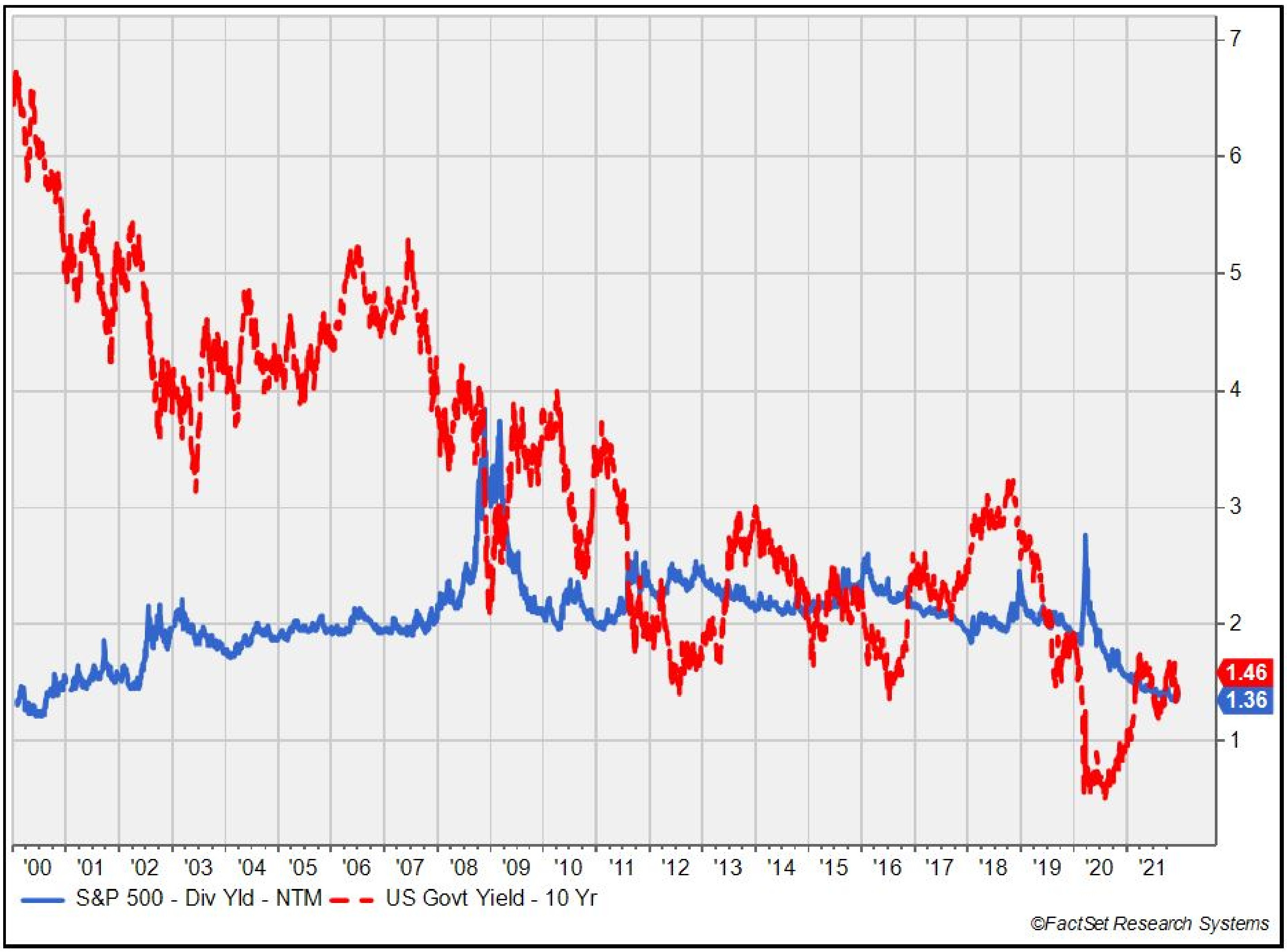
Brian G. Alexander, CFA, Director of Equity Research | (727) 567-2312 | brian.alexander@raymondjames.com

DECEMBER 28, 2021 | 4:22 PM EST

EQUITY INCOME

4Q21 UPDATE



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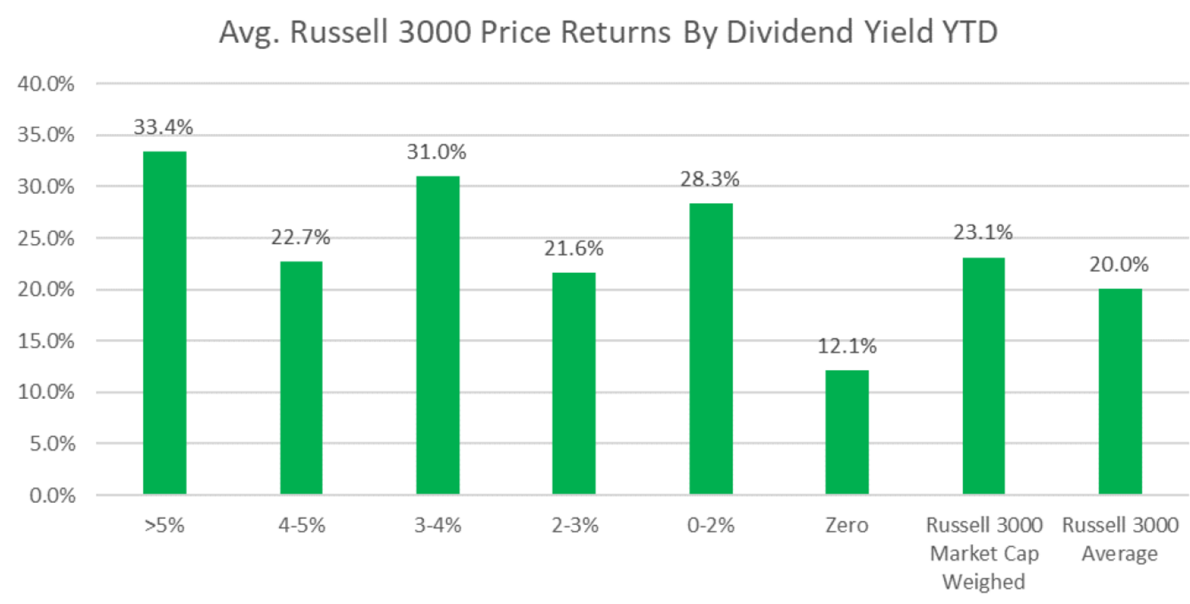
Investment Commentary

The major market indices have had varied performance since our last Equity Income Report published in October (link), with the S&P 500 up 9.7%, S&P 400 MidCap index up 5.9%, and the Russell 2000 index up 1.7% this quarter through closing prices on December 23, 2021. Since October, we have had several different trends appear in yield curves. Early in 4Q21, we saw the yield curve begin to steepen, as fears of the delta variant waned and inflation numbers came in very strong. However, around Thanksgiving, those trends reversed on news of the omicron variant and then the Powell pivot to a bit more hawkish Fed expectation. Since then, we have seen the curve begin to steepen again. However, investors should continue to expect yield curve trends to be triggered by headlines around Fed expectations (always true) and any new variants or worsening data on omicron. For now, it seems the bond market has awoken from its slumber to send long-term rates higher in recognition of economic recovery, some inflation in the global economy, and a faster tapering of QE purchases than original expectations, as well as increased expectations around Fed rate hikes in 2022. As it relates to dividend paying securities in 2021, investors have flocked back into high yield equities as stocks that started 2021 with a dividend yield of 5%+ have outperformed the overall Russell 3000 by ~10% YTD. However, so far in 4Q21 that trend has reversed heavily for higher yielding names, especially around the end of November. As can be seen in the chart below, higher yielding stocks have continued to outperform overall markets on a total YTD basis in 2021 as the recovery continues, but that trend is not linear as yields rise.

