OUR DIVIDEND GROWTH NEWSLETTER

Valuentum Securities

Stock Analysis: From Value through Momentum Investing

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"We continue to like Lockheed Martin as a core idea in the simulated Dividend Growth Newsletter portfolio."

– Brian Nelson, CFA

Dividend Growth Ideas: AAPL, CSCO, DIV, DKS, XLE, HD, IDV, JEPI, LMT, MSFT, ORCL, RSG, SDY, UNH, XLV, META, BKNG

Lockheed Martin Reaffirms 2025 Outlook

By Brian Nelson, CFA

On April 22, Lockheed Martin (LMT) reported better than expected first quarter results with revenue and GAAP earnings per share exceeding the consensus forecast. Sales increased 4%, while net earnings came in at $1.7 billion, or $7.28 per share, compared to $1.5 billion, or $6.39 per share, in the same period a year ago. Cash flow from operations came in at $1.4 billion compared to $1.6 billion in last year's quarter, while free cash flow dipped to $955 million from $1.3 billion in the year-ago period.

Management was optimistic in the press release:

> The momentum we created last year continued into the first quarter of 2025, with sales growing 4% year-over-year and free cash flow generation of $955 million. We continued investing in the business with over $850 million of research and development and capital expenditures in the quarter, and returned $1.5 billion to shareholders through dividends and share repurchases. These solid first quarter results reinforce confidence in our ability to achieve the full year 2025 financial guidance we laid out in January, demonstrating the resilience and adaptability of Lockheed Martin's franchises amidst a highly dynamic geopolitical and technical environment.
>
> We are focused on operational excellence to drive the timely and efficient execution of our $173 billion backlog, which represents more than two years of sales. We remain committed to realizing our vision of digital and

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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.

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> interoperable systems and are aligning our mission roadmaps to best support our customers' rapidly evolving security needs, both domestic and global. This focus, along with Lockheed Martin's track record of innovation and performance, continues to result in new awards, including the recent missiles contracts for Precision Strike Missiles, THAAD and JASSM/LRASM, as well as the Trident II D5 Life Extension, comprising up to $10 billion of future work.

During the first quarter, Lockheed paid cash dividends of $796 million while it repurchased 1.7 million shares for $750 million. Looking to all of 2025, management expects sales in the range of $73.75-$74.75 billion, business segment operating profit of $8.1-$8.2 billion, and diluted earnings per share of $27.00-$27.30. For 2025, cash flow from operations is targeted at $8.5-$8.7 billion with capital spending expected at $1.9 billion, resulting in free cash flow in the range of $6.6-$6.8 billion for the year. We continue to like Lockheed Martin as a core idea in the simulated Dividend Growth Newsletter portfolio. Shares yield 2.9% at the time of this writing.

Key Comments from the Banks This Earnings Season

Image: The big banks have done well recently.

By Valuentum Analysts

JP Morgan's (JPM) CEO Jamie Dimon:

"The Firm reported strong underlying business and financial results in the first quarter, producing net income of $14.6 billion."

"In the CIB, Investment Banking fees rose 12% in the first quarter, although clients have become more cautious amid an increase in market volatility driven by geopolitical and trade-related tensions. Meanwhile, we saw increased activity in the Markets business. Markets revenue rose to $9.7 billion, an exceptionally strong quarter with record revenue in Equities. In CCB, the franchise continued to acquire new customers at a robust pace, opening 500,000 net new checking accounts and adding record first-time investors in wealth management. Finally, AWM had healthy AUM net inflows of $90 billion, and investment performance remained strong."

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"This quarter, we repurchased $7 billion of common stock and announced a 12% increase in the common dividend. The increase in capital return was supported by our strong earnings generation and elevated capital levels. That being said, we continue to believe it is prudent to maintain excess capital and ample liquidity in this environment – our CET1 ratio remained very strong at 15.4%, and we have an extraordinary amount of liquidity, with $1.5 trillion of cash and marketable securities."

"The economy is facing considerable turbulence (including geopolitics), with the potential positives of tax reform and deregulation and the potential negatives of tariffs and "trade wars," ongoing sticky inflation, high fiscal deficits and still rather high asset prices and volatility. As always, we hope for the best but prepare the Firm for a wide range of scenarios."

