

AAII DIVIDEND INVESTING™

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Back to the Well One More Time

There are no additions or deletions in the DI portfolio for January. However, the excess cash accumulated in the Dividend Investing (DI) tracking portfolio from dividend payments is being reinvested into existing holding Occidental Petroleum (OXY). More information about the reinvestment can be read in the DI Portfolio Alerts section on the next page.

The DI portfolio is designed to be fully invested. Over the last several months, the DI tracking portfolio has accumulated cash from dividend payments and proceeds from the sale of former DI holdings. The proceeds of any deletions and any existing cash in the portfolio are used to fund the purchase of a replacement stock and/or reinvest in the portfolio. Excess cash is reinvested in attractively priced underweighted holdings as a means of rebalancing.

Change in Five-Year Dividend Yield

With the New Year came a shift in five-year average dividend yield calculations. These rolling averages are now being calculated starting from the year 2015 instead of 2014 and ending with 2019 instead of 2018. The change has resulted in most DI stocks resetting versus their historical averages.

Medtronic PLC (MDT) has been monitored for the last few months due to a high valuation. When a stock's dividend yield goes below its historical average low, an investor is paying more (higher stock price) for a given level of anticipated annual dividends.

Medtronic is a good example of how the dividend yield change impacts the DI portfolio. Before the New Year, Medtronic's dividend yield of 1.9% was in line with its five-year average low of 1.9%. If Medtronic's dividend yield had gone below its five-year average low yield and a suitable replacement was identified, it would have been deleted from the DI portfolio. However, with the shift in the five-year average dividend yield calculations, the company's new five-year average low yield is 1.7%. Medtronic is no longer "overvalued" on a dividend yield basis because the measurement metric changed.

We will discuss the impact of the dividend yield change on the DI portfolio in more detail during our weekly commentary on January 17.

December DI Performance

The DI tracking portfolio increased 2.9% for the month of December while the Dow Jones U.S. Index ETF (IYY), grew 2.8%.

The DI tracking portfolio's monthly gain of 2.9% was composed of 2.6% price appreciation and 0.3% income return. The Dow Jones U.S. Index fund's 2.8% increase during the month was composed of a 2.2% price rise and 0.6% income return. The Dow Jones U.S. Index fund normally pays a quarterly distribution in December, and this year was no exception. During December 2018, the exchange-traded fund actually had two separate income distributions.

Over the life of the DI portfolio through January 7, 2020, it has provided a total return of 155.9%, with dividend income contributing 54.0% to the total return. The Dow Jones U.S. Index ETF has a total return of 190.4%, with income contributing 39.9% to the total return.

Portfolio Alerts This Month

January Portfolio Deletions					
Company (Ticker)	Portfolio Deletion Alert		Portfolio Addition Alert Date	Stock Total Return Since Purchase	Index Total Return Since Purchase
	Date	Price			
no portfolio deletions for January					

January Portfolio Additions				
Company (Ticker)	Latest Price	Dividend		Sector: Industry
		Yield		
no portfolio additions for January				

Purchase of Additional Shares with Excess Cash:				
Occidental Petroleum (OXY)	\$45.27	7.0%	Energy: Oil & Gas - Exploration and Production	

Data as of 1/7/2020.

The average dividend yield of the stocks in the DI portfolio is 2.9%, down slightly from the previous month. The Dow Jones U.S. Index fund has a dividend yield of 1.8%, in line with the previous month.

Top and Bottom DI Performers of 2019

It is remarkable the difference a year makes when comparing 2019 to 2018. If 2018 was a year of Federal Reserve policy over-tightening and worries that it would send the U.S. economy into a protracted economic downturn, then 2019 was a year of unwinding policy mistakes.

After more than a year's worth of gyrating interest rates and an ongoing U.S.-China trade war, the U.S. economy looks relatively healthy thanks to a strong labor market, resilient consumer spending and low inflation. Furthermore, much of the uncertainty regarding U.S.-Chinese trade relations has dissipated.

The DI tracking portfolio posted a major turnaround in 2019, gaining 29.9% after falling 11.5% in 2018. This was the portfolio's best year since 2013, when it returned 36.5%. In comparison, the Dow Jones U.S. Index ETF posted a total

return of 30.8%.

Out of the 28 stocks held in the DI tracking portfolio throughout the year, 26 realized positive total returns (dividend income plus price gain) over the period they were held.

Williams-Sonoma Inc. (WSM), a specialty retailer of high-quality home products, was the strongest DI stock of 2019, gaining 50.1%. Occidental Petroleum, an international oil and gas exploration and production company, was the worst-performing DI stock of 2019, down 28.7%. We look at the DI portfolio's top and bottom performers for 2019 on page 16.

DI Portfolio Alerts

There are no portfolio additions or deletions for the DI portfolio this month. Excess cash is being added to Occidental Petroleum (OXY).

Excess cash is reinvested in underweighted holdings as a means of rebalancing. When determining which underweighted holdings to reinvest in for the DI portfolio, holdings with a dividend yield above their historical average are considered, as well as other factors regarding growth trends, financial strength and valuation.

In addition, one of the primary

determinants for reinvestment is if the DI holding currently passes the DI Ideas screen. The six DI holdings currently passing the DI Ideas screen are already at or near the average portfolio weight. As this is the case, next, we consider reinvestment in current DI holdings that are the most underweighted ver-

sus the portfolio average. Furthermore, the candidates for reinvestment must trade at an attractive valuation and exhibit not only a record of dividend consistency but also the ability to grow their dividend over the long term.

Portfolio Reinvestment: Occidental Petroleum (OXY)

Occidental Petroleum does not currently pass the DI Ideas screen, but it meets many of the criteria for reinvestment. It has the most underweighted position size at 0.40 versus the DI portfolio average of 0.99; its current yield of 7.0% is well above its historical average of 4.6%; and over the past five years, it has increased its dividend at a 3.9% annual growth rate. The company raised its quarterly dividend by 1.3% in July 2018 and July 2019. The company has raised its dividend each year for the last 17 years. Reinvestment in Occidental may be controversial, but its dividend appears to be sustainable going forward and the stock is trading at historically low valuation levels.

It has been a tumultuous ride for Occidental ever since it announced its public offer on April 24, 2019, to acquire Anadarko Petroleum for \$76 per share. Investors have deep concerns about



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Portfolio Holdings

Ticker	Company	Portfolio Alert		DI Pur- chase Price	Latest Price (1/7/20)	Dec Gain/ (Loss)	Total Return		Div	
		Date	Price				Stock	Index	Yield	Industry
AMGN	Amgen, Inc.	10/27/17	\$175.28	\$174.93	\$238.04	2.7%	45.3%	33.5%	2.7%	Pharmaceuticals
BLK	BlackRock, Inc.	10/5/18	\$470.86	\$463.47	\$507.22	1.6%	13.6%	14.5%	2.6%	Investment Mgmt & Fund Opers
CMA	Comerica Inc.	12/7/18	\$74.03	\$73.13	\$69.17	1.9%	(1.0%)	23.3%	3.9%	Banks
CBRL	Cracker Barrel	2/3/17	\$158.50	\$158.80	\$154.87	0.0%	8.6%	48.7%	3.4%	Restaurants & Bars
CMI	Cummins Inc.	10/3/14	\$135.10	\$136.18	\$174.26	(2.1%)	49.3%	78.9%	3.0%	Auto, Truck & Motorcycle Parts
EMN	Eastman Chemical Co.	2/6/15	\$73.20	\$74.67	\$74.98	1.1%	14.6%	70.2%	3.5%	Chemicals - Commodity
ETN	Eaton Corporation	12/31/11	\$43.53	\$45.52	\$94.84	2.4%	171.4%	173.8%	3.0%	Electrical Components & Equip
HD	Home Depot Inc.	9/1/17	\$150.78	\$152.88	\$218.52	(1.0%)	50.9%	36.1%	2.5%	Retailers-Home Improve Prod/Serv
HBAN	Huntington Bancshares	1/12/18	\$15.85	\$15.86	\$14.41	1.3%	(2.0%)	20.0%	4.2%	Banks
IBM	IBM Corp.	10/2/15	\$144.58	\$149.54	\$134.19	(0.3%)	6.9%	72.8%	4.8%	IT Services & Consulting
IP	International Paper Co.	4/4/14	\$45.81	\$45.69	\$43.48	(0.6%)	18.3%	90.9%	4.7%	Paper Packaging
MDT	Medtronic PLC	1/6/17	\$72.87	\$75.05	\$114.49	1.8%	62.8%	48.7%	1.9%	Medical Equip, Supplies & Distrib
OXY	Occidental Petroleum	1/9/15	\$77.54	\$75.96	\$45.27	6.8%	(24.4%)	72.2%	7.0%	Oil & Gas - Exploration & Prod
PEP	PepsiCo, Inc.	12/31/11	\$66.35	\$66.66	\$134.01	0.6%	154.0%	173.8%	2.9%	Non-Alcoholic Beverages
PLI	Polaris Inc.	12/9/16	\$85.84	\$86.34	\$95.01	4.1%	18.5%	48.7%	2.6%	Recreational Products
PFJ	Principal Financial Group	12/9/16	\$60.30	\$59.55	\$55.35	(0.2%)	3.4%	48.7%	4.0%	Insurance - Life & Health
RCL	Royal Caribbean Cruises Ltd.	11/8/19	\$114.53	\$113.80	\$130.44	11.2%	16.4%	8.1%	2.4%	Hotels, Motels & Cruise Lines
SNA	Snap-on Incorporated	9/7/18	\$180.60	\$183.36	\$164.79	5.6%	(7.3%)	13.7%	2.6%	Industrial Machinery & Equip
TXN	Texas Instruments	4/5/13	\$34.20	\$34.80	\$129.41	6.7%	344.9%	130.2%	2.8%	Semiconductors
TSN	Tyson Foods, Inc.	3/8/19	\$62.78	\$64.74	\$88.84	1.3%	39.2%	16.7%	1.9%	Food Processing
UNP	Union Pacific Corp.	7/2/15	\$96.66	\$97.23	\$178.07	2.7%	103.1%	66.8%	2.2%	Freight & Logistics - Ground
UNH	UnitedHealth Group Inc	9/6/19	\$229.00	\$233.59	\$289.79	5.0%	25.1%	8.4%	1.5%	Managed Health care
WBA	Walgreens Boots Alliance	6/7/19	\$51.97	\$52.32	\$59.29	(1.1%)	15.2%	13.4%	3.1%	Retailers - Drug
WSM	Williams-Sonoma, Inc.	6/3/16	\$53.25	\$54.00	\$73.76	5.8%	50.9%	62.4%	2.6%	Retailers - Home Furnishings

Data as of 1/7/2020.

Sources: AAIL Stock Investor Pro, Refinitiv, I/B/E/S and company releases.

Occidental's acquisition strategy and shareholder stewardship. Investors are concerned that Occidental paid too much, has taken on too much debt and exposed itself to a potential drop in oil prices. Some investors are questioning the safety of its dividend.

There is, without a doubt, a reasonable bear case against reinvesting in Occidental. Its earnings projections have been slashed in the near term—2020 earnings per share are down to \$1.06 from \$1.98 three months ago. Its profitability is impacted by the price of commodities—oil and gas. At times of low energy prices, the capital expenditures that are required to sustain and grow oil production result in negative free cash flow. Occidental's earnings payout ratio has jumped to 238% and its free-cash-flow payout ratio increased to 128.4%. These ratios fluctuated widely over the last five years following the wide range in oil prices and are not sustainable at these levels over the long-term. Its ratio of total liabilities to assets rose to 71.2% after taking on \$40 billion in debt to purchase Anadarko, above its five-year average ratio of 46.9%. The reduction of financial leverage

post-acquisition is dependent upon asset sales and cash flow.

There is also an equally strong bull case for reinvesting in Occidental. Occidental's acquisition of Anadarko makes it the third-largest oil producer in the U.S. It is the largest producer in the Permian Basin, one of the largest and most active oil basins in the U.S. Over the last four quarters, Occidental generated cash from operations of approximately \$6.314 billion and its Anadarko purchase is expected to be accretive to cash flow per share and free cash flow per share. Synergies and capital reductions are expected to generate \$3.5 billion in free cash flow improvements. The company is committed to paying and growing its dividend ahead of share repurchases. In addition, Occidental is trading at an attractive valuation. Its shares currently yield 7.0%, based on an annual indicated dividend of \$3.16 per share, above the five-year average yield of 4.6%.