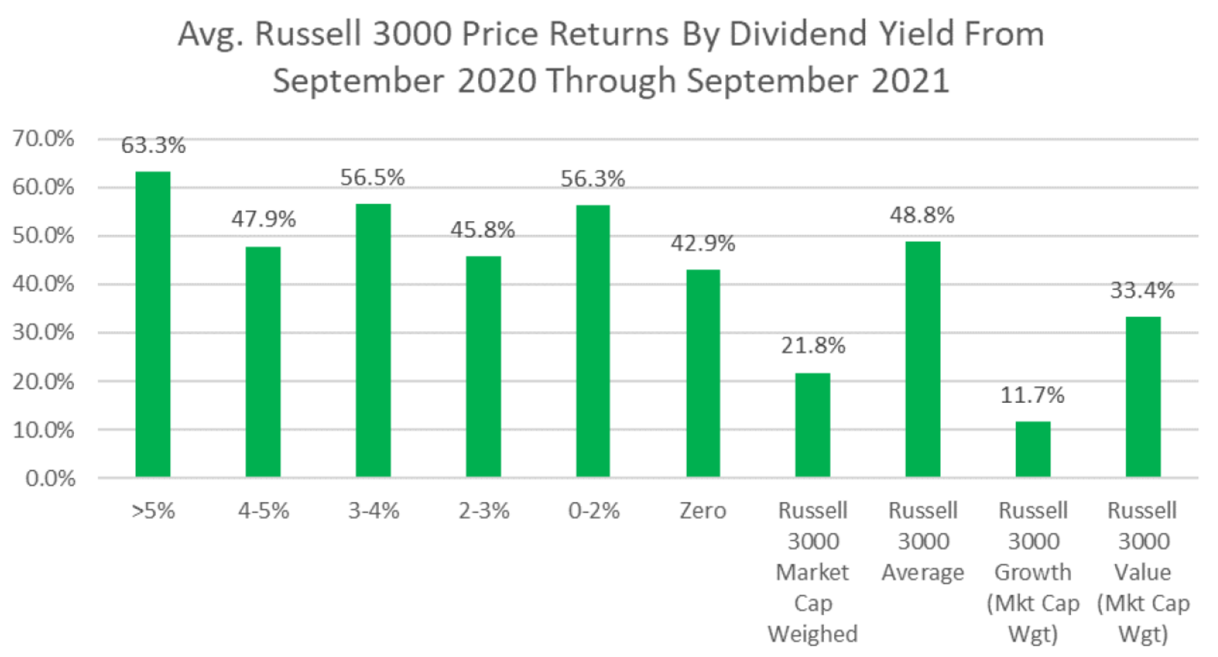
Figure 1



Source: FactSet and Raymond James research.

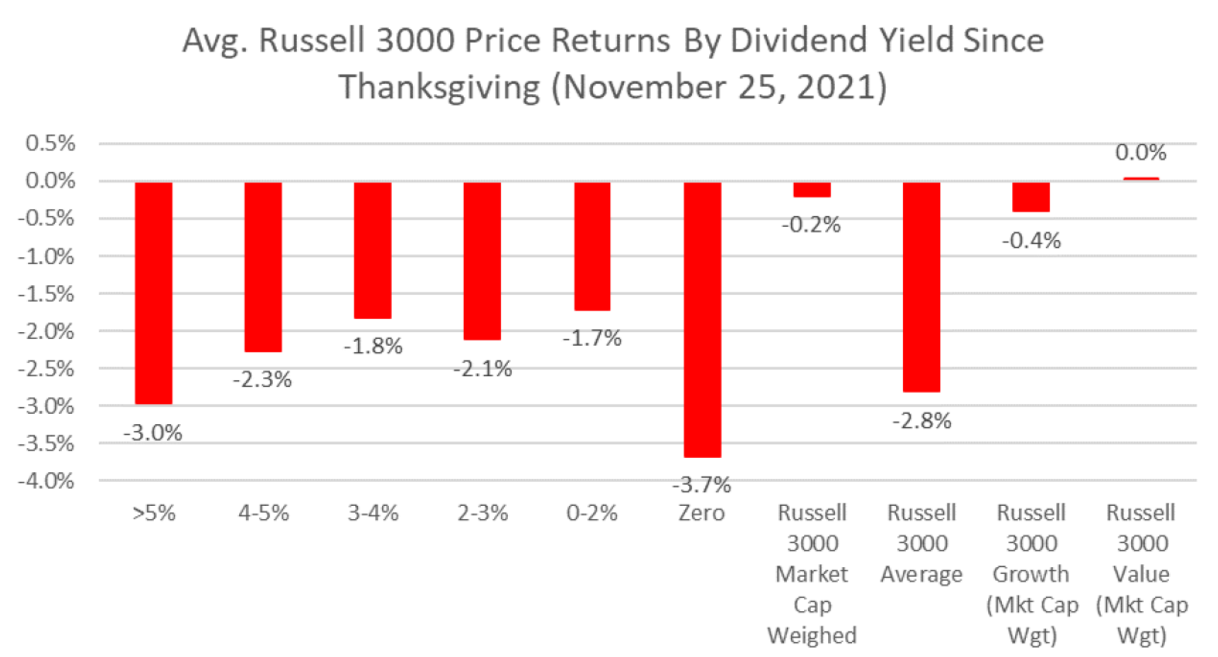
From Labor Day 2020 until the end of May 2021, we were in a strong wave of value outperformance with high dividend yielding stocks outperforming, and again from Labor Day 2021 until Thanksgiving. However, we can see in the second chart below that relative performance for value stocks since Thanksgiving has been poor overall. **We continue to expect this to be short-lived, and we believe that value should return to outperformance (vs. growth) in 2022 as the Treasury yield curve has begun to steepen once again. This is important for dividend payers, because as we show below, broadly speaking, dividend payers tend to perform more in line with value indexes than with growth indexes.**

Figure 2



Source: FactSet and Raymond James research.

Figure 3



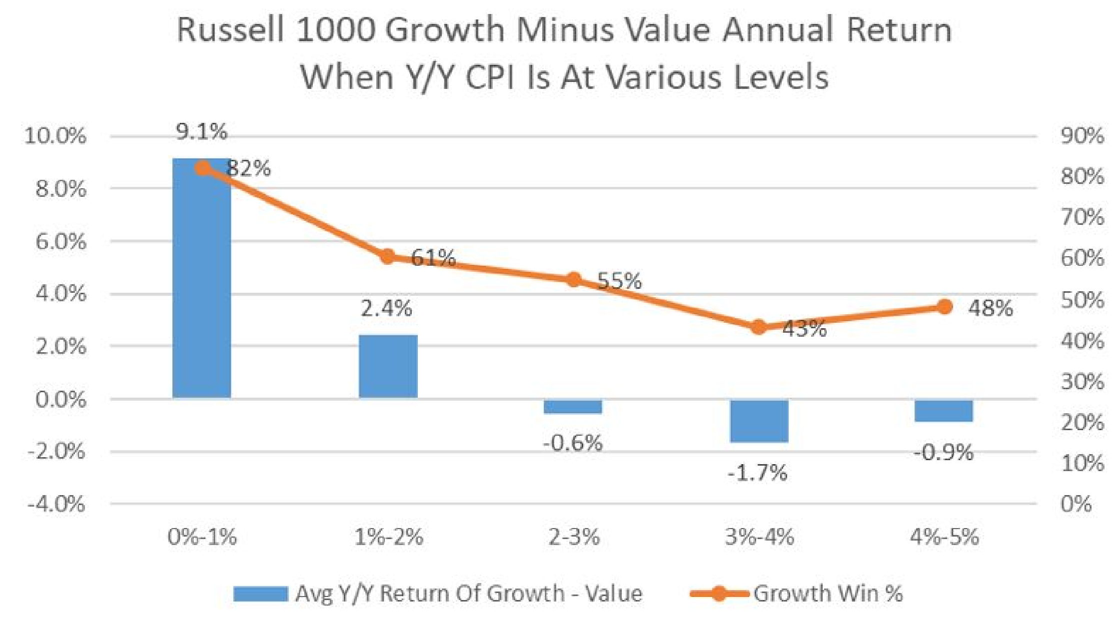
Source: FactSet and Raymond James research.