"We remain committed to serving our clients and communities, which include consumers, small and large-sized businesses, schools, cities, states and countries, across all environments. And our fortress balance sheet enables the Firm to be a pillar of strength, particularly during volatile or challenging times."

Wells Fargo's (WFC) CEO Charlie Scharf:

"We produced solid results with diluted earnings per share increasing 16% from a year ago reflecting fee-based revenue growth across many of our core businesses, continued expense discipline, improved credit results, and an 8% reduction in diluted common shares as we continued to return capital to shareholders. I am excited about the momentum we are building across our businesses as we work to build one of the most respected financial institutions in the country."

"This quarter was an important proof point regarding our prior comments about our confidence in our progress on our risk and control work. Five consent orders were closed this past quarter and eleven have been closed since 2019. These recent closures reflect that we have completed much of the common risk and control infrastructure work across the company that is required by other orders. I'm incredibly proud of the work done by our teams and remain confident that we will complete the work needed to close our other open consent orders."

"We support the administration's willingness to look at barriers to fair trade for the United States, though there are certainly risks associated with such significant actions. Timely resolution which benefits the U.S. would be good for businesses, consumers, and the markets. We expect continued volatility and uncertainty and are prepared for a slower economic environment in 2025, but the actual outcome will be dependent on the results and timing of the policy changes. We and our customers come into the current environment from a position of strength that should serve us well. We are prepared for a variety of outcomes, our focus is unwavering, and we will continue transforming Wells Fargo by investing to build a well-controlled, faster-growing and a higher-returning company while we work to better serve our customers and become more efficient."

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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 April 29, 2025

Company Name	Yrly Div's Paid ($) / Shr	Dividend Yield %	Fair Value Estimate	Dividend Cushion Ratio	VBI Rating	Price/FV	Last Close	% of Portfolio
S&P Dividend ETF SPDR (SDY)	3.49	2.68%	-	-	-	-	130.99	8.0%-12.0%
JPMorgan Equity Premium Income ETF (JEPI)	4.33	7.86%	-	-	-	-	55.28	8.0%-12.0%
Global X SuperDividend U.S. ETF (DIV)	1.06	5.88%	-	-	-	-	18.09	8.0%-12.0%
Cisco (CSCO)	1.64	2.86%	$62.00	2.77	4	0.92	57.34	5.0%-7.0%
Energy Select Sector SPDR ETF (XLE)	2.86	3.45%	-	-	-	-	82.73	5.0%-7.0%
Health Care Sector SPDR ETF (XLV)	2.34	1.69%	-	-	-	-	139.28	5.0%-7.0%
iShares Int'l Select Dividend (IDV)	1.72	5.33%	-	-	-	-	32.44	5.0%-7.0%
Lockheed Martin (LMT)	13.20	2.77%	$467.00	1.23	4	1.02	475.88	5.0%-7.0%
Microsoft (MSFT)	3.32	0.84%	$438.00	3.87	3	0.90	394.04	5.0%-7.0%
Oracle (ORCL)	2.00	1.42%	$163.00	0.60	4	0.86	140.79	5.0%-7.0%
Apple (AAPL)	1.00	0.47%	$241.00	10.68	6	0.88	211.21	3.0%-4.0%
Dick's Sporting Goods (DKS)	4.85	2.53%	$229.00	2.22	3	0.84	192.01	3.0%-4.0%
Home Depot (HD)	9.20	2.56%	$417.00	1.36	6	0.86	359.00	3.0%-4.0%
Meta Platforms (META)	2.10	0.38%	$665.00	-	7	0.83	554.44	3.0%-4.0%
Booking Holdings (BKNG)	38.40	0.78%	$5851.00	-	7	0.84	4909.23	3.0%-4.0%
Republic Services (RSG)	2.32	0.94%	$224.00	2.78	6	1.11	247.70	3.0%-4.0%
UnitedHealth Group (UNH)	8.40	2.05%	$632.00	3.60	3	0.65	409.23	3.0%-4.0%
Cash								~0%-5%

UR = Under Review

Intraday, last close and dividend per share information for equities retrieved from Seeking Alpha, Yahoo Finance. Dividend yield information for ETFs retrieved from Seeking Alpha, Yahoo Finance.

This portfolio is not a real money portfolio. Data as of April 29, 2025.

Goal:

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

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

The midpoints of our respective weighting ranges approximately sum to 100% to reflect the range of possible combinations that may result in various allocations.

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

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Morgan Stanley's (MS) CEO Ted Pick:

"The Integrated Firm delivered a very strong quarter with record net revenues of $17.7 billion and EPS of $2.60, and an ROTCE of 23.0%. Institutional Securities strong performance was led by our Markets business with Equity reporting a record $4.1 billion in revenues. Total client assets of $7.7 trillion across Wealth and Investment Management were supported by $94 billion in net new assets. These results demonstrate the consistent execution of our clear strategy to drive durable growth across our global footprint."

Goldman Sachs' (GS) CEO David Soloman:

"Our strong results this quarter have demonstrated that in times of great uncertainty, clients turn to Goldman Sachs for execution and insight. While we are entering the second quarter with a markedly different operating environment than earlier this year, we remain confident in our ability to continue to support our clients."

Bank of America's (BAC) CEO Brian Moynihan and CFO Alastair Borthwick:

"We had a good first quarter, with earnings per share of $0.90 up from $0.76 last year. This reflected growth in net interest income and fee income, while sales and trading delivered its 12th consecutive quarter of year-over-year revenue growth. Our business clients have been performing well; and consumers have shown resilience, continuing to spend and maintaining healthy credit quality. Though we potentially face a changing economy in the future, we believe the disciplined investments we have made for high-quality growth, our diverse set of businesses, and the team's relentless focus on Responsible Growth will remain a source of strength."

"We grew average deposits for the seventh consecutive quarter to nearly $2 trillion. Asset quality remained stable reflecting years of responsible lending, while our strong capital and liquidity levels allowed us to support our clients' growth and return $6.5 billion to shareholders. We run our business in a manner intended to withstand volatility for the long-term. And through our capabilities, relationships and financial flexibility, we believe we are well-positioned to continue delivering for our clients and shareholders."

Citigroup's (C) CEO Jane Fraser:

"With net income of $4.1 billion we delivered a strong quarter, marked by continued momentum, positive operating leverage and improved returns in each of our five businesses. Services recorded its best first quarter revenue in a decade. Markets had a good first quarter with revenue up 12% driven by strong client activity and monetization. Banking was up 12% with M&A revenue nearly double from what it was last year. Wealth revenues increased 24% with progress across all three client segments. USPB was up 2%, driven mainly by growth in Branded Cards, and also saw improved returns. We returned $2.8 billion in capital to our shareholders including $1.75 billion of buybacks as part of our $20 billion plan."

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"From quarter to quarter, we are building on our track record of progress. We remain intently focused on executing our strategy, which is based on a diversified business mix and will perform in a wide variety of macro scenarios. When all is said and done, and longstanding trade imbalances and other structural shifts are behind us, the U.S. will still be the world's leading economy, and the dollar will remain the reserve currency. The deep knowledge and breadth of capabilities we bring to the many markets where we operate are a point of distinction as we continue to help our clients navigate an uncertain environment."

What Causes Fair Value Estimates to Change?

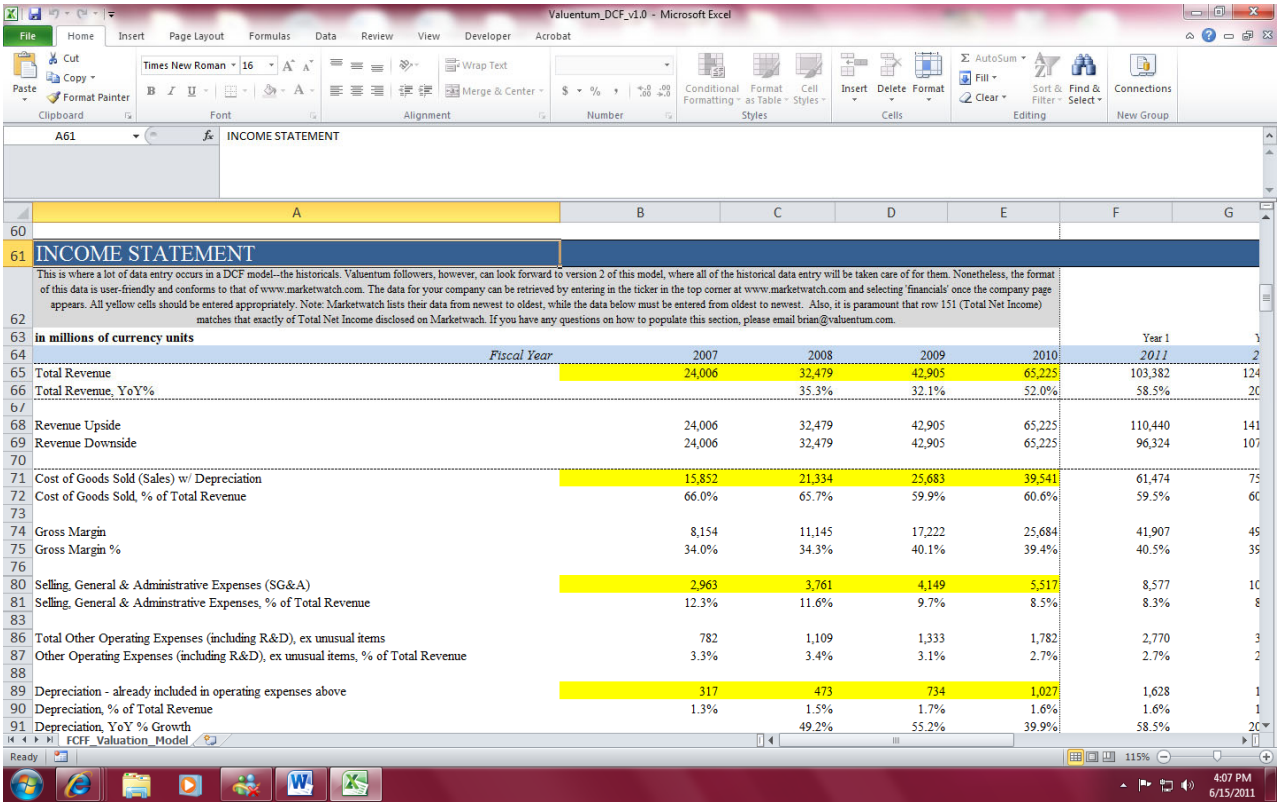

Image: *A screenshot of the discounted cash-flow model learning tool for individual investors.*

By Brian Nelson, CFA

If you've been a member of Valuentum for a while, you'll notice that when we update a stock report, our estimate of a company's fair value and the firm's Valuentum Buying Index ratings can change. This is completely normal and should be expected (over time, companies generate cash and stock prices change). But sometimes the changes can be confusing, particularly if they are material (i.e. 10%, 20%, or more). In this article, let's talk about why changes are standard operating procedure for investment research publishers.

First, some background. Our estimate of a company's fair value is driven by myriad factors. To derive a company's fair value estimate, we use a detailed cash flow model that considers future expectations of revenue, earnings and cash flows, among other financials (i.e. the balance sheet). When important drivers of valuation change or when new information comes to light, fair value estimates can, should and do change. Though there are perhaps an infinite number of reasons why a fair value estimate can change, there are two primary reasons that account for the vast majority of revisions.

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Rolling the Model Forward

The biggest fair value revision generally occurs when "we roll a company's model" forward one year. This is "analyst speak" for when Year 1 of the model changes from, say, 2015 to 2016, or in the case of what will happen this year, from 2024 to 2025. The timing of this revision occurs after a firm issues its fiscal annual report (Form 10-K or Form 20-F). For most companies, this occurs late in the first quarter, and our updating proceeds through the second and third calendar quarters. Once we receive the audited new information for the last fiscal year (which is released in the Form 10-K or Form 20-F), the new data is entered into the valuation model. This is why you may see last year's data still listed as Year 1 through most of the first or second quarters of any year. We're still waiting for the clean, audited numbers.

Generally speaking, if our forecasts are accurate, a company's fair value estimate should increase by its discount rate less the dividend yield each year, all else equal. However, this increase almost never happens in practice, as the trajectory of the firm's future free cash flow stream and its capital structure are refined with the new information in the Form 10-K or Form 20-F. For example, if a company has engaged in value-destructive activities during the previous year (e.g. it has overpaid for acquisitions and bought back its own stock at egregious prices), this will show up in the new fair value estimate. On the other hand, if a firm is a wise capital allocator, the firm's balance sheet and future cash flow trajectory will have been enhanced from the previous year, and this would cause an upward revision in the fair value estimate (sometimes by 10% or more), all else equal.

When "rolling the model forward," there are a near-infinite number of drivers that could influence the fair value estimate, though we point to changes in the balance sheet (specifically the net cash/debt position) and changes in the future free cash flow stream (revenue, EBI, capital spending, working capital and other components) as being the two biggest factors. Most of the drivers behind a change in a fair value estimate, resulting from when "we roll the model," will be operational (e.g. updating the cash flow trajectory and accounting for cash generated during the previous year as reflected in the updated balance sheet and/or lower share count). We tend not to adjust a firm's cost of equity, nor do we adjust the risk-free rate frequently, though this may happen in some cases. Note: Our valuation model does not account for cash generated in interim model updates during the year. For simplicity, we account for cash generated during the previous year once, at the time we "roll the model"-- not continuously.

Significant Changes in Expectations or Transformative Acquisitions

Valuentum's fair value estimates, and by extension, the Valuentum Buying Index (VBI) rating are forward looking. That means when expectations of a company's future free cash flow stream are revised as a result of forward guidance revisions (or incremental insight from our analyst team), or when a company pursues a transformative acquisition that will materially change its capital structure in the future, the fair value estimate changes accordingly. The reason is that a company's pro forma balance sheet and future free cash flow assumptions have changed.

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The variables that cause the biggest change in the fair value estimate on an operating level are our forecasts of a company's mid-cycle operating margin (Year 5) expectations, mid-cycle (Year 5) revenue growth rate, and capital spending over the 5-year discrete forecast period (or phase I of the model). In more general cases, if firm XYZ comes out with substantially lower revenue and earnings guidance for Year 1 than what we had been modeling, there may be a downward revision in the company's fair value estimate, all else equal, but it won't be as large as revisions driven by changes in mid-cycle expectations.

Though changes in Year 1 (or even Year 2) assumptions in the valuation model do not impact the fair value estimate materially in most cases, the information behind the revised guidance could still influence the intermediate-term and even the long-term forecasts of the model (think 'avalanche' or 'cascade' effect), and this would cause an even larger fair value estimate revision than what might have been expected by the minor near-term changes (in some cases). Whenever the trajectory of the future expected free cash flow stream changes, the fair value estimate, which is based on the future free cash flows, changes, too. This is a fact of the value calculation.

How to Think About All of This

First of all, we are not a quant firm. What you see in our reports is in-depth fundamental financial analysis. Analysts from investment bankers to sell-side brokerage firms use a discounted cash-flow model. Their results may be presented in the form of a valuation multiple, but every merger or business transaction is generally backed by a pro-forma discounted cash flow model that justifies the transaction multiple. Conversely, the multiple implicitly considers all of the information in a discounted cash-flow model. Even a P/E multiple applied to this year's earnings has an implied growth rate for earnings 10, 15, 30 years…into the future. Thinking about the long-term in valuation is inescapable, and the discounted cash-flow model is the best way to think about the long term.

Second, we don't just hit a button and the published fair value estimate pops out of the valuation model. Though we understand that being roughly right is better than being precisely wrong (think in the context of Warren Buffett's margin of safety), we spend a tremendous amount of time modeling companies. We don't play the near-term earnings estimate game, however. For one, because most of a company's value comes from long-term assumptions beyond Year 5, we have little interest in competing with the dozens or so sell-side analysts that cover the average S&P 500 company these days. That means our near-term forecasts don't differ much from management's guidance, or consensus for that matter. On average, our revenue and earnings estimates for the next two years won't be but a couple percentage points away from consensus estimates.

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So If We're Not Playing The Earnings Game, What's Our Advantage?

We think our advantage rests in our modeling experience and synthesizing the framework down to a few key drivers within the detailed free cash flow valuation model that we think Wall Street often gets wrong (namely mid-cycle operating margins and mid-cycle revenue growth). Whereas Wall Street spends most of its time playing the quarterly earnings game, we're instead focused on nailing our mid-cycle forecasts and getting the company's fair value estimate correct. As noted before, almost all of a company's intrinsic value is based on the structure of its balance sheet (i.e. net cash position) and its future expected normalized free cash flow stream, not on next quarter's earnings.

We understand that there may be a 10%-20% revision or more in a company's fair value estimate at times, but this is normal in the world of value estimation (expectations of the future are always changing and sometimes materially). You can always view the 'Valuation' page in a company's 16-page report to see exactly what forecasts have changed from the previous report (page 5 gives you a very nice summary of the three stages of the model). In almost all cases, the updated fair value estimate will fall within the previous report's fair value estimate range. At the very core of valuation, however, is the concept of Benjamin Graham's margin of safety, and we consider stocks to be truly undervalued (or overvalued) when their share price is trading below (or above) the low (or high) end of the fair value estimate range, respectively.

With that said, at times we may add stocks to the newsletter portfolios that are trading at less of a discount that we may desire, as sometimes the very best companies with the strongest business models hardly ever trade at bargain-basement prices. In the 16-page stock reports, the percentage difference from the company's share price to the low end of the fair value range (if it is trading below the low end) is considered the 'percentage undervalued,' and the percentage difference from the company's share price to the high end of the fair value range is considered the 'percentage overvalued' (if it is trading above the high end).

The very best way to get a feel for all the moving parts of stock valuation is to take a discounted cash-flow (enterprise) valuation model for a test spin. You don't have to become an expert on the discounted cash-flow (enterprise) valuation process to do well -- just thinking about the key variables behind a discounted cash-flow valuation model will make you a better investor, in our view. In doing so, you'll also learn about all the pitfalls of using simple valuation multiple analysis. We hope you've found this article informative, and if you have any questions about any aspect of our research, please don't hesitate to reach out to our team at info@valuentum.com. Thank you for reading!

UnitedHealth Group Lowers 2025 Outlook

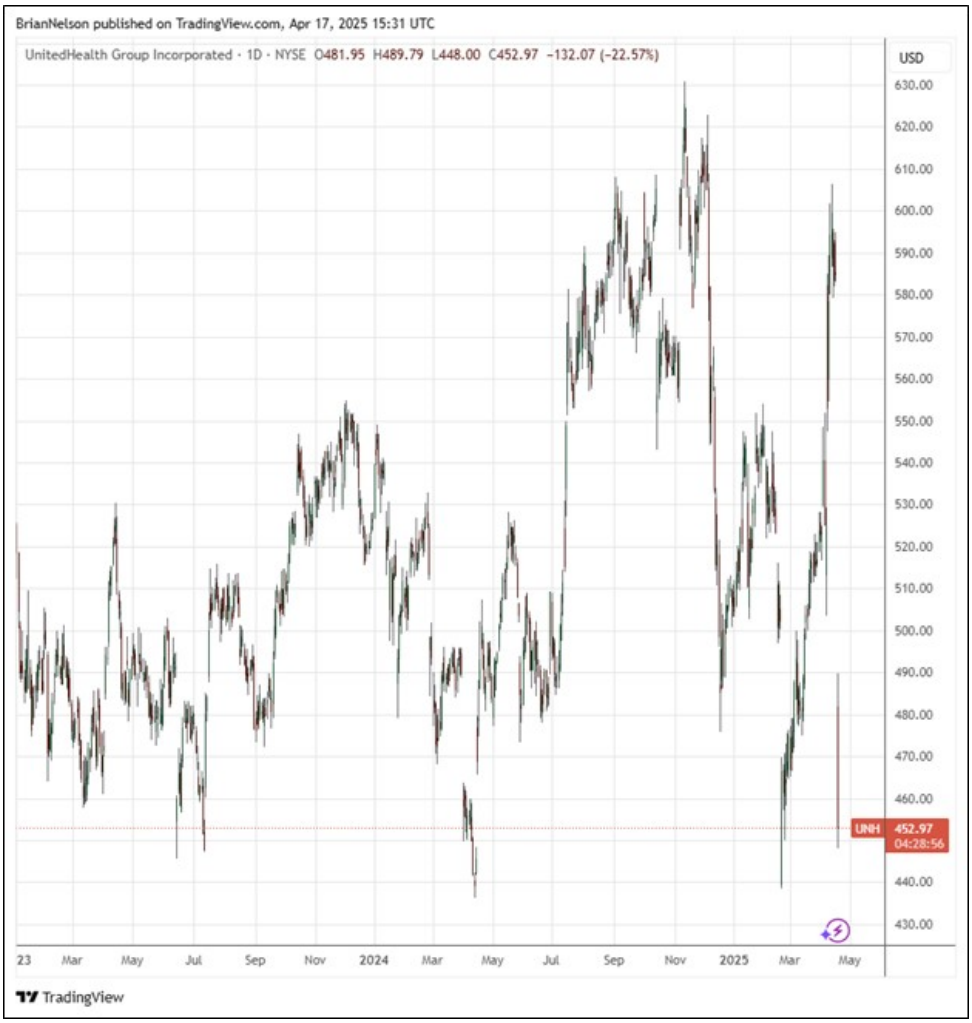

Image: *UnitedHealth's shares were pummeled after it lowered its 2025 earnings outlook.*

By Brian Nelson, CFA

UnitedHealth Group (UNH) reported dismal first-quarter 2025 results that came in lower than expected on both the top and bottom lines. Revenues of $109.6 billion grew $9.1 billion year-over-year, while first quarter earnings were $6.95 per share, with adjusted earnings coming in at $7.20 per share. Management shared its disappointment in the commentary in the press release:

> UnitedHealth Group grew to serve more people more comprehensively but did not perform up to our expectations, and we are aggressively addressing those challenges to position us well for the years ahead, and return to our long-term earnings growth rate target of 13 to 16%.

UnitedHealth Group lowered its 2025 performance outlook, now calling for net earnings of $24.65-$25.15 per share and adjusted earnings of $26-$26.50. For 2025, net earnings had been targeted in the range of $28.15-$28.65 and adjusted net earnings in the range of $29.50-$30.00 per share.

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UnitedHealth Group Lowers 2025 Outlook ...from previous page

Management pointed to two factors that drove the reduced earnings outlook:

> Heightened care activity indications within UnitedHealthcare's Medicare Advantage businesses, which became visible as the quarter closed, far above the planned 2025 increase which was consistent with the elevated levels in 2024. This activity was most notable within physician and outpatient services.
>
> Unanticipated changes in the profile of Optum Health members impacting planned 2025 reimbursement due to unexpectedly minimal 2024 beneficiary engagement by plans exiting markets. In addition, a greater-than-expected impact to current and new complex patients from the ongoing Medicare funding reductions enacted by the previous administration.

During the first quarter of 2025, UnitedHealth Group's cash flow from operations came in at $5.5 billion, and the firm returned nearly $5 billion to shareholders through dividends and share repurchases during the quarter. As it relates to the drivers negatively impacting its 2025 guidance, management noted that it "believes these factors to be highly addressable over the course of this year as well as it looks ahead to 2026." Though we didn't like the downward revision to its 2025 earnings outlook, UnitedHealth remains a cash cow, and we continue to like shares in the newsletter portfolios. We value shares north of $600 each.

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.

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

*About the Valuentum Dividend Cushion…*from previous page

At the very least, using the Valuentum Dividend Cushion can help 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.

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

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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 1.5% (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 14, Issue 5

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, RSP, QQQM, and IWM. Valuentum owns SPY, SCHG, QQQ, VOO, QQQM, and DIA. Brian Nelson's household owns shares in HON, DIS, HAS, NKE, DIA, SCHG, QQQ, QQQM, VOO, 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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