Investors are demanding a higher yield because they are worried about the execution risk of the Anadarko acquisition and what could happen to oil prices. Occidental's yield may move

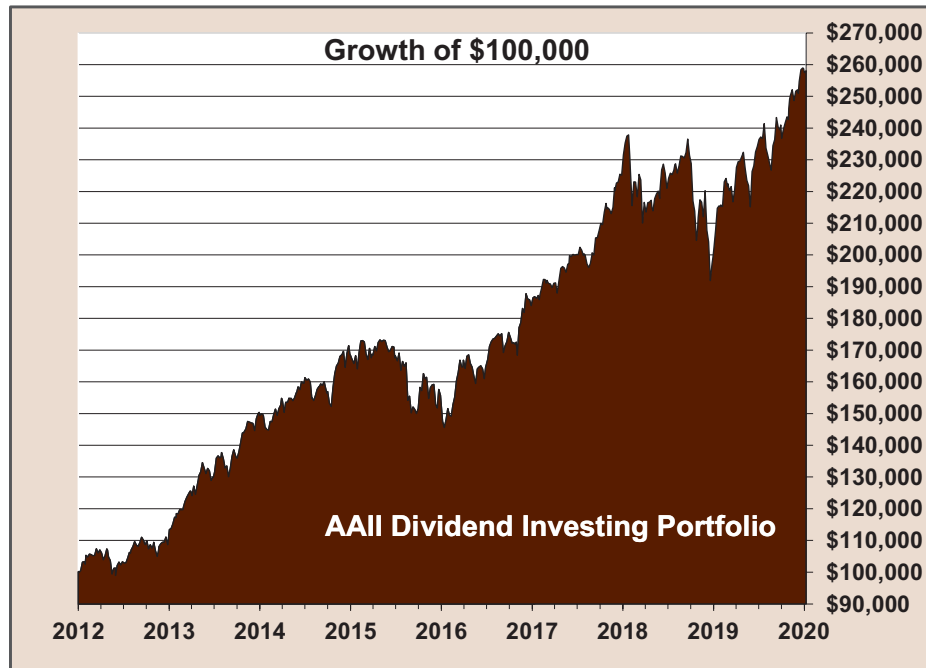
closer to its five-year average yield as Anadarko assets are sold, debt is paid down and cost synergies are achieved.

The company is executing on its promise to divest assets. Occidental already has an agreement to sell Anadarko's African assets for \$9 billion, representing the bulk of the \$10 billion to \$15 billion in assets Occidental plans to sell off over the next 12 months to 24 months that do not fit its core focus. With several recently announced asset sales, Occidental continues to make progress toward meeting its \$15 billion divestiture target.

Occidental has repaid \$7.0 billion of debt less than five months after closing the Anadarko acquisition, including all 2020 debt maturities.

The company reports that it is cash-flow breakeven at lower oil prices and that the dividend is sustainable long-term at \$40 per barrel. As of the close on January 7, U.S. crude oil benchmark West Texas Intermediate (WTI) is \$62.70 per barrel. Due to the company's 2020 oil hedging program, Occidental has reduced the risk of a significant decrease in the price of oil. For every \$1 increase in oil prices, Occidental's free cash flow

Performance of DI Portfolio



Performance

	Dividend Investing Portfolio			Dow Jones U.S. Index (IYY)		
Dividend Yield	2.9%			1.8%		

	Dividend Investing Portfolio*			Dow Jones U.S. Index (IYY)		
	Total Return	Income Return	Capital Gain/(Loss)	Total Return	Income Return	Capital Gain/(Loss)
December	2.9%	0.3%	2.6%	2.8%	0.6%	2.2%
2020 YTD	(1.1%)	0.2%	(1.3%)	0.3%	0.0%	0.3%
2019	29.9%	3.9%	26.0%	30.8%	2.5%	28.3%
2018	(11.5%)	2.6%	(14.1%)	(5.2%)	1.7%	(6.9%)
2017	22.3%	3.4%	18.9%	21.3%	2.0%	19.3%
2016	18.2%	3.9%	14.3%	12.0%	2.1%	9.9%
2015	(7.7%)	2.9%	(10.6%)	0.4%	1.9%	(1.5%)
2014	12.2%	3.0%	9.2%	12.9%	2.0%	10.9%
2013	36.5%	3.6%	32.9%	32.6%	2.3%	30.3%
2012*	10.2%	3.5%	6.7%	14.4%	2.3%	12.1%
From Inception	155.9%	54.0%	101.9%	190.4%	39.9%	150.5%

Performance as of 1/7/2020.

*The AAI Dividend Investing portfolio started on January 3, 2012. The portfolio is run as if managed by a subscriber and includes delays in reaction time to portfolio alerts, actual commissions and bid-ask spreads.

increases by \$260 million per year.

During its third-quarter earnings call, Occidental reiterated that its top priorities are to maintain its low-cost production base, maintain and grow its dividend per share at a sustainable level, reduce capital spending to support average annual production growth of 5%, deleverage to maintain

an investment-grade credit rating and resume share repurchases once deleveraging is complete.

As we went to press, Mizuho analyst Paul Sankey said the “worst is behind the company” with an “increasing line of sight” for sustainable dividend growth in 2022 and beyond. Sankey expects the wells obtained

in the Anadarko deal to continue to improve as Occidental transitions the acreage to full field development and believes the deal’s capital synergy targets are more than achievable.

If assessments are correct, Occidental will pay down debt quickly, achieve significant cost savings synergies and remain committed to its dividend. None of this is to say that there won’t be short-term turbulence. The bottom in oil prices is unknown, but the upside potential for Occidental outweighs any further downside risk. Value investing strategies reward investors for taking short-term risks. Enjoy the dividend while waiting for its potential to play out.

Dividend News

Five stocks in the DI portfolio declared dividends during December, three of which were in line with the previous quarter’s payment: Medtronic, Royal Caribbean Cruises Ltd. (RCL) and Williams-Sonoma.

Amgen Inc. (AMGN) declared a dividend in December, raising its quarterly cash dividend by 10.3%, from \$1.45 to \$1.60 per share. Amgen’s current dividend yield of 2.7% is above its five-year average of 2.2%. The company has paid a dividend since 2011 and has increased it for eight consecutive years. The dividend is payable on March 6, 2020, to shareholders of record as of February 14. The stock will trade ex-dividend on Thursday, February 13. Amgen’s dividends have expanded at a 22.9% average annual rate over the last five fiscal years.

Eastman Chemical Co. (EMN) declared a dividend in December, raising its quarterly cash dividend by 6.5%, from \$0.62 to \$0.66 per share. Eastman’s current dividend yield of 3.5% is above its five-year average of 2.4%. The company has paid a dividend since 1994 and has increased it for 10 consecutive years. The higher dividend was payable on January 3, 2020, to shareholders of record as of December 16. The stock traded ex-dividend on Friday, December 13.

Portfolio News

Strongest Stocks During December

Royal Caribbean Cruises Ltd. (RCL) was the strongest performer in the DI portfolio for December, with shares climbing 11.2% during the month. Shares continued to recover following the company's weaker-than-expected results for the third quarter of 2019 in late October.

Despite recent turbulence in the cruise ship industry, Royal Caribbean maintains an outlook for earnings growth. The company has several bullish factors going for it, including its long-term growth strategy focused on certain international markets and its brand name as the second-largest cruise company. Royal Caribbean also continues to expand its fleet and plans to launch new mega-ships over the next few years.

Additionally, Royal Caribbean declared a quarterly cash dividend of \$0.78 per share during December, in line with the previous dividend. The company's current dividend yield of 2.4% compares to its five-year average high of 2.2% and its five-year average low of 1.4%.

Occidental Petroleum (OXY) was up 6.8% through the end of December as one of the best-performing stocks in the DI portfolio for the month. The company made progress toward its goal of divesting non-core assets during December while benefitting from the effects on the global market from relaxed tariff escalation and a possible boost to oil prices on the global market.

Occidental sold two office towers, a 125-thousand-square-foot warehouse space and 9.3 acres of developable land in Texas for \$565 million, which includes Occidental's Century Park campus in the West Houston Energy Corridor—a 63-acre campus with 17 office buildings. Occidental will lease a selection of the properties for the next 13 years.

Occidental also reduced its stake in Western Midstream Partners LP (WES), which will operate as an independent company. Occidental intends to continue its operational relationship with Western Midstream and

Recent Earnings Announcements

Ticker	Company	Date	Reported	Expected	Surprise
		Reported	Earnings	Earnings	%
<i>No companies reported earnings during December.</i>					

expects to maintain a significant stake that Occidental will reduce to below 50% during 2020. This action will ease Occidental's debt load, which the company says will provide increased transparency into the performance of its core businesses.

Additionally, former Schlumberger chairman and CEO Andrew Gould has been elected to Occidental's board of directors. Gould led Schlumberger from 2003 to 2011 and spent 36 years with the company. He served as non-executive chairman of BG Group from 2012 until its sale to Royal Dutch Shell in 2016. He is also on the boards of Saudi Aramco and BJ Services.

Occidental's current dividend yield of 7.0% compares to its five-year average high of 5.7% and its five-year average low of 3.9%.

Texas Instruments (TXN) gained 6.7% in December, making it the third-best holding in the DI portfolio. Following a difficult year for the sector, semiconductor stocks were boosted by the U.S. and China reaching an initial trade pact during the month.

Additionally, chip-related stocks rallied against the broader market as optimism grew for the sector going into 2020. While there was no company-specific news during the month, shares of Texas Instruments benefited from competitor news including raised guidance and analyst upgrades.

The new upsides for the semiconductor market contrast with Texas Instruments' guidance cut at the end of the third quarter of 2019 for the fourth quarter, which was hampered by uncertainty surrounding global trade tariffs.

The company's current dividend yield of 2.8% compares to its five-year average high of 2.7% and its five-year average low of 1.8%.

For more on Texas Instruments, see pages 12 and 13.

Weakest Stocks During December

Cummins Inc. (CMI) was the worst-performing stock in the DI portfolio for the month of December, down 2.1%. There was no company-specific news to explain the price decline. In October, the company reported third-quarter 2019 adjusted diluted earnings per share of \$3.83, which met the I/B/E/S consensus estimate of \$3.827.

Following a drop in revenue by 3% to \$5.8 billion during third-quarter 2019, Cummins narrowed its guidance for full-year 2019 revenue; it now expects revenue to decline by 2% compared to prior guidance of flat revenue. The reduction in revenue forecast is primarily driven by lower truck production in North America, India, Brazil and Europe, as well as lower demand in off-highway markets, including North American construction and global mining markets.

In late November, Cummins confirmed its plans to lay off approximately 2,000 workers during the first quarter of 2020 due to a downturn in the construction, trucking and power-generating markets. Cummins plans to effectively manage through a cyclical sector downturn by lowering structural costs by \$250 million to \$300 million in 2020.

Cummins' current dividend yield of 3.0% compares to its five-year average high of 3.5% and its five-year average low of 2.2%.

Walgreens Boots Alliance (WBA) declined 1.1% in December, making it the second-worst DI performer of the month. The decline was mostly driven by analyst downgrades made in the middle of the month combined with the broader market's decline. Additionally, the company continues to face pressure from falling reimbursement rates that insurance companies pay for prescription drugs.