As shown above, during the value-biased market from Labor Day 2020 through September 2021, higher dividend yields generally outperformed lower dividend yields, while value outperformed growth, and equal weighted indexes outperformed market cap weighted indexes. The reason for the lower return in the Russell 3000 Index vs. the average of every dividend yield cohort is because we are calculating "average" returns for each cohort, whereas the Russell 3000 is "market cap weighted." The bar marked Russell 3000 average removes that market cap bias in the chart above. The mathematical outlier witnessed here is a fingerprint of substantial small cap outperformance in the market over that time period. **We expect these trends to return now that the market has seemingly digested the late November Fed news and omicron data.** The following chart shows where we stand currently in terms of value vs. growth valuations across markets today. While there was certainly a strong move into value earlier in the year, we saw that trend reverse again this fall.

Figure 4

Source: FactSet and Raymond James research.

Figure 5

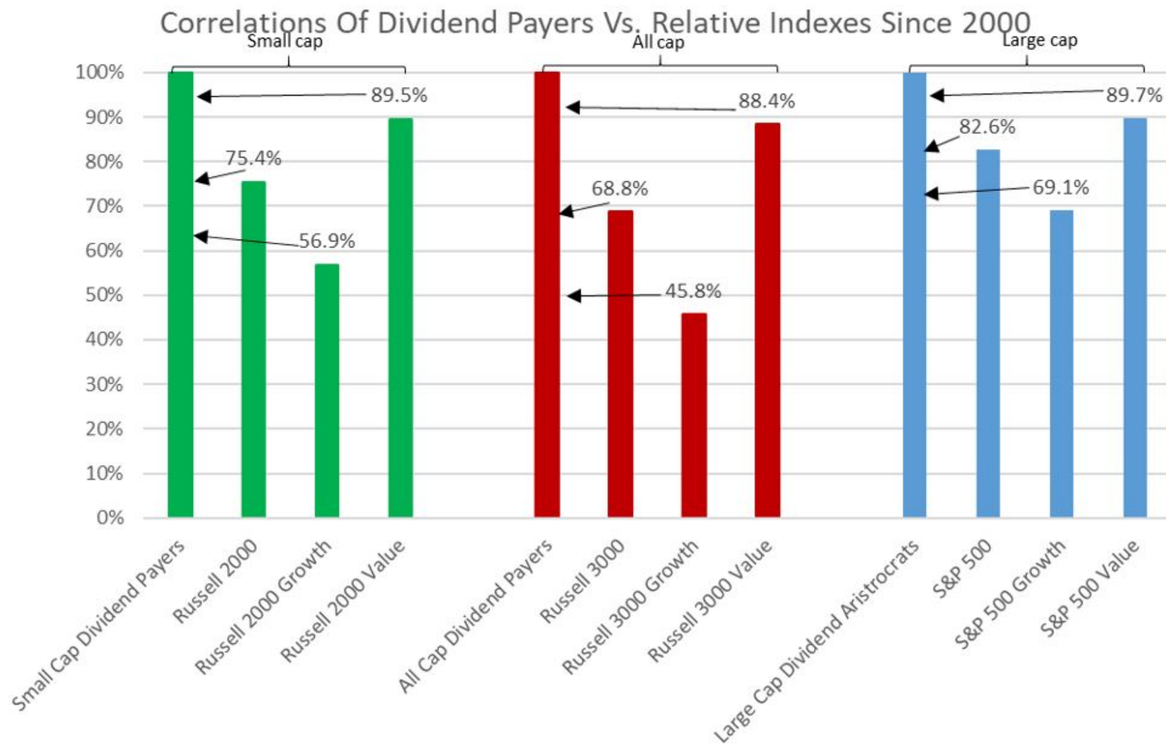


Source: FactSet and Raymond James research.

We have been in a Growth market for a long time as shown in the chart above, which shows Russell 2000 Growth minus Value performance since 1979. Growth performance peaked with the tech bubble in early 2000, with meaningful value outperformance the following six years, and since then, the equity market has largely seen growth outperform, most notably from 2018 through mid-2020. And the second chart above shows part of the reason why. This chart shows average performance of growth – value when inflation rates are at different levels. **When the U.S. is in a low inflation period (as it was from 2006-2020), growth has meaningfully outperformed value, while when inflation moves above 2%, value has modestly outperformed growth.** This has to do with "growthier" stocks getting higher valuations for their long-term cash flow duration given the much lower implied discount rates. As interest rates move up (as is typical with inflation), the discount rate increases and the market tends to move toward companies with lower P/B and P/E, that are generally viewed as "value" stocks. And as it relates to dividend payers, most have short-term cash flow duration, and ironically tend to outperform as rates go up because of this. A bit counterintuitive, but it has been reasonably consistent in the data for several decades, although we expect this relationship only holds up until interest rates rise so much as to risk a recession.

So if we expect value outperformance to begin again in the near term, how do dividend payers perform vs. overall indexes in a value-biased market? The chart below shows the correlations of small cap dividend paying stocks within the Russell 2000, value & growth, all cap dividend payers within the Russell 3000, and large cap dividend aristocrats within the S&P 500. As can be seen, in each cohort, **dividend payers are highly correlated to value trends, so any expectation of value outperformance should also lead to expected outperformance of dividend paying stocks, all else equal.**

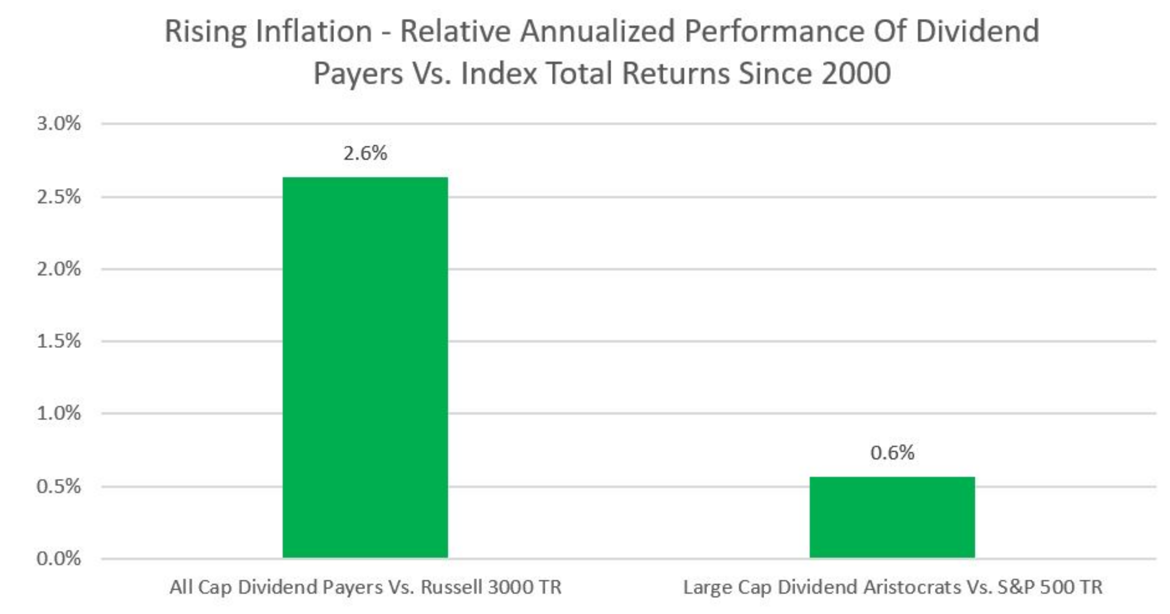
Figure 6



Source: Bloomberg and Raymond James research.

