OUR DIVIDEND GROWTH NEWSLETTER

Valuentum Securities

Stock Analysis: From Value through Momentum Investing

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"Firm-specific fundamentals will come to matter more and more through the course of 2023 than "Fed speak," in our view, and we continue to like stocks for the long run."

– Brian Nelson, CFA

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

Fed Raises 25 Basis Points; Inflation Has Likely Peaked in June 2022 for This Part of the Economic Cycle

By Brian Nelson, CFA

As expected, the Federal Reserve on February 1 raised its benchmark rate 25 basis points to the range of 4.5%-4.75%, a slowdown from the 50 basis-point hike in its last meeting and the four consecutive 75 basis-point hikes that came prior. Though we expect the Fed to continue to raise rates in quarter-point increments for some time, we believe that the pace of inflation likely peaked in June 2022 for this part of the economic cycle, and the Fed seems to have acknowledged as much.

Though prices at the pump and some food costs (e.g. eggs, chicken, cereal, etc.) remain elevated, pricing gains in other areas of the economy have eased, and the negative wealth effect that we anticipated to impact the stock market and broader economic conditions continues to worth itself through the system. Collapsing cryptocurrency prices, declining prices for stocks and bonds coupled with a housing slowdown were key themes during 2022 that will continue to have a residual impact on various areas of the economy in 2023.

However, the conversation can probably start moving away from the pace of inflation and "macro" and now more to earnings, and while fourth-quarter 2022 earnings season has been coming in better-than-feared, the results still haven't been great. We witnessed huge misses from Goldman Sachs (GS) and Intel (INTC), and while these entities aren't indicative of all of banking or semiconductors, we're not dismissing them altogether.

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

The simulated Dividend Growth Newsletter portfolio can be found on page 5 of each monthly Dividend Growth Newsletter.

Please see *Fed Raises...*on next page

***Fed Raises...*from previous page**

The blended earnings decline for the fourth quarter of 2022 for S&P 500 companies is estimated at 5%, according to FactSet (as of January 27, 2023), and even some companies that reported decent calendar fourth-quarter reports didn't put up great numbers, per se. For example, Microsoft's calendar fourth-quarter revenue growth was a meager 1.9%, and free cash flow generation has faced pressure for a large number of companies across the board as a variety of factors weigh on the measure.

The blended year-over-year revenue growth rate for the fourth quarter of 2022 for S&P 500 companies, as estimated by FactSet, is just 3.9%. Some of the guidance by companies hasn't been that rosy, and Intel's guidance was particularly shocking. Intel's target to generate $10.5-$11.5 billion in revenue during the first quarter of 2023 implies a massive 40% year-over-year decline. Meta Platforms' (META) revenue dropped 4.5% during the fourth quarter of 2022, and the excitement behind its bounce back has more to do with a slowdown in spending and buybacks than anything else.

Image: *The market-cap weighted S&P 500 (SPY) has broken through its technical downtrend.*

The S&P 500 (SPY) is up **~90%** since it bottomed in March 2020, and up **more than 20%** since its pre-pandemic highs, as of the close of February 1, 2023, and given that 1) inflation has likely peaked for this part of the cycle, 2) fourth-quarter 2022 earnings season is coming in better-than-feared, and 3) the market-cap weighted S&P 500 is breaking out of its technical downtrend (the equal-weight S&P 500 also broke out previously), it's hard not to be "fully invested" in one's elected equity allocation at the moment--and the Dividend Growth Newsletter portfolio (found on page 5) is as much.

We had been cautious heading into 2023, expecting a re-test of the technical downtrend to as low as 3,400, but we retained "full exposure" to equities in the newsletter portfolio in the event that a series of events such as that which we are currently witnessing may unfold. The job market remains strong (even though layoffs are emerging beyond the tech sector), and fourth-quarter 2022 numbers still aren't great, but stock investors have reason to be optimistic. Firm-specific fundamentals will come to matter more and more through the course of 2023 than "Fed speak," in our view, and **we continue to like stocks for the long run.**

J&J Reports Messy Q4, Free Cash Flow Remains Robust But Looming Kenvue Split Adds Uncertainty

This article was previously emailed to members January 26, 2023.

