

Valuentum Securities, Inc.

“Exclusive Analysis for the Discerning Investor”

The Ultimate Dividend Growth Investor Tool The Valuentum Dividend Cushion™

Brian Nelson, CFA
President, Equity Research & ETF Analysis

brian@valuentum.com
www.valuentum.com

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Greensboro Chapter

Agenda

- About Valuentum
- Discuss: What Makes An Ideal Dividend Growth Stock?
- Illustrations of the Valuentum Strategy
- The Three Pillars of the Valuentum Buying Index
- The Benefits of Dividend Growth Investing
- Introducing the Valuentum Dividend Cushion Ratio™
- Hands On: Conducting a Cash-flow Based Dividend Analysis
- Microsoft (MSFT): One of Our Favorite Dividend Growth Ideas
- Stay in Touch! The Dividend Growth Newsletter

About the Speaker

Brian Nelson is the President of Equity Research and ETF Analysis at Valuentum Securities. Before founding Valuentum in early 2011, Mr. Nelson worked as a director at Morningstar, where he was responsible for training and methodology development within the firm's equity and credit research department. Prior to that position, he served as a senior industrials securities analyst, covering aerospace, airlines, construction and environmental services companies. Before

joining Morningstar in February 2006, Mr. Nelson worked for a small capitalization fund covering a variety of sectors for an aggressive growth investment management firm in Chicago. He holds a Bachelor's degree in finance and a minor in mathematics, magna cum laude, from Benedictine University. Mr. Nelson has an MBA from the University of Chicago Booth School of Business and also holds the Chartered Financial Analyst (CFA) designation.



About Valuentum Securities



Valuentum (val·u·n·tum) [val-yoo-en-tuh-m] Securities Inc. is an independent investment research provider, offering premium equity reports and dividend reports, as well as commentary across all sectors/companies, a Best Ideas Newsletter (spanning market caps, asset classes), a Dividend Growth Newsletter, modeling tools/products, and more. Independence and integrity remain our core, and we strive to be a champion of the investor. Valuentum is based in the Chicagoland area.



Valuentum serves money-management institutions, financial advisors, and individual investors.

How Valuentum Fits Into the Financial Industry

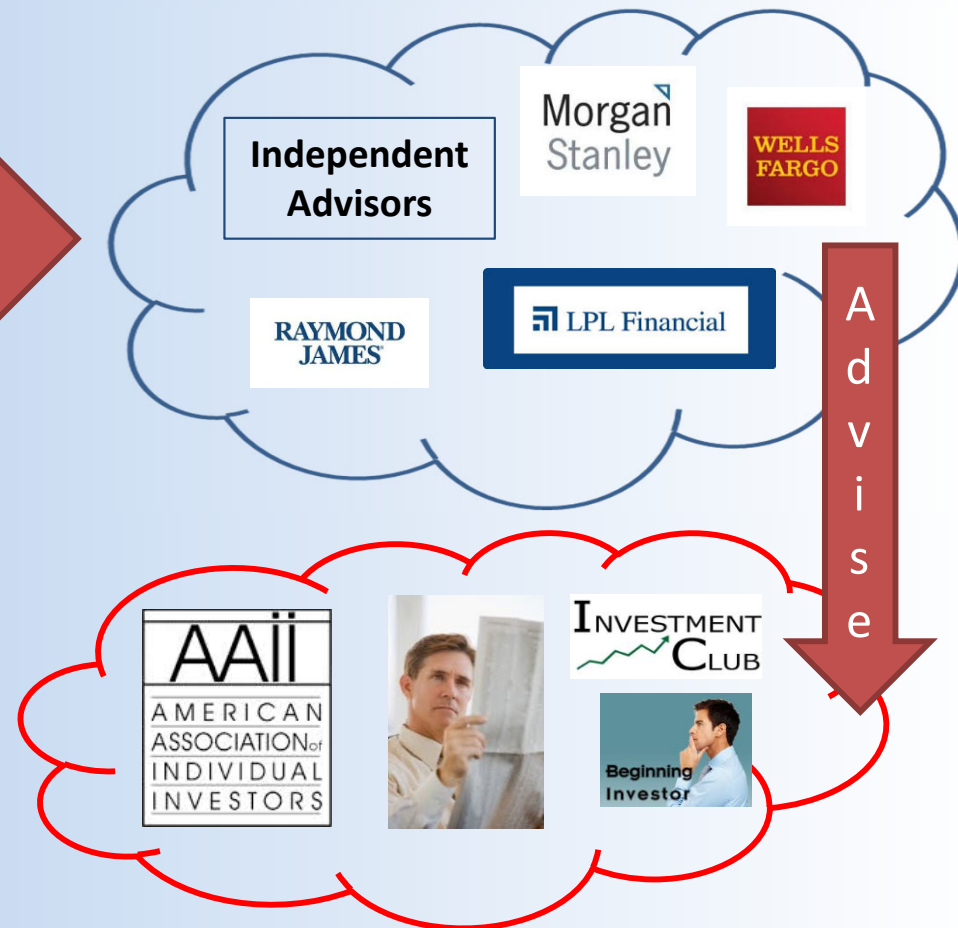
Financial Information Publishers



Serve

Educate

Financial Advisors – Provide Financial Advice



Publishers Are Not Financial Advisors. They Do Not Provide Personal Financial Advice. Subscription-based Information Services.