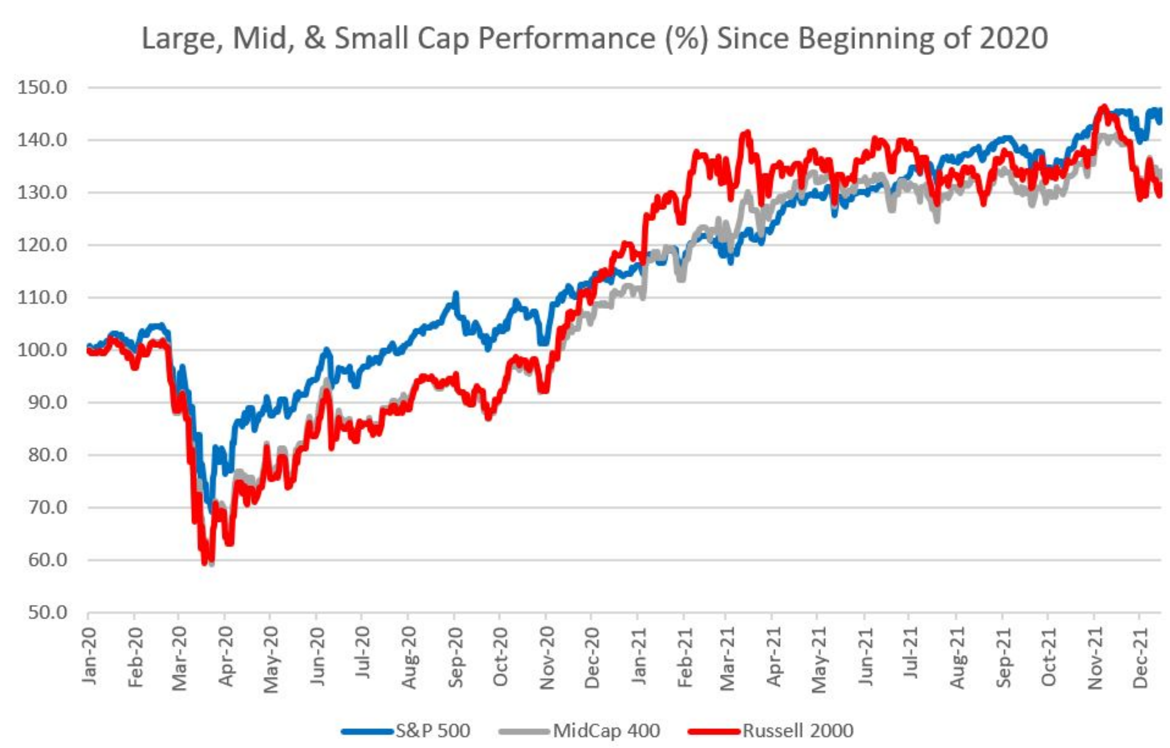
When we look at time periods of rising inflation, we see no reason to suspect meaningful underperformance of dividend payers vs. overall indexes, assuming we stay in a band of inflation that has been typical over the last 20 years. This is illustrated in the chart below. **Dividend payers have modestly outperformed indexes overall, on a total return basis, over the last 20 years, when inflation is increasing.** This is because inflation is typically increasing in early cycle recoveries where earnings are growing quickly, and overall inflation/interest rates remain reasonably low. Again, we suspect this would change if rates were to move high enough to cause a recession, but short of that, a modest increase in inflation (or inflation prints as high as the last two quarters only continuing in the short term) and rates tends to be a modestly positive signal for the performance of dividend payers vs. the overall equity index.

Figure 7



Source: Bloomberg and Raymond James research.

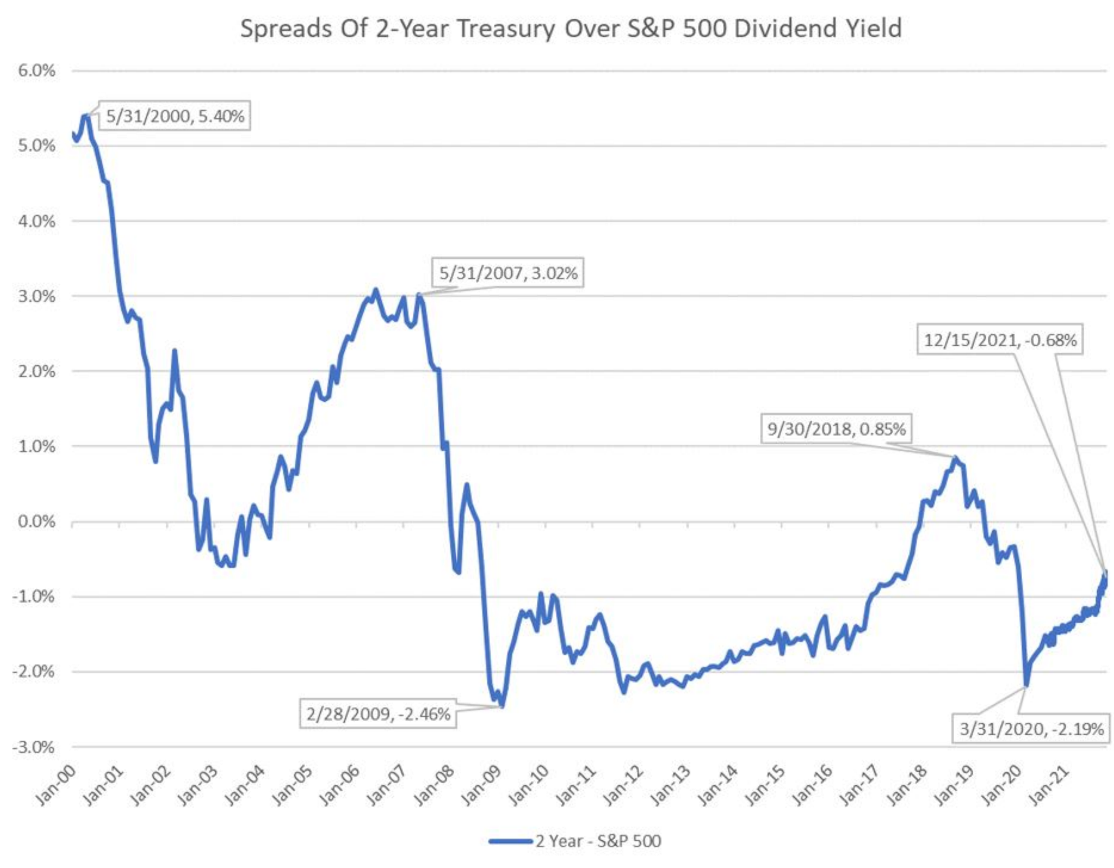
Figure 8



Source: FactSet and Raymond James research.

In terms of interest rates, the 10-year yield plummeted to 0.50% in March 2020 and again in early August, but began to climb in the fall of 2020, back up to 1.74% on March 30, 2021. It hovered in that range through the end of May, but pulled back again this summer to bottom at 1.12% in early August, before beginning to recover again in September as virus trends improved and debt ceiling debate and QE tapering talk finally spurred bond investors to conceive of a world with much more supply of Treasuries and less demand. The 10-year Treasury yield has reached ~1.49% as of this publication, with overnight rates expected to remain at 0% until spring 2022, providing the backdrop of a steep yield curve for at least another year or two. Credit spreads have begun to widen in 4Q21 but are still almost historically tight following meaningful fiscal stimulus in 2020/2021, and we expect this to continue near this range as corporate leverage and liquidity has improved meaningfully from pre-pandemic levels. This makes the higher dividend-paying stocks especially attractive to yield investors, which should continue to serve as a tailwind to dividend payers in this early cycle phase of the economic recovery. The spread of two-year Treasury yields over S&P 500 dividend yield remains materially negative (-68 bp, though certainly wider than -115 bp at the end of 3Q21), which over the long term is very unusual, but generally now in the same range it spent much of the post-GFC (global financial crisis) recovery.

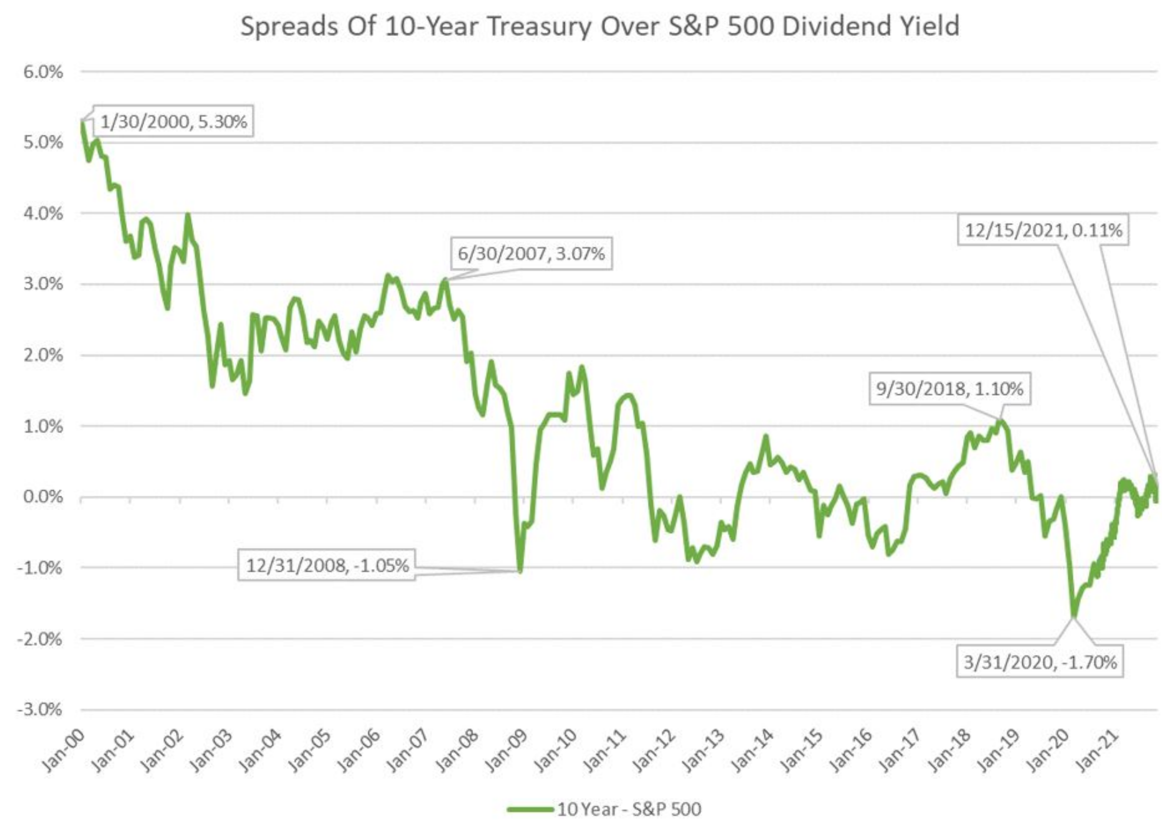
Figure 9



Source: FactSet, and Raymond James research.

The spread on the 10-year Treasury bond and the S&P 500 dividend yield is basically at parity, which has essentially been the average of the last 10 years (-11 bp). We note this spread has narrowed meaningfully from decades prior to 2010, though we believe much of this is related to increasing share buybacks, which in one sense, replaces what otherwise would have been dividend increases with share buybacks.

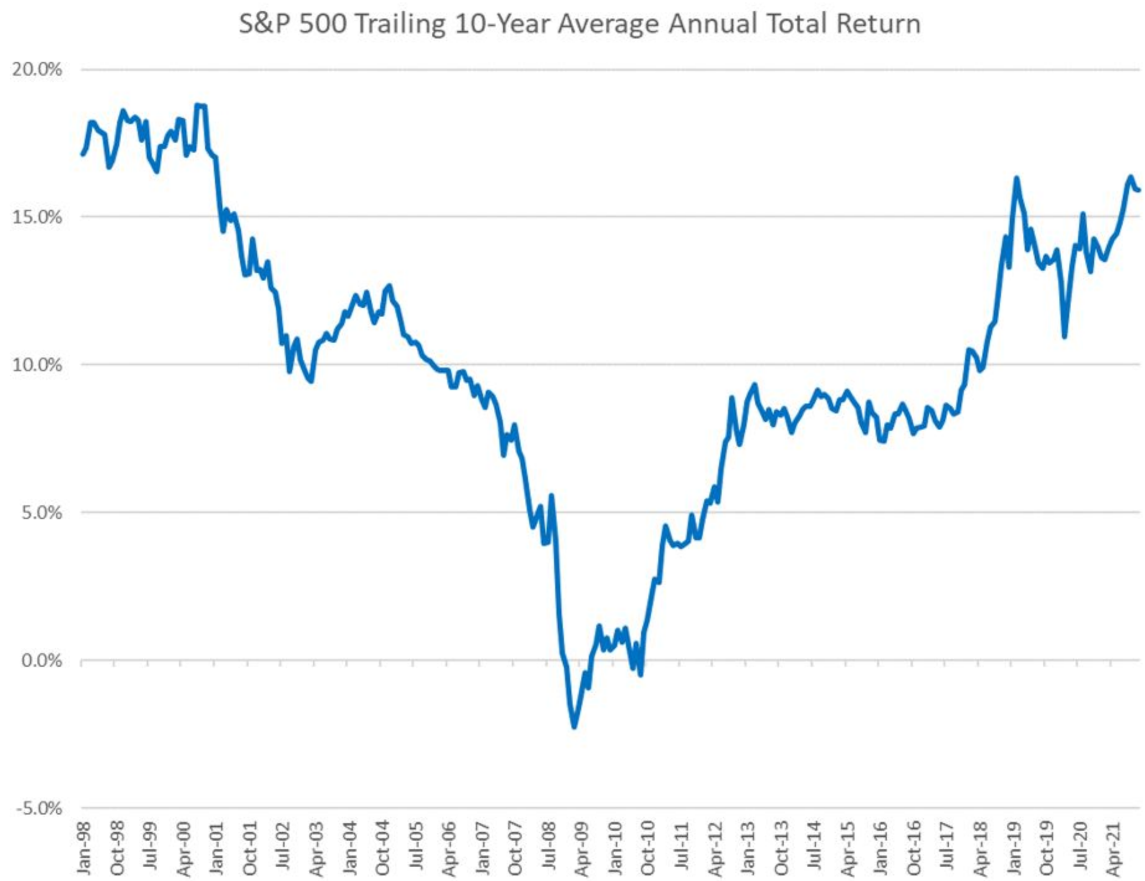
Figure 10



Source: FactSet and Raymond James research

The Equity Income Report highlights dividend-paying stocks that can present attractive alternatives for investors in this continuing low rate environment. This, of course, depends on individual investor risk tolerance and investment horizon. To test that statement, we looked back almost 50 years for periods where a 10-year moving average total return on the S&P 500 went negative. Surprisingly, we found only two brief periods (from November 2008 to June 2009 and again in June and July 2010) where that 10-year moving average annual total return was negative. That 2008-2010 period captured not only the carnage from the financial crisis, but also included the 2000-2002 tech wreck. In fairness, there were a few more periods where the 10-year average S&P total return was positive, but not necessarily attractive versus Treasuries. The point is that with a 10-year investment horizon, equity yields can be an attractive alternative to low yielding Treasuries. That said, equities can be materially volatile in the short term, as we have seen now three times over the past 20 years.

Figure 11



Source: Bloomberg and Raymond James research, data as of end of November 2021.

There are a number of Raymond James buy-rated equities (Strong Buy and Outperform) with yields that exceed those of Treasury bonds (not too difficult a feat with today's rates still low vs. historical norms). In fact, the median yield on the 51 C corps in this quarter's Equity Income list is 2.4%. That figure jumps materially if one includes recommended REITs and partnerships. In addition, that's before factoring in potential growth, which, over the long term, has averaged 5.9% annually for the S&P 500 dividends per share. As we know, that upside comes at the price of volatility, which we are currently experiencing in spades.

The updated Equity Income list contains 65 securities rated as Strong Buy or Outperform by Raymond James Equity Research analysts. The list is segmented by traditional C corps (plus one partnership) and REITs. The median yield on the 51 C corps is 2.4% and noticeably above that of the S&P 500. Yields on the REITs and the lone partnership (Enterprise Products [EPD]) on the list are materially higher, because they pay out the vast majority of their income. Fourteen names were deleted from the list this period and 13 names were added. Stocks are typically deleted either because the rating was downgraded to Market Perform (or lower) or because their yields were well below that of the S&P 500 or the stock didn't have enough upside to the target price. Some changes were driven by "high grading" selections from the analyst team.

When applicable on the names included herein, we have included a link to research published in the last 30 days.

For those investors who prefer a turnkey solution as opposed to picking individual stocks, Asset Management Services offers a managed portfolio* based on the Equity Income list. Each quarter, AMS's analytical team screens these recommended dividend-paying securities from Equity Research for yield and sector diversification. Higher yielders receive greater weights. Individual sectors can be up to 30% of the portfolio, and an industry can be up to 20%. Stocks are sold when they are no longer rated as Strong Buy or Outperform. The portfolio most recently held 29 individual positions, with a mix favoring large cap. Please contact your Financial Advisor or AMS External for information.

Brian G. Alexander, CFA, Director of Equity Research & **Tavis C. McCourt, CFA,** Institutional Equity Strategist

*Past performance is not a guarantee of future results. All investing involves risk.

Asset allocation and diversification does not ensure a profit or protect against a loss.

Additions & Deletions

Additions/Substitutions

Avery Dennison Corporation (AVY) - New selection by analyst/New coverage

Avnet, Inc. (AVT) - New selection by new analyst to coverage

Cadence Bank (CADE) - New selection by analyst

Cigna Corporation (CI) - New selection by analyst

Digital Realty Trust, Inc. (DLR) - New selection by analyst

Dine Brands Global, Inc. (DIN) - New selection by analyst

Fidelity National Information Services, Inc. (FIS) - New selection by analyst

Graphic Packaging Holding Company (GPK) - New selection by analyst/New coverage

LKQ Corporation (LKQ) - New selection by analyst

Medical Properties Trust, Inc. (MPW) - New selection by analyst

OceanFirst Financial Corp. (OCFC) - New selection by analyst

STAG Industrial, Inc. (STAG) - New selection by analyst

Verizon Communications Inc. (VZ) - New selection by analyst

Deletions

AT&T Inc. (T) - Replaced with Verizon Communications (VZ)

Analog Devices, Inc. (ADI) - Removed for sector diversification

Broadridge Financial Solutions, Inc. (BR) - Removed for sector diversification

CME Group Inc. (CME) - Removed due to total return being below required minimum

CSX Corporation (CSX) - Removed after share price appreciation drove yield below required minimum

Chubb Limited (CB) - Removed for sector diversification

First Merchants Corporation (FRME) - Removed for sector diversification

Juniper Networks, Inc. (JNPR) - Removed due to total return being below required minimum

Prologis, Inc. (PLD) - Removed due to total return being below required minimum

Public Storage (PSA) - Removed due to total return being below required minimum

Qualcomm Inc (QCOM) - Removed due to total return being below required minimum

Republic Services, Inc. (RSG) - Removed due to total return being below required minimum

United Bankshares, Inc. (UBSI) - Replaced with OceanFirst Financial Corp. (OCFC)

Waste Management, Inc. (WM) - Removed due to total return being below required minimum

Equity Favorites for Yield Oriented Investors

These stocks from a screening of the Raymond James Strong Buy- and Outperform-rated universe feature healthy balance sheets, attractive cash flows, and superior total return prospects. Each has a market capitalization of more than $1 billion, and most enjoy a dividend yield equal to or greater than that of the S&P 500.

Abbott Laboratories (ABT)

Outperform 2	Price 12/27/2021	Fiscal Year	Non-GAAP EPS Estimate 2020	2021	2022	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$141.46	Dec	$3.65	$5.04	$4.68	28.1	$1.88/1.3%	$253,072

ABT offers a good hedge in our view, with both defensive (CV-testing) and offensive (exposure to the rebound in procedures) characteristics.We expect upside to our CV-testing estimates with the emergence of omicron, which should reduce the near-term risk profile and make ABT more attractive, on a relative basis. The company also offers a cadence of new product flow in Cardio, Diabetes, and NeuroMod. Given Abbott's ability to flex operating expense in 2021 and 2022, while still generating meaningful cash flow (especially from high-margin CV testing), the upside case is bolstered by a seemingly safe dividend.

Please click here for our most recently published research on ABT.
Jayson Bedford, *Medical Technology*

Advance Auto Parts, Inc. (AAP)

Strong Buy 1	Price 12/27/2021	Fiscal Year	Non-GAAP EPS Estimate 2020	2021	2022	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$236.50	Dec	$8.35	$11.95	$13.20	19.8	$4.00/1.7%	$14,982

We believe Advance Auto Parts is well-suited for an income portfolio with a dividend yield of ~2%.We have become increasingly optimistic on AAP’s risk/return profile and believe the automotive aftermarket industry, which is still highly fragmented and has opportunities to surprise on the upside in CY22. In particular, we believe AAP's improving DIY capabilities, DIFM competitive advantages, and sizable GM% expansion potential position it well to manage through any economic uncertainty.

Bobby Griffin, CFA, *Hardline Retail*

Aflac Incorporated (AFL)

Outperform 2	Price 12/27/2021	Fiscal Year	Non-GAAP EPS Estimate 2020	2021	2022	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$58.20	Dec	$4.96	$5.80	$5.20	10.0	$1.60/2.7%	$40,076

Aflac, Inc., based in Columbus, Georgia, is the world's leading provider of supplemental insurance programs. Aflac provides supplemental accident, health, and ordinary life insurance policies to more than 50 million individuals. The company has a recognized brand and is the #1 provider of supplemental insurance at the worksite in the U.S. In addition, Aflac is the #1 cancer and medical insurer in Japan with one in four households being insured by Aflac. Japan Post revived their proactive sales initiatives in April, which, when coupled with the rollout of new products, should help drive a new sales recovery in Japan. We expect new sales to recover in the U.S. as well due to improved COVID conditions following vaccination, the build out of the dental & vision network, the rollout of a D2C platform that will include hospital accident, cancer, and life products, and the Zurich Benefits acquisition. The stock is ahead of the market (~5%) YTD and has a dividend yield of ~2.8%.

C. Gregory Peters, *Insurance*

Avery Dennison Corporation (AVY)

Outperform 2	Price 12/27/2021	Fiscal Year	Adj. EBITDA (mln) Estimate 2020	2021	2022	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$212.50	Dec	$1068.10	$1315.22	$1439.72	0.2	$2.72/1.3%	$17,786

Avery Dennison manufactures pressure-sensitive materials, primarily for use in labels, but also for tags, fasteners, and RFID solutions. Avery has a strong market position in several specialized/technical product categories, and we see a clear path to margin expansion in the coming quarters via a variety of internal and external drivers. Historically, such margin expansion has tended to coincide with relative outperformance of the shares. We believe income investors will find the dividend yield attractive, especially given the relative stability of organic volumes and the company's track record of consistent margin expansion.

Joshua Wilson, CFA, *Packaging*

Avnet, Inc. (AVT)

Strong Buy 1	Price 12/27/2021	Fiscal Year	Adj. EPS Estimate 2021	2022	2023	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$41.30	Jun	$2.71	$4.89	$5.04	15.2	$0.96/2.3%	$4,176

Favorable demand conditions and a strong pricing environment have driven a swift rebound in profits and earnings, with the tight supply environment likely to extend the current cycle well into 2022. With a targeted focus on ROIC and maintaining margins and returns across the cycle, we expect more predictable cash generation. The company's capital return policy remains unchanged, with 50% of FCF targeted toward internal investment to drive longer-term growth (including potential M&A), while the remaining 50% will be returned to shareholders through share repurchases and dividends. To that extent, AVT has increased the dividend by ~15% over the past year, with a yield now up to ~2.5%.

Melissa Fairbanks, *IT Supply Chain*

Banner Corporation (BANR)

Strong Buy 1	Price 12/27/2021	Fiscal Year	Operating EPS Estimate 2020	2021	2022	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$61.68	Dec	$3.42	$5.74	$4.55	10.7	$1.64/2.7%	$2,113

Headquartered in Walla Walla, Washington, Banner is a ~$17 billion asset bank with branches operating in California, Idaho, Oregon, and Washington. We view the risk-reward positively for Banner Corporation given its defensive posture, where it maintains limited exposure to higher risk segments, has historically strong asset quality performance and conservative underwriting standards. Furthermore, it has a strong low-cost core deposit base and inflecting loan growth, which should translate into strong NII growth and improving profitability. Additionally, it maintains robust capital ratios that we believe could be returned to shareholders through both dividend growth and share repurchases, as well as accretive M&A. We also note that BANR is well-positioned for market share gains across its footprint given the recent market disruption. BANR currently pays a quarterly cash dividend of $0.41 per share, representing a dividend yield of ~3% at current prices, which we view as sufficiently covered.

David P. Feaster, Jr., CFA, *Banking*

Cadence Bank (CADE)

Strong Buy 1	Price	Fiscal	Operating EPS Estimate				Dividend/	Market
	12/27/2021	Year	2020	2021	2022	P/E[1]	Yield	Cap.[2]
	$29.74	Dec	$2.16	$1.90	$2.82	15.7	$0.80/2.7%	$3,219

Cadence Bancorporation is a +$48 billion asset bank with operations centered across Texas and the Southeastern part of the United States.Following the recently completed merger of Cadence Bancorporation and BancorpSouth, the newly rebranded Cadence Bank stands well-positioned to improve its fundamental performance/profitability profile as merger integration plays out. Indeed, we see its expanded geographic footprint, product set, and larger balance sheet as catalysts for improved operating performance as cost savings from the deal are realized. With management's extensive M&A experience, where CEO Dan Rollins has completed more than 40 deals in his career, we see growing confidence in said-improving fundamental performance/profitability that, in our view, will drive outperformance in CADE shares. Moreover, in early December, the company announced that it completed its 2021 share repurchase program through repurchasing ~4.26 million shares in 4Q21 as well as announcing a large than expected 10 million share repurchase program for 2022.

Michael Rose, *Banking*

Camping World Holdings, Inc. (CWH)

Outperform 2	Price	Fiscal	Adj. EBITDA (mln) Estimate				Dividend/	Market
	12/27/2021	Year	2020	2021	2022	P/E[1]	Yield	Cap.[2]
	$39.94	Dec	$564.99	$925.09	$945.11	0.0	$1.48/3.7%	$3,469

Our bullish stance on Camping World Holdings (CWH) is based on our belief that the company – through its size, scale, and extensive customer database – is uniquely positioned in a very healthy domestic RV industry to continue to gain meaningful market share, both through organic growth and M&A. Further, its focus on higher margin and less cyclical sources of revenue, such as RV service and its emerging peer-to-peer rentals business, should help to mitigate downside risk, while the dividend looks both strong and secure.

Joseph Altobello, CFA, *Leisure Products*

Chevron Corporation (CVX)

Outperform 2	Price	Fiscal	Non-GAAP EPS Estimate				Dividend/	Market
	12/27/2021	Year	2020	2021	2022	P/E[1]	Yield	Cap.[2]
	$118.79	Dec	($0.20)	$8.11	$10.00	14.6	$5.36/4.5%	$226,975

Chevron Corp., based in San Ramon, California, is one of the world's largest private-sector integrated oil and gas companies. The upstream segment has its primary operations in the U.S. and Asia-Pacific, with other assets in Africa, the Middle East, and South America. The downstream segment has primarily U.S. and Asia-Pacific refineries, with others in Europe, Africa, and Canada, and also includes a 50% interest in Chevron Phillips Chemical Co. With the strongest financial base of the majors, coupled with an attractive relative asset portfolio, Chevron (CVX) offers the most straightforwardly positive risk/reward, in our view. Efficiency drivers are set to improve profitability into 2022, while a "block and tackle" capital program over the next few years should further improve competitiveness, even without more help from the macro environment. Overall, based on a more secure balance sheet, solid leverage to a macro/oil price recovery and capital allocation that is already aligned with investor preferences, we see CVX providing better dividend coverage while also maintaining its dividend growth profile, with strong share repurchase optionality.

Justin Jenkins, *Integrated Oil and Gas*

Cigna Corporation (CI)

Strong Buy 1	Price 12/27/2021	Fiscal Year	Non-GAAP EPS Estimate 2020	2021	2022	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$227.86	Dec	$18.44	$20.35	$22.41	11.2	$4.00/1.8%	$76,921

The 2018 acquisition of ExpressScripts is now fully integrated and leverage is in line with management's long-term goal of ~40% debt-to-capitalization. Trading at ~9x 2022 EPS, CI represents a strong value idea with impressive capital returns as management plans to take advantage of their strong balance sheet and impressive free cash flow generation in 2022 to drive value for shareholders through a solid dividend and increased share buybacks fueled by the proceeds from the sale of the international life, accidental, and supplemental businesses. At the 2021 Investor Day the management team laid out expectations of generating ~$50B of cash flow over the next five years, with ~$40B allocated to be returned to shareholders.

John W. Ransom, *Integrated Benefits Management*

Cisco Systems, Inc. (CSCO)

Outperform 2	Price 12/27/2021	Fiscal Year	Non-GAAP EPS Estimate 2021	2022	2023	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$63.42	Jul	$3.22	$3.42	$3.75	19.7	$1.48/2.3%	$269,091

Cisco Systems is a leading networking equipment manufacturer, providing a range of systems and software to enterprises, service providers, governments, and other institutions around the globe. Our Outperform recommendation is predicated on the company's strong IP portfolio and history of innovation, coupled with best-in-class profitability, robust balance sheet/ capital return profile, and attractive valuation. We see improving business momentum (+33% y/y order growth in October) as a catalyst for shares driven by several secular trends boosting network traffic (5g, cloud, work-from-home, online streaming/ gaming, etc.).

In regard to its dividend, the company has delivered a 20% compound annual growth rate in distributions since April 2011. Its most recent increase came in F3Q21 (April 2021), when the company announced an approximately 3%, or $0.01 increase in its quarterly dividend to $0.37. Despite the share price increase YTD, the company still offers an attractive dividend yield. In addition, Cisco continues to buy back shares, repurchasing approximately $256 million of common stock (5 million shares) in the October 2021 quarter, leaving its buyback authorization at ~ $7.7 billion with no termination date.

Management has historically committed to pay out at least 50% of its free cash flow in the form of dividends and share buybacks. We expect Cisco generates close to $15.4 billion of free cash flow in calendar 2021, and after accounting for the dividend, the company will have at its disposal close to $9.1 billion that it could use to repurchase stock. As of October 2021, Cisco had $23.3 billion of cash and short-term investments, or $3.38 of net cash per share.

Simon Leopold, *Data Infrastructure*

CVS Health Corporation (CVS)

Strong Buy 1	Price 12/27/2021	Fiscal Year	Non-GAAP EPS Estimate 2020	2021	2022	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$102.40	Dec	$7.50	$7.95	$8.20	12.9	$2.20/2.1%	$136,090

We believe that CVS-Aetna represents one variation of the next-generation healthcare company, combining a health insurer with a PBM (a model already tested with United-Optum) and a renewed strategy of becoming a healthcare services company with a retail presence. With a business model we view as recession resistant, we believe the valuation is compelling with shares trading in line with the 10x three-year average multiple and below peers despite rapidly growing their Medicare Advantage market share, improving PBM business, and management's focus on returning capital to shareholders through dividends, share repurchases, and debt reductions.

John W. Ransom, *Integrated Benefits Management*

Darden Restaurants, Inc. (DRI)

Outperform 2	Price 12/27/2021	Fiscal Year	Non-GAAP EPS Estimate 2020	2021	2022	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$150.23	May	$3.17	$4.31	$7.50	34.8	$4.40/2.9%	$19,605

Darden Restaurants, Inc., based in Orlando, FL, owns and operates over 1,800 full-service restaurants including the core Olive Garden and Longhorn concepts, along with several other strong brands including Cheddar's, Capital Grill, and Yard House, among others. The company's brand portfolio generates industry leading AUV's and store level profitability, which we attribute to its best in class management team, strong operating culture, and significant scale advantages (supply chain, data analytics, advertising). Historically, the company has maintained a strong balance sheet profile supporting an investment grade credit rating, with excess free cash flow (after capex supporting 2-3% unit growth) returned to shareholders via dividends and share repurchases. We believe the company can exit the pandemic as a stronger enterprise characterized by higher AUV's (higher off-premise, competitive closures) and margins (labor, advertising, and other efficiency gains) that will continue to generate significant free cash flow (~$1B, supporting recently fully restored quarterly dividend payment of $1.10/share). The company also remains in a very strong balance sheet position with $0.8B of cash at the end of F2Q22 (Nov) and lower leverage ratios (adjusted debt/EBITDAR projected to be mid-1's at end FY22 vs. targeted range 2.0-2.5x).

Please click here for our most recently published research on DRI.

Brian M. Vaccaro, CFA, *Restaurants*

Devon Energy Corporation (DVN)

Strong Buy 1	Price 12/27/2021	Fiscal Year	Non-GAAP EPS Estimate 2020	2021	2022	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$44.61	Dec	($0.08)	$3.37	$5.70	13.2	$0.44/1.0%	$30,027

Devon Energy Corporation, based in Oklahoma City, Oklahoma, is an independent energy company engaged primarily in oil and gas exploration, development and production, and the acquisition of producing properties. The company's primary focus has shifted to onshore unconventional plays in the U.S. Proved reserves at year-end 2020 totaled 752 MmBoe (76% developed). Devon plans to support and grow the existing base dividend with up to 10% of cash flow. In addition, DVN plans to return ~50% of its remaining free cash flow (after paying base dividend), back to shareholders in the form of a variable dividend. After Q3, DVN announced it would also implement a $1B buyback plan on top of its fixed + variable strategy, implying it will return more than 50% of FCF during 2022.

John Freeman, CFA, *Exploration and Production*

Dine Brands Global, Inc. (DIN)

Outperform 2	Price 12/27/2021	Fiscal Year	Non-GAAP EPS Estimate 2020	2021	2022	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$80.58	Dec	$1.80	$6.46	$7.38	12.5	$1.60/2.0%	$1,368

Dine Brands Global, Inc. based in Glendale, California, franchises two of the largest full service restaurant brands including IHOP (~1,750 units, 100% franchised) and Applebee's (~1,700 units, 96% franchised). The company's virtually 100% franchise model generates a stream of royalty and rental (IHOP) payments with low capex requirements, resulting in significant free cash flow that has historically been returned to shareholders via a modestly growing dividend and ongoing share repurchases.

While the COVID pandemic caused unprecedented disruption/volatility, the company's franchisees and overall profitability weathered the storm fairly well. System-wide units at the end of 2021 are expected to have declined ~4% at IHOP and just under 6% at Applebee's vs. 2019, though system-wide sales recovered to exceed 2019 levels in 2H21 driven by strong gains at Applebee's (up low teens; IHOP about even vs. 2019). After providing temporary relief to franchisees in 2020 (which have been almost entirely repaid), the company's EBITDA run-rates have essentially recovered to 2019 levels. Importantly, Dine Brands is also one of the few companies in our universe with an unchanged share count and debt level through the pandemic. The company also has significant excess cash on its balance sheet ($230M end 3Q21, nearly 20% of current market cap) and resumed paying a quarterly dividend of $0.40, equating to a dividend yield in low 2% range.

Exiting the pandemic, we believe the company can achieve low-single digit unit growth on a system-wide basis reflecting accelerated growth at IHOP (3-4%) and stable/slight growth at Applebee's (marked improvement vs. several years of net closures). We expect a modestly higher level of investment targeting various organic growth drivers under the company's new leadership team, but expect it to continue to generate significant FCF going forward. We believe DIN shares remain undervalued at current levels (exiting 2021) with a 2022 EV/EBITDA of 9x (vs. historical range 9-12x) and a FCF yield in the low-double digit % range.

Brian M. Vaccaro, CFA, *Restaurants*

Enterprise Products Partners L.P. (EPD)

Strong Buy 1	Price 12/27/2021	Fiscal Year	GAAP EPU Estimate 2020	2021	2022	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$21.58	Dec	$1.71	$2.19	$2.08	9.9	$1.80/8.3%	$47,420

Enterprise Products Partners L.P. (EPD), headquartered in Houston, Texas, is the largest publicly traded energy partnership. Services include natural gas transportation, gathering, processing, and storage; natural gas liquids (NGL) and propylene fractionation, transportation, storage, and import and export terminaling; refined product and crude oil transportation; offshore production platform services; and marine transportation services. EPD is not immune to the current bout of headwinds plaguing midstream (e.g., low historical commodity prices, various G&P volume/price headwinds, refined product demand "unevenness," pressure on export arbs). However, EPD's unique combination of integrated assets, showed resilience in 2020's difficult environment and looks solid as 2021 shifts into 2022. In our view, the partnership's integrated assets, strong balance sheet, and track record of driving an attractive ROIC remains among the very "best in class." In turn, we see EPD as arguably best positioned in the space to withstand the volatile macro landscape. Beyond that, the potential catalyst of significant unit buyback capabilities in 2022 remains an enticing capital allocation option - underscoring the margin of safety around the current distribution level.

Please note, Enterprise Products Partners is a partnership that generates a K1 for tax reporting purposes. As it is the only partnership to be included in this update, we are including it with the Equity Favorites with the other midstream energy names that generate 1099s for tax reporting purposes.

Justin Jenkins, CFA & J.R. Weston, CFA, *Midstream Suppliers*

F.N.B. Corporation (FNB)

Outperform 2	Price 12/27/2021	Fiscal Year	Non-GAAP EPS Estimate 2020	2021	2022	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$12.15	Dec	$1.99	$1.23	$1.11	9.9	$0.48/4.0%	$3,875

F.N.B. is a regional bank operating in and around the metropolitan markets of Pittsburgh (PA), Baltimore (MD), Cleveland (OH), and Charlotte, Raleigh-Durham, and Piedmont Triad (NC). It has produced very strong credit quality historically with solid profitability metrics, and has generated high single digit organic loan growth, which is accelerated via acquisitions. With several positive catalysts, including the integration of its pending acquisition of HBMD, NