels.* ***Image Source:*** *Exxon Mobil – December 2021 IR Presentation*

OPEC+

In April 2020, the OPEC+ oil cartel (includes OPEC member nations, such as Saudi Arabia and Iraq, and non-OPEC nations, such as Russia and Kazakhstan) decided to collectively remove 9.7 million barrels of crude oil production from the global market in a bid to stabilize prices by better matching supply and demand in the wake of the COVID-19 pandemic (which caused significant demand destruction for refined petroleum products and thus crude oil). A few months after the supply cuts came into force in June 2020, the OPEC+ group decided to slowly unwind those supply curtailments. Here is a timeline of these actions.

More recently, OPEC+ announced they would add another 0.4 million barrels of crude oil per day to global markets in January 2022. The group has been steadily unwinding its supply cuts by that amount each month in terms of the production cap over the past several months, though that cap is not always met as some nations are struggling to ramp their oil output back up according to S&P Platts, a unit of S&P Global Inc (SPGI).

The US and a few other nations announced in late November 2021 that they would release relatively modest amounts of their strategic oil supplies in a bid to tame prices at the pump, though OPEC+ apparently remains confident that the outlook for global crude demand is strong enough to justify a continuation of their supply cut unwinding process.

Please note that the release of strategic oil reserves by the US and a few other nations did not impact crude pricing that much; it was fears over the Omicron variant and the potential for another round of aggressive lockdown measures (across the world) that sent prices lower recently, in our view. Data cited by S&P Platts and data cited by *Reuters* indicates that OPEC+ is more than fully complying with their output limits as a whole, with a compliance rate well north of 110% as of October 2021.

While the OPEC+ cartel will likely continue to boost their collective crude oil output going forward, as is the plan, the actual supply boost in the near term may be smaller than communicated given production headwinds some countries are facing. Should market conditions change, the OPEC+ cartel left the door open to make swift changes to their production trajectory if needed, particularly if supply begins to overwhelm demand (and thus dragging down prices). We are monitoring these events closely.

Concluding Thoughts

Exxon Mobil has a lot going forward it. The company's free cash flow growth outlook is bright, and raw energy resources pricing has rebounded quite strongly since selling off initially due to fears over the Omicron variants of the COVID-19 pandemic. **Cost structure improvements, disciplined capital expenditure budgets, and a steady recovery in the global energy complex all point towards Exxon Mobil maintaining and even improving its enormous free cash flow generating abilities going forward.**

We view Exxon Mobil's dividend growth trajectory quite favorably, which was last increased by a penny per share in October 2021 to its current quarterly payout rate of $0.88 per share. Sustainable dividend growth will be made possible via expected growth in its free cash flows. Additionally, we view Exxon Mobil's capital appreciation upside potential quite favorably as our recently updated fair value estimate stands at $92 per share of XOM, well above where the company's stock price is trading at as of this writing.

On a final note, Exxon Mobil is reportedly getting close to divesting its stake in various upstream assets in the Fayetteville shale play in Arkansas according to *Reuters*. These assets are heavily weighted towards "dry" natural gas production (i.e., methane) and have benefited from the recent uptick in Henry Hub pricing seen of late. For reference, Henry Hub is the premier natural gas pricing benchmark in the US based in Erath, Louisiana. These assets have seen minimal development activity in recent years and divesting its position now when natural gas pricing is favorable is a good call, in our view. The proceeds can be put to towards paying down debt and buying back its stock.

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

General Mills Is Doing Its Best to Manage Inflationary Headwinds While Scaling Up Pets Business

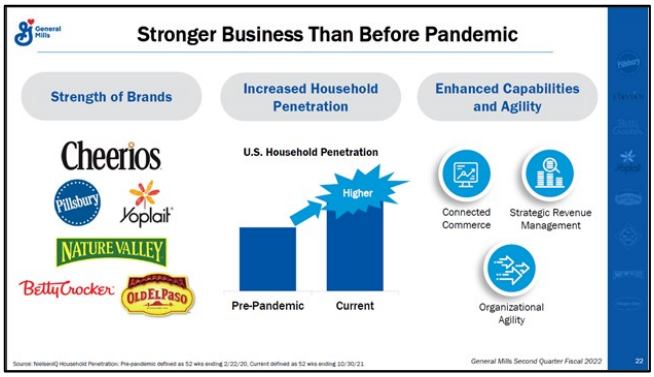


Image Source: *General Mills Inc – Second Quarter of Fiscal 2022 IR Earnings Presentation*

By Callum Turcan

On December 21, General Mills Inc (GIS)---**3.0% yield**---the firm behind the Cheerios, Pillsbury, and Nature Valley brands (among various others), reported second quarter earnings for fiscal 2022 (period ended November 28, 2021) that beat consensus top-line estimates but missed consensus bottom-line estimates.

The consumer staples giant also raised its full year guidance for fiscal 2022 in conjunction with its latest earnings report. In the face of major input cost inflationary pressures and supply chain constraints, brought on in part by the coronavirus ('COVID-19') pandemic and the fiscal/monetary policies enacted to offset the economic damage caused by the public health crisis, General Mills has done a solid job navigating the ever-changing landscape, all things considered.

Earnings Update

General Mills' non-GAAP organic net sales were up 5% year-over-year in the fiscal second quarter. Strong performance at its 'Convenience Stores & Foodservice' (up 23% year-over-year) and 'Pet' (up 14% year-over-year) segments supported its growth efforts last fiscal quarter. Both segments experienced strong organic volume growth and benefited from pricing increases/favorable product mix shifts in the fiscal second quarter versus year-ago levels.

In July 2021, General Mills completed its acquisition of Tyson Foods Inc's (TSN) pets treats business for $1.2 billion in cash, which provided a major uplift to its reported sales growth. Its organic net sales metric removes the impact of acquisition and divestment activities. Back in April 2018, General Mills completed its all-cash acquisition of Blue Buffalo Pet Products through a deal with an enterprise value of $8.0 billion.

The "humanization of pets" trend in the US (i.e., rising household spending on pets) supports the sales growth outlook for pet food, pet treats, and related offerings. General Mills has built up a high-quality portfolio on this front as Blue Buffalo is generally considered to be a premium, but affordable, pet food brand, and adding Tyson's pet treats business to its portfolio should help keep the momentum going in the right direction.

Last fiscal quarter, General Mills also reported that its 'Asia & Latin America' segment put up decent performance with organic net sales at this unit up 5% year-over-year, while its 'North America Retail' segment's organic net sales were up 1% and its 'Europe & Australia' segment's organic net sales fell by 2% during this period. General Mills is leaning heavily on pricing increases and, when possible, favorable product mix shifts to maintain its margins in the face of serious supply chain constraints and input cost inflation, though this strategy has its limits.

While General Mills' GAAP revenues grew 6% year-over-year in the fiscal second quarter, its GAAP gross margin tanked by ~400 basis points during this period. **Rising input costs were the main culprit here, with pricing increases only offsetting some of these inflationary headwinds.** The firm's GAAP operating profit fell 13% last fiscal quarter versus the same period the prior fiscal year, partially due to its GAAP gross profit falling by 5% year-over-year and in part due to its SG&A expenses rising by 3% year-over-year.

General Mills remained a cash flow generating powerhouse during the first half of fiscal 2022, generating $1.5 billion in net operating cash flow versus $0.2 billion in capital expenditures, **allowing for $1.3 billion in free cash flows.** The firm spent $0.6 billion covering its dividend obligations and another $0.4 billion buying back its stock during the first half of fiscal 2022, activities that were fully covered by its free cash flows.

At the end of the second quarter of fiscal 2022, **General Mills had a net debt load of $11.7 billion** (inclusive of short-term debt) due in part to its debt-fueled acquisition strategy seen over the past few years as it concerns bulking up its presence in the pets food and treats space.

We view the firm's net debt load as manageable given its ample liquidity levels ($1.0 billion in cash and cash equivalents on the books at the end of the fiscal second

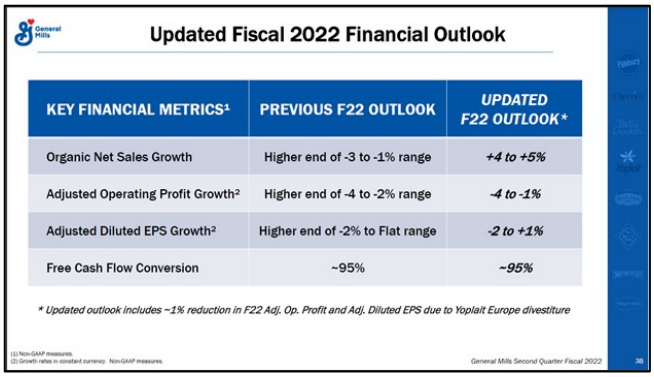
quarter) and strong cash flow generating abilities. However, its net debt load greatly limits its financial flexibility in the face of major input cost inflationary pressures.

On November 30, General Mills closed its transaction with Sodiaal (a French dairy cooperative), which saw General Mills take full ownership in the Canadian Yoplait business and gain a reduced royalty rate on Yoplait product sales in the US and Canada in return for divesting its 51% stake in its European Yoplait business to Sodiaal. This deal helps consolidate General Mills' corporate structure and should help along the margins.

Guidance Update

In light of its strong performance during the first half of fiscal 2022, keeping various headwinds in mind, General Mills increased its outlook for the full fiscal year. General Mills now expects its organic net sales will grow 4%-5% (up from 1%-3% previously) this fiscal year and that its non-GAAP constant currency adjusted EPS performance will range from a decline of up to 2% or grow by up to 1% in fiscal 2022 (versus previous forecasts to that called for up to a decline of 2% or flat performance).

The company continues to expect that its free cash flow conversion ratio (net income divided by free cash flow) will come in at a rock-solid ~95% this fiscal year. We appreciate General Mills' high-quality cash flow profile.



Updated Fiscal 2022 Financial Outlook

KEY FINANCIAL METRICS[1]	PREVIOUS F22 OUTLOOK	UPDATED F22 OUTLOOK *
Organic Net Sales Growth	Higher end of -3 to -1% range	+4 to +5%
Adjusted Operating Profit Growth[2]	Higher end of -4 to -2% range	-4 to -1%
Adjusted Diluted EPS Growth[2]	Higher end of -2% to Flat range	-2 to +1%
Free Cash Flow Conversion	~95%	~95%

* Updated outlook includes ~1% reduction in F22 Adj. Op. Profit and Adj. Diluted EPS due to Yoplait Europe divestiture

(1) Non-GAAP measures.
(2) Growth rates in constant currency. Non-GAAP measures.

General Mills Second Quarter Fiscal 2022

Image Shown: *General Mills boosted its full year guidance for fiscal 2022 in conjunction with its latest earnings report.* ***Image Source:*** *General Mills – Second Quarter of Fiscal 2022 IR Earnings Presentation*

Please note that General Mills is also now forecasting that its cost of goods (COGS) headwinds will come in ~$0.5 billion higher than initially expected due primarily to input cost inflation and supply chain hurdles. General Mills' pricing power, favorable product mix shifts, and strong organic net sales growth of late are expected to offset those headwinds, to a degree.

Concluding Thoughts

Our fair value estimate for General Mills sits at $60 per share and the high end of our fair value estimate range sits at $72 per share. As of this writing, shares of GIS are trading within the upper bound of our fair value estimate range, indicating its stock is fairly valued at this time.

While the company's Dividend Cushion ratio sits below parity (<1.0), we give General Mills a "GOOD" Dividend Safety rating due to the high-quality nature of its cash flow profile and its meaningful pricing power. Going forward, we think it would be prudent for General Mills to trim its net debt load after its recent acquisitions.

That said, we are not interested in adding General Mills to any of our newsletter portfolios at this time, though we include Vanguard Consumer Staples Index Fund ETF (VDC) in the High Yield Dividend Newsletter portfolio to gain exposure to the consumer staples sector. The VDC ETF had modest exposure to General Mills as of the end of November 2021. Please note that that many of the firms included in the VDC ETF have sizable net debt loads.

Image Shown: *Shares of General Mills have climbed higher over the past year.* ***Image Source:*** *TradingView*

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

High Yielding Molson Coors' Recent Deleveraging Activities and Dividend Reinstatement are Noteworthy Dynamics

Our **January 2022 High Yield Spotlight** is the beverage giant Molson Coors Beverage Company (TAP)---**3.0% yield**---which is home to an enormous portfolio of beer, hard seltzer, hard cider, malt liquor, hard liquor, and non-alcoholic brands (specifically, we are referring to the company's Class B shares). Those include its stable of Coors brands (including Coors, Coors Lite, and Coors Seltzer), its stable of Miller brands (including Miller High Life, Miller Lite, and Miller Genuine Draft), and stable of Molson brands (including Molson Canadian, Molson Dry, and Molson Ultra). Additionally, some of its other brands include Blue Moon, Mickey's, Redd's Hard Apple, Hop Valley, Kamenitza, Staropramen, Worthington's, Vizzy Hard Seltzer, and many others. Molson Coors has also recently pushed into the whiskey space as well, which we will cover later.

Starting in January 2022, Molson Coors is launching the Topo Chico Hard Seltzer brand with its partner Coca-Cola Co (KO), as the hard seltzer market remains a major long-term growth opportunity for Molson Coors, even if it is getting somewhat crowded. **Launching new beverage products**, both alcoholic and non-alcoholic (for instance, its Kamenitza and Staropramen brands both have non-alcoholic options), **is how Molson Coors can maintain its impressive cash flow generating abilities over the long haul.**

Image Shown: *Molson Coors' beverage brand portfolio is expansive and continues to grow.* ***Image Source:*** *Molson Coors – Third Quarter of 2021 IR Earnings Presentation*

Most of Molson Coors' revenues comes from North America. In 2020, ~73% of Molson Coors' net sales (removes the impact from excise taxes) came from the US and US territories followed by Canada at ~12% and the UK at ~7%, with the remainder coming from markets in Asia, Latin America, and other parts of Europe. Please note that the coronavirus ('COVID-19') pandemic was partially responsible here, as the UK represented closer to ~11% of the firm's annual net sales in 2018-2019 before the public health crisis began. Molson Coors' net sales have held up quite well in the US and Canada in recent quarters, all things considered.

The company has a dual class share structure that investors should be aware of. Molson Coors has Class A shares, over 90% of which are owned by Pentland Securities (controlled by the Molson family and related parties) and the Adolph Coors, Jr. Trust (controlled by the Coors family and related parties), and Class B shares, which are the publicly traded equities covered in this High Yield Spotlight article. If the two core groups of Class A shareholders do not agree on a key matter concerning the company, generally the measure will not get approved, and please note that the voting power of Class B shares is rather limited. Dual class structures greatly limit the ability for outside shareholders to have a say in a company's strategic direction or on any big considerations before the board, and investors need to be aware of this risk.

While the COVID-19 pandemic weighed on Molson Coors' financial performance, the company still held up well in its core markets. Molson Coors reported that its GAAP net sales fell by 9% in 2020 versus 2019 levels, coming in at $9.7 billion. Special items weighed on its GAAP operating income in 2020, though its cash flows held up well. **In 2020, Molson Coors generated $1.1 billion in free cash flow.** However, **we will caution here that the firm paused its quarterly dividend in the wake of the COVID-19 pandemic** (its last payout in 2020 was in March) **before resuming its quarterly dividend in August 2021 at a lower rate.** The company's quarterly dividend fell from $0.57 per share in March 2020 to $0.34 per share in September 2021, when the dividend announced in August 2021 was paid out.

Normally, we would shy away from companies that cut their dividends, though these are extenuating circumstances given that a Black Swan event like the COVID-19 pandemic is a once in a generation event. Furthermore, **we view Molson Coors' dividend on a more sustainable trajectory as the firm aggressively reduced its net debt load during the public health crisis.** At the end of March 2020, Molson Coors had a net debt load of $8.8 billion (inclusive of short-term debt). By the end of September 2021, its net debt load had fallen to $6.6 billion (inclusive of short-term debt). **That is a major improvement in its balance sheet, and one that caused us to take a deeper look at Molson Coors in light of the company resuming its dividend.**

Please note that Molson Coors did not spend a meaningful amount, or any, of its capital buying back its stock in 2019, 2020, and during the first nine months of 2021. We appreciate the firm's commitment to deleveraging activities during these turbulent times. **The firm intends to reduce its net debt to non-GAAP underlying EBITDA ratio down to 3.25x by the end of 2021 and down further to 3.00x by the end of 2022.**

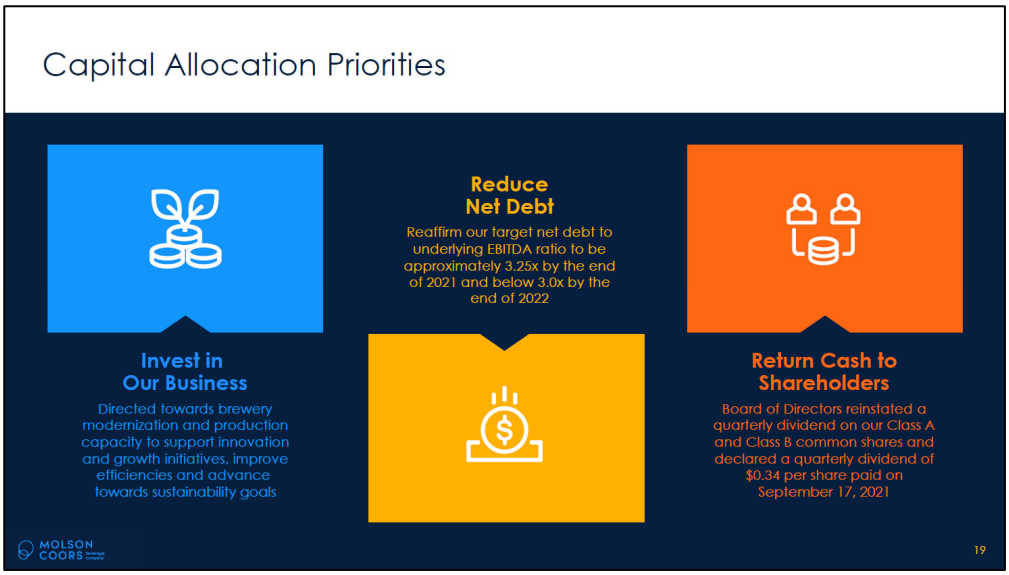


Image Shown: *Molson Coors expects its deleveraging process will continue throughout 2022, even after it resumed its dividend and as it continues to invest in the business, which we appreciate.* ***Image Source:*** *Molson Coors – Third Quarter of 2021 IR Earnings Presentation*

During the first nine months of 2021, Molson Coors generated $0.9 billion in free cash flow. Its GAAP net sales are up 4% year-over-year during this period, hitting $7.7 billion, as lockdown measures enacted to contain the spread of the pandemic eased up in its key geographical markets. Furthermore, Molson Coors' GAAP operating income surged higher by 48% during the first nine months of 2021, hitting $1.3 billion, though we will stress here that this is partially due to special items holding down its performance during the same period in 2020 (and partially due to the company's performance staging a nice rebound in 2021).

For all of 2021, Molson Coors forecasts that it will generate mid-single-digit net sales growth, on a constant currency basis, as its business steadily recovers from the worst of the COVID-19 pandemic. Its adjusted non-GAAP underlying EBITDA is expected to be broadly flat in 2021 versus 2020 levels, on a constant currency basis, as revenue growth is forecasted to offset inflationary headwinds from freight and packaging costs along with rising marketing-related investments.

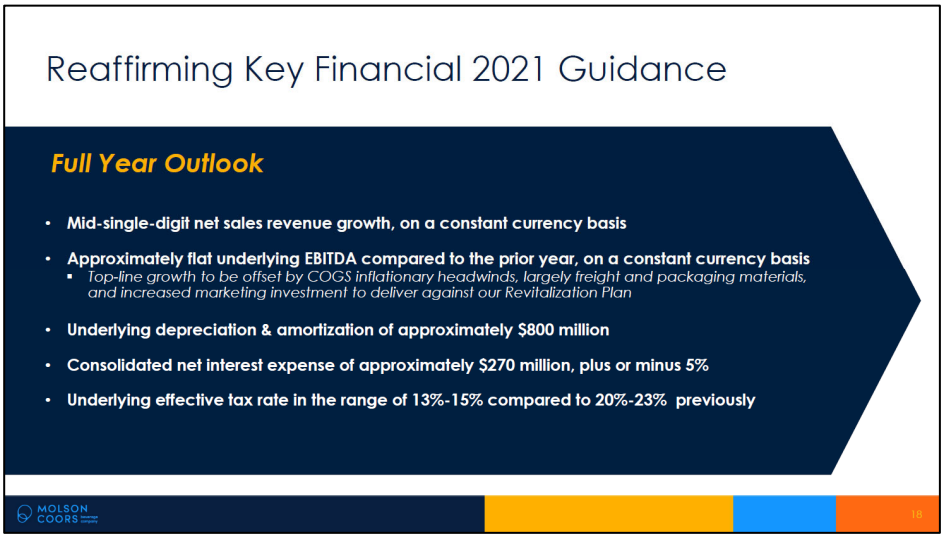


Image Shown: *Molson Coors' business is expected to steadily rebound in 2021 versus 2020 levels as the company puts the worst of the COVID-19 pandemic behind it.* ***Image Source:*** *Molson Coors – Third Quarter of 2021 IR Earnings Presentation*

Looking ahead, 2022 should be a good year for Molson Coors and its financial performance. Consumers will likely resume indoor drinking activities in earnest at restaurants, bars, night clubs, and other locations where alcoholic beverages are served, eager to enjoy a night out after staying locked inside for much of 2020 and large portions of 2021 (depending on where they lived and the relevant local restrictions on economic activity). While variants of COVID-19 will remain a concern, in our view, existing vaccines (aided by the ability to give booster shots to vulnerable populations) have shown to be quite resilient against variants such as Delta, and initial data seems to indicate that remains the case with the Omicron variant as well.

The launch of the Topo Chico Hard Seltzer in partnership with Coca-Cola provides Molson Coors with a powerful ally as it concerns breaking into the hard seltzer market. While Molson Coors has had some difficulties gaining meaningful market share in this space, it has the financial firepower and brand power to do so over the coming quarters and years, in our view.

Furthermore, Molson Coors is pushing into other parts of the beverage market, seen through its recent investment and related distribution agreement involving Zoa Energy and the Zoa energy drink. Dwayne Johnson (otherwise known as "The Rock") and others founded Zoa Energy, and so far, sales have performed quite well according to Molson Coors, aided by the distribution reach of the beverage giant. Energy drinks are a fast growing market in the US and elsewhere around the world. Furthermore, Molson Coors also recently partnered up with La Colombe Coffee Roasters via distribution agreements that cover its ready-to-drink coffee offerings. **By 2023, Molson Coors aims to make these types of distribution and related agreements generate $1.0 billion in annual revenue for the firm.**

Beyond non-alcoholic beverages and hard seltzers, Molson Coors is also pushing into the whiskey business. The company recently launched its Five Trail Blended American Whiskey, its first-ever whiskey product. While these are still early days, we appreciate Molson Coors expanding its growth runway by pushing into new markets within the alcoholic and non-alcoholic beverage space. Improving its revenue growth runway will go a long way towards improving its cash flow profile. **One of the biggest hurdles facing Molson Coors before the COVID-19 pandemic hit was its inability to consistently grow its revenues (for instance, its GAAP net revenues declined modestly from 2018 to 2019). Reviving its revenue growth trajectory is a major priority for the company, and we are optimistic that the firm has a solid plan in place to do just that.**

Image Shown: *Molson Coors aims to grow its revenues going forward by moving into the energy drink and ready-to-drink coffee beverage products space, largely through distribution agreements.* ***Image Source:*** *Molson Coors – Third Quarter of 2021 IR Earnings Presentation*

There are some key downside risks to be aware of here. Molson Coors still has a large net debt load, even after taking recent deleveraging activities into account. While we understand why the firm suspended its dividend in the wake of the COVID-19 pandemic, that does highlight the risks of investing in heavily indebted companies, and we appreciate the company's commitment to continue deleveraging in 2022. Its dual class share structure greatly limits the ability for outside shareholders to have a say on key matters, as we noted previously, so investors need to have confidence that Molson Coors is on the right path. On the flip side, Molson Coors had $0.6 billion in cash and cash equivalents on hand at the end of September 2021, providing it with ample liquidity to meet its near term financing needs.

With these considerations in mind, **we view Molson Coors as a stellar income generation idea.** Its deleveraging efforts since the end of March 2020 are noteworthy, and we appreciate its push into non-alcoholic beverage markets that are growing rapidly, namely energy drinks and ready-to-drink coffee beverages. Molson Coors' financial performance should continue to rebound as it puts the worst of the COVID-19 pandemic behind it, as does the world and its consumer base. **We like Molson Coors as our January 2022 High Yield Spotlight.**

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

High-Yielding Crown Castle is One of Our Favorite REITs

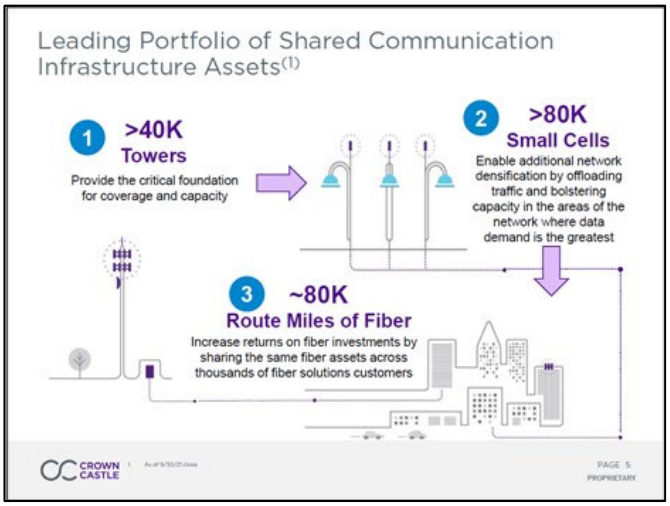


Image Shown: *We include Crown Castle International Corp as an idea in our High Yield Dividend Newsletter portfolio.* ***Image Source:*** *Crown Castle International Corp – October 2021 IR Presentation*

By Callum Turcan

Crown Castle International Corp (CCI)---**2.8 % yield**---is a real estate investment trust ('REIT') that owns and operates cell towers, fiber networks, and small cell nodes in the US. These assets form the backbone of wireless infrastructure and are key to enabling the domestic rollout of 5G networks and supporting existing 4G networks. **We include shares of CCI in our High Yield Dividend Newsletter portfolio as we are big fans of its strong dividend coverage (when taking its ability to tap capital markets into account), impressive growth outlook, and high-quality cash flow profile.** The REIT boosted its quarterly dividend by 11% sequentially in October 2021, bringing its annualized payout up to $5.88 per share. **Over the long haul, Crown Castle targets 7%-8% annual dividend growth.**

The REIT's expansive asset base stretches across the US with operations in virtually every major metropolitan market. Crown Castle's long-term contracts with its tenants (namely telecommunications giants) provide substantial visibility as it concerns its future cash flow performance. Additionally, **Crown Castle generates substantial free cash flows**, something we like a lot.

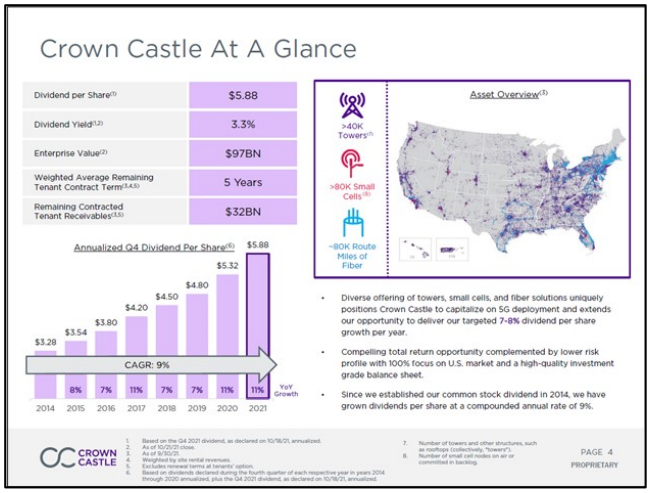


Image Shown: *Crown Castle aims to grow its annual dividend by 7%-8% over the long haul, highlighting its commitment to income seeking shareholders.* ***Image Source:*** *Crown Castle International Corp – October 2021 IR Presentation*

Growth Trajectory Picking Up Steam

When reporting its third quarter 2021 earnings in October 2021, Crown Castle noted that its site rental revenues (used to gauge its underlying sales performance) grew 8% year-over-year to reach $1.5 billion. Its non-GAAP adjusted funds from operations ('AFFO'), used to gauge its underlying cash flow performance, grew 15% year-over-year to reach $0.8 billion. **On a per share basis, Crown Castle's AFFO grew 13% year-over-year to reach $1.77 in the third quarter of 2021.**

AFFO is a key industry-specific metric that can help indicate the strength of a REIT's dividend coverage and ability to push through payout increases in the near term. Please note that REITs are capital-market dependent entities that need to continuously tap debt and equity markets for funds to meet their funding needs (ideally at attractive rates).

Crown Castle maintained its full-year guidance for 2021 during its third-quarter earnings update, which calls for ~$5.7 billion in site rental revenues and AFFO of $6.78-$6.89 per share. **If realized, this would represent roughly 7% annual growth in its site rental revenues and roughly 12% annual AFFO per share growth at the midpoint of guidance** versus its 2020 performance after making some big adjustments (namely when removing the impact of recent consolidation in the US wireless industry). Crown Castle's latest guidance for 2021 is an improvement versus the guidance it released when reporting its fourth-quarter 2020 earnings in January 2021.

Sprint was bought out by T-Mobile US Inc (TMUS) in a deal that closed in April 2020. This move prompted T-Mobile to cancel a deal with Crown Castle. Here is what Crown Castle had to say on the issue within its fourth quarter 2020 earnings press release (lightly edited):

In December 2020, T-Mobile notified Crown Castle it was cancelling approximately 5,700 small cells contracted with Sprint Corporation prior to its merger with T-Mobile. The majority of the cancelled small cells were not yet constructed and, upon completion, would have been located at the same locations as other T-Mobile small cells. The Sprint Cancellation resulted in T-Mobile accelerating payment of all contractual rental obligations associated with the approximately 5,700 small cells as well as the payment of capital costs incurred to date.

Crown Castle was able to secure new deals to preserve its growth trajectory. Back in November 2020, Crown Castle announced a major deal with DISH Network Corp (DISH) to help the firm get its nascent wireless business off the ground. DISH Network acquired Boost Mobile in July 2020 for $1.4 billion from T-Mobile (which enabled T-Mobile to get the regulatory approved needed to acquire Sprint), and the deal marked DISH Network's entrance into the US wireless industry. The November 2020 press release from Crown Castle noted that (emphasis added):

DISH and Crown Castle today announced a long-term agreement through which Crown Castle will lease DISH space on up to 20,000 communication towers. As part of the agreement, DISH will receive certain fiber transport services and also have the option to utilize Crown Castle for pre-construction services. The agreement encompasses leases on towers located nationwide, helping DISH facilitate its buildout of the first open, standalone and virtualized 5G network in the U.S.

Crown Castle is the first infrastructure partnership DISH has announced. Over the past several months, DISH has made several wireless vendor announcements, including software, core, BSS/OSS, and 5G radios. **These agreements provide a clear path toward DISH's rollout of a nationwide 5G network.**

Furthermore, in January 2021, Crown Castle announced a major deal with Verizon Communications Inc (VZ) where the telecommunications giant "committed to lease 15,000 new small cells from Crown Castle over the next four years. Once installed, the small cell leases will have an initial term of 10 years." Effectively, Crown Castle and Verizon agreed to extend and expand their existing strategic partnership for their mutual benefit.

Crown Castle operates in an industry that has grown robustly over the past decade or so. Looking ahead, the rollout of domestic 5G wireless offerings underpins its promising growth trajectory in the medium-term. Longer term, surging domestic mobile data traffic and the rise of edge computing underpins the REIT's bright outlook.

The entrance of DISH Network into the US wireless industry is another huge opportunity for Crown Castle, and one that should help offset the "lost" growth potential from Sprint getting acquired by T-Mobile. However, please note that Crown Castle still does plenty of business with T-Mobile.

At the end of September 2021, T-Mobile, Verizon, and AT&T Inc (T) represented almost three-quarters of Crown Castle's site rental revenues (as of the first nine months of 2021). Customer concentration risk is prevalent with Crown Castle, which we caution is a major downside risk, though the REIT has shown it can adapt to the changing industry landscape in rapid fashion. Going forward, Crown Castle's deal with DISH Network should add another major wireless player to its tenant base once that agreement starts generating meaningful site rental revenues for the REIT.

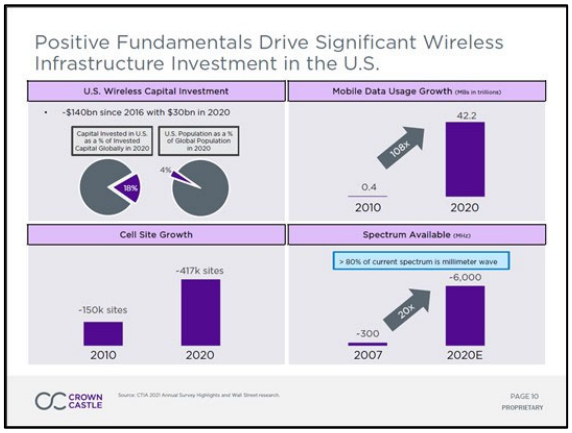


Image Shown: *Surging mobile data consumption in the US over the past decade enabled Crown Castle to rapidly scale up its business. Going forward, the rollout of domestic 5G wireless services should keep the momentum going in the right direction.* ***Image Source:*** *Crown Castle – October 2021 IR Presentation*

2022 Guidance

Looking ahead, Crown Castle aims to kick its growth trajectory into high gear starting in 2022, aided by its recent deals with DISH Network and Verizon. As one can see in the upcoming graphic down below, **the REIT aims to grow its site rental revenues by 5% and its AFFO per share by 8% in 2022 at the midpoint of its guidance versus expected 2021 levels (at the midpoint of its guidance).** The cancellation of its deal with Sprint stung, but Crown Castle quickly adjusted by securing new deals, and its growth trajectory remains quite bright. **At the midpoint of its 2022 guidance, Crown Castle's forward-looking dividend payout ratio (annualized dividends per share divided by forecasted AFFO per share) stands at just below 80% at its current payout rate.**

	Full Year 2022		Full Year 2021		
(dollars in millions, except per share amounts)	Current Outlook Midpoint[a]	Midpoint Growth Rate Compared to Previous Year Outlook	Current Outlook Midpoint[a]	Midpoint Growth Rate Compared to Previous Year Actual[b]	
				As Reported	As Adjusted[c]
Site rental revenues	$5,975	5%	$5,700	7%	7%
Income (loss) from continuing operations[e]	$1,424	28%	$1,114[d]	5%	34%
Income (loss) from continuing operations per share —diluted[e][f]	$3.28	28%	$2.57[d]	9%	40%
Adjusted EBITDA[e]	$4,022	6%	$3,787	2%	11%
AFFO[e][f]	$3,201	8%	$2,966	3%	14%
AFFO per share[e][f]	$7.36	8%	$6.83	1%	12%

(a) As issued on October 20, 2021, and, with respect to the Current Full Year 2021 Outlook, unchanged from the prior full year 2021 Outlook issued on July 21, 2021.
(b) See "*Full Year 2021 and 2022 Outlook*" below for our full year 2020 actual results.
(c) As Adjusted growth rates exclude the impact of the cancellation of certain small cells previously contracted with Sprint Corporation and a reduction in staffing that occurred in fourth quarter 2020 (collectively, "Nontypical Items"), as further described in our press release dated January 27, 2021 and reconciled in "*Non-GAAP Financial Measures, Segment Measures and Other Calculations*" herein.
(d) Does not reflect the impact related to the ATO Settlement (as defined in the Form 8-K filed with the Securities and Exchange Commission on April 26, 2021 ("April 8-K"), which is attributable to discontinued operations as discussed in the April 8-K.
(e) See "*Non-GAAP Financial Measures, Segment Measures and Other Calculations*" for further information and reconciliation of non-GAAP financial measures to Income (loss) from continuing operations, as computed in accordance with GAAP.
(f) Attributable to CCIC common stockholders.

Image Shown: *A look at Crown Castle's guidance for 2022, which calls for decent growth in its underlying sales performance and underlying cash flows on a per share basis.* ***Image Source:*** *Crown Castle – Third Quarter of 2021 Earnings Press Release*

During Crown Castle's third quarter of 2021 earnings call, management had this to say regarding the REIT's capital expenditure and asset development programs for both 2021 and 2022 (emphasis added, lightly edited):

> *"…[We] expect to deploy an additional 5,000 small cells in 2022, which is the same number we expect to build in 2021.* ***We expect discretionary Capex to be approximately $1.1 billion to $1.2 billion in 2022, including approximately $300 million for towers and $800 to $900 million for fiber, similar to what we expect in 2021…***
>
> *Based on the expected growth in cash flows for full-year 2022 and consistent with our investment-grade credit profile,* ***we expect to fund our discretionary Capex with free cash flow and incremental debt capacity without the need for new equity for the [fourth] consecutive year.*** *In addition, we believe our business and balance sheet are well positioned to support consistent AFFO growth through various economic cycles, including during periods of higher inflation and interest rates." --- Daniel Schlanger, EVP and CFO of Crown Castle*

We appreciate that the REIT prefers to utilize debt instead of equity to fund its growth ambitions. As an aside, Crown Castle expects to receive a sizable amount of prepaid rent in 2022, as historically is the case each year. Please note that Crown Castle's outstanding share count has grown modestly in recent years due to its stock-based compensation, growing by just over 2% from 2018 to 2020 on a weighted-average diluted basis.

ESG Considerations

The proliferation of Environmental, Social, and Governance ('ESG') investing extends to the REIT industry. Crown Castle has been adeptly capitalizing on this trend and adapting to the changing investment and regulatory landscape in recent quarters, which we are big fans of.

In December 2021, within the press releasing announcing that its latest ESG report had been published, Crown Castle noted that "the 2020 ESG Report expands upon the prior two Corporate Sustainability Reports by adding EEO-1 data and a Task Force on Climate-Related Disclosures ('TCFD') index, while continuing to provide Global Reporting Initiative ('GRI') and Sustainability Accounting Standards Board ('SASB') disclosures." We appreciate the additional disclosures.

Furthermore, Crown Castle announced in October 2021 that it aimed to achieve carbon neutrality by 2025 as it concerns its Scope 1 and Scope 2 emissions. The October 2021 press release noted that this would be achieved "through a combination of continued investment in energy reduction initiatives, sourcing renewable energy, and, to a lesser extent, utilizing carbon credits or offsets." Its December 2021 press release noted that "we have contracted to source more than 60% of our anticipated 2022 electricity consumption with renewable energy, putting us well on our way to reaching our goal" indicating Crown Castle is making serious headway on this front.

At the end of September 2021, Crown Castle had an undrawn $5.0 billion unsecured revolving credit facility that matures in June 2026 (the maturity date was extended in June 2021), providing the REIT with ample access to liquidity. This extension also covered Crown Castle's Senior Unsecured Term Loan A Facility (together the unsecured revolving credit facility and the term loan make up the REIT's "Credit Facility"), which had an outstanding balance at the end of September 2021. Part of this extension and revision also factored in Crown Castle's commitment to ESG policies, especially as it concerns its net zero emissions targets, which could potentially reduce the REIT's interest rate spread on those facilities. From the June 2021 press release:

> The amendment extends the maturity of the Credit Facility to June 2026 and incorporates specified annual sustainability targets. The Credit Facility pricing is subject to adjustment based on Crown Castle's performance against those targets.

Crown Castle's management team had this to say on the issue in the June 2021 press release (lightly edited):

> *"We appreciate the continued support from our strategic lending partners and are excited to add targets to our Credit Facility that reflect our efforts to reduce our net emissions… Our business model is built on the concept that sharing a single asset among multiple users creates long-term shareholder value and is a sustainable means of meeting the growing demand for connectivity. Incorporating sustainability targets into our Credit Facility furthers our commitment to build upon the strong foundation our business model provides." --- Jay Brown, CEO of Crown Castle*

According to its 10-Q SEC filing covering the third quarter of 2021, Crown Castle had this to say regarding its revolving credit facilities (moderately edited, emphasis added):

> …**[Reductions] to the interest rate spread** [currently the LIBOR benchmark, though that benchmark is getting phased out on a global level and will be replaced with another benchmark] **and unused commitment fee percentage upon meeting specified annual sustainability targets** and increases to the interest rate spread and unused commitment fee percentage upon the failure to meet specified annual sustainability thresholds… With respect to the specified annual sustainability targets, **the applicable interest rate spread is subject to an upward or downward adjustment of up to 0.05% and the unused commitment fee is subject to an upward or downward revision of up to 0.01%** if the Company achieves, or fails to achieve, certain specified targets.

Here, we stress that companies that commit to meeting ESG goals are finding its easier to tap capital markets at more attractive rates. With that in mind, committing to these goals and later failing to deliver on these targets comes with financial consequences, though in our view, Crown Castle should be up to the challenge.

Capital Market Access and Free Cash Flow

As noted previously, as a REIT, **Crown Castle is a capital market dependent entity.** Its large debt load combined with the requirement that it pays out virtually all its earnings as dividends means Crown Castle needs to constantly issue debt and/or equity to fund its growth ambitions (acquisitions and investments in the business), dividend payouts, and meet its refinancing needs. This represents another huge risk for the REIT, though a risk that is manageable, in our view.

Crown Castle had a total debt load of $20.4 billion (inclusive of short-term debt) **at the end of September 2021 along with sizable current and non-current lease operating liabilities to be aware of,** modestly offset by $0.4 billion in cash and cash equivalents on hand (exclusive of restricted cash) at the end of this period. The REIT had a well-staggered debt maturity schedule at the end of September 2021, which should make future refinancing activities an easier task.

4. Debt and Other Obligations

The table below sets forth the Company's debt and other obligations as of September 30, 2021.

	Original Issue Date	Final Maturity Date[a]		Balance as of September 30, 2021	Balance as of December 31, 2020	Stated Interest Rate as of September 30, 2021[a]
3.849% Secured Notes	Dec. 2012	Apr. 2023		$ 998	$ 997	3.9 %
Secured Notes, Series 2009-1, Class A-2	July 2009	Aug. 2029		55	60	9.0 %
Tower Revenue Notes, Series 2015-1	May 2015	May 2042	(b)	—	299	N/A
Tower Revenue Notes, Series 2018-1	July 2018	July 2043	(b)	249	248	3.7 %
Tower Revenue Notes, Series 2015-2	May 2015	May 2045	(b)	696	695	3.7 %
Tower Revenue Notes, Series 2018-2	July 2018	July 2048	(b)	744	743	4.2 %
Finance leases and other obligations	Various	Various	(c)	240	236	Various (c)
Total secured debt				$ 2,982	$ 3,278	
2016 Revolver	Jan. 2016	June 2026	(i)	$ — (d)	$ 290	N/A (e)
2016 Term Loan A	Jan. 2016	June 2026	(g)(i)	1,230	2,252	1.2 % (e)
Commercial Paper Notes	Sep. 2021 (f)	Oct. 2021	(f)(g)(h)	665 (f)	285	0.3 %
5.250% Senior Notes	Oct. 2012	Jan. 2023	(g)	—	1,646	N/A
3.150% Senior Notes	Jan. 2018	July 2023		747	746	3.2 %
3.200% Senior Notes	Aug. 2017	Sept. 2024		746	745	3.2 %
1.350% Senior Notes	June 2020	July 2025		495	494	1.4 %
4.450% Senior Notes	Feb. 2016	Feb. 2026		895	894	4.5 %
3.700% Senior Notes	May 2016	June 2026		746	745	3.7 %
1.050% Senior Notes	Feb. 2021	July 2026	(g)	990	—	1.1 %
4.000% Senior Notes	Feb. 2017	Mar. 2027		496	496	4.0 %
3.650% Senior Notes	Aug. 2017	Sept. 2027		994	994	3.7 %
3.800% Senior Notes	Jan. 2018	Feb. 2028		992	991	3.8 %
4.300% Senior Notes	Feb. 2019	Feb. 2029		593	593	4.3 %
3.100% Senior Notes	Aug. 2019	Nov. 2029		545	544	3.1 %
3.300% Senior Notes	Apr. 2020	July 2030		738	737	3.3 %
2.250% Senior Notes	June 2020	Jan. 2031		1,089	1,088	2.3 %
2.100% Senior Notes	Feb. 2021	Apr. 2031	(g)	987	—	2.1 %
2.500% Senior Notes	June 2021	July 2031	(h)	739	—	2.5 %
2.900% Senior Notes	Feb. 2021	Apr. 2041	(g)	1,232	—	2.9 %
4.750% Senior Notes	May 2017	May 2047		344	344	4.8 %
5.200% Senior Notes	Feb. 2019	Feb. 2049		395	395	5.2 %
4.000% Senior Notes	Aug. 2019	Nov. 2049		345	345	4.0 %
4.150% Senior Notes	Apr. 2020	July 2050		490	489	4.2 %
3.250% Senior Notes	June 2020	Jan. 2051		890	889	3.3 %
Total unsecured debt				$ 17,383	$ 16,002	
Total debt and other obligations				20,365	19,280	
Less: current maturities and short-term debt and other current obligations				72	129	
Non-current portion of long-term debt and other long-term obligations				$ 20,293	$ 19,151	

(a) See the 2020 Form 10-K, including note 7, for additional information regarding the maturity and principal amortization provisions and interest rates relating to the Company's indebtedness.
(b) If the respective series of Tower Revenue Notes are not paid in full on or prior to an applicable anticipated repayment date, then Excess Cash Flow (as defined in the indenture) of the issuers of such notes will be used to repay principal of the applicable series and class of the Tower Revenue Notes, and additional interest (of an additional approximately 5% per annum) will accrue on the respective Tower Revenue Notes. As of September 30, 2021, the Tower Revenue Notes have principal amounts of $250 million, $700 million and $750 million, with anticipated repayment dates in 2023, 2025 and 2028, respectively.
(c) The Company's finance leases and other obligations relate to land, fiber, vehicles, and other assets and bear interest rates ranging up to 10% and mature in periods ranging from less than one year to approximately 25 years.
(d) As of September 30, 2021, the undrawn availability under the 2016 Revolver was $5.0 billion.

Image Shown: *Crown Castle had a well-staggered debt maturity schedule at the end of September 2021.* ***Image Source:*** *Crown Castle – 10-Q SEC filing covering the third quarter of 2021*

Beyond the undrawn capacity on its unsecured revolving credit facility Crown Castle also has an at-the-market ('ATM') program that was established in May 2021 to provide it with access to funds as needed. However, as of the end of the third quarter of 2021, no equity had been issued through that ATM program so far. Additionally, Crown Castle terminated its 2018 ATM program in March 2021 and later replaced it with its current ATM program. The REIT notes that its 2018 ATM program was not utilized, **as Crown Castle prefers to tap debt markets for funds as we covered previously.**

Crown Castle has a solid investment grade credit rating (Baa3/BBB-/BBB+) with Fitch Ratings upgrading the REIT's credit rating (including its long-term issuer default rating and senior unsecured credit rating) to BBB+ in May 2020 from BBB previously. Crown Castle also generates sizable positive free cash flows. Recent capital market activities, such as the issuance of attractively priced 2.500% senior notes due 2031 in June 2021 and the maturity extension of its revolving credit facilities, indicate to us that the REIT should be able to continue tapping capital markets at attractive rates going forward.

During the first nine months of 2021, Crown Castle generated $2.1 billion in net operating cash flow and spent $0.9 billion on its capital expenditures, **allowing for $1.2 billion in free cash flows.** We are huge fans of its free cash flow generating abilities, especially as most REITs tend to generate negligible (if any) positive free cash flows given their hefty capital expenditure requirements. During the first nine months of 2021, Crown Castle spent $1.7 billion covering its payout obligations along with an additional $0.1 billion buying back its common stock, **activities that were funded in part by its balance sheet.**

CROWN CASTLE INTERNATIONAL CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)
(In millions of dollars)

	Nine Months Ended September 30,	
	2021	2020
Cash flows from operating activities:		
Income (loss) from continuing operations	$ 805	$ 548
Adjustments to reconcile income (loss) from continuing operations to net cash provided by (used for) operating activities:		
Depreciation, amortization and accretion	1,229	1,207
(Gains) losses on retirement of long-term obligations	145	95
Amortization of deferred financing costs and other non-cash interest, net	9	4
Stock-based compensation expense	100	108
Asset write-down charges	9	10
Deferred income tax (benefit) provision	4	2
Other non-cash adjustments, net	18	4
Changes in assets and liabilities, excluding the effects of acquisitions:		
Increase (decrease) in accrued interest	(59)	(46)
Increase (decrease) in accounts payable	16	(41)
Increase (decrease) in other liabilities	(57)	58
Decrease (increase) in receivables	(62)	141
Decrease (increase) in other assets	(102)	(20)
Net cash provided by (used for) operating activities	2,055	2,070
Cash flows from investing activities:		
Capital expenditures	(892)	(1,238)
Payments for acquisitions, net of cash acquired	(27)	(86)
Other investing activities, net	8	(12)
Net cash provided by (used for) investing activities	(911)	(1,336)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	3,985	3,733
Principal payments on debt and other long-term obligations	(1,057)	(80)
Purchases and redemptions of long-term debt	(2,089)	(2,490)
Borrowings under revolving credit facility	580	2,140
Payments under revolving credit facility	(870)	(2,145)
Net issuances (repayments) under commercial paper program	380	(80)
Payments for financing costs	(43)	(38)
Purchases of common stock	(69)	(75)
Dividends/distributions paid on common stock	(1,738)	(1,531)
Dividends/distributions paid on preferred stock	—	(85)
Net cash provided by (used for) financing activities	(921)	(651)
Net increase (decrease) in cash, cash equivalents, and restricted cash - continuing operations	223	83
Discontinued operations (see note 6):		
Net cash provided by (used for) operating activities	(62)	—
Net increase (decrease) in cash, cash equivalents, and restricted cash - discontinued operations	(62)	—
Effect of exchange rate changes	—	—
Cash, cash equivalents, and restricted cash at beginning of period	381	338
Cash, cash equivalents, and restricted cash at end of period	$ 542	$ 421

Image Shown: *Crown Castle has historically generated sizable positive free cash flows.* ***Image Source:*** *Crown Castle – 10-Q SEC filing covering the third quarter of 2021*

We are confident that Crown Castle will be able to continue making good on its payout obligations over the coming years. Our adjusted Dividend Cushion ratio (takes its ability to tap capital markets into account) sits at 1.5, earning Crown Castle a "GOOD" Dividend Safety rating. Crown Castle also earns an "EXCELLENT" Dividend Growth rating. From 2018-2020, Crown Castle generated ~$0.9 billion in annual free cash flow on average. We appreciate its ability to generate free cash flows in almost any operating environment.

Concluding Thoughts

Image Shown: *Shares of Crown Castle have boomed higher in recent months as investors are increasingly warming up to its stellar income growth potential, in our view.*

There is a lot to like about Crown Castle due to its promising growth outlook, resilient business model, history of meaningful dividend increases (a trajectory that is expected to continue over the coming years), stellar cash flow profile (especially for a REIT), and ability to tap capital markets for funds at attractive rates. **Crown Castle is a high-quality income generation opportunity that operates in an incredibly attractive and growing market, in our view, and we are huge fans of the REIT.** We like Crown Castle as an idea in our High Yield Dividend Newsletter portfolio.

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

ICYMI: A New Measure of Leverage for Dividend-Growth and Income-Oriented Shareholders, One That Is Dividend-Adjusted

If The Dividend Is Secure, What Does That Imply With Respect to Financial Leverage?

$$Dividend - adjusted\ Leverage = \frac{LFY\ Net\ Debt + \frac{LFY\ Cash\ Dividends\ Paid\ (1 + growth\ rate)}{Discount\ Rate}}{LFY\ EBITDA}$$

As more and more investors rely on company dividends for income, dividends, in our view, have become more debt-like commitments in nature, especially from the perspective of dividend-growth or income-oriented shareholders. We plan to roll out a new measure of financial leverage that considers both the company's debt and the present value of its future expected cash dividend obligations, which, in the eyes of die-hard dividend-growth or income-oriented shareholders, may be implicitly assumed to be debt-like commitments in substance. We think this leverage ratio can be used in conjunction with the Dividend Cushion ratio to gain additional insight into the dividend-paying financial health of an entity.

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As more and more investors rely on company dividends for income, dividends, in our view, have become more debt-like commitments in nature, especially from the perspective of dividend-growth or income-oriented shareholders. We have rolled out a new measure of financial leverage that considers both the company's debt and the present value of its future expected cash dividend obligations, which, in the eyes of die-hard dividend-growth or income-oriented shareholders, may be implicitly assumed to be debt-like commitments in substance. We think this leverage ratio can be used in conjunction with the Dividend Cushion ratio to gain additional insight into the dividend-paying financial health of an entity.

Note: There is often great confusion with respect to published measures of financial leverage, and our intent with the creation of this leverage ratio is not to add to the confusion, but to help dividend growth and income-oriented investors think about what is implied in terms of leverage by their expectations that a company's dividend is secure (and is anticipated to grow), as in the case of the dividend essentially being viewed as a cash commitment to shareholders/unitholders, which may often be the case for many dividend growth and income-oriented investors. Typically, most reporting uses the credit-rating agencies' leverage metrics or measures of leverage that are provided by the company. Depending on the stakeholder, however, the application of various measures of leverage may be helpful in painting a better picture of the risk to the dividend. Said plainly, this tool is to help the equity investor evaluate the financial risks of more-speculative dividend payers and raise awareness of what their views regarding the dividend imply with respect to leverage.

By Brian Nelson, CFA

Financial leverage is a very subjective consideration and can be measured in a variety of different ways depending on its relevance to a particular stakeholder, whether it be an equity holder or debt holder. Some measures of leverage include assets-to-equity as in the third product of the DuPont equation, for example, or total debt-to-EBITDA, or net debt-to-EBTIDA, or total debt-to-equity, among many others. Most leverage metrics, however, tend to focus more on assessing credit quality, as in evaluating the ability of a company to repay its debtholders, or in measuring and ranking the probability of default.

The credit rating agencies, for example, employ a wide variety of adjusted financial metrics that have myriad "subjective judgments" embedded within them. Moody's, for example, uses debt-to-equity and debt-to-book-capitalization, as well as a unique measure called retained cash flow to net debt (RCF/net debt). The definitions for many credit metrics can be relatively complex, in some cases. For example, according to Moody's, RCF/net debt decomposes into the following: (FFO-preferred dividends-common dividends-minority dividends) / (short-term debt + long-term debt, gross – cash and cash equivalents).

The ratio RCF/net debt is a rare credit metric, in our view, that may be applicable to that of the dividend growth or income investor. Where a bond holder may implicitly assume that dividends can be cut/reduced in order to shore up cash flow to service debt repayment, from the perspective of the equity investor (one that is counting on that dividend for income), the view is quite different.

In the eyes of many die-hard dividend growth or income investors, for example, the dividend payment is often viewed, in great substance, as the equivalent of a debt-like cash commitment. RCF/net debt provides some context in how much cash flow is left over after paying dividends or distributions to service the debt, but it may not be a pure measure of dividend-adjusted leverage, as in the traditional sense (where EBITDA may be in the denominator, for example, as in net debt-to-adjusted EBITDA).

In any case, what we like about the RCF/net debt ratio is that it does not assume that dividends are *not* going to be paid, as in the case of other traditional credit metrics that effectively ignore the dividend or distribution as an important cash outflow (and an implicit reduction to credit quality). The RCF/net debt ratio assumes that the dividend is a debt-like cash commitment reducing funds from operations, something we believe is very relevant to the dividend growth or income-oriented shareholder that is depending heavily on that dividend or distribution payment.

What RCF/net debt also considers is that the same money distributed to shareholders or unitholders is not also used twice as same money that can be used to service the debt (double counting). In our view, it should be generally assumed that such capital can only be used once; if it's paid out as a dividend/distribution, it generally should not be assumed that it is also capital that can be used for debt repayment.

The idea of a new measure of leverage for dividend growth and income-oriented shareholders/unitholders that considers dividend/distribution obligations originated in the 2015 analysis of Kinder Morgan (KMI) when we explained how a dividend-growth or income-oriented investor that, if they are truly counting on the dividend/distribution to be paid in the future for their income stream, they should evaluate the company's financial leverage in the context of both its net debt and the present value of those dividends/distributions to shareholders/unitholders. Once the capital corresponding to dividend payments is released to shareholders/unitholders, that same capital shouldn't also be considered as a means to repay debt as well. Here's what we said in that 2015 piece:

> One of the dual and perhaps lesser-known benefits of the dividend discount model is that it seconds as a calculation of the present value of future cash dividend obligations. For example, the higher the "perceived" equity value that is supported by the dividend discount model, the more the present value of cash obligations the company has to shareholders, and by extension, the lower implicit credit quality of the organization, assuming a company continues to pay and increase its dividend...
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> In any case, what matters most is not the absolute level of the debt on Kinder Morgan's books, which is striking by itself, but whether Kinder Morgan can service all of its debt-like, cash obligations with its own organically-generated EBITDA, which pays no mind to capital spending in any form. Kinder Morgan currently has $42.8 billion in debt, net of cash, on the balance sheet, and implicitly, on the basis of the price targets of some brokerage houses that employ a dividend discount model, it has another ~$100 billion in "mandatory" obligations to shareholders in the form of dividends (though if you ask a shareholder, the dividend payment is as contractual as it gets).
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> We think that, as the credit rating agencies evaluate the firm's die-hard commitment to shareholders and its unwavering backing of an explosive future dividend growth plan, the implied leverage of cash, debt-like commitments at Kinder Morgan should approach $140 billion. The company's reported Debt-to-EBITDA is 5.8 times, already a consideration for junk-rated credit status, but its implied Debt-to-EBITDA is closer to 19 times ($140 billion/$7.35 billion) after factoring in all cash, debt-like commitments…

What we're proposing is that the concept of financial leverage should be viewed differently as it relates to the perspective of either the debt holder or the dividend-growth and income-oriented equity holder. In the case of Kinder Morgan in 2015, for example, many holders of its stock were die-hard dividend growth investors, and they were counting on the company's dividend no matter what. This assumption should be an important part of leverage analysis of that of the dividend growth and income investor.

Looking at financial leverage from the perspective of that of a bold holder, or as one that assumes the company will cut its dividend to repay debt, may not be an accurate representation of actual cash, debt-like obligations in the eyes of dividend-growth or income-oriented shareholders, which are counting on the dividend to be paid through thick and thin.

Where RCF/net debt effectively reduces the numerator by dividends paid as a way to explain just how much cash is left over to service the debt, an implied measure of leverage that views dividends as cash, debt-like commitments may be of equal usefulness. We believe it makes little sense from the perspective of a dividend-growth or income-oriented shareholder to evaluate a company's financial leverage as if one is never going to get paid a dividend or distribution!

Financial leverage from the perspective of the dividend-growth or income-oriented shareholder should consider all net debt and the present value of all future expected dividend obligations. Much like rent can be capitalized to arrive at a present value of debt equivalent (as if a retailer were to finance a building instead of paying rent), dividends can be capitalized in much of the same way through either the construct of a dividend-discount model or through a growing perpetuity function with a reasonable discount rate.

The dividend-adjusted measure of leverage, or financial leverage as we think it should be viewed in the eyes of the dividend-growth and income-oriented investor, is as follows:

$$Dividend - adjusted\ Leverage = \frac{LFY\ Net\ Debt + \frac{LFY\ Cash\ Dividends\ Paid\ (1 + growth\ rate)}{Discount\ Rate}}{LFY\ EBITDA}$$

Valuentum rolled out this new dividend-adjusted leverage ratio in the fourth-quarter Data Screener, released October 1, 2018. We think this ratio used in conjunction with the Dividend Cushion ratio will provide even more insight into the dividend-paying financial health of the entity.

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

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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%	3.11%
SPDR Portfolio S&P 500 High Dividend ETF	SPYD	5.0%	3.68%
ProShares High Yield—Interest Rate Hedged	HYHG	5.0%	4.54%
iShares International Select Dividend ETF	IDV	5.0%	5.78%
iShares U.S. Preferred Stock ETF	PFF	5.0%	4.45%
Global X SuperDividend ETF*	SDIV	5.0%	6.83%
Global X SuperIncome Preferred ETF	SPFF	5.0%	5.78%
Vanguard Consumer Staples ETF	VDC	5.0%	2.14%
Vanguard Real Estate ETF	VNQ	5.0%	2.56%
Utilities Select Sector SPDR	XLU	5.0%	3.05%
EQUITY			
Chevron Corp.	CVX	5.0%	4.57%
Crown Castle	CCI	5.0%	2.82%
CyrusOne Inc.	CONE	5.0%	2.32%
CubeSmart	CUBE	5.0%	3.02%
Digital Realty Trust	DLR	5.0%	2.62%
ExxonMobil Corp.	XOM	5.0%	5.75%
Philip Morris	PM	5.0%	5.26%
Public Storage	PSA	5.0%	2.14%
Enterprise Products Partners	EPD	5.0%	8.20%
Magellan Midstream Partners	MMP	5.0%	8.94%
Cash**	-	0.0%	0.00%
		100.0%	**4.38%**

This is not a real money portfolio. Inception 1/1/2018. Data as of 1/1/2022. Est. Forward Div. Yield information retrieved from SeekingAlpha, YF.

** Retrieved from YahooFinance. 30-Day SEC Yield, 12-Month Trailing Yield, and Distribution Yield approximate ~9%, per Global X website.*

*** Reflects federal funds target rate range*

Valuentum's Stock Dividend Research | Visit us at www.valuentum.com | Ratings as of 20-Dec-2021 | Data as of 20-Dec-2021

Public Storage PSA FAIRLY VALUED

Buying Index™ 6 Value Rating

Economic Castle	Stock Fair Value Range	Dividend Track Record	Dividend Safety / Cushion™	Div Growth Potential	Dividend Yield
Attractive	$267.00 - $445.00	HEALTHY	GOOD / 2.1	GOOD	2.19%

Assessment of Company Dividend Strategy

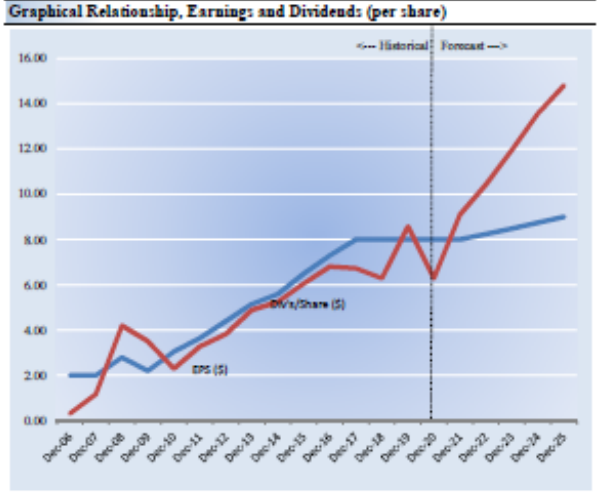
Key Strengths

Public Storage's ability to generate free cash flows is impressive. In 2020, Public Storage generated ~$1.7 billion in free cash flow and spent ~$1.6 billion covering its payout obligations. The self-storage REIT's 'A-rated' investment grade credit rating and the well-staggered nature of its debt maturity schedule provides it with some financial flexibility, though it does have a sizable net debt load. The outlook for the US self-storage industry is favorable and supported by rising housing prices in minor and major metropolitan markets, ongoing population growth in these markets, and the desire for households to find affordable ways to maximize their living space.

Potential Weaknesses

Real estate investment trusts pay out 90% of annual taxable income and therefore are unable to meaningfully reinvest internally-generated funds, resulting in external capital-market dependence. The weak internal cash-flow retention of most REITs translates into poor raw, unadjusted Dividend Cushion ratios, which could become severe during the depths of the real estate cycle. Even though a REIT's operating cash flow may be robust, the lack of cash accumulation on the balance sheet and the massive debt needed to purchase/develop new properties can become restrictive. The adjusted Dividend Cushion ratio, accounts for expectations of continued access to the capital markets, which while "normal," cannot be guaranteed in times of tight credit.

Graphical Relationship, Earnings and Dividends (per share)

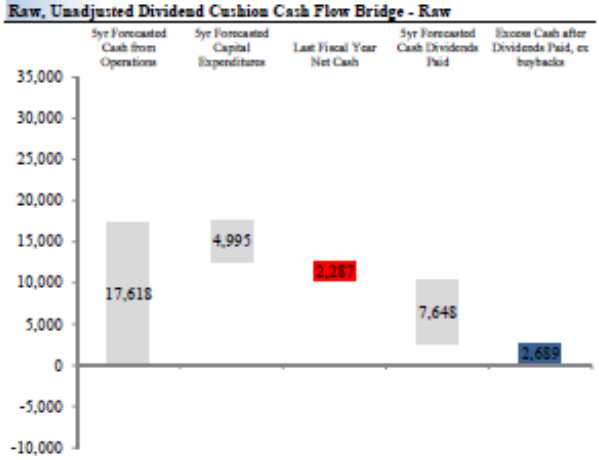


The graph above shows the relationship between a firm's earnings per share and its dividends per share.

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. Public Storage'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.

Raw, Unadjusted Dividend Cushion Cash Flow Bridge - Raw

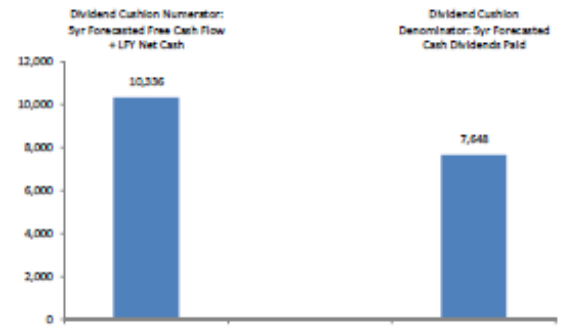


Source: Company Filings, Valuentum Projections

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, Public Storage'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.

Raw, Unadjusted Dividend Cushion Ratio Deconstruction - Raw



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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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