On a news basis, Walgreens Boots Alliance signed multiple joint venture

Dividend Payments

Ticker	Company	Months Dividend Paid	Quarterly Dividend Payment			Payment Amount	Ann'l Ind Div	Div Yield	Direct Invest	DRIP Plan
			Ex-Dividend Date	Date Payable						
AMGN	Amgen, Inc.	3, 6, 9, 12	Thu Feb 13, 2020	Fri Mar 6, 2020	\$1.6000 ↑	\$6.40	2.7%	--	Yes	
BLK	BlackRock, Inc.	3, 6, 9, 12	Thu Dec 5, 2019	Mon Dec 23, 2019	\$3.3000	\$13.20	2.6%	--	--	
CMA	Comerica Inc.	1, 4, 7, 10	Thu Dec 12, 2019	Wed Jan 1, 2020	\$0.6700	\$2.68	3.9%	Yes	Yes	
CBRL	Cracker Barrel	2, 5, 8, 11	Thu Jan 16, 2020	Wed Feb 5, 2020	\$1.3000	\$5.20	3.4%	Yes	Yes	
CMI	Cummins Inc.	3, 6, 9, 12	Wed Nov 13, 2019	Mon Dec 2, 2019	\$1.3110	\$5.24	3.0%	No	Yes	
EMN	Eastman Chemical Co.	1, 4, 7, 10	Fri Dec 13, 2019	Fri Jan 3, 2020	\$0.6600 ↑	\$2.64	3.5%	Yes	Yes	
ETN	Eaton Corporation	3, 5, 8, 11	Thu Oct 31, 2019	Fri Nov 15, 2019	\$0.7100	\$2.84	3.0%	Yes	Yes	
HD	Home Depot Inc.	3, 6, 9, 12	Wed Dec 4, 2019	Thu Dec 19, 2019	\$1.3600	\$5.44	2.5%	Yes	Yes	
HBAN	Huntington Bancshares	1, 4, 7, 10	Tue Dec 17, 2019	Thu Jan 2, 2020	\$0.1500	\$0.60	4.2%	Yes	Yes	
IBM	IBM Corp.	3, 6, 9, 12	Thu Nov 7, 2019	Tue Dec 10, 2019	\$1.6200	\$6.48	4.8%	Yes	Yes	
IP	International Paper Co.	3, 6, 9, 12	Thu Nov 14, 2019	Mon Dec 16, 2019	\$0.5125 ↑	\$2.05	4.7%	Yes	Yes	
MDT	Medtronic PLC	1, 4, 7, 10	Thu Dec 26, 2019	Fri Jan 17, 2020	\$0.5400	\$2.16	1.9%	Yes	Yes	
OXY	Occidental Petroleum	1, 4, 7, 10	Mon Dec 9, 2019	Wed Jan 15, 2020	\$0.7900	\$3.16	7.0%	Yes	Yes	
PEP	PepsiCo, Inc.	1, 3, 6, 9	Thu Dec 5, 2019	Tue Jan 7, 2020	\$0.9550	\$3.82	2.9%	Yes	Yes	
PII	Polaris Inc.	3, 6, 9, 12	Fri Nov 29, 2019	Mon Dec 16, 2019	\$0.6100	\$2.44	2.6%	--	Yes	
PFG	Principal Financial Group	3, 6, 9, 12	Mon Dec 2, 2019	Fri Dec 27, 2019	\$0.5500	\$2.20	4.0%	Yes	Yes	
RCL	Royal Caribbean Cruises Ltd.	1, 4, 7, 10	Thu Dec 19, 2019	Mon Jan 6, 2020	\$0.7800	\$3.12	2.4%	--	--	
SNA	Snap-on Incorporated	3, 6, 9, 12	Tue Nov 19, 2019	Tue Dec 10, 2019	\$1.0800 ↑	\$4.32	2.6%	Yes	Yes	
TXN	Texas Instruments	2, 5, 8, 11	Wed Oct 30, 2019	Mon Nov 18, 2019	\$0.9000 ↑	\$3.60	2.8%	Yes	Yes	
TSN	Tyson Foods, Inc.	3, 6, 9, 12	Thu Feb 27, 2020	Fri Mar 13, 2020	\$0.4200	\$1.68	1.9%	Yes	Yes	
UNP	Union Pacific Corp.	3, 6, 9, 12	Wed Nov 27, 2019	Mon Dec 30, 2019	\$0.9700	\$3.88	2.2%	Yes	Yes	
UNH	UnitedHealth Group Inc	3, 6, 9, 12	Fri Dec 6, 2019	Tue Dec 17, 2019	\$1.0800	\$4.32	1.5%	--	--	
WBA	Walgreens Boots Alliance	3, 6, 9, 12	Fri Nov 15, 2019	Thu Dec 12, 2019	\$0.4575	\$1.83	3.1%	Yes	Yes	
WSM	Williams-Sonoma, Inc.	2, 5, 8, 11	Thu Jan 23, 2020	Fri Feb 28, 2020	\$0.4800	\$1.92	2.6%	--	--	

↑ Quarterly dividend increased from prior quarter.
 ↓ Quarterly dividend decreased from prior quarter.

Bold dates indicate dividend actions during this month.

Sources: AAIL Stock Investor Pro, Refinitiv and company releases.

Data as of 1/7/2020.

agreements during December, including a deal with McKesson Corp. (MCK) to create a joint venture that will combine their respective pharmaceutical wholesale businesses in Germany, Alliance Healthcare Deutschland and GEHE Pharma Handel; and a deal with Kroger Co. (KR) to form a new group purchasing organization called Retail Procurement Alliance. Both joint ventures are set to improve purchasing efficiencies, lower costs and help drive further innovation.

There has been no further news regarding KKR & Co. Inc. (KKR) approaching Walgreens about a deal to take the company private. Walgreens' current dividend yield of 3.1% compares to its five-year average high of 2.5% and its five-year average low of 1.8%.

Walgreens reported first-quarter 2020 earnings results right before we went to press. They are discussed in the January

10 DI weekly commentary, available on the DI website.

Home Depot Inc. (HD) was the third-worst-performing stock in the DI portfolio for December, down by 1.0%. Home Depot's underperformance is largely attributed to impacts from a softening housing market, the trade spat between the U.S. and China and issues with its multi-year digital investment strategy.

In November, Home Depot lowered its outlook for fiscal 2019 following third-quarter 2019 earnings. The company predicts that full-year 2019 sales will grow by approximately 1.8%, compared to prior guidance of 2.3%. The company also expects comparable-store sales to grow by about 3.5% to 4.0%, compared to prior guidance of 4.0% to 4.5%. The company's rather disappointing third-quarter 2019 earnings and lowered guidance for fiscal 2019 were partly driven by seasonal headwinds such

as hurricanes and deflation in lumber prices.

CEO Craig Menear stated that the company missed sales expectations for third-quarter 2019 primarily due to issues with its digital transformation initiative. The company's digital transformation initiative is taking longer than initially expected to deliver a return and will cut into near-term sales growth.

Despite the lowered guidance for sales growth, the company reported third-quarter 2019 earnings of \$2.53 per diluted share, in line with the I/B/E/S consensus estimate. Sales for the quarter increased by 3.5% to \$27.2 billion year over year.

Home Depot's current dividend yield of 2.5% is above its five-year average high of 2.2% and its five-year average low of 1.6%. ■

Dividend Analysis

Ticker	P/E Ratio (TTM)	Dividend Yield					Est EPS Growth Rate (3-5 Yr)	Div Growth Rate (5 Yr)	First Year Div Paid	Consecutive Years Div Raised	Payout Ratio: EPS		Payout Ratio: FCFPS (12 Month)	Liab to Assets
		Current	1 Yr Ago	5 Yr Avg							12 Month	5 Yr Avg		
				Avg	High	Low								
AMGN	18.3	2.7%	2.7%	2.2%	2.6%	1.9%	7.9%	22.9%	2011	8	43%	64%	37%	82%
BLK	19.6	2.6%	2.7%	2.4%	2.9%	2.0%	5.8%	12.3%	2003	10	50%	42%	107%	80%
CMA	8.8	3.9%	2.3%	1.7%	2.2%	1.4%	3.6%	22.8%	1936	8	33%	28%	27%	90%
CBRL	17.0	3.4%	2.9%	3.0%	3.4%	2.6%	na	10.8%	1982	17	55%	54%	55%	72%
CMI	11.1	3.0%	3.0%	2.7%	3.5%	2.2%	0.0%	14.6%	1948	10	29%	46%	28%	62%
EMN	14.0	3.5%	2.7%	2.4%	2.8%	2.0%	4.3%	13.3%	1994	10	44%	28%	30%	63%
ETN	16.9	3.0%	3.4%	3.3%	4.0%	2.8%	6.6%	9.5%	1923	10	49%	49%	42%	50%
HD	21.7	2.5%	2.2%	1.8%	2.2%	1.6%	8.4%	21.4%	1987	10	51%	43%	50%	102%
HBAN	11.3	4.2%	3.1%	2.4%	2.9%	2.1%	5.3%	21.2%	1971	9	43%	33%	43%	89%
IBM	12.3	4.8%	4.6%	3.7%	4.5%	3.2%	1.4%	10.9%	1915	24	74%	56%	44%	88%
IP	12.5	4.7%	4.0%	3.6%	4.6%	3.1%	na	9.0%	1946	8	58%	68%	34%	78%
MDT	33.5	1.9%	2.2%	2.0%	2.3%	1.7%	7.6%	12.3%	1977	42	60%	62%	44%	45%
OXY	32.5	7.0%	4.6%	4.6%	5.7%	3.9%	(18.3%)	3.9%	1975	17	238%	na	128%	71%
PEP	16.5	2.9%	3.1%	2.8%	3.2%	2.5%	4.2%	9.9%	1952	47	43%	67%	86%	82%
PII	18.7	2.6%	2.8%	2.2%	3.0%	1.8%	na	7.4%	1995	24	47%	51%	49%	78%
PFG	11.7	4.0%	4.1%	3.1%	4.0%	2.6%	5.7%	16.5%	2002	11	46%	34%	10%	95%
RCL	14.3	2.4%	2.1%	1.7%	2.2%	1.4%	10.2%	28.6%	1995	7	31%	33%	174%	60%
SNA	13.3	2.6%	2.0%	1.6%	1.9%	1.4%	6.8%	16.6%	1939	10	30%	28%	35%	41%
TXN	24.0	2.8%	2.5%	2.2%	2.7%	1.8%	10.0%	19.7%	1962	16	56%	49%	48%	50%
TSN	16.0	1.9%	1.9%	1.4%	1.8%	1.1%	10.2%	38.0%	1976	8	27%	17%	43%	58%
UNP	21.0	2.2%	1.7%	1.9%	2.4%	1.6%	10.1%	15.4%	1899	9	39%	34%	46%	71%
UNH	21.1	1.5%	1.2%	1.3%	1.6%	1.1%	13.5%	26.8%	1990	10	28%	28%	30%	68%
WBA	13.8	3.1%	2.2%	2.1%	2.5%	1.8%	2.5%	6.9%	1933	44	41%	37%	41%	65%
WSM	17.0	2.6%	3.0%	2.5%	3.1%	2.1%	2.8%	7.9%	2006	10	42%	43%	45%	71%

Data as of 1/7/2020.

Definitions of Terms Used in Tables

Ann'l Ind Div: The total dollar amount of cash dividends forecast to be paid over the next 12 months.

Consecutive Years Div Raised: The number of current years the company has continuously increased the annual dollar amount of the dividend.

Date Payable: The date a company will distribute (or has distributed) the most recent quarterly dividend.

DI Purchase Price: The average cost basis per share of the stocks purchased for the real DI tracking portfolio. The average cost basis includes any commissions incurred for the purchase and is adjusted for stock splits and spin-offs, if appropriate.

Direct Invest: Denotes companies that offer a direct investment program, which allows investors to buy their initial shares directly from a company, without having to go through a broker.

Div Growth Rate (5 Yr): The compound annual percentage change in dividends per share over the past five years. Positive numbers show an increase in the dollar amount of dividends paid.

Div Yield (or Current Dividend Yield): Projected dividend payments for the next 12 months divided by the current stock price. This number shows, in percentage form, how much income can be expected relative to the current stock price.

Dividend Yield—1 Year Ago: The stock's

dividend yield (dividends divided by price) from one year ago. **5 Year Averages:** The stock's average and average high and low dividend yields over the past five years.

DRIP Plan: Denotes companies that offer a dividend reinvestment plan, which allows shareholders to use cash dividends to acquire additional shares of stocks, including partial amounts.

Est EPS Growth Rate (3-5 Yr): The forecast annual growth rate in earnings per share for the next three to five years.

Ex-Dividend Date: The date used by the exchanges to determine who owns shares of a company. This is one trading day before the record date. Investors must purchase shares prior to the ex-dividend date to receive the dividend.

First Year Dividend Paid: The first year a company paid its dividend. If a dividend was suspended, the date is the first year the dividend was reinstated.

Liab to Assets: Total liabilities divided by total assets. A measure of balance sheet strength, lower percentages signal a lower proportionate amount of debt.

Market Cap (Mil): A measure of company size, this is the current share price multiplied by the number of shares outstanding, expressed in millions of dollars.

Months Dividends Paid: The calendar months the company has typically paid dividends to shareholders (1 = January, 2 = February, 3 =

March, etc.).

Payment Amount: The dollar amount of the current quarterly dividend payment. An up arrow (↑) indicates that the dividend is higher than that paid last quarter. If no arrow is displayed, the dividend has not changed from the prior quarter.

Payout Ratio: EPS—12 Month: The percentage of earnings paid out as dividends over the latest 12-month period. **5 Year Average:** The average payout ratio for the previous five years. A payout ratio of 100% means the dollar amount of dividends paid equals the dollar amount of profits earned.

Payout Ratio: FCFPS (12 Month): The percentage of free cash flow per share paid out as dividends over the latest 12-month period. Free cash flow is cash flow from operating activities less capital expenditures. A measure of a company's ability to both pay dividends and increase its cash balance.

P/E Ratio (TTM): The price-earnings ratio (price divided by earnings) based on reported earnings per share for the previous 12 months (trailing 12 months).

Total Return Since Purchase—Stock: The change in a stock's price plus the value of all dividends received during the holding period divided by the commission-adjusted purchase price. **Index:** The total return of the benchmark index since the stock was added to the DI tracking portfolio, expressed as a percentage.

D

Eaton Corp. (ETN)

Eaton Corp. is a global manufacturer of products that help to manage electrical, hydraulic and mechanical power.

Eaton's electrical segment (63% of third-quarter 2019 sales; 19% margin) consists of electrical components, industrial components, residential products, single-phase power quality, emergency lighting, fire detection, wiring devices, structural support systems, circuit protection and lighting products. Its hydraulics segment (11% of sales; 12% margin) makes items such as pumps, cylinders, valves and hydraulic power units. The aerospace segment (10% of sales; 25% margin) makes systems and applications for commercial and military aircraft. The segment is seeing strength for the military market, specifically for fighters, rotorcraft and aftermarket, as well as for business jets. The vehicle segment (14% of sales; 18% margin) makes truck transmissions, antilock braking systems and engine management systems. The new eMobility segment (2% of sales) deals with the vehicle and mobile equipment electrification market. It has reincorporated in Ireland to minimize corporate taxes, so its dividends have been treated as a return of capital.

Growth Trends

For the third quarter of 2019, Eaton reported adjusted earnings of \$1.52 per share, up 6% over the third quarter of 2018. Quarterly sales were down 2% year over year.

Eaton's quarterly results were 0.6% above the I/B/E/S consensus estimate. Segment margins were 18.6% in the third quarter, 1.0 percentage point above the same level one year ago.

Sales have declined at an annualized rate of 0.4% over the last five years, while net income has expanded by 2.9% on average and diluted earnings from continuing operations have grown 4.7% on average over the same period.

Eaton anticipates full-year 2019 adjusted earnings per share to be between \$5.67 and \$5.77, down from original guidance between \$5.72 and \$6.02. Organic revenue growth is expected to be around 1%, down from its initial estimate of 3%. The downward guidance is due to weakness in the global mobile equipment (hydraulics segment) and light vehicle markets.

Analysts are projecting earnings of \$5.72 per share for 2019, with a range of \$5.68 to \$5.77 per share. Earnings are

expected to increase 16.6% this year and increase 1.3% for 2020. The long-term consensus earnings growth rate is 6.6%, with a range of 5.1% to 7.1%.

Eaton has a history of returning excess cash to its shareholders in the form of dividends. The company has paid a dividend every year since 1923. It has increased its annual payout for the last 10 consecutive years. The company has stated that its goal is to increase its dividend in line with long-term earnings. Dividends have expanded at a 9.5% average annual rate over the last five fiscal years. Eaton's last dividend increase was 7.6%, declared on February 27, 2019.

Financial Strength

Eaton has positive operating cash flow of \$3.3 billion, which has been growing over the last five years. Operating cash flow in the third quarter was \$1.1 billion, a new quarterly record.

The operating margin was 14.0% over the last four quarters, above its 11.4% five-year average and well above the industry median of 6.6%. The net profit margin was 11.1%, just above its 10.3% five-year average and well above the industry median of 4.9%.

Eaton has a reasonable current earnings payout ratio of 49.4%, which matches its five-year average rate.

Eaton intends to repurchase around \$1 billion of its shares for the full year and has already repurchased \$950 million through the third quarter.

Eaton's total liabilities to assets rose slightly to 50.3%, near its five-year average of 50%, after declining over the last five years.

Valuation

The stock currently trades with a 3.0% dividend yield, below its five-year historical average of 3.3%. Eaton was the second-best-performing DI stock of 2019, gaining 42.9%.

The stock's current price-earnings ratio of 16.9 is below the 20.4 median for the electrical components & equipment industry. The forward price-earnings ratio is 16.4 based on projected 2020 earnings per share.

Risks

With more than 50% of Eaton's revenue tied to international markets, the company is open to risk in the form of currency translation—a negative 1.5% impact on sales compared to the same period a year ago. Eaton expects currency translations to have a \$350 million negative impact during 2019.

Many of Eaton's end markets are tied to heavy industrial industries, such as mining, commodity and energy extraction. Weakness in these cyclical industries can significantly affect Eaton.

Eaton signed an agreement in October to sell its lighting business, which the company had been trying to "turn around" recently, for \$1.4 billion.

Eaton is a multinational company subject to tariffs, which can be a headwind. ■

Bullish Factors

- Significant free cash flow used to boost dividend, repurchase shares and make strategic acquisitions
- Reasonable dividend valuation
- Good margins relative to industry and sector norms

Bearish Factors

- Diversified, but can suffer during economic slowdown
- Foreign exchange remains a potential headwind
- Organic growth consistent, but slow

ETN

\$94.84 (\$95.88 - \$67.97)

Addition Alert Date: 12/31/2011

Price at Alert: \$43.53

Risk Index: 1.73

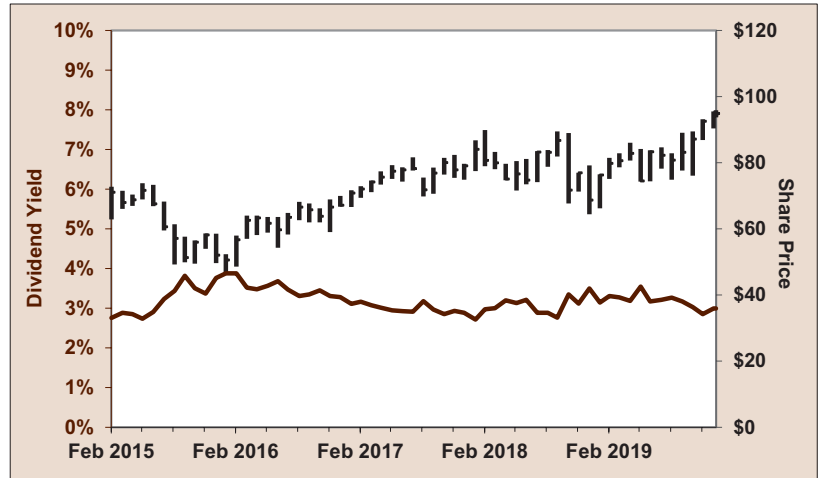
Market Cap (Million): \$39,413.6

Avg Daily Dollar Volume (Million): \$221.2

Primary Sector: Industrials

Primary Industry: Electrical Components & Equipment

Eaton Corp. is a diversified power management company. It is engaged in the manufacturing of electrical components and systems for power quality, distribution and control; hydraulics components, systems and services for industrial and mobile equipment; aerospace fuel, hydraulics and pneumatic systems for commercial and military use; and truck and automotive drivetrain and powertrain systems for performance, fuel economy and safety. It has six segments: electrical products, electrical systems and services, hydraulics, aerospace, vehicle and eMobility. In 2012, Eaton acquired Cooper Industries plc and relocated to Ireland.



Indicated Annual Dividend:	\$2.84
Latest Dividend Increase: Date	Feb 27, 2019
Latest Dividend Increase: %	7.6%
Dividend Yield: Current	3.0%
Dividend Yield: 5-Year Avg (High-Low)	3.3% (4% - 2.8%)
Dividend Paid Since:	1923
Number of Years of Div Increases:	10
Direct Invest Option:	Yes
DRIP Plan:	Yes

Declared	Ex-Div Date	Payable	Amount
Oct 22, 2019	Oct 31, 2019	Nov 15, 2019	\$0.7100
Jul 23, 2019	Aug 1, 2019	Aug 16, 2019	\$0.7100
Apr 23, 2019	May 2, 2019	May 17, 2019	\$0.7100
Feb 27, 2019	Mar 7, 2019	Mar 22, 2019	\$0.7100
Oct 23, 2018	Nov 1, 2018	Nov 16, 2018	\$0.6600
Jul 24, 2018	Aug 2, 2018	Aug 17, 2018	\$0.6600

	Stock Gain	Rel Strgth Index	Rel Strgth Rank
4 Week	2%	1.00	53%
13 Week	21%	1.10	78%
26 Week	18%	1.09	79%
52 Week	38%	1.09	79%

Growth	TTM	3 Year	5 Year
Dividends	5.7%	6.3%	9.5%
Sales	1.2%	1.2%	(0.4%)
Net Income	(18.8%)	2.8%	2.9%
EPS Basic	5.7%	5.2%	4.7%
EPS Dil Cont	5.7%	5.2%	4.7%

Est Surprise	EPS	% Surp	SUE Score
Oct 29, 2019	\$1.52	0.6%	0.50
Jul 30, 2019	\$1.53	1.3%	1.30

EPS Estimates	Quarterly 12/2019	Annual 12/2019	Annual 12/2020
# of Estimates	22	25	25
Current	\$1.42	\$5.72	\$5.80
Month Ago	\$1.43	\$5.73	\$5.92
# Rev Up	2	2	0
# Rev Down	5	5	12
Three Mos. Ago	\$1.51	\$5.82	\$6.06
Year/Year Chg	(2.9%)	16.6%	1.3%

EPS (Qtr)	9/2019	6/2019	3/2019	12/2018	Total
TTM	\$1.44	\$1.50	\$1.23	\$1.46	\$5.62
Year Ago	\$0.95	\$1.40	\$1.25	\$1.15	\$4.75

Sales/Sh (Qtr)	9/2019	6/2019	3/2019	12/2018	Total
TTM	\$12.76	\$13.12	\$12.51	\$12.70	\$51.09
Year Ago	\$12.48	\$12.61	\$11.88	\$11.66	\$48.62

Sources: AAIL Stock Investor Pro, Refinitiv and I/B/E/S.

Multiples	Current	12/2018	12/2017	12/2016	12/2015	12/2014
Dividend Yield (%): Avg	3.0	3.3	3.1	3.1	3.8	3.2
Dividend Yield (%): High		4.0	3.7	3.4	4.8	4.0
Dividend Yield (%): Low		2.8	2.7	2.8	3.1	2.7
Price/Earnings	16.9	16.5	11.8	17.7	13.8	16.4
Price/Earnings (Industry)	20.4	19.4	20.7	23.7	20.3	19.2
Price/Book Value	2.5	2.2	2.0	2.3	1.8	1.9
Price/Sales	1.8	1.6	1.7	1.7	1.3	1.3

Ratios	Current	12/2018	12/2017	12/2016	12/2015	12/2014
Payout Ratio: EPS (%)	49.4	53.5	35.7	54.1	51.9	51.8
Payout Ratio: FCFPS (%)	42.4	54.8	49.7	50.0	53.8	74.6
Gross Margin (%)	33.1	32.8	32.6	(35.8)	31.4	30.6
Operating Margin (%)	14.0	12.5	12.4	11.9	11.3	8.8
Operating Margin (%) (Ind)	6.6	5.9	5.9	5.5	6.4	4.8
Net Margin (%)	11.1	9.9	14.6	9.7	9.5	8.0
ROE (%)	14.8	12.9	18.5	12.7	12.7	11.0
ROE (%) (Industry)	10.3	11.5	10.0	9.5	9.9	11.0
ROA (%)	7.5	6.7	9.5	6.2	6.1	5.2
Current Ratio	1.7	1.5	1.6	1.3	1.4	1.5
Liabilities to Assets (%)	50.3	48.2	47.1	50.9	51.0	52.9
Liab to Assets (%) (Ind)	48.6	47.2	47.1	48.2	45.1	45.1
Asset Turnover	0.7	0.7	0.6	0.6	0.6	0.7

Financial Statements	TTM	12/2018	12/2017	12/2016	12/2015	12/2014
Sales (\$M)	21,611	21,609	20,404	19,747	20,855	22,552
Gross Income (\$M)	7,159	7,097	6,646	(7,069)	6,551	6,906
Depreciation & Amort. (\$M)	891	903	914	929	925	983
Unusual/Extra (\$M)	--	275	4	0	0	644
Operating Income (\$M)	3,034	2,694	2,535	2,344	2,365	1,988
Interest Expense (\$M)	0	0	0	0	0	0
Pretax Income (\$M)	2,785	2,424	3,368	2,118	2,133	1,761
Net Income (\$M)	2,390	2,145	2,985	1,916	1,972	1,793
Operating Cash Flow (\$M)	3,334	2,658	2,666	2,570	2,409	1,878
Investing Cash Flow (\$M)	(974)	(398)	(217)	(529)	(575)	143
Financing Cash Flow (\$M)	(2,136)	(2,581)	(2,442)	(1,738)	(2,305)	(2,130)
Capital Expenditures (\$M)	595	565	520	497	506	632
Net Cash Flow (\$M)	222	(278)	18	275	(513)	(134)
EPS Basic (\$)	5.65	4.94	6.72	4.21	4.24	3.78
EPS Diluted Cont (\$)	5.63	4.91	6.54	4.20	4.22	3.76
EPS DC Year/Year Chg (%)	5.7	(24.9)	55.8	(0.6)	12.3	(3.7)
Dividends/Share (\$)	2.79	2.64	2.40	2.28	2.20	1.96
Dividend Year/Year Chg (%)	5.7	10.0	5.3	3.6	12.2	16.7
Free Cash Flow/Share (\$)	6.57	4.82	4.83	4.56	4.09	2.63
Cash (\$M)	830	440	1,095	746	445	1,026
Goodwill/Intangibles (\$M)	17,994	18,174	18,833	18,715	25,507	20,449
Total Assets (\$M)	31,895	31,092	32,623	30,476	30,996	33,529
Long-Term Debt (\$M)	8,013	6,768	7,167	6,711	7,746	8,024
Total Liabilities (\$M)	16,047	14,985	15,370	15,522	15,810	17,743
Book Value/Share (\$)	38.04	37.09	38.81	32.87	32.62	33.30
Avg Shares Outs'g (M)	416.6	434.3	444.5	455.0	465.5	474.1

Data as of 1/7/2020.

Principal Financial Group (PFG)

Principal Financial Group provides financial services to individuals, companies and institutional investors. The company's products and services include insurance, mutual funds, annuities and financial management. Principal has offices in 19 countries and serves investors in 80 countries. In the U.S., Principal focuses on small- and medium-sized businesses. As of September 30, 2019, assets under management totaled \$703 billion, excluding the July 2019 acquisition of Wells Fargo's Institutional Retirement & Trust business.

The company's retirement and income solutions segment provides defined-contribution plan [e.g., 401(k) plan], pension plan, employee stock ownership plan and nonqualified executive benefit plan services. The global investors segment provides global asset management services—including mutual funds and annuities—through a network of specialized investment groups and boutiques. The international segment provides annuities, mutual funds and related services. The specialty benefits segment provides group dental, vision, life and disability insurance. The individual life insurance segment serves companies and high-net-worth individuals. The corporate segment manages assets not attributed to the other segments.

Principal has a global reach with a broad range of financial products. The company has previously described itself as being the number one provider of defined-benefit (pension) plans and the fourth-largest provider of defined-contribution plans.

The acquisition of the retirement and trust business unit from Wells Fargo added \$876 billion in assets under administration (AUA). It also expanded Principal's market share in non-retirement businesses.

Growth Trends

Revenues have risen at an 8.7% annualized pace over the past five years. Diluted earnings from continuing operations have risen at an even faster pace, growing at a 12.7% annualized rate over the same period.

Bullish Factors

- Global reach with diverse customers; leading market position among domestic mid- and small-size businesses
- History of high-single-digit revenue growth and double-digit earnings growth, combined with a low price-earnings ratio
- Valuation is attractive with a yield of 4.0% and a price-earnings ratio of 11.7

Bearish Factors

- Timing of dividend increases has been inconsistent, and the payout ratio is near the company's target
- Earnings are impacted by the volatility of the financial markets; changes in stock prices and interest rates are affecting profitability
- Changes in actuarial assumptions have previously led to losses being realized in some product lines

The I/B/E/S consensus estimate calls for the company to have earned \$5.67 per share in 2019, a 4.0% increase from 2018. Analysts anticipate 2020 full-year earnings per share to total \$5.93.

Share buybacks have helped to propel the growth in earnings per share. The company repurchased \$44 million of stock during the third quarter of 2019.

Dividend payments have grown at a 16.5% annualized rate over the past five years. Driving this growth were 11 consecutive quarterly increases made between 2016 and 2018. During the past four quarters, the dividend has been raised just once, in July 2019. Principal has raised its dividend at least once each calendar year since 2009.

Financial Strength

Principal's 12-month operating profit margin of 9.8% is above the life & health insurance industry median of 8.7%. The company has realized a return on equity (ROE) of 10.1%, compared to the 6.2% industry median.

The company's 12-month earnings payout ratio of 45.6% is above its five-year range. Principal has routinely been cash flow positive, which helps to fund the dividend.

The company has continuously paid a dividend since 2002. Dividends were paid annually through 2011, with 2008 being the only year when the dividend was cut instead of raised. Principal deployed a greater-than-expected \$1.8 billion of capital, including the Wells Fargo purchase, during the first nine months of 2019. It expects to spend between \$1.2 billion and \$1.7 billion on dividends, share buybacks and acquisitions in 2020.

Valuation

Principal's current yield of 4.0% is above its five-year average of 3.1%. It is also at the top end of the stock's five-year average range of 2.6% to 4.0%.

The stock trades at just 11.7 times earnings, which places its price-earnings ratio in the cheapest quartile of all stocks.

Risks

Since the company switched to quarterly dividend payments in 2012, there has not been a consistent pattern as to how frequently the dividend was increased. The current payout ratio is above Principal's target of 40%.

Like other asset management and insurance companies, Principal's results are directly impacted by stock market fluctuations, changes in interest rates and the U.S. dollar's valuation.

Buybacks were halted for the Wells Fargo acquisition, but resumed in a smaller size (\$44 million) in the third quarter of 2019. The smaller repurchase activity diminishes one driver of earnings per share growth.

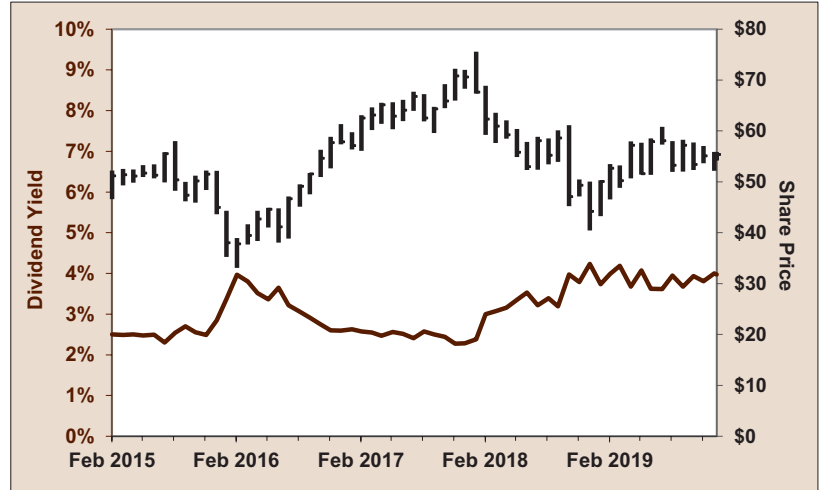
Changes in actuarial assumptions have caused the company to incur losses in some product lines. ■

PFG

\$55.35 (\$60.81 - \$44.78)

Addition Alert Date: 12/9/2016
Price at Alert: \$60.30
Risk Index: 2.08
Market Cap (Million): \$15,272.0
Avg Daily Dollar Volume (Million): \$54.4
Primary Sector: Financials
Primary Industry: Insurance - Life & Health

Principal Financial Group provides a wide array of financial products and services. The company describes itself as a leading financial services firm, the number one provider of defined-benefit (pension) plans, the fourth-largest provider of defined-contribution plans, the number two company in the Latin American pension market and the fifth-largest provider of individual disability insurance. In the U.S., the company provides workplace retirement plan services [both pension and 401(k) plans], asset management, investment products, life insurance and group dental, vision and disability insurance. Internationally, the company provides asset management services to sophisticated investors as well as annuities, mutual funds and related services.



Indicated Annual Dividend:	\$2.20
Latest Dividend Increase: Date	Jul 24, 2019
Latest Dividend Increase: %	1.9%
Dividend Yield: Current	4.0%
Dividend Yield: 5-Year Avg (High-Low)	3.1% (4% - 2.6%)
Dividend Paid Since:	2002
Number of Years of Div Increases:	11
Direct Invest Option:	Yes
DRIP Plan:	Yes

Declared	Ex-Div Date	Payable	Amount
Oct 23, 2019	Nov 30, 2018	Dec 27, 2019	\$0.5500
Jul 24, 2019	Sep 5, 2018	Sep 27, 2019	\$0.5500
Apr 24, 2019	Jun 1, 2018	Jun 28, 2019	\$0.5400
Jan 28, 2019	Mar 2, 2018	Mar 29, 2019	\$0.5400
Oct 24, 2018	Dec 1, 2017	Dec 28, 2018	\$0.5400
Jul 24, 2018	Aug 30, 2017	Sep 28, 2018	\$0.5300

	Stock Gain	Rel Strgth Index	Rel Strgth Rank
4 Week	4%	1.01	61%
13 Week	2%	0.93	42%
26 Week	(5%)	0.87	40%
52 Week	21%	0.96	67%

Growth	TTM	3 Year	5 Year
Dividends	5.9%	11.9%	16.5%
Sales	16.3%	6.0%	8.7%
Net Income	(38.2%)	8.5%	11.9%
EPS Basic	(36.4%)	10.1%	12.6%
EPS Dil Cont	(11.9%)	9.7%	12.7%

Est Surprise	EPS	% Surp	SUE Score
Oct 24, 2019	\$1.23	(15.8%)	(8.20)
Jul 25, 2019	\$1.52	8.4%	3.30

EPS Estimates	Quarterly 12/2019	Annual 12/2019	Annual 12/2020
# of Estimates	13	12	13
Current	\$1.40	\$5.57	\$5.93
Month Ago	\$1.40	\$5.57	\$5.99
# Rev Up	4	4	3
# Rev Down	3	2	5
Three Mos. Ago	\$1.43	\$5.83	\$6.13
Year/Year Chg	68.5%	4.0%	6.5%

EPS (Qtr)	9/2019	6/2019	3/2019	12/2018	Total
TTM	\$0.99	\$1.37	\$1.53	\$0.83	\$4.72
Year Ago	\$1.59	\$1.58	\$1.36	\$0.83	\$5.35

Sales/Sh (Qtr)	9/2019	6/2019	3/2019	12/2018	Total
TTM	\$16.02	\$14.30	\$13.46	\$13.37	\$57.15
Year Ago	\$15.27	\$11.33	\$10.00	\$11.27	\$47.87

Sources: AAIL Stock Investor Pro, Refinitiv and I/B/E/S.

Multiples	Current	12/2018	12/2017	12/2016	12/2015	12/2014
Dividend Yield (%): Avg	4.0%	4.0	3.2	2.5	3.2	2.5
Dividend Yield (%): High		4.9	4.6	2.9	4.5	2.9
Dividend Yield (%): Low		3.5	2.5	2.2	2.4	2.2
Price/Earnings	11.7	9.7	9.9	14.3	11.6	13.7
Price/Earnings (Industry)	14.9	12.9	13.4	17.1	12.0	14.4
Price/Book Value	1.0	1.3	1.3	1.8	1.5	1.5
Price/Sales	1.0	1.0	1.2	1.5	1.2	1.4

Ratios	Current	12/2018	12/2017	12/2016	12/2015	12/2014
Payout Ratio: EPS (%)	45.6	38.8	23.4	35.4	37.0	34.4
Payout Ratio: FCFPS (%)	10.5	11.9	13.4	12.6	10.5	12.9
Gross Margin (%)	--	--	--	--	--	--
Operating Margin (%)	9.8	12.5	15.9	12.7	11.9	14.2
Operating Margin (%) (Ind)	8.7	8.9	10.3	11.2	11.1	9.2
Net Margin (%)	8.3	10.8	16.3	10.5	10.1	10.5
ROE (%)	10.1	12.8	20.0	13.5	12.4	11.2
ROE (%) (Industry)	6.2	7.3	9.7	8.3	9.5	8.5
ROA (%)	0.5	0.6	1.0	0.6	0.6	0.5
Current Ratio	--	--	--	--	--	--
Liabilities to Assets (%)	94.5	95.3	94.9	95.5	95.7	95.4
Liab to Assets (%) (Ind)	86.3	88.4	86.3	87.6	87.2	86.9
Asset Turnover	--	--	--	--	--	--

Financial Statements	TTM	12/2018	12/2017	12/2016	12/2015	12/2014
Sales (\$M)	15,987	14,266	14,175	12,493	11,995	10,556
Gross Income (\$M)	--	6,074	6,352	5,579	5,297	5,325
Depreciation & Amort. (\$M)	644	482	430	472	464	537
Unusual/Extra (\$M)	42	29	82	98	30	78
Operating Income (\$M)	1,566	1,784	2,252	1,592	1,431	1,495
Interest Expense (\$M)	0	0	0	0	0	0
Pretax Income (\$M)	1,565	1,784	2,252	1,592	1,431	1,495
Net Income (\$M)	1,330	1,547	2,310	1,317	1,209	1,111
Operating Cash Flow (\$M)	5,907	5,157	4,188	3,858	4,377	3,103
Investing Cash Flow (\$M)	(6,220)	(5,703)	(4,053)	(5,154)	(3,168)	(1,173)
Financing Cash Flow (\$M)	584	1,053	(384)	1,451	(509)	(2,438)
Capital Expenditures (\$M)	117	92	165	155	136	136
Net Cash Flow (\$M)	271	507	(249)	155	701	(508)
EPS Basic (\$)	4.76	5.41	8.00	4.55	4.06	3.72
EPS Diluted Cont (\$)	4.72	5.36	5.85	4.50	4.06	3.72
EPS DC Year/Year Chg (%)	(11.9)	(8.4)	30.0	10.8	9.1	26.1
Dividends/Share (\$)	2.17	2.10	1.87	1.61	1.50	1.28
Dividend Year/Year Chg (%)	5.9	12.3	16.1	7.3	17.2	30.6
Free Cash Flow/Share (\$)	20.75	17.72	13.93	12.80	14.23	9.93
Cash (\$M)	3,198	2,978	2,471	2,720	2,565	1,864
Goodwill/Intangibles (\$M)	3,492	2,415	2,384	2,346	2,368	2,331
Total Assets (\$M)	270,238	243,036	253,941	228,014	218,660	219,087
Long-Term Debt (\$M)	3,797	3,260	3,178	3,126	3,265	2,531
Total Liabilities (\$M)	255,434	231,646	241,092	217,787	209,349	208,903
Book Value/Share (\$)	53.06	39.85	44.48	35.34	31.25	34.09
Avg Shares Outst'g (M)	279.00	285.80	288.90	289.40	298.00	298.70

Data as of 1/7/2020.

Texas Instruments (TXN)

Texas Instruments is a semiconductor design and manufacturing company. With design, manufacturing or sales operations in more than 30 countries, Texas Instruments is a global supplier of chips to electronics designers and manufacturers. It operates in two primary segments: analog (71% of 2019 third-quarter sales; 77% of operating profit) and embedded processing (19% of sales; 15% of operating profit). The company's "other" segment (10% of sales; 8% of operating profit) includes DLP projectors, calculators, custom ASIC and royalties.

Texas Instruments is the world's largest maker of analog chips. Analog semiconductors are used to condition, amplify or convert signals such as sound, temperature, pressure or images to data that can be processed by other semiconductors. Analog semiconductors are also used to manage power in every electronic device, whether plugged into a wall or running off a battery.

Texas Instruments also sells custom semiconductor products, which are designed for a specific customer for a specific application and are sold only to that customer. The life cycles of custom products are determined by end-equipment upgrade cycles and can be as short as 12 to 24 months. It also sells catalog semiconductor products.

Growth Trends

Sales have grown at a 5.3% annualized pace over the past five years but have slowed recently and have declined 6.7% on a trailing 12-month basis.

The diluted continuing earnings per share have increased at a 23.8% annual rate over the last five years and have expanded 15.3% on a trailing 12-month basis. However, they are expected to decline 7.5% during 2019 and decline 2.4% during 2020.

The consensus earnings estimate for 2020 has been trending down over the last three months and now stands at \$5.01 per share, down from \$5.77 three months ago. Two analysts are providing a long-term earnings growth estimate that averages 10.0%.

Bullish Factors

- Aggressive dividend increases and strong share repurchase program
- Dividend yield above historical average
- Focus is on its primary growth segments (analog chips and embedded processors) with strong profit margins

Bearish Factors

- Operates in a highly cyclical and competitive marketplace undergoing current weakness
- Earnings slowdown projected for 2019 and 2020
- Trailing and forward price-earnings ratios are above historical average

Texas Instruments reported a positive 5.2% earnings surprise in October, when it reported adjusted quarterly earnings of \$1.49 per share. GAAP quarterly earnings per share of \$1.49 are down 5.7% year over year.

Texas Instruments is committed to returning 100% of free cash to its shareholders through dividends and share repurchases. Texas Instruments has been aggressive in increasing its dividend, with a five-year average growth rate of 19.7%. It raised its dividend 16.9% last October. The company targets a dividend payout of approximately 40% to 60% of current-year free cash flow. The company has paid a dividend every year since 1962 and has increased its annual payout for 16 consecutive years.

Financial Strength

The company has seen its gross margins improve from 56.8% to 65.1% over the last five fiscal years. Operating margins and net profit have also moved above the five-year average, as the company's costs have been kept in check.

Texas Instruments has an earnings payout ratio of 56.2%, slightly above its five-year average of 49.3%. The free-cash-flow payout ratio is 47.7%, which is also above the five-year average of 40.2%. The company generated strong operating cash flows of over \$7.04 billion in the last four quarters, while capital expenditures were \$1.007 billion and research and development (R&D) spending was \$1.558 billion.

Texas Instruments' interest coverage ratio is currently 38.1, above the industry median of 2.4.

Given its strong free cash flows and earnings coverage, the company is expected to continue paying its dividend payments going forward as well as repurchasing shares. The company noted that it is in the top 10% of S&P 500 companies when it comes to returning cash to shareholders.

Valuation

The company currently trades with a 2.8% dividend yield, which is above its five-year average high yield of 2.7% and its yield of 2.5% one year ago.

The trailing price-earnings ratio of 24.0 is above the five-year average ratio of 23.1, but below the 29.7 median for the semiconductors industry. Shares trade at 25.2 times projected 2019 earnings of \$5.13 and 25.8 times projected 2020 earnings of \$5.01.

Risks

The semiconductor industry is highly fragmented, competitive and cyclical. Its cyclical nature is exacerbated by companies that typically hold smaller inventories during economic downturns and larger inventories during economic expansion. The company is in a current down cycle and the trade tensions could extend the duration of the downturn. Its products are used in the automotive, industrial, communications and personal electronics markets, which have been weak over the last four quarters. ■

TXN

\$129.41 (\$132.20 - \$94.81)

Addition Alert Date: 4/5/2013

Price at Alert: \$34.20

Risk Index: 1.72

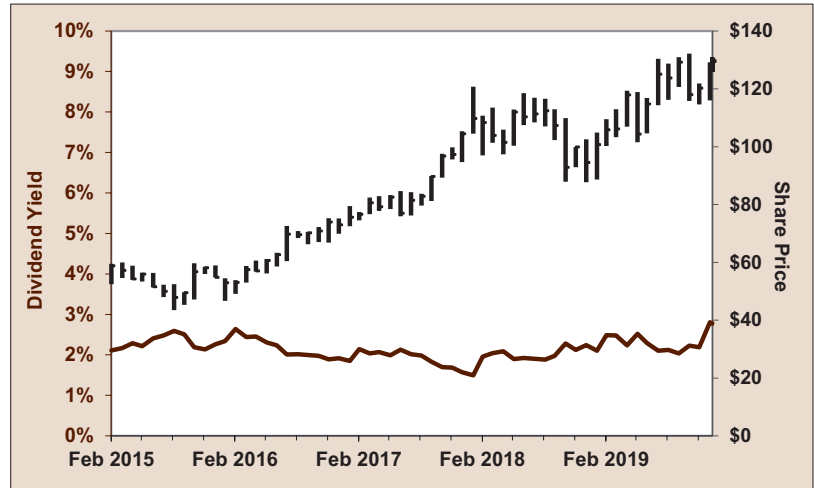
Market Cap (Million): \$118,679.1

Avg Daily Dollar Volume (Million): \$621.6

Primary Sector: Technology

Primary Industry: Semiconductors

Texas Instruments (TI) designs, makes and sells semiconductors to electronics designers and manufacturers across the world. TI operates through two segments: analog and embedded processing. The analog segment includes high volume analog and logic, power management, high performance analog and Silicon Valley analog. The embedded processing segment includes processor, microcontroller and connectivity products. TI is also engaged in smaller product lines, such as DLP projector products, certain custom semiconductors known as application-specific integrated circuits, calculators, baseband products, applications processors and connectivity products.



Indicated Annual Dividend:	\$3.60
Latest Dividend Increase: (Date)	Oct 17, 2019
Latest Dividend Increase: (%)	16.9%
Dividend Yield: Current	2.8%
Dividend Yield: 5-Year Avg (High-Low)	2.2% (2.7% - 1.8%)
Dividend Paid Since:	1962
Number of Years of Div Increases:	16
Direct Invest Option:	Yes
DRIP Plan:	Yes

Declared	Ex-Div Date	Payable	Amount
Oct 17, 2019	Oct 30, 2019	Nov 18, 2019	\$0.9000
Jul 18, 2019	Jul 30, 2019	Aug 12, 2019	\$0.7700
Apr 25, 2019	May 3, 2019	May 20, 2019	\$0.7700
Jan 17, 2019	Jan 30, 2019	Feb 11, 2019	\$0.7700
Oct 18, 2018	Oct 30, 2018	Nov 19, 2018	\$0.7700
Jul 19, 2018	Jul 30, 2018	Aug 13, 2018	\$0.6200

	Stock Gain	Rel Strgth Index	Rel Strgth Rank
4 Week	6%	1.03	69%
13 Week	0%	0.91	38%
26 Week	12%	1.03	72%
52 Week	37%	1.08	78%

Growth	TTM	3 Year	5 Year
Dividends	24.2%	23.4%	19.7%
Sales	(6.7%)	6.7%	5.3%
Net Income	10.9%	23.4%	21.1%
EPS Basic	15.1%	25.9%	24.2%
EPS Dil Cont	15.3%	25.3%	23.8%

Est Surprise	EPS	% Surp	SUE Score
Oct 22, 2019	\$1.49	5.2%	2.80
Jul 23, 2019	\$1.36	11.6%	6.70

EPS Estimates	Quarterly			Annual	
	12/2019	12/2019	12/2020		
# of Estimates	27	31	31		
Current	\$1.01	\$5.13	\$5.01		
Month Ago	\$1.01	\$5.13	\$5.01		
# Rev Up	0	0	0		
# Rev Down	0	0	0		
Three Mos. Ago	\$1.28	\$5.31	\$5.77		
Year/Year Chg	(20.2%)	(7.5%)	(2.4%)		
EPS (Qtr)	9/2019	6/2019	3/2019	12/2018	Total
TTM	\$1.49	\$1.36	\$1.27	\$1.27	\$5.39
Year Ago	\$1.58	\$1.40	\$0.86	\$0.40	\$4.24

Sales/Sh (Qtr)	9/2019	6/2019	3/2019	12/2018	Total
TTM	\$4.03	\$3.91	\$3.83	\$3.90	\$15.68
Year Ago	\$4.40	\$4.11	\$1.09	\$3.81	\$13.41

Sources: AAIL Stock Investor Pro, Refinitiv and I/B/E/S.

Multiples	Current	12/2018	12/2017	12/2016	12/2015	12/2014
Dividend Yield (%): Avg	2.8%	2.4	2.0	1.8	2.3	2.4
Dividend Yield (%): High		3.0	2.4	2.3	3.0	2.9
Dividend Yield (%): Low		2.0	1.8	1.6	1.9	2.1
Price/Earnings	24.0	19.9	28.4	25.5	21.6	20.1
Price/Earnings (Industry)	29.7	20.7	22.5	32.1	21.6	21.0
Price/Book Value	13.5	11.9	10.0	8.5	6.3	5.3
Price/Sales	8.2	6.8	6.9	6.7	4.8	4.2

Ratios	Current	12/2018	12/2017	12/2016	12/2015	12/2014
Payout Ratio: EPS (%)	56.2	46.1	57.6	46.3	49.0	47.6
Payout Ratio: FCFPS (%)	47.7	42.1	45.0	40.3	37.5	36.0
Gross Margin (%)	64.2	65.1	64.3	61.8	58.3	56.8
Operating Margin (%)	40.6	42.5	40.7	36.3	33.2	30.3
Operating Margin (%) (Ind)	3.6	5.7	4.8	4.8	3.9	4.4
Net Margin (%)	34.9	35.1	24.4	26.6	22.6	21.3
ROE (%)	58.9	57.3	35.1	34.8	29.0	26.2
ROE (%) (Industry)	6.7	7.6	4.3	5.4	5.8	6.6
ROA (%)	29.5	31.8	21.4	21.7	17.5	15.3
Current Ratio	4.3	3.3	3.9	3.3	2.8	2.8
Liabilities to Assets (%)	50.1	47.5	41.4	36.3	38.7	40.2
Liab to Assets (%) (Ind)	45.5	42.7	42.5	41.1	39.3	34.8
Asset Turnover	0.8	0.9	0.9	0.8	0.8	0.7

Financial Statements	TTM	12/2018	12/2017	12/2016	12/2015	12/2014
Sales (\$M)	14,750	15,784	14,961	13,370	13,000	13,045
Gross Income (\$M)	9,474	10,277	9,614	8,257	7,575	7,416
Depreciation & Amort. (\$M)	997	954	904	955	1,133	1,230
Unusual/Extra (\$M)	(38)	6	11	25	22	(51)
Operating Income (\$M)	5,990	6,713	6,083	4,855	4,322	3,947
Interest Expense (\$M)	161	125	78	80	90	94
Pretax Income (\$M)	5,974	6,686	6,080	4,930	4,216	3,874
Net Income (\$M)	5,154	5,538	3,649	3,551	2,944	2,777
Operating Cash Flow (\$M)	7,040	7,189	5,363	4,614	4,397	4,054
Investing Cash Flow (\$M)	1,506	(78)	(1,127)	(650)	(302)	(377)
Financing Cash Flow (\$M)	(6,155)	(6,329)	(3,734)	(3,810)	(4,294)	(4,105)
Capital Expenditures (\$M)	1,007	1,131	695	531	551	385
Net Cash Flow (\$M)	2,391	782	502	154	(199)	(428)
EPS Basic (\$)	5.48	5.71	3.68	3.54	2.86	2.61
EPS Diluted Cont (\$)	5.39	5.55	3.66	3.48	2.82	2.57
EPS DC Year/Year Chg (%)	15.3	51.4	5.3	23.3	9.8	34.7
Dividends/Share (\$)	3.08	2.63	2.12	1.64	1.40	1.24
Dividend Year/Year Chg (%)	24.2	24.1	29.3	17.1	12.9	15.9
Free Cash Flow/Share (\$)	6.45	6.25	4.71	4.07	3.73	3.45
Cash (\$M)	5,067	4,233	4,469	3,490	3,218	3,541
Goodwill/Intangibles (\$M)	4,829	5,079	5,418	5,678	5,991	6,347
Total Assets (\$M)	17,992	17,137	17,642	16,431	16,230	17,372
Long-Term Debt (\$M)	5,302	4,319	3,577	2,978	3,120	3,630
Total Liabilities (\$M)	9,007	8,143	7,305	5,958	6,284	6,982
Book Value/Share (\$)	9.61	9.27	10.43	10.44	9.66	9.76
Avg Shares Outst'g (M)	935.00	970.00	991.00	1,003.00	1,030.00	1,065.00

Data as of 1/7/2020.

Williams-Sonoma, Inc. (WSM)

Founded in 1956, Williams-Sonoma Inc. is a nationwide specialty retailer of high-quality home products. The company markets a wide selection of merchandise through its retail stores under the brands Williams Sonoma, Pottery Barn, Pottery Barn Kids, West Elm and Rejuvenation. It also offers products directly to consumers through its websites and direct-mail catalogs: Williams Sonoma, Pottery Barn, Pottery Barn Kids, Pottery Barn Bed + Bath, PBteen, West Elm, Rejuvenation and Mark and Graham.

The leading brands in both the retail and direct-to-customer channels are Pottery Barn, selling casual home furnishings; Williams Sonoma, selling cooking and entertaining essentials; Pottery Barn Kids, selling stylish children's furnishings; and West Elm, selling affordable home furnishing goods.

Growth Trends

Williams-Sonoma has established a solid niche in the fragmented \$120-plus-billion domestic home furnishings market but has captured approximately a 5% market share. Its well-known brand has been a key factor in supporting the company's top- and bottom-line growth due to repeat business from loyal customers. However, there is plenty of room for growth, as there are few large competitors in the kids and teen space. Analysts expect the company to maintain its leadership position in the category.

The company has leveraged its e-commerce assets such that its e-commerce business accounts for a majority of total revenue. The lower overhead of this business, in turn, boosts the company's overall margins. As a result, the company has a current operating margin of 7.9%, whereas the typical company in the home furnishings retailers' industry does not generate positive operating income.

Williams-Sonoma's global operations continue to grow as well, with the company capturing additional global market share through the expansion of its corporate-owned stores and its franchise relationships. The company has little international brick-and-mortar presence at this point. Expansion into

the marketplace and apartment categories, where it is under-represented, supports further top-line opportunities.

Analysts are projecting adjusted earnings to rise 4.4% for the fiscal year ending in January 2021 and 6.9% the year after, and the projected three-to-five-year average annual earnings growth rate is 2.8% from two analysts.

Sales have increased at a 5.3% annual rate over the last five years net income has expanded at a 3.7% annual rate and diluted earnings from continuing operations grew at a 6.8% annual growth rate over the same period.

Williams-Sonoma has paid a dividend since 2006 and has increased it in each of the last 10 years. The company's latest dividend increase was 11.6%, declared on March 20, 2019. Williams-Sonoma has raised its dividend, on average, by 7.9% a year over the last five years.

Financial Strength

Williams-Sonoma has a current earnings payout ratio of 41.5%, below the five-year average of 42.8%. The pre-dividend free-cash-flow payout ratio is 45.2%, above the five-year average of 40.1%. The pre-dividend free cash flow per share of \$4.02 more than covers the current annual indicated dividend of \$1.92 per share. These factors indicate that the company is positioned to continue its dividend increases.

The company's total-liabilities-to-total-assets ratio of 71.4% is slightly lower than the home furnishings retailers industry median of 73.8%, and the long-term debt-to-equity ratio of 26.5% matches the industry median.

Valuation

The trailing price-earnings ratio of 17.0 is in line with the company's five-year average of 17.2 and is slightly above the industry's median of 16.5. The forward price-earnings ratio is 14.9, using projected earnings of \$4.95 per share (for the period ending January 2021). The current dividend yield of 2.6% is above its five-year average yield of 2.5% and the five-year average low yield of 2.1%.

Risks

Williams-Sonoma is facing growing competition as the direct-to-customer industry has expanded over the last decade, particularly from e-commerce. The company risks competition from Amazon.com Inc. (AMZN) and other mass merchants that have turned their cost advantages into lower prices for consumers. However, Williams-Sonoma's long history and customer loyalty help distinguish it from many competitors.

Also, demand for Williams-Sonoma's products is somewhat tied to the performance of the domestic home-improvement market and consumer confidence. This means that sales and earnings tend to fluctuate over the economic cycle. However, international expansion will help insulate the company from these revenue base fluctuations, as global consumer confidence levels don't necessarily move in tandem. ■

Bullish Factors

- Diversified product line should offer some support throughout the economic cycle
- International expansion should boost growth and improve brand awareness
- A greater percentage of revenues coming from direct-to-consumer channels should bolster margins

Bearish Factors

- Competition from e-retailers such as Amazon.com and mass merchants could hurt growth and stymie margins
- Sales and earnings growth are somewhat tied to the health of the housing market
- Sales & earnings subject to substantial seasonal variations

WSM

\$73.76 (\$74.18 - \$50.14)

Addition Alert Date: 6/3/2016

Price at Alert: \$53.25

Risk Index: 1.98

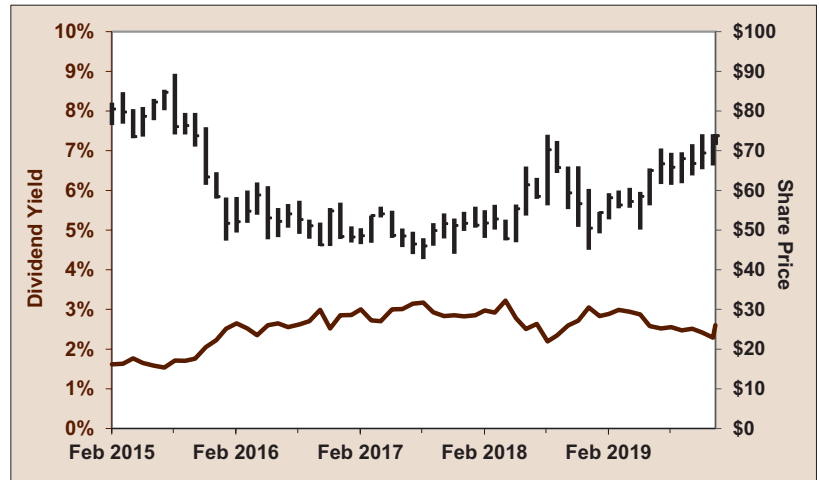
Market Cap (Million): \$5,607.1

Avg Daily Dollar Volume (Million): \$77.6

Primary Sector: Consumer Cyclical

Primary Industry: Retailers - Home Furnishings

Williams-Sonoma Inc. is a specialty retailer of home products, operating retail stores in the U.S., Canada, Puerto Rico, Australia and the U.K. Its e-commerce segment has multiple merchandising strategies, such as Williams-Sonoma, Pottery Barn, Pottery Barn Kids, West Elm, PBteen, Williams-Sonoma Home, Rejuvenation and Mark and Graham. The retail segment has various merchandising strategies, such as Williams-Sonoma, Pottery Barn, Pottery Barn Kids, West Elm and Rejuvenation. The company franchises its brands to third parties in a number of countries in the Middle East, the Philippines and Mexico.



Indicated Annual Dividend:	\$1.92
Latest Dividend Increase: Date	Mar 20, 2019
Latest Dividend Increase: %	11.6%
Dividend Yield: Current	2.6%
Dividend Yield: 5-Year Avg (High-Low)	2.5% (3.1% - 2.1%)
Dividend Paid Since:	2006
Number of Years of Div Increases:	10
Direct Invest Option:	No
DRIP Plan:	No

Declared	Ex-Div Date	Payable	Amount
Dec 20, 2019	Jan 23, 2020	Jan 8, 1900	\$0.4800
Sep 20, 2019	Oct 24, 2019	Nov 29, 2019	\$0.4800
Jun 21, 2019	Jul 25, 2019	Aug 30, 2019	\$0.4800
Mar 20, 2019	Apr 25, 2019	May 31, 2019	\$0.4800
Dec 18, 2018	Jan 24, 2019	Feb 22, 2019	\$0.4300
Sep 14, 2018	Oct 25, 2018	Nov 21, 2018	\$0.4300

	Stock Gain	Rel Strgth Index	Rel Strgth Rank
4 Week	6%	1.03	68%
13 Week	14%	1.03	69%
26 Week	19%	1.10	80%
52 Week	42%	1.12	81%

Growth	TTM	3 Year	5 Year
Dividends	11.0%	6.8%	7.9%
Sales	6.8%	4.5%	5.3%
Net Income	26.0%	2.5%	3.7%
EPS Basic	31.9%	6.3%	7.3%
EPS Dil Cont	19.3%	5.2%	6.8%

Est Surprise	EPS	% Surp	SUE Score
Nov 21, 2019	\$1.02	0.3%	0.10
Aug 28, 2019	\$0.87	4.1%	1.30

EPS Estimates	Quarterly			Annual
	1/2020	2/2020	3/2020	1/2021
# of Estimates	21	24	24	24
Current	\$2.05	\$4.74	\$4.95	\$4.95
Month Ago	\$2.05	\$4.74	\$4.95	\$4.95
# Rev Up	0	1	0	0
# Rev Down	1	0	1	1
Three Mos. Ago	\$2.06	\$4.74	\$4.93	\$4.93
Year/Year Chg	5.4%	20.9%	4.4%	4.4%

EPS (Qtr)	11/2019	8/2019	5/2019	2/2019	Total
TTM	\$0.94	\$0.79	\$0.66	\$1.94	\$4.33
Year Ago	\$0.82	\$0.62	\$0.57	\$1.62	\$3.64

Sales/Sh (Qtr)	11/2019	8/2019	5/2019	2/2019	Total
TTM	\$18.52	\$17.47	\$15.77	\$23.11	\$74.86
Year Ago	\$16.86	\$15.49	\$14.43	\$19.99	\$66.77

Sources: AAI Stock Investor Pro, Refinitiv and IB/E/S.

Data as of 1/7/2020.

Multiples	Current	2/2019	1/2018	1/2017	1/2016	2/2015
Dividend Yield (%): Avg	2.6	2.7	2.6	3.0	2.6	1.8
Dividend Yield (%): High		3.4	3.4	3.4	3.0	2.2
Dividend Yield (%): Low		2.3	2.1	2.6	2.2	1.5
Price/Earnings	17.0	15.7	17.0	14.4	16.0	22.7
Price/Earnings (Industry)	16.5	20.2	17.1	17.9	16.0	21.0
Price/Book Value	5.1	4.4	4.2	3.5	4.1	5.6
Price/Sales	1.0	0.9	1.0	0.9	1.0	1.5

Ratios	Current	2/2019	1/2018	1/2017	1/2016	2/2015
Payout Ratio: EPS (%)	41.5	41.0	50.8	42.4	40.4	39.4
Payout Ratio: FCFPS (%)	45.2	34.6	42.5	39.5	36.7	47.4
Gross Margin (%)	36.6	37.0	36.5	37.0	37.1	38.3
Operating Margin (%)	7.9	7.7	8.6	9.3	9.8	10.7
Operating Margin (%) (Ind)	(2.1)	0.0	3.8	3.3	4.7	7.8
Net Margin (%)	5.9	5.9	4.9	6.0	6.2	6.6
ROE (%)	30.5	28.3	21.2	25.0	25.6	24.9
ROE (%) (Industry)	(31.5)	(6.3)	4.0	8.7	11.9	13.5
ROA (%)	9.6	11.9	9.9	12.5	13.1	13.2
Current Ratio	1.3	1.6	1.6	1.4	1.3	1.6
Liabilities to Assets (%)	71.4	58.9	56.8	49.6	50.4	47.4
Liab to Assets (%) (Ind)	73.8	58.9	54.9	53.2	58.9	53.9
Asset Turnover	1.6	2.0	2.0	2.1	2.1	2.0

Financial Statements	TTM	2/2019	1/2018	1/2017	1/2016	2/2015
Sales (\$M)	5,891	5,672	5,292	5,084	4,976	4,699
Gross Income (\$M)	2,156	2,101	1,932	1,883	1,844	1,801
Depreciation & Amort. (\$M)	188	189	183	173	168	162
Unusual/Extra (\$M)	--	25	15	16	--	--
Operating Income (\$M)	463	436	454	473	489	502
Interest Expense (\$M)	--	--	--	--	--	--
Pretax Income (\$M)	454	429	452	472	488	502
Net Income (\$M)	345	334	260	305	310	309
Operating Cash Flow (\$M)	496	586	500	525	544	462
Investing Cash Flow (\$M)	(182)	(188)	(270)	(197)	(202)	(189)
Financing Cash Flow (\$M)	(323)	(450)	(52)	(306)	(369)	(379)
Capital Expenditures (\$M)	183	190	190	197	203	205
Net Cash Flow (\$M)	(9)	(51)	176	20	(29)	(107)
EPS Basic (\$)	4.38	4.10	3.03	3.45	3.42	3.30
EPS Diluted Cont (\$)	4.34	3.92	3.50	3.41	3.37	3.24
EPS DC Year/Year Chg (%)	19.3	12.2	2.4	1.4	3.8	14.9
Dividends/Share (\$)	1.82	1.68	1.54	1.46	1.38	1.30
Dividend Year/Year Chg (%)	11.0	9.1	5.5	5.8	6.2	13.0
Free Cash Flow/Share (\$)	4.02	4.86	3.62	3.69	3.76	2.74
Cash (\$M)	155	339	390	214	194	223
Goodwill/Intangibles (\$M)	85	85	19	19	19	19
Total Assets (\$M)	3,964	2,813	2,786	2,477	2,417	2,330
Long-Term Debt (\$M)	300	300	299	0	0	0
Total Liabilities (\$M)	2,832	1,657	1,582	1,229	1,219	1,106
Book Value/Share (\$)	14.53	14.19	14.06	14.09	13.20	13.08
Avg Shares Outst'g (M)	77.90	81.42	85.59	88.59	90.79	93.63

The Top and Bottom DI Performers of 2019

The DI tracking portfolio saw a major turnaround in 2019, gaining 29.9% after falling 11.5% in 2018. The 2019 performance was the DI portfolio's second-best year since its inception in 2012. In comparison, the iShares Dow Jones U.S. ETF (IYY) posted a total return of 30.8%. Used as the DI portfolio's benchmark, the iShares Dow Jones U.S. fund is supposed to represent the overall market, not necessarily a dividend growth benchmark. In comparison to a more dividend-growth focused index, the S&P 500 Dividend Aristocrats index was up 28.0% in 2019.

Best and Worst Performers for 2019

The table here shows the performance for the 28 stocks that were in the DI portfolio at any time during 2019. Out of the 28 stocks held in the DI tracking portfolio throughout the year, 26 realized positive total returns (dividend income plus

price gain) over the period they were held.

Current portfolio holding Williams-Sonoma Inc. (WSM) was the strongest DI stock of 2019, gaining 50.1%. Despite increased tariff headwinds, the home furnishings retailer raised its fiscal-2019 revenue and earnings guidance every quarter for three consecutive quarters. Its operating margins are expanding and earnings per share (EPS) have grown by nearly double-digits. West Elm, the company's biggest growth opportunity, continues to accelerate, the Pottery Barn brands have returned to strength and its data-driven performance marketing is producing outsized returns on its digital media investments. Williams-Sonoma is a top 25 online retailer in North America with year-over-year e-commerce growth near 10%.

Another current portfolio holding, Occidental Petroleum (OXY), an international oil and gas exploration and production company, was the worst-performing DI stock of 2019, down 28.7%. Occidental's struggles started well before it completed its acquisition of Anadarko Petroleum, valued at \$57 billion in August 2019. The acquisition came after Anadarko had already reached a buyout agreement with Chevron Corp. (CVX), forcing Occidental to pursue a hostile takeover. This included a \$10 billion financing deal with Berkshire Hathaway Inc. (BRK.B) that provided with Occidental the flexibility to make a strong cash offer that did not require an Occidental shareholder vote to move the acquisition forward. Investors are concerned that Occidental paid too much for Anadarko and took on too much debt. Occidental is selling assets that do not fit its core focus to reduce debt. It has been a challenging year for the company, but the dividend appears to remain safe and its valuation is attractive at these levels.

2019 Performance of DI Stocks

Ranked by 2019 performance while held in tracking portfolio

Ticker	Company	Total Return* (%)	Income Return (\$) (\$)	Capital Gain/(Loss) (\$) (\$)
WSM	Williams-Sonoma, Inc.	50.1	278.63	3,704.14
ETN	Eaton Corporation	42.9	261.28	2,658.80
TSN	Tyson Foods, Inc.	42.7	177.84	4,176.09
TXN	Texas Instruments	39.8	475.08	5,476.00
CMI	Cummins Inc.	38.2	318.64	3,264.44
PII	Polaris Inc.	36.3	202.52	2,279.18
UNP	Union Pacific Corp.	33.8	262.70	3,284.46
PG	Procter & Gamble Co.	33.7	249.62	3,460.62
WEC	WEC Energy Group	32.3	351.64	3,106.36
HBAN	Huntington Bancshares	32.2	385.32	2,521.48
BLK	BlackRock, Inc.	31.7	277.20	2,584.68
HD	Home Depot Inc.	30.6	288.32	2,756.00
PFG	Principal Financial Group	30.0	420.74	2,510.93
IVZ	Invesco Ltd.	28.2	129.93	993.07
PEP	PepsiCo, Inc.	27.7	237.20	1,887.17
MDT	Medtronic PLC	27.4	214.24	2,530.71
AMGN	Amgen, Inc.	27.2	319.00	2,871.00
UNH	UnitedHealth Group Inc.	27.0	103.68	3,009.37
IBM	IBM Corp.	24.1	417.95	1,742.00
SNA	Snap-on Incorporated	19.6	212.61	1,510.44
IP	International Paper Co.	19.3	340.71	1,233.68
RCL	Royal Caribbean Cruises	17.3	0.00	1,714.77
WBA	Walgreens Boots Alliance	14.3	136.33	1,109.43
EMN	Eastman Chemical Co.	12.1	233.12	811.22
CMA	Comerica Inc.	9.5	341.91	860.82
CBRL	Cracker Barrel	1.3	396.90	97.02
CVS	CVS Health	(13.3)	66.50	(1,151.83)
OXY	Occidental Petroleum	(28.7)	300.48	(1,635.84)
	Portfolio Cash	0.08	0.94	0.94
	DI Portfolio		7,401.03	59,367.15

*Internal rate of return of security while it was held in the DI tracking portfolio. Data as of 12/31/2019.

Diversification Is Key to Portfolio Success

The 2019 results for Williams-Sonoma, Eaton Corp. (ETN) and Texas Instruments (TXN)—in industries ranging from home furnishings retailers, electrical components and semiconductors—emphasize the need for a long-term, disciplined investment approach and the risks of relying on year-to-year returns when making investment decisions. Some of this year's top performers had negative total returns last year. DI's disciplined investment approach led to adding Tyson Foods Inc. (TSN) to the portfolio in March 2019 after CVS Health (CVS) announced it would not increase its dividend in the near-term. Tyson Foods was among the best performers in 2019, up 42.7% over DI's ownership period last year.

When it comes to investing, especially in individual stocks, diversification is key. It's easy to focus strictly on short-term gains and losses, but this isn't a recipe for long-term success. Some losing stocks will bounce back strongly, while some winners will suffer from profit-taking or operational problems. Holding a variety of stocks—at least 12, for those following the DI portfolio—increases the odds of being protected against large losses due to company-specific events, along with increasing the likelihood of holding the right stock at the right time. ■