Individual Investors

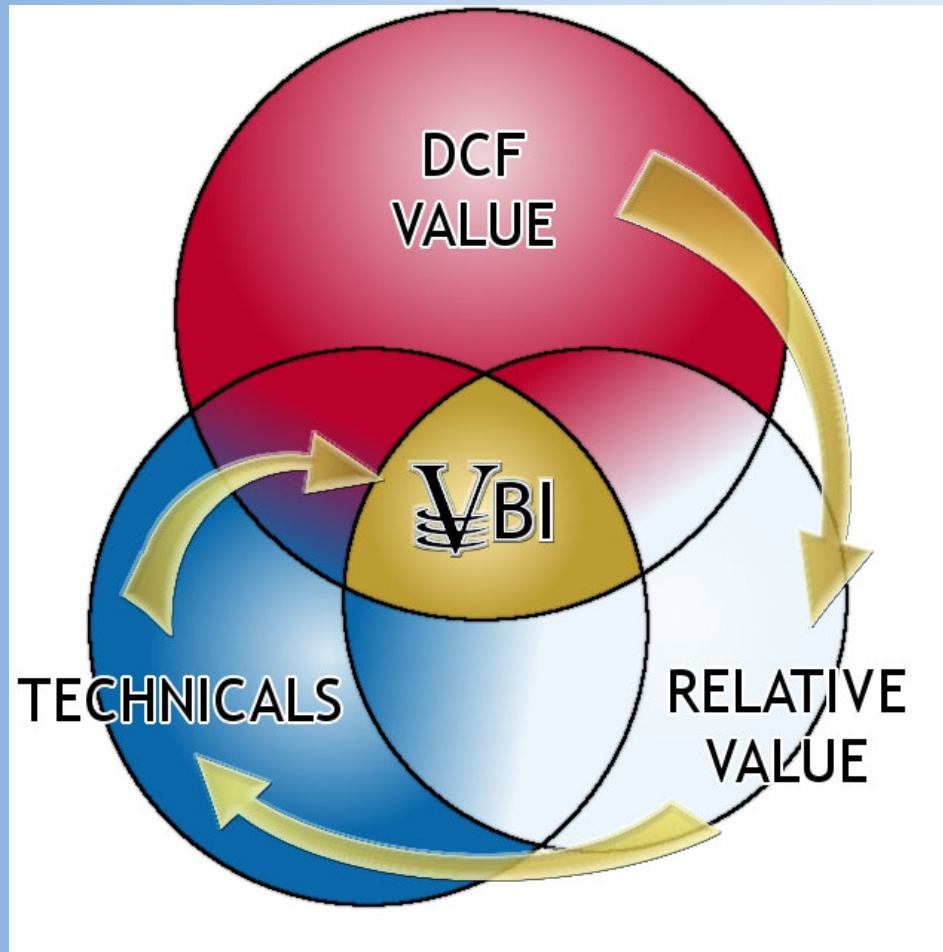
Question: What Makes an Ideal Dividend Growth Stock?

- A) The company has a sufficient dividend yield, not one that implies risk to the payout (i.e. financially-engineered), but one that is supported organically.
- B) A strong company with solid fundamentals (an attractive Economic Castle rating – it generates outsize economic profits).
- C) The share price is going up (i.e. the market has conviction in the idea).
- D) The company covers its dividend payment with copious amounts of free cash flow, as measured by cash flow from operations (CFO) less *all* capital spending.
- E) It has a large amount of *net* cash on the balance sheet that can be used as reserves in case it encounters trouble.

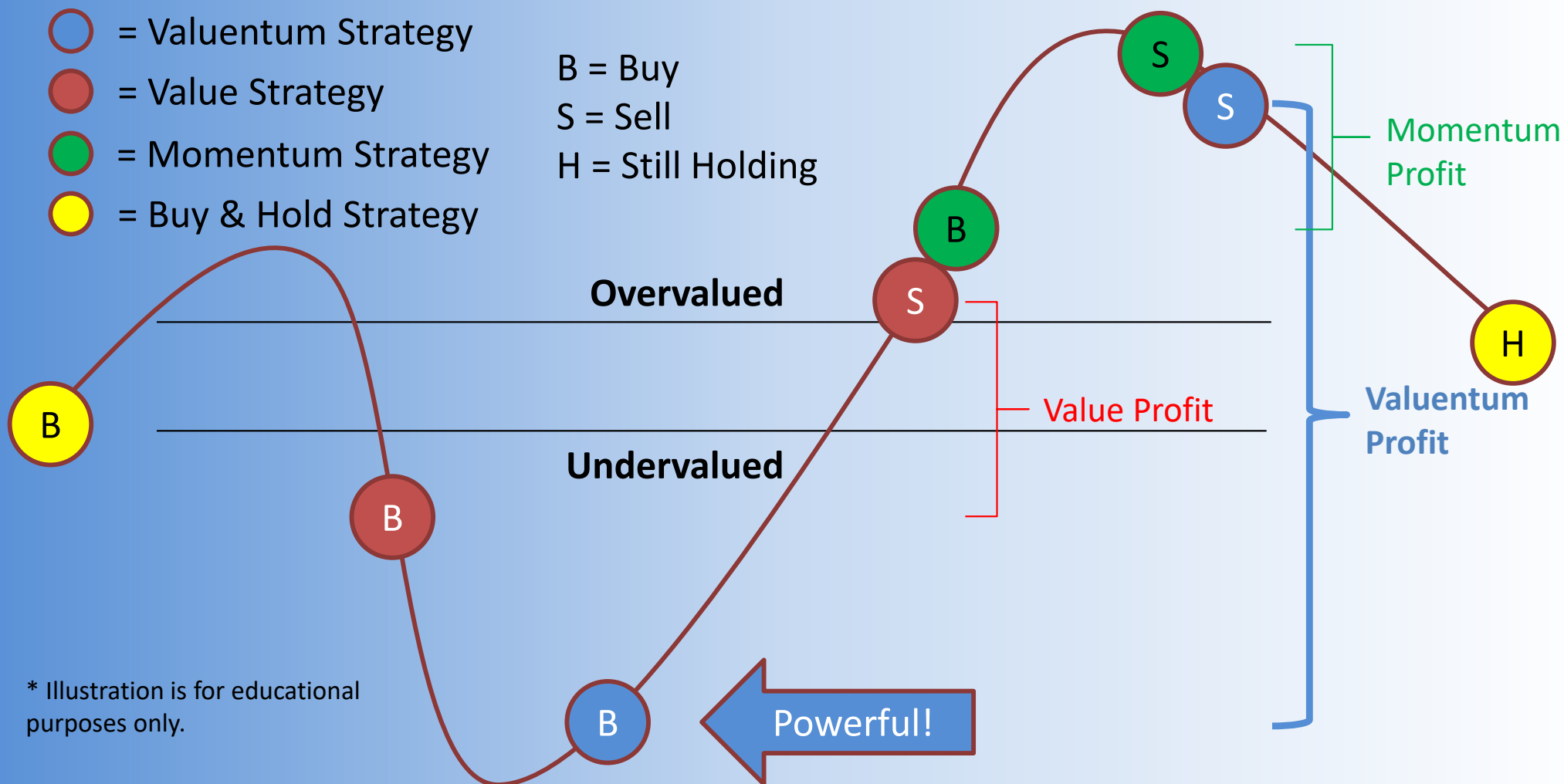
Wait... There's more!

- F) The company is undervalued on the basis of a discounted cash flow process (and a relative valuation process, too!).
- G) The firm's management has a strong willingness to keep paying an increasing dividend, as measured by its dividend track record.
- H) The idea has a solid Dividend Cushion ratio (a measure of the safety and growth potential of the dividend).
- I) Only some of the above... which ones?
- J) All of the above (A through H).

Valuentum's Analytical Process...

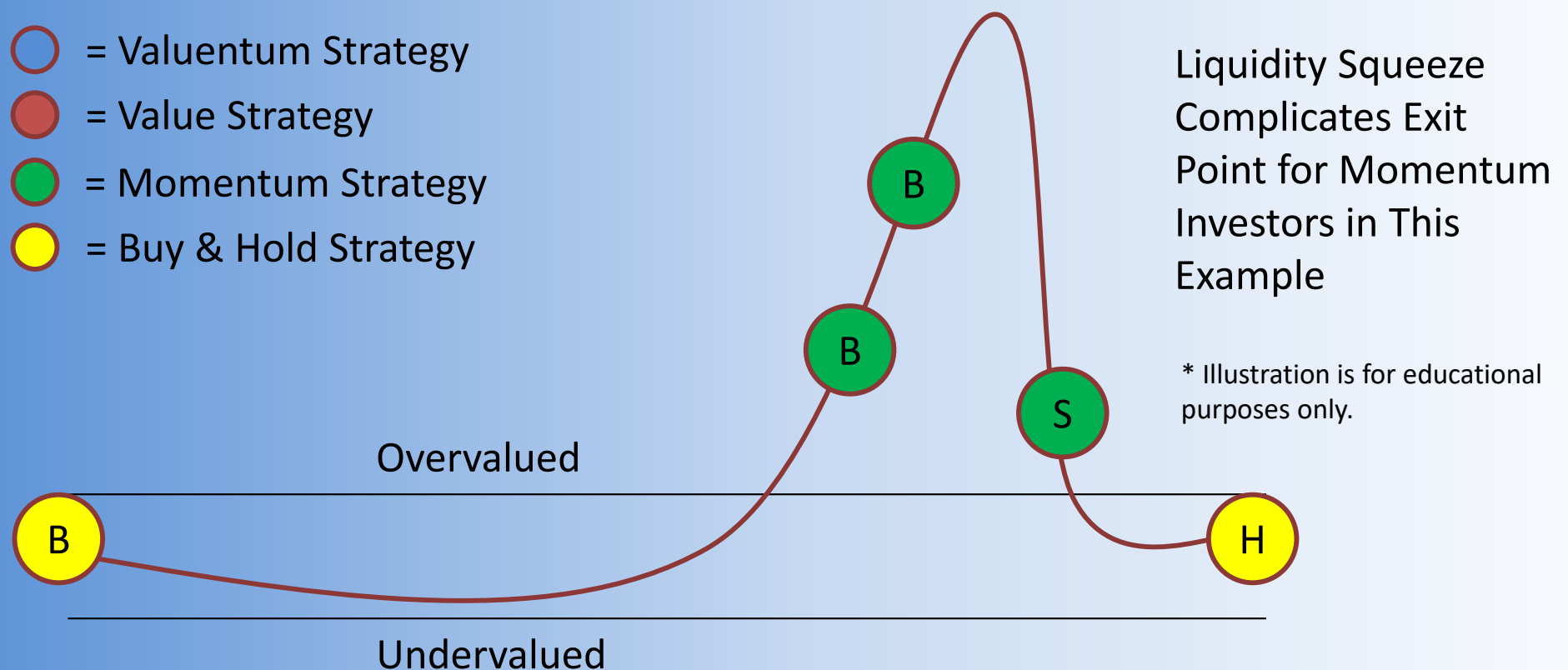


The Valuentum Strategy Has the Greatest Profit Potential*



The Valuentum Strategy Helps Avoid Overpriced Extremes – We Don't Get Involved!*

- = Valuentum Strategy
- = Value Strategy
- = Momentum Strategy
- = Buy & Hold Strategy



We're *not* momentum investors. We're Valuentum investors.

B = Buy
S = Sell
H = Still Holding

The Valuentum Strategy Helps Avoid Value Traps – We Don't Get Involved!*

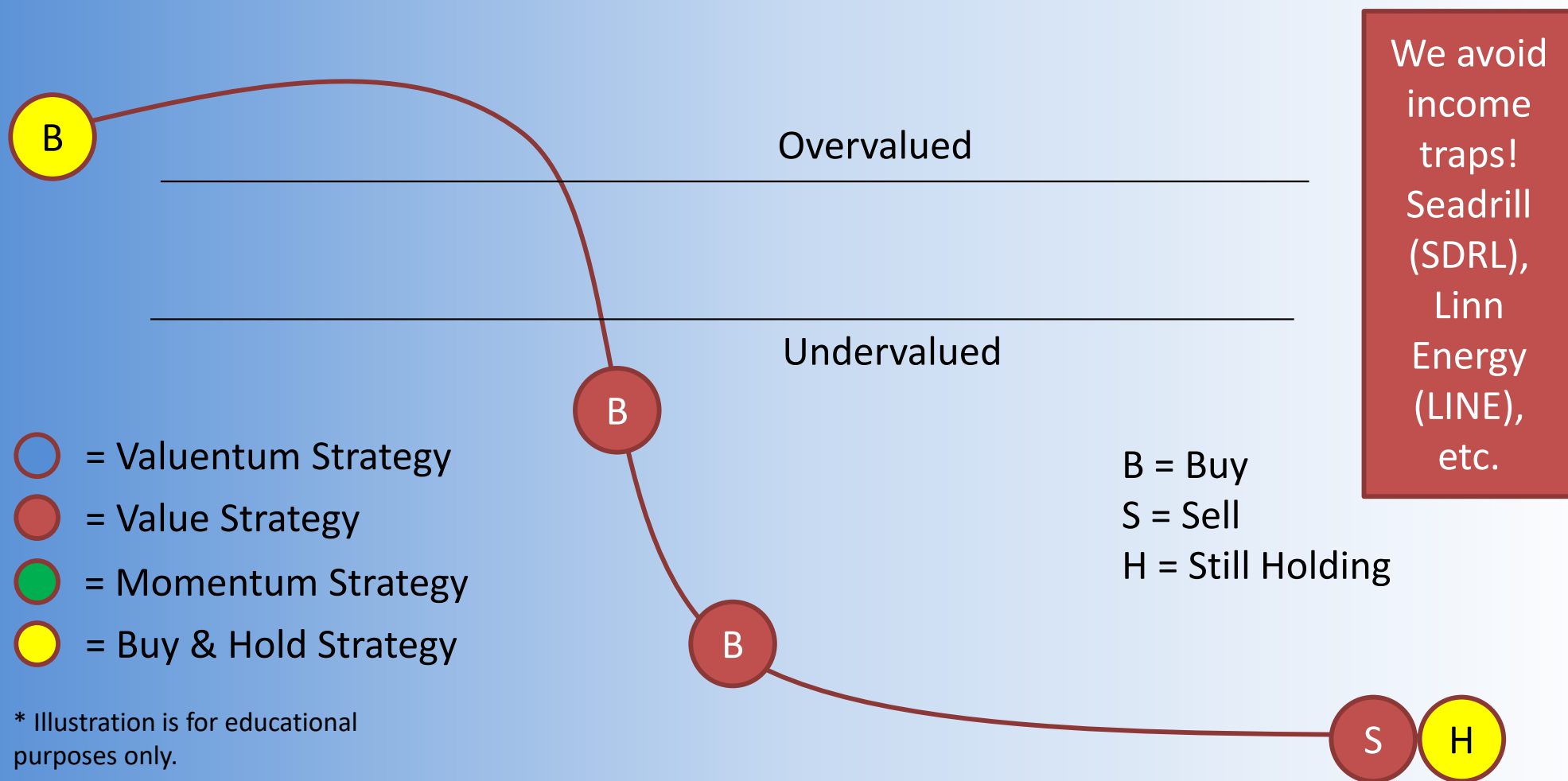
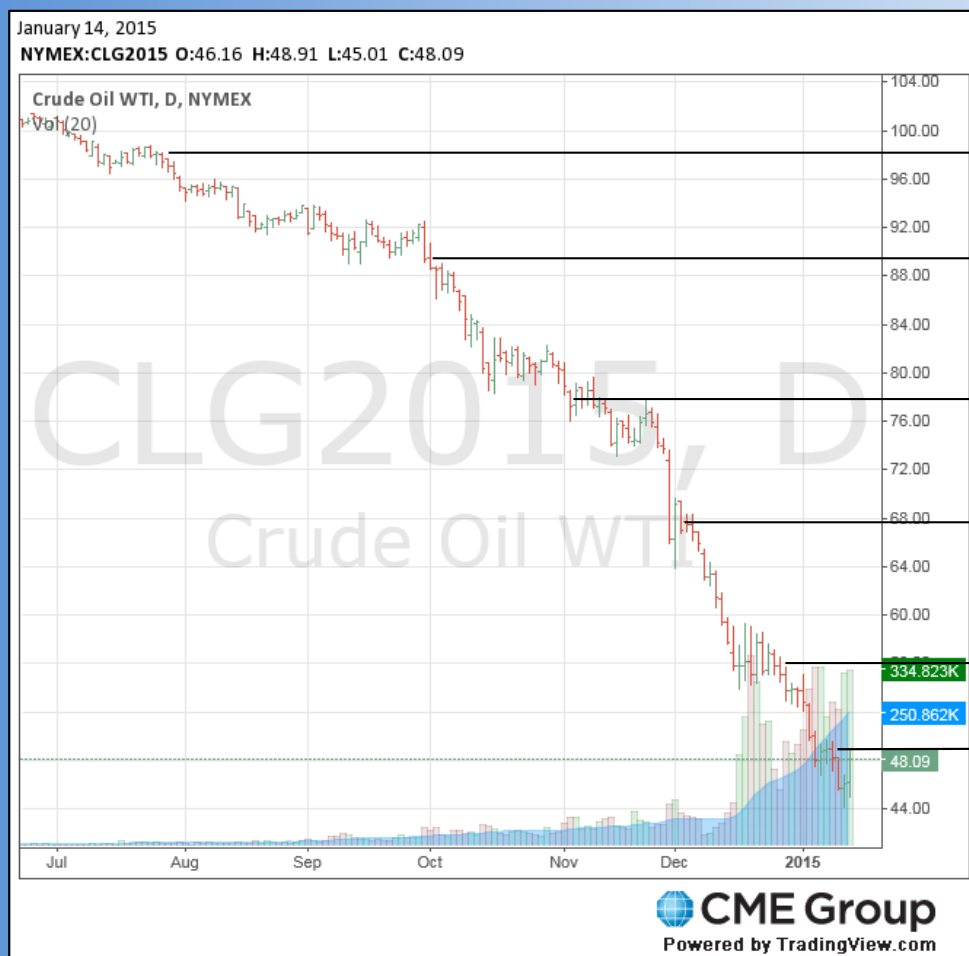


Illustration in Oil Equities (2014)

We avoid
falling
knives!



Value Investor: Energy stocks are cheap!

Your Broker: Energy stocks are really cheap!

Deep Value Guys: Oil stocks are dirt cheap!

Your Broker Again: An unbelievable deal!

Value Investors: Now I'm insolvent!!!

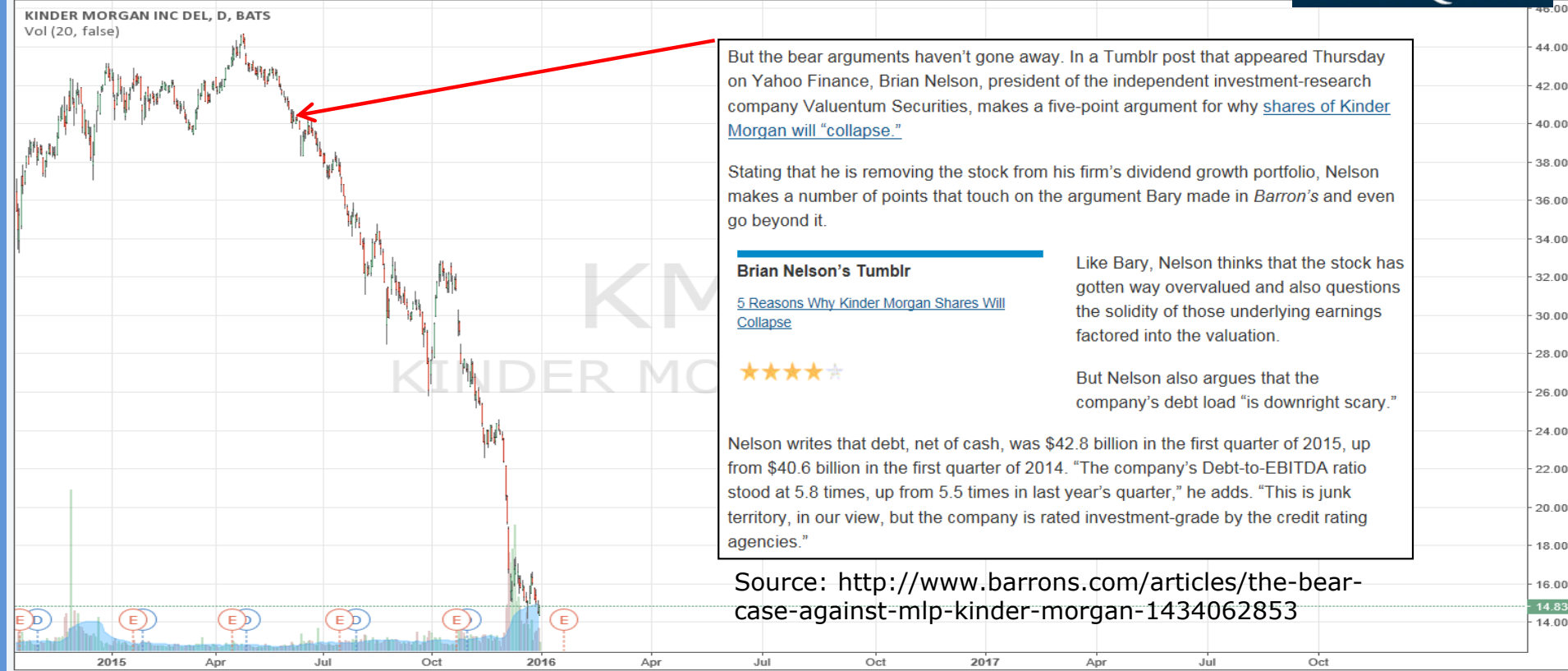
Valuentum: We're going to let the market tell us when the bottom is in. Valuentum investors don't fall into value traps, falling knives.

"The Bear Case Against Kinder Morgan" – Barron's, Jun 11 2015

"5 Reasons Why We Think Kinder Morgan's Shares Will Collapse,"
by Valuentum

Published on TradingView.com, December 31, 2015 17:55 UTC
BATS:KMI, D 14.83 ▲ +0.29 (+1.99%) O:14.40 H:14.93 L:14.40 C:14.83

BARRON'S (1)



(1) Barron's is not affiliated with Valuentum. The Barron's logo and name are registered trademarks of Dow Jones & Company.

The Three Pillars of the Valuentum Strategy

1) Discounted Cash Flow Process

- Let's open up a DCF model!

2) Relative Valuation Process

3) Technical/Momentum Assessment

- Let's open up a 16-page valuation report!
- The more favorable the interdependence of these pillars...the higher the Valuentum Buying Index rating.

Note: All of the DCF models and reports are available with a membership to www.valuentum.com.

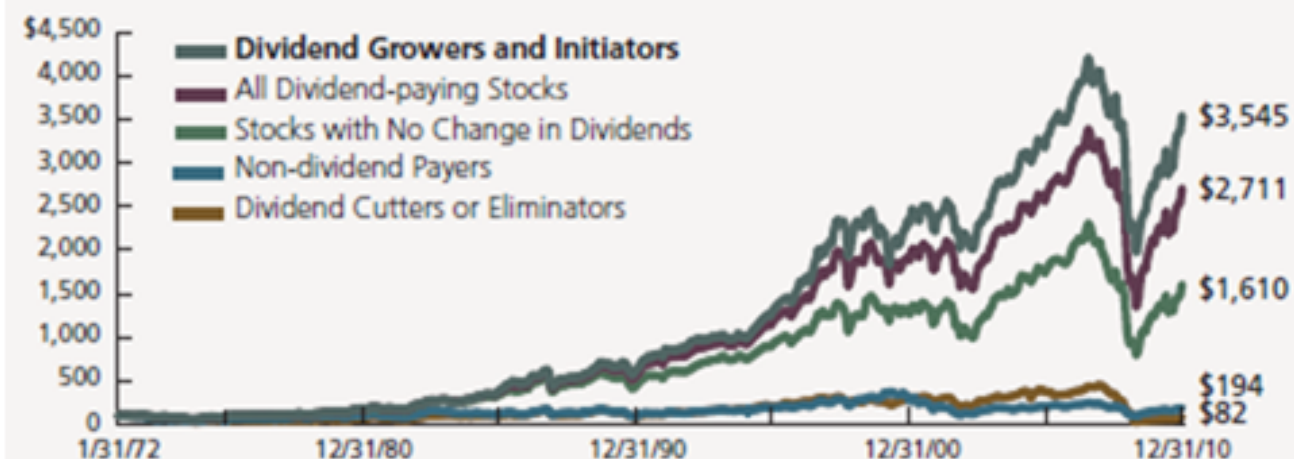
Inquire at
info@valuentum.com
to receive FREE DCF
modeling tool!

Benefits of Dividend Growth Investing

The Outperformance of Dividend Payers Over Time

S&P 500 Index Analysis

\$100 invested in each of five strategies (1/31/72–12/31/10)



Source of the chart data: Ned Davis Research, 12/31/10. Image Source: Capital Markets Perspectives, "Investing for Dividend Growth", Oppenheimer Funds. Based on an equal-weighted geometric average of total return of dividend-paying historical S&P 500 Index stocks, rebalanced annually. The chart uses actual annual dividends to identify dividend-paying stocks and changes on a calendar-year basis. Past performance does not guarantee future results.

Valuentum is working diligently on an independent study to provide further granularity of the long-term benefits of dividend growth investing.

Overlaying the Valuentum Strategy to Pursue Dividend Growth – Key Tenets

- Capital preservation is always paramount.
- The focus on valuation should *not* be sacrificed to “chase” yield. **Not all dividends are created equal!**
- A company’s dividend growth track record is important, but its future dividend growth and safety is more important.
- A comprehensive analysis of its business model, future free cash flows and balance sheet health will uncover the strongest dividend growers.
- The Dividend Cushion ratio offers a more comprehensive measure of the safety of a dividend than the payout ratio.
- Substantial dividend growth over time should provide for an adequate yield on cost in time.
- It’s not about finding the best dividend growers of the past 25 years; **it’s about finding the best dividend growers for the next 25 years...**

Introducing: The Valuentum Dividend Cushion Ratio™

- An objective, cash-flow based fundamental ratio that gauges a company's ability to *continue raising* its dividend long **into the future**.
- Adds five-year forecast of free cash flow (CFO less capital expenditures) to net balance sheet (cash less long-term debt) and divides that sum by five-year forecast of expected cash dividends paid.
- It is pure cash-flow dividend coverage ratio that considers the health of a firm's balance sheet, which is a key funding source for dividend expansion.
- **The bigger the positive number above 1 the better.** Anything less than 0 (a negative number) signals trouble.
- A more comprehensive measure of growth and safety than the payout ratio (dividends per share divided by earnings per share).

The Valuentum Dividend Cushion™ Helps Dividend Growth Investors Avoid Dividend Cuts

- The Valuentum Dividend Cushion measure has predicted the dividend cuts, of SuperValu (SVU), Roundy's (RNDY), Dover Downs (DDE), Strayer (STRA), Exelon (EXC), Cliffs Natural (CLF), Pitney Bowes (PBI), CenturyLink (CTL) and JC Penney (JCP)...and many more...
- Please read the updated analysis of the efficacy of the Dividend Cushion ratio at the following link: <https://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 adjusted to reflect Sunoco's poor 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 as dividend cut.

The Valuentum Dividend Cushion™ Helps Identify Stocks with Long-term Dividend Growth Potential

- The Dividend Cushion ratio highlights stocks with:
 - Substantial *future* free cash flow generation in excess of cash dividends paid
 - Fantastic balance sheets with solid net cash positions (i.e. total cash less total debt is significantly positive)
 - Little financial leverage or debt refinancing risk (emphasis is placed on *true* balance sheet cash-rich entities)

The Dividend Cushion: Some Finance Definitions

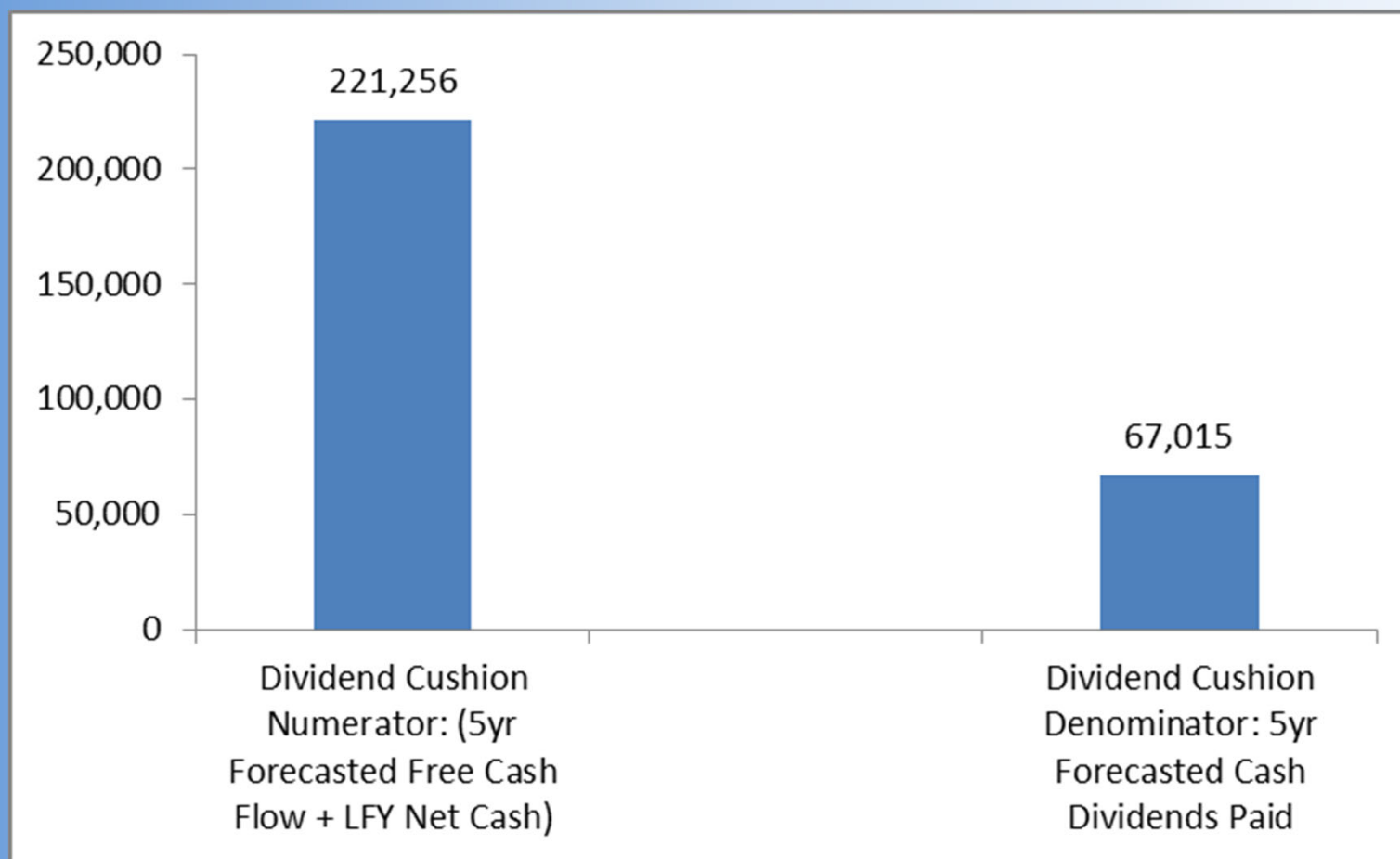
- **Cash flow from operations (CFO)**
 - Found on the cash flow statement
 - A good measure of cash earnings
 - Takes into consideration changes in working capital (inventory, accounts receivable, accounts payable)
- **Capital expenditures (capex)**
 - Found on the cash flow statement
 - Growth and maintenance spending necessary to continue growing cash from operations
- **Traditional free cash flow (FCF)**
 - Derived by analyst
 - Cash from operations less capital expenditures
- **Long-term debt**
 - Found on the balance sheet
 - Debt due after one-year
- **Total cash and cash equivalents**
 - Found on the balance sheet
 - Cash that can generally be used for dividends, share repurchases, and/or acquisitions
- **Cash dividends paid**
 - Found on the cash flow statement
 - The actual cash going out the door in the form of cash dividend payments

Microsoft: By the Numbers (FYE June 2014)

Cumulative 5-year Forecasted Cash from Operations	190,536
Culumatic 5-year Forecasted Capital Expenditures	-34,344
Cumulative 5-year Forecasted Free Cash Flow (CFO - capex)	156,192
Total Cash - Last Fiscal Year	85,709
Total Long-term Debt - Last Fiscal Year	20,645
Net Cash (total cash less total long-term debt)	65,064
Cumulative 5-year Forecasted Dividends Paid (from CF statement)	67,015
Valuentum Dividend Cushion Score (greater than 1.25 = good)	3.30

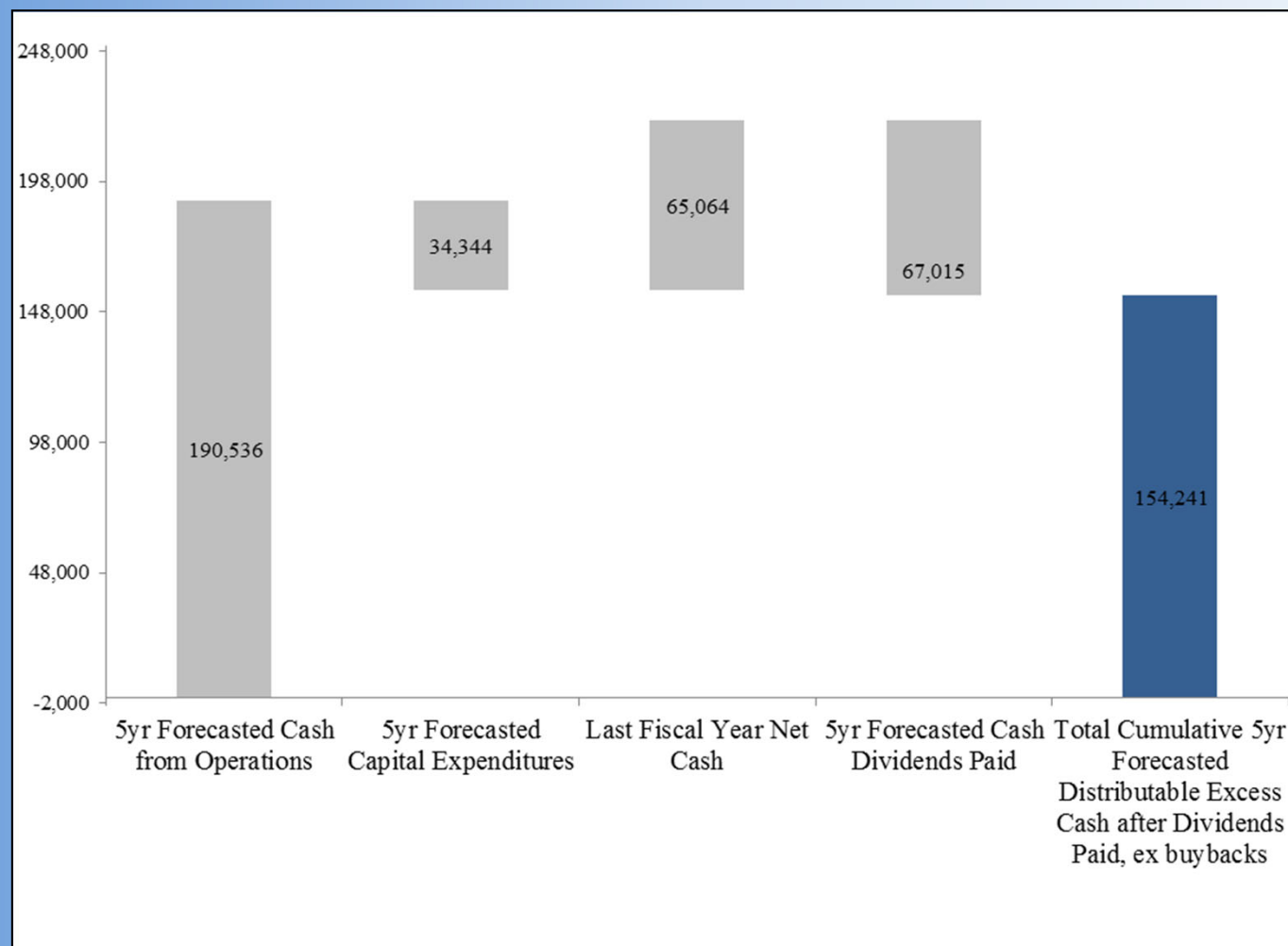
In USD millions

Microsoft: Dividend Cushion Derived



In USD millions

Microsoft Dividend Cushion Cash-Flow Bridge



In USD millions

What Does This Mean for Microsoft?

- Valuentum Dividend Cushion™ Ratio: **3+** (FYE June 2014)
- Translation: Microsoft could cover its *growing* dividend with expected free cash flow and its net cash position **more than 3 times** over the measurement period!
- Conclusion: The company has fantastic dividend growth prospects on the basis of its free-cash-flow profile and net balance sheet.

Follow Up: What Do You Think Microsoft Has Done Since Then?

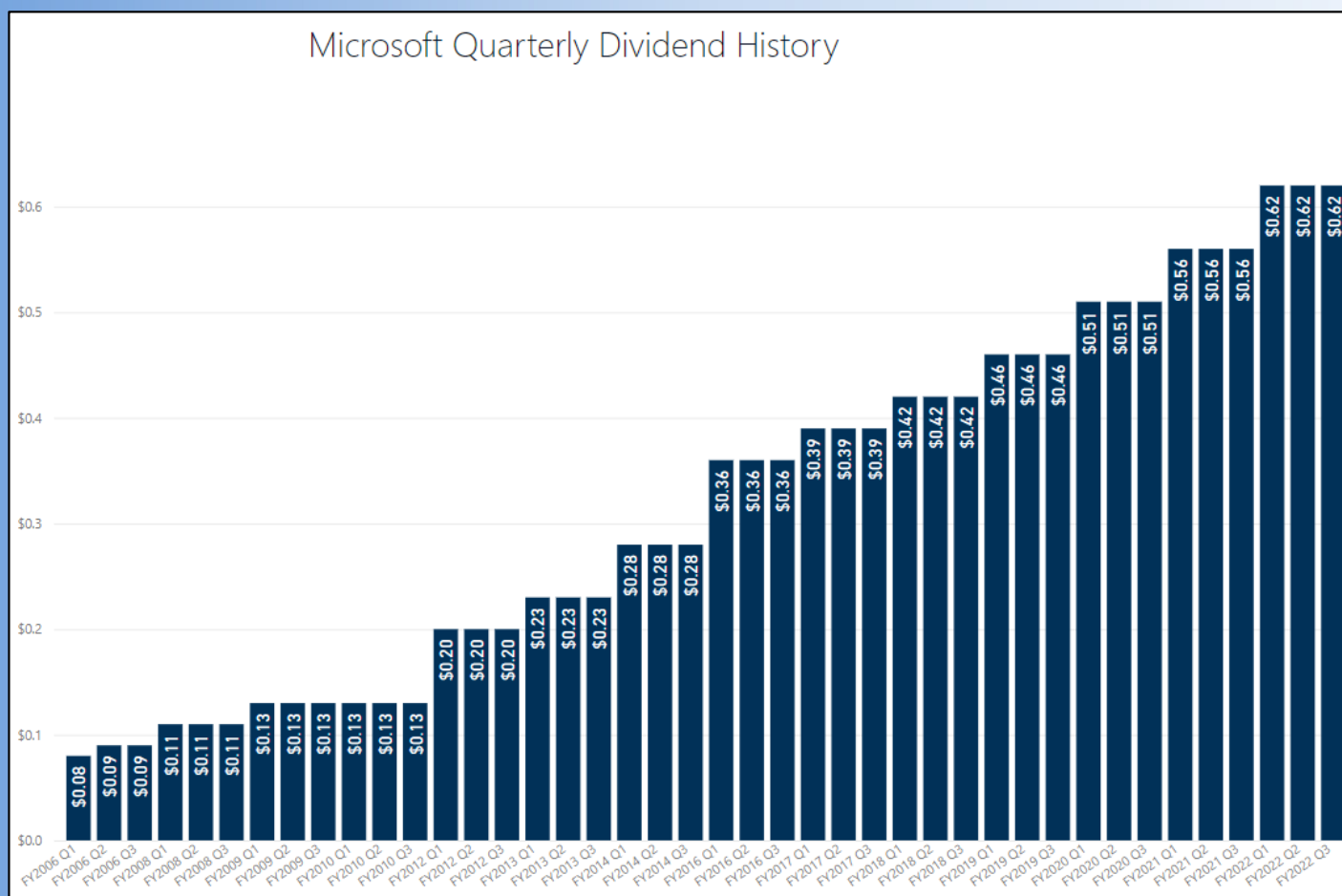


Image Source: Microsoft

Could Microsoft Continue to Grow Its Payout for the Foreseeable Future?

- Updated Dividend Cushion Ratio **~4.8**.
- Question: Could Microsoft still double its dividend and still have room to grow the payout? Yes.
- These are the types of solid, secure dividend growth ideas we seek to deliver to members in the simulated Dividend Growth Newsletter portfolio.

Important Risks for Dividend Growth Investors

- Beware of financially-engineered dividends as in the case of MLPs and some REITs.
- Too many definitions of cash flow – focus on traditional free cash flow (cash flow from operations less *all* capital spending)
- If the dividend yield is too good to be true, it probably is... (8%+ = danger!). Use common sense.
- Rising interest rates could complicate the strategy. Higher rates could cause permanent capital impairment in income-oriented equity holdings, especially ones with financially-engineered payouts.
- Don't fall in love with the past – the future is all that matters. A dividend track record is history.
- Geopolitical uncertainty and the current state of the global economy.

What We Learned

- Dividend growth investing has both advantages and unique risks.
- Adding criteria related to value and momentum can augment the core dividend growth process.
 - A focus on valuation helps limit exposure to overpriced ideas.
 - A focus on momentum helps build conviction in underpriced ideas.
- A value-focused, momentum-based dividend growth process is a tool for your kit.
- The Dividend Cushion ratio may be your best friend.

Please Stay In Touch With Valuentum...

You can access all of the Dividend Cushion ratios, the monthly **Dividend Growth Newsletter**, the monthly Best Ideas Newsletter and more for just \$29.99/month.

Valuentum Securities

Stock Analysis: From Value through Momentum Investing

OUR DIVIDEND GROWTH NEWSLETTER

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Valuentum Securities
www.valuentum.com
info@valuentum.com

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"During the first quarter of 2022, current dollar U.S. GDP soared 6.5%, though the inflation-adjusted measure left something to be desired. Measures of inflation remain elevated, but when it comes to fundamental analysis, inflation often translates into *pricing power and higher nominal earnings*. Consumer spending and business investment posted solid growth last quarter, too. We remain bullish on the US economy."

- The Valuentum Team

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

Microsoft Soars, Strong Revenue Growth Continues Unabated

FY22 Q3 Financial Summary

	GDP Results		Non-GDP Results	
	FY22 Q3	Growth	FY22 Q3	Q3 2021
Revenue	\$11.0	17%	\$10.0	17%
Operating Income	\$3.1	20%	\$2.9	20%
Net Income	\$2.4	17%	\$2.4	17%
Operating Margin	28.2%	18%	29.0%	29.0%
Net Income Margin	21.8%	18%	24.0%	24.0%
Operating Income per Share	\$0.84	18%	\$0.84	18%
Net Income per Share	\$0.67	17%	\$0.67	17%

Image Source: Microsoft Corporation - Power Point Earnings Presentation Covering the Third Quarter of Fiscal 2022


Image Shown: Microsoft Corporation put up a solid fiscal third quarter earnings report and we continue to be big fans of the name. **Image Source:** Microsoft Corporation - Power Point Earnings Presentation Covering the Third Quarter of Fiscal 2022

By Callum Turcan


On April 26, Microsoft Corporation (MSFT) reported third quarter earnings for fiscal 2022 (period ended March 31, 2022) that beat both consensus top- and bottom-line estimates. Shares of MSFT jumped higher in the wake of its latest earnings update as investors cheered on the good news and its promising near term outlook. **Microsoft's cloud-oriented products and services were a bright spot in the fiscal third quarter and underpinned its impressive pricing power.** The firm was able to stay ahead of inflationary pressures and maintain its strong margins while growing its revenues.

Our fair value estimate for Microsoft sits at \$332 per share, well above where Microsoft is trading at as of this writing, indicating that the company has substantial capital appreciation upside.


Please see *Microsoft Soars, Strong Revenue...* on next page



Brian M. Nelson, CFA
President, Equity Research
brian@valuentum.com



Christopher Arnes
Associate Stock and Dividend Analyst
info@valuentum.com



Callum Turcan
Associate Investment Analyst, Co-Editor of Valuentum's Newsletters
info@valuentum.com

Competitive Advantages of Valuentum's Approach

- Independent research
- Integrity and systematic application of analytical process
- Comprehensive equity research provider – from value through momentum investing
- Depth of coverage
- Strong analytical track record
- Valuation expertise



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