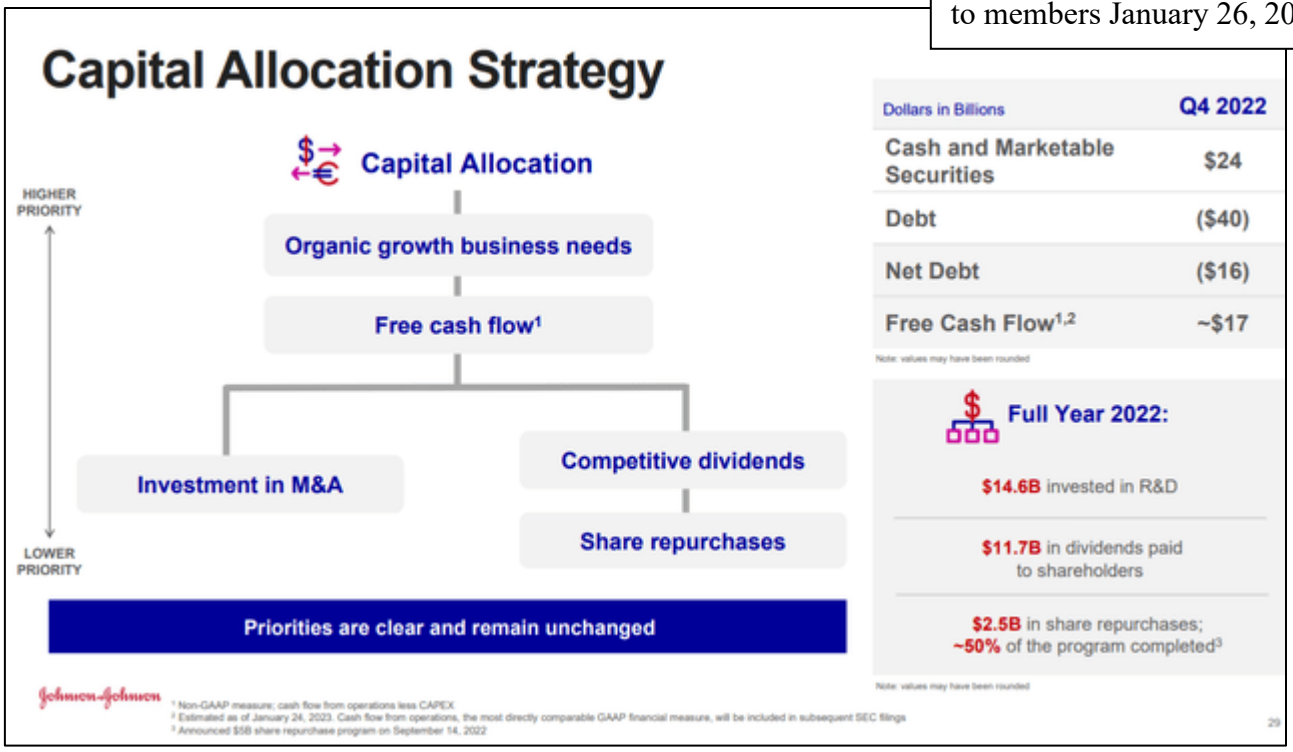

Image: *Johnson & Johnson's free cash flow generation remains far in excess of its cash dividends paid.* ***Image Source:*** *J&J*

By Brian Nelson, CFA

Johnson & Johnson (JNJ) reported messy fourth-quarter 2022 results January 24 with GAAP revenue falling 4.4% and reported earnings per share dropping 24.9%. On an adjusted basis, operational growth excluding COVID-19 vaccine sales advanced 4.6%, while adjusted earnings per share advanced 10.3%, to $2.35 per share. The top line missed the consensus estimate modestly, while adjusted earnings per share came in slightly better than expected. Looking ahead to 2023, J&J expects adjusted operational sales growth, excluding COVID-19 vaccine, of 3.5%-4.5%, and adjusted operational earnings per share of $10.40-$10.60, which reflects 3.5% expansion at the midpoint. We value shares of J&J at $183 each.

Johnson & Johnson's non-GAAP adjustments make things quite messy relative to GAAP presentation. For example, on a reported basis, worldwide sales advanced 1.3% during 2022, but on an adjusted operational basis, worldwide sales advanced 6.2%. On a GAAP basis, diluted earnings per share came in at $6.73 per share for 2022 versus the adjusted earnings per share number of $10.15. These are rather large discrepancies for a company as widely-held as J&J. For this, we've grown incrementally more cautious on the company, meaning that we're paying very close attention to its cash flow generation these days.

Please see *J&J Reports...*on next page

***J&J Reports...*from previous page**

According to J&J's slide deck (relevant slide above), management indicated that it hauled in ~$17 billion in free cash flow for the fourth quarter (but this is likely a full year number, as it hauled in only $15.8 billion in cash flow from operations for the first three quarters of the year). The ~$17 billion mark, if for the full year 2022, was still in excess of the company's reported cash dividends paid during the full year, but the presentation wasn't great, and again, it has us a bit cautious on shares. J&J said it ended the fourth quarter with net debt position of ~$16 billion. The company remains a fantastic credit.

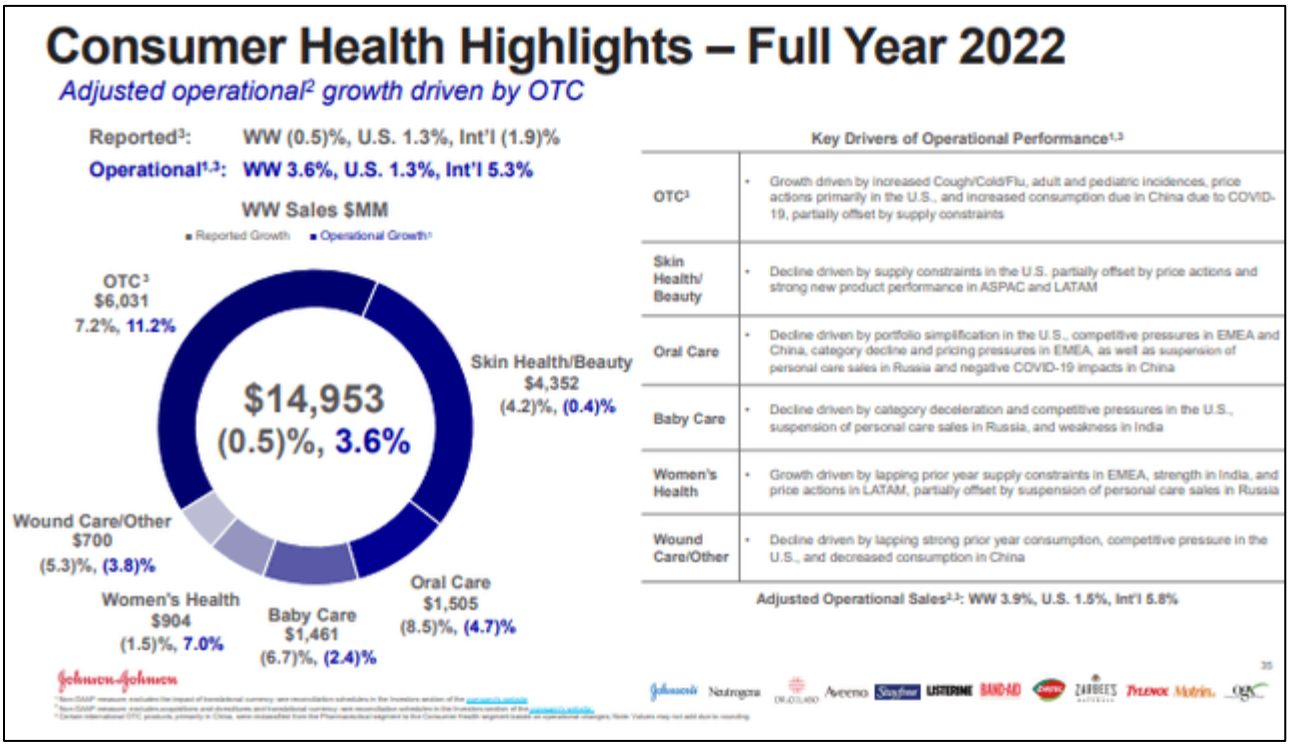

***Image Source**: J&J will be splitting into two publicly traded companies, spinning off its Consumer Health business in late 2023. **Image**: J&J*

We're not exactly excited about J&J as much as we once were, in light of the difference between GAAP and non-GAAP reporting and that free cash flow presentation seems to be a bit incorrect (we're awaiting the firm's 2022 10-K for clarity on the matter). Johnson & Johnson also expects to spin off its Consumer Health division during 2023, which adds another degree of complexity to the analysis. Its soon-to-be standalone Consumer Health division will be named Kenvue (KVUE) and will include brands such as Motrin, Tylenol, Imodium, Neutrogena, and Sudafed. Expectations are for the spin off to be complete by November 2023, but we're not sure that J&J will remain in the Dividend Growth Newsletter portfolio for that long.

Please see *J&J Reports...*on page 6

The Dividend Growth Newsletter Portfolio

By Valuentum Analysts

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

DIVIDEND GROWTH IDEAS -- as of February 1, 2023

Company Name	Yrly Div's Paid ($) / Shr	Dividend Yield %	Fair Value Estimate	Dividend Cushion Ratio	VBI Rating	Price/FV	Last Close	% of Portfolio
Johnson & Johnson (JNJ)	4.52	2.74%	$183.00	2.13	6	0.90	164.92	8.0%-12.0%
S&P Dividend ETF SPDR (SDY)	3.23	2.47%	-	-	-	-	130.67	8.0%-12.0%
Cisco (CSCO)	1.52	3.13%	$51.00	2.72	6	0.95	48.57	5.0%-7.0%
Energy Select Sector SPDR ETF (XLE)	3.16	3.58%	-	-	-	-	88.16	5.0%-7.0%
Exxon Mobil (XOM)	3.64	3.17%	$107.00	2.09	3	1.07	114.74	5.0%-7.0%
Health Care Sector SPDR ETF (XLV)	2.00	1.49%	-	-	-	-	133.99	5.0%-7.0%
iShares Int'l Select Dividend (IDV)	2.01	6.84%	-	-	-	-	29.39	5.0%-7.0%
Lockheed Martin (LMT)	12.00	2.60%	$412.00	1.42	6	1.12	462.25	5.0%-7.0%
Microsoft (MSFT)	2.72	1.08%	$262.00	3.72	3	0.96	252.75	5.0%-7.0%
Oracle (ORCL)	1.28	1.42%	$86.00	1.10	5	1.05	90.05	5.0%-7.0%
Apple (AAPL)	0.92	0.63%	$140.00	7.35	3	1.04	145.43	3.0%-4.0%
Chevron (CVX)	6.04	3.52%	$205.00	2.27	6	0.84	171.36	3.0%-4.0%
Newmont Mining (NEM)	2.20	4.06%	$54.00	1.35	6	1.00	54.19	3.0%-4.0%
Realty Income (O)	2.98	4.39%	$62.00	1.92	7	1.10	67.90	3.0%-4.0%
Republic Services (RSG)	1.98	1.59%	$132.00	2.23	3	0.95	124.79	3.0%-4.0%
McDonald's Corp (MCD)	6.08	2.28%	$250.00	0.54	3	1.07	266.27	1.0%-2.0%
Home Depot (HD)	7.60	2.32%	$313.00	1.45	6	1.05	328.09	1.0%-2.0%
Honeywell Intl (HON)	4.12	1.99%	$210.00	2.14	6	0.98	206.72	1.0%-2.0%
UnitedHealth Group (UNH)	6.60	1.33%	$494.00	3.52	3	1.01	497.00	1.0%-2.0%
Dick's Sporting Goods (DKS)	1.95	1.45%	$163.00	4.37	6	0.83	134.52	1.0%-2.0%

UR = Under Review

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

This portfolio is not a real money portfolio. Data as of February 1, 2023

Goal:

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

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

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

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

J&J Reports...from page 4

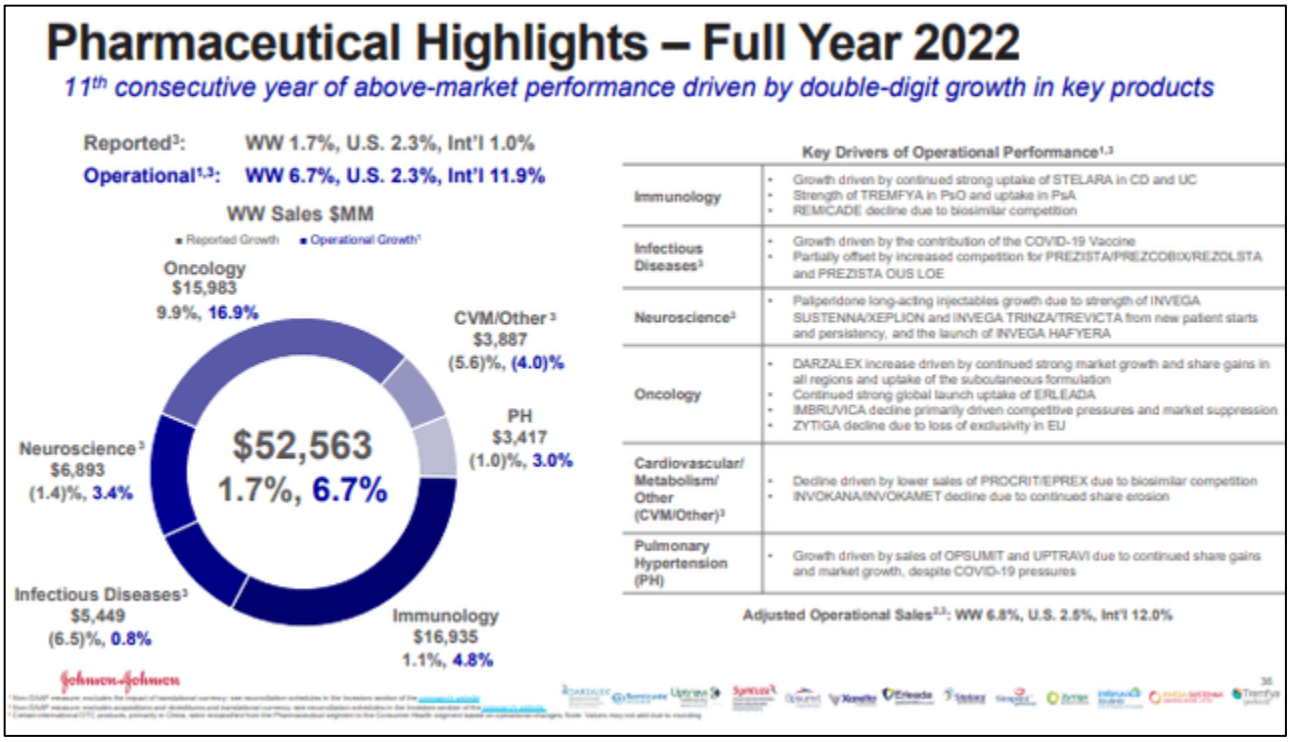

Image Source: *J&J's pharma business continues to deliver.* ***Image:*** *J&J*

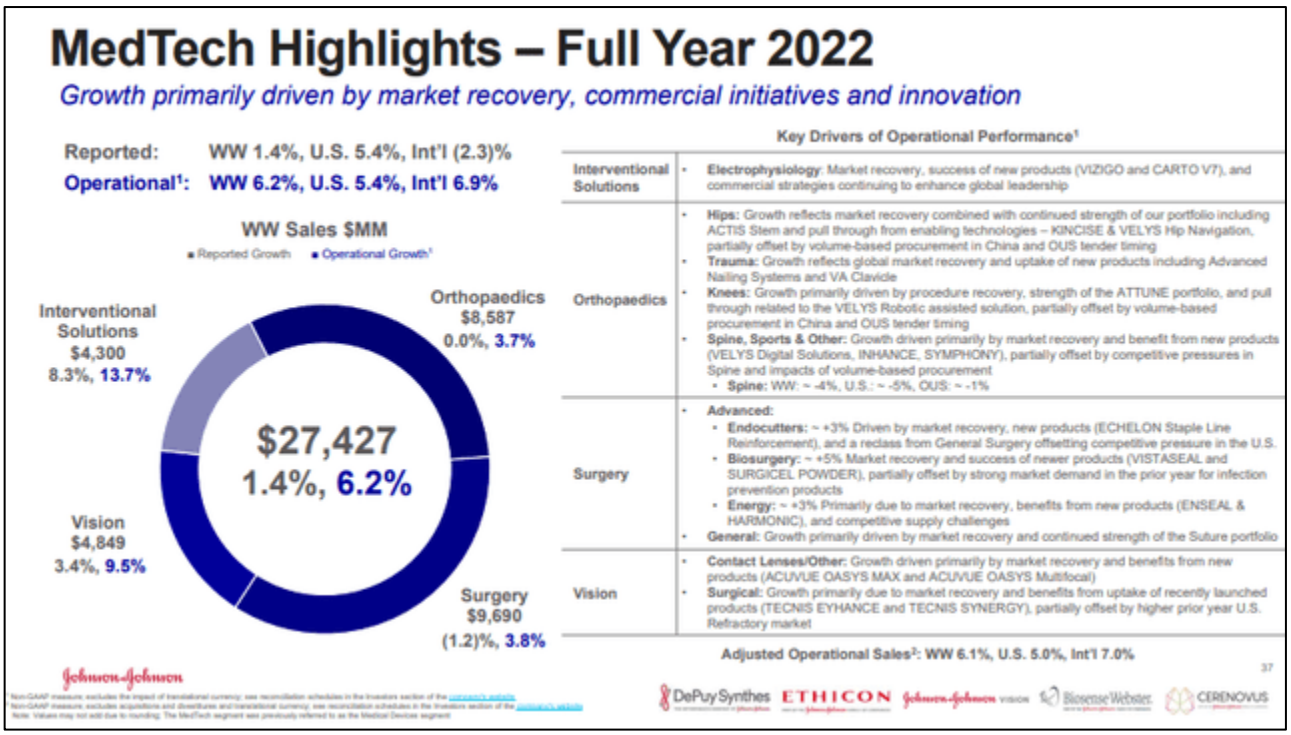

Image Source: *J&J's MedTech operations continue to benefit from a recovery in procedure volumes.* ***Image:*** *J&J*

Please see *J&J Reports*...on next page

*J&J Reports ...*from previous page

Concluding Thoughts

Johnson & Johnson reported messy fourth-quarter 2022 results that showed a large difference between GAAP and non-GAAP reporting. The company's free cash flow presentation wasn't great either, and we can't help but feel management is a bit distracted given that the firm is working to spin off its Consumer Health division (Kenvue) later during 2023.

J&J will retain its two larger divisions, Pharma and MedTech, including its key drugs Stelara, Darzalek, Tremfya, Erleada, and Uptravi, as well as its MedTech operations that have exposure to a number of areas including electrophysiology, wound closure, procedures for knees and hips, as well as surgical vision and trauma.

We continue to like J&J's coverage of the dividend with free cash flow, but **we doubt the company will stay in the Dividend Growth Newsletter portfolio for much longer in light of the messy presentation and impending Kenvue split**, expected in November 2023. We like to keep things simple. Shares yield ~2.7%.

Manpower Group's Massive Free Cash Flow Yield Facing Some Pressures; Shares Have Dividend Yield of ~3%

By Brian Nelson, CFA

Manpower Group (MAN) continues to be a fantastic free cash flow story, and we think shares have upside potential on the basis of our discounted cash-flow-derived fair value estimate of $100 per share. Manpower Group is a global workforce solutions company, and it helps to find employment for millions of job seekers every year. It works with companies in the Fortune 100 as well as small- and medium-sized companies, too.

We're highlighting Manpower Group because it stood out in our data screener as it relates to a non-energy equity with an outsized free cash flow yield. During 2021, for example, Manpower Group generated free cash flow of $580.6 million, which is good for an impressive 12.9% free cash flow yield on the basis of its current market capitalization of ~$4.5 billion. Through the first nine months of 2022, Manpower Group hauled in $233.3 million in free cash flow, which handily covered its cash dividends paid over the same time period of $71.2 million, too.

Though free cash flow has faced pressure this year, on the basis of the firm's historical trends, one should expect free cash flow to be somewhat lumpy through the course of the economic cycle. Shares of Manpower Group have a very attractive dividend yield of ~3%, so such strong free cash flow coverage is quite impressive, even if 2022 hasn't been as strong of a year. The Dividend Cushion ratio for Manpower Group stands at 3.4. At the end of the third quarter of 2022, ManpowerGroup held a manageable net debt position of $368.7 million.

Please see *Manpower Group's Massive...*on next page

*Manpower Group's Massive...*from previous page

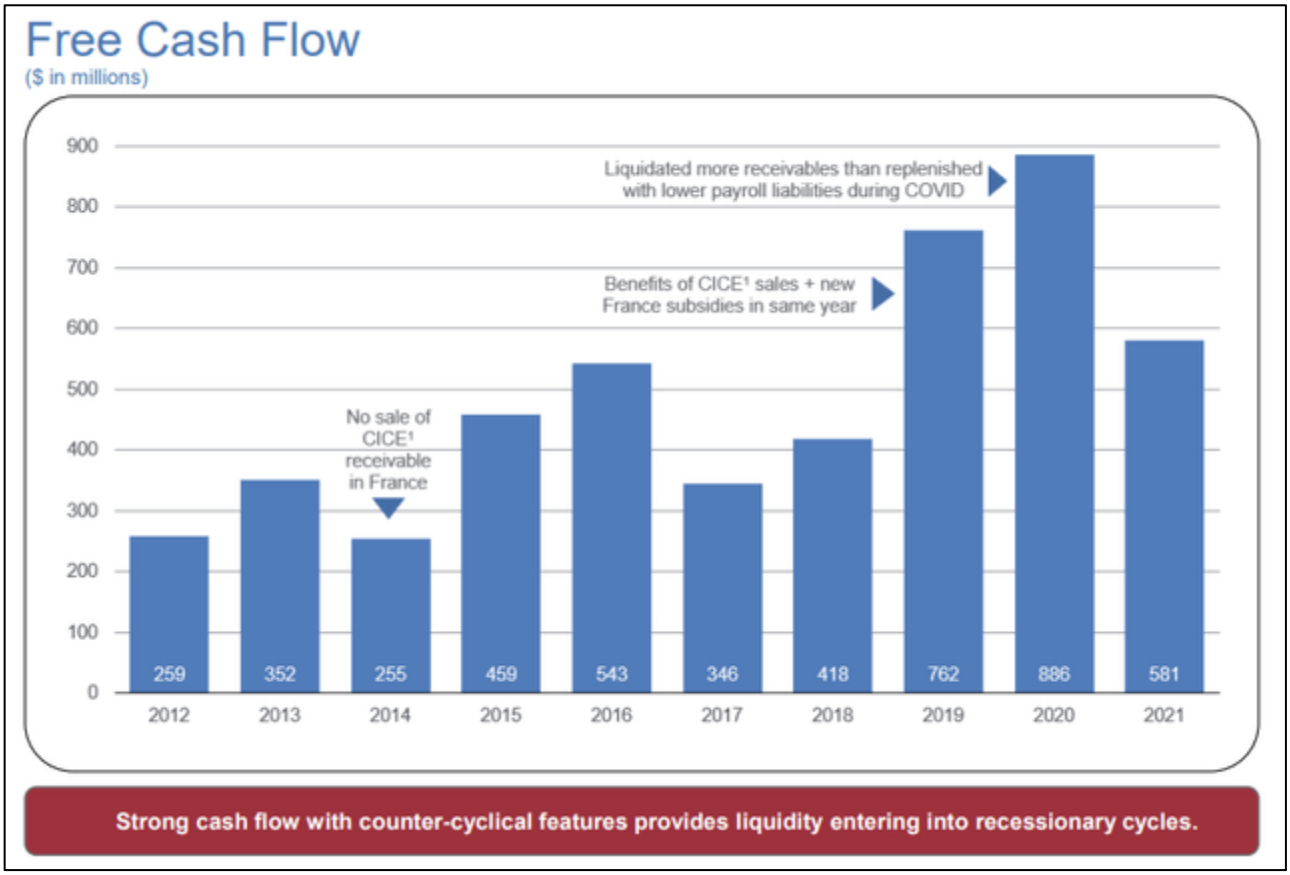

Image: *Manpower Group is a tremendous generator of free cash flow, though performance can be lumpy at times.* ***Image Source:*** *Manpower Group*

Unlike many other entities with elevated free cash flow yields, Manpower Group's outsized free cash flow yield is more of a function of its strong cash-generating abilities than a massive net debt position weighing on shares (its equity value). To arrive at equity value within the discounted cash-flow valuation construct, for example, one must subtract net debt from enterprise value.

What this means is that some entities with outsized free cash flow yields have them largely because their equity values are depressed by their net debt positions (e.g. AT&T). In this regard, the free cash flow yield calculation, which divides free cash flow by market capitalization, can sometimes be misleading (overstated) for companies with leveraged capital structures.

A company's net debt should always be viewed alongside its free cash flow yield to assess whether that free cash flow yield is heavily dependent by the low-quality application of leverage. All else equal, one would prefer a company with a free cash flow yield of 10% and no net debt (or net cash) rather than a company with a free cash flow yield of 10% and a massive net debt position. Be sure to pay close attention to the balance sheet.

Please see *Manpower Group's Massive...*on next page

***Manpower Group's Massive...*from previous page**

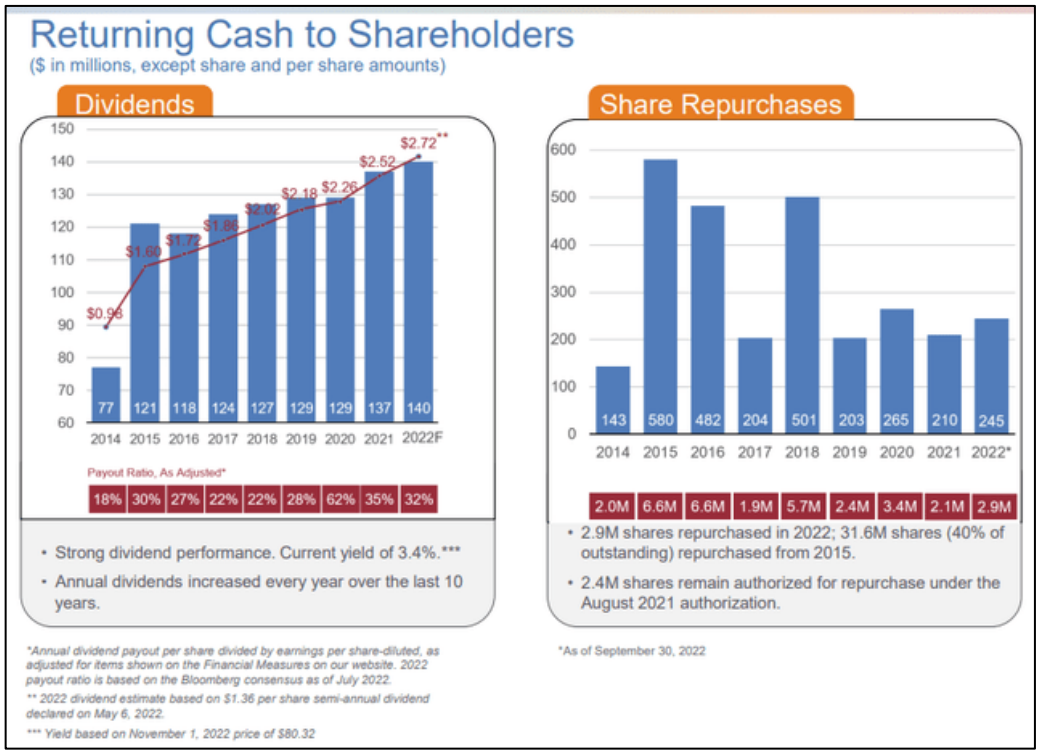

***Image:** ManpowerGroup has a strong dividend that has been raised in each of the past 10 years. The firm's excess free cash flow generation has been used to buy back stock. **Image Source:** ManpowerGroup*

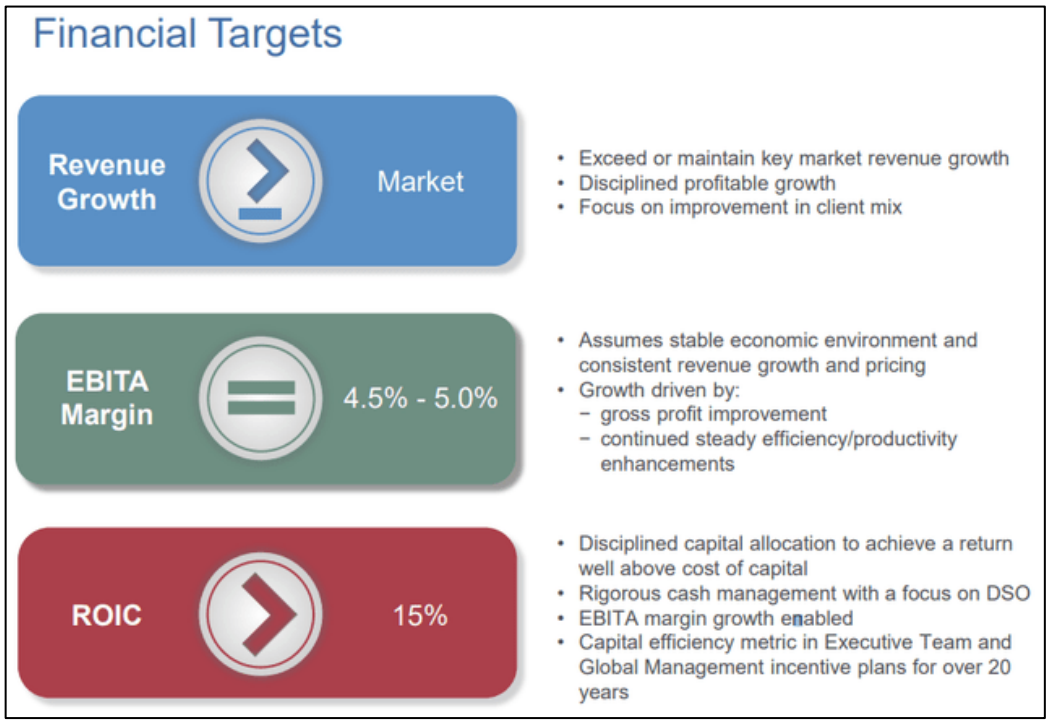

***Image:** Manpower Group has been a strong generator of economic returns thanks in part to its rigorous cash management focus. **Image Source:** ManpowerGroup*

Please see ***Manpower Group's Massive...*on next page**

*Manpower Group's Massive...*from previous page

Concluding Thoughts

Manpower Group has been acquisitive and is facing increased competition of late, but the company's financials, particularly its free cash flow generation, remain quite attractive. The firm continues to buy back stock at a nice clip, too, as it pays its attractive semi-annual dividend of $1.36 per share.

Though its free cash flow yield will face some pressure using pending 2022 results, Manpower Group could be an idea for investors seeking equities with outsized free cash flow yields in this market, in our view. Very few non-energy firms have such a strong normalized free cash flow yield as that of Manpower Group.

Energy Pipelines: What a Difference A Few Years Have Made!

This article was previously emailed to members January 22, 2023.

Distributions of Energy Pipelines Have Strengthened Considerably (First Nine Months of 2022)					
Company (Symbol)	Nine Months Cash from Op's	Nine Months Capex	Nine Months Free Cash Flow	Nine Months Dividends, Distributions Paid	Free Cash Flow Coverage of Dividend
Kinder Morgan (KMI)	3,563.0	1,144.0	2,419.0	1,961.0	**1.23**
Western Midstream Partners (WES)	1,212.2	341.5	870.7	563.9	**1.54**
MPLX LP (MPLX)	3,651.0	535.0	3,116.0	2,277.0	**1.37**
Energy Transfer LP (ET)	7,713.0	2,493.0	5,220.0	3,332.0	**1.57**
Enterprise Products Partners LP (EPD)	5,314.0	1,203.0	4,111.0	3,202.0	**1.28**
Magellan Midstream Partners LP (MMP)	788.8	129.6	659.2	655.3	**1.01**
Plains All American Pipeline LP (PAA)	2,074.0	312.0	1,762.0	763.0	**2.31**
EnLink Midstream LLC (ENLC)	700.2	213.2	487.0	282.8	**1.72**
Cheniere Energy Partners LP (CQP)	2,442.0	356.0	2,086.0	1,877.0	**1.11**
Crestwood Energy Partners LLP (CEQP)	277.3	147.3	130.0	272.7	**0.48**
NuStar Energy LP (NS)	413.8	111.4	302.3	226.8	**1.33**
Delek Logistics Parners LP (DKL)	297.5	76.9	220.6	128.0	**1.72**
Enbridge Inc. (ENB)	7,617.0	3,204.0	4,413.0	5,480.0	**0.81**
Sunoco LP (SUN)	640.0	97.0	543.0	265.0	**2.05**
Green Plains Partners LP (GPP)	31.2	0.4	30.8	31.7	**0.97**
Holly Energy Partners LP (HEP)	238.5	31.2	207.3	133.0	**1.56**

Source: 10-Q Filings, First Nine Months of 2022. In millions, unaudited. Total dividends, distributions paid includes those to both common and preferred, as well as noncontrolling interests.

Image: *Midstream energy companies have significantly improved their free cash coverage of their payouts in recent years. We've taken note.* ***Source:*** *Relevant 10-Q filings.*

By Brian Nelson, CFA

As of our last check, no longer are the vast majority of energy pipeline players not covering their dividends/distributions with traditional free cash flow, as measured by cash flow from operations less all capital spending. Said another way, free cash flow after dividends, distributions is positive for a great many energy pipeline players these days.

We're pleased by the developments across midstream, and we expect to make some moves in the simulated newsletter portfolios to potentially add the Alerian MLP (AMLP) ETF to the simulated newsletter portfolios as a result. This is a huge change from the doldrums of a number of years ago, and frankly, we're blown away by the group's significantly improved free cash flow coverage.

Please see *Energy Pipelines...*on next page

***Energy Pipelines...*from previous page**

Since we added Exxon Mobil (XOM) and Chevron (CVX) to the simulated newsletter portfolios in June 27, 2021, both of them have soared! According to data from Morningstar, shares of Exxon Mobil have advanced 72%, while shares of Chevron have soared 66% through January 22, 2023. **We may look to trim these "positions" in the simulated newsletter portfolios to make room for the AMLP.** We don't want to be too exposed to energy in the simulated newsletter portfolios.

We can hardly believe how much better things are looking for midstream pipeline companies these days, particularly as it relates to free cash flow coverage of their payouts, but also as it relates to improved financial transparency. Many midstream MLPs continue to be saddled with huge net debt positions, but what a difference a few years have made! Capital discipline is making their dividends/distributions incrementally more attractive, **and we've taken note.**

UnitedHealth Is A Free Cash Flow Powerhouse; Shares Yield ~1.3%

UNITEDHEALTH GROUP

Quarterly and Annual Financial Performance

	Three Months Ended			Year Ended	
	December 31, 2022	December 31, 2021	September 30, 2022	December 31, 2022	December 31, 2021
Revenues	$82.8 billion	$73.7 billion	$80.9 billion	$324.2 billion	$287.6 billion
Earnings from Operations	$6.9 billion	$5.5 billion	$7.5 billion	$28.4 billion	$24.0 billion
Net Margin	5.8%	5.5%	6.5%	6.2%	6.0%

Image Source: *UnitedHealth Group*

By Brian Nelson, CFA

UnitedHealth Group (UNH) is a holding in the Dividend Growth Newsletter portfolio (see page 5), and it completed a fantastic 2022 when it reported its fourth-quarter results, released January 13. UnitedHealth Group is a free cash flow generating powerhouse. During 2022, the company hauled in $26.2 billion in cash flow from operations and spent just $2.8 billion on property, equipment, and capitalized software, good enough for $23.4 billion in free cash flow, materially higher than the $5.99 billion it paid in cash dividends over the same time. The Dividend Cushion ratio of UnitedHealth Group is a very healthy 3.5, and our valuation puts the high end of a fair value estimate range for shares of $618 each.

During 2022, UnitedHealth Group's revenue advanced 13%, as it experienced strong double-digit expansion at both its divisions, UnitedHealthcare and Optum. As noted previously, the firm's cash flow generation is simply amazing, with operating cash flow coming in at 1.3x net income for the year, translating into an impressive free cash flow conversation rate. The company's fourth quarter adjusted net earnings of $5.34 per share beat the consensus estimate by $0.17. Looking to 2023, UnitedHealth Group reaffirmed its guidance calling for revenues in the range of $357-$360 billion, adjusted net earnings of $24.40-$24.90 per share, and cash flow from operations of $27-$28 billion. 2023 is looking like another strong year for UnitedHealth Group.

At its UnitedHealthcare division, which provides health benefits to individuals and employers as well as Medicare and Medicaid beneficiaries, revenue advanced 12% during the year, as earnings from operations expanded to $14.4 billion from $12 billion in 2021, as the segment's operating margin advanced ~0.4 percentage points, to 5.8%. At its Optum division, which is the company's

Please see *UnitedHealth Is A Free Cash Flow Powerhouse...*on next page

*UnitedHealth Is A Free Cash Flow Powerhouse ...*from previous page

care management, pharmacy services and information and analytics segment, revenue grew 17% in 2022, while earnings from operations advanced to $14.1 billion from $12 billion last year, as its operating margin held relatively steady at 7.7%. On a consolidated basis cash and short- and long-term investments were $71.6 billion at the end of 2022, while long-term debt and short-term borrowings came in at $57.6 billion.

Very few firms have the type of free cash flow conversion as that of UnitedHealth Group, and the company's free cash flow coverage of its cash dividends remains phenomenal, all the while its balance sheet remains as strong as ever. We expect the firm to continue to raise its 2023 guidance throughout the year as momentum behind its UnitedHealthcare and Optum divisions accelerate. The executive team remains confident that it will achieve its long-term goal of growing earnings per share in the range of 13%-16% per annum, and while that may seem aggressive, it is achievable, in our view. Healthcare spending remains a large part of U.S. GDP, and we expect overall spending on healthcare to continue to expand at a rapid clip in coming years. **We continue to like UnitedHealth Group as a dividend growth idea, and its financials speak to tremendous payout support.**

We Don't Think Intel Will Spoil the Tech Rally

Image Shown: *The Invesco QQQ ETF (QQQ) has broken through its technical downtrend, and we don't think Intel's poor outlook will derail this tech rally.* ***Image Source:*** *TradingView*

By Brian Nelson, CFA

The Invesco QQQ ETF (QQQ) has rallied more than 12% to start 2023, and we don't think much will derail the advance. The pace of inflation looks like it peaked in June 2022 and save for a few big quarterly earnings misses from Goldman Sachs (GS) and Intel (INTC), fourth-quarter 2022 earnings season is shaping up better than feared for a lot of companies. The labor market is easing a bit, and a breakout of both the equal-weight S&P 500 (RSP) and the market-cap weight S&P 500 (SPY) from their technical downtrends means, in our view, that capital will continue to move into more aggressive and high-beta areas, playing right into the hands of the Invesco QQQ ETF.

Intel's fourth-quarter results, released January 26, were nothing short of a disaster. The chip maker's revenue dropped 32% on a year-over-year basis in the quarter, as its earnings per share dipped into negative territory. The big story with Intel is its deteriorating free cash flow, and the threat that it may pose to its dividend. Though the firm generated $3.1 billion in adjusted free cash flow for the three months ended December 31, 2022, the market remains laser-focused on its full-year performance. GAAP cash flow from operations for the year was $15.4 billion on the year, but net additions to property, plant and equipment of $23.7 billion were staggering, driving adjusted free cash on the year to -$4.1 billion (negative $4.1 billion).

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Intel paid ~$6 billion in dividends during the past year, meaning that the chip giant burned through more than $10 billion in cash during 2022. This is no small thing either, as Intel's balance sheet is no longer as strong as it once was. At the end of 2022, Intel had $37.7 billion in debt and $4.37 billion in short-term debt against cash and equivalents of $11.1 billion and short-term investments of $17.2 billion, so Intel has a rather large net debt position. Management plans to cut as much as $8-$10 billion in costs by the end of 2025, and we think the cost savings will be absolutely necessary, given the trajectory of its business. For the first quarter of 2023, Intel's non-GAAP revenue is targeted in the range of $10.5-$11.5 billion, down 40% on a year-over-year basis, while it estimates it will lose $0.15 in non-GAAP earnings.

Image Source: *Intel*

Prior to Intel's fourth-quarter earnings release, consensus had been for the company to earn $0.25 per share on $13.96 billion in sales, so the outlook represents a huge miss for Intel. The chip giant can probably shelve its plans for mid-to-high single digit revenue growth in 2023 and 2024 as well as its expectations for revenue growth to accelerate to 10%-12% by 2026. The big question is just how bad cash burn will be at Intel in the next few years, and whether the company will sustain its dividend. Adjusted free cash flow at Intel for 2023 and 2024 had been expected to be net neutral, but given the massive revenue declines experienced in the fourth quarter and the terrible outlook to kick off 2023, investors should be extremely cautious those targets, in our view.

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With that said, however, Intel no longer is the bellwether it once was. Its market capitalization has dwindled significantly in recent years and now stands at ~116.5 billion, lower than Advanced Micro Devices' (AMD) market capitalization of ~$121.6 billion, Texas Instruments' (TXN) market capitalization of ~$158.8 billion, and Nvidia's (NVDA) market capitalization of ~$501 billion. Taiwan Semiconductor (TSM) has a market capitalization of ~$431 billion, while ASML Holding (ASML) has a market capitalization of ~$268 billion. Intel no longer is what it once was, and as such, **we don't think its poor and borderline shocking outlook will derail a tech rally that could have significant legs. We still like these markets, and we don't think Intel will spoil the party.**

About the Valuentum Dividend Cushion™ Ratio

By Valuentum Analysts

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

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

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

The Importance of Forward-Looking Dividend Analysis

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

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

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

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

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

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

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

The Valuentum Dividend Cushion Caught These Dividend Cuts in Advance

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

Dividend Cutter	Cut Date	Dividend Cushion (Before Cut)	Reason for Dividend Cut
Avery Dennison (AVY)	31-Jul-09	0.66	Reduced dividend to support debt-reduction efforts.
ConAgra Foords (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 ex dividend cut.

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

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

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

Understanding Dividend Growth

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

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

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

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

The Dividend Cushion Ratio Helps Income Investors

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

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

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

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

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

Valuentum Dividend Growth Newsletter: Volume 12, Issue 1

Valuentum's Dividend Growth Newsletter is published monthly. To receive this newsletter on a monthly basis, please subscribe to Valuentum by visiting our website at http://www.valuentum.com. Or contact us at info@valuentum.com.

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

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

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

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

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

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

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

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

Brian Nelson owns shares in SPY, SCHG, QQQ, DIA, VOT, BITO, RSP, and IWM. Valuentum owns SPY, SCHG, QQQ, VOO, and DIA. Brian Nelson's household owns shares in HON, DIS, HAS, NKE, DIA, and RSP. Some of the other securities written about in this article may be included in Valuentum's simulated newsletter portfolios. Contact Valuentum for more information about its editorial policies.

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Valuentum uses its own proprietary stock investment style and industry classification systems. Peer companies are selected based on the opinions of the Valuentum analyst team. Research reports and data are updated periodically, though Valuentum assumes no obligation to update its reports, opinions, or data following publication in any form or format. Performance assessment of Valuentum metrics, including the Valuentum Buying Index, is ongoing, and we intend to update investors periodically, though Valuentum assumes no obligation to do so. Not all information is available on all companies. There may be a lag before reports and data are updated for stock splits and stock dividends.

The portfolio in the Valuentum Dividend Growth Newsletter is hypothetical and does not represent real money. Past simulated performance, whether backtested or walk-forward or other, is not a guarantee of future results. Actual results may differ from simulated portfolio information being presented in this newsletter. For general information about Valuentum's products and services, please contact us at valuentum@valuentum.com or visit our website at www.valuentum.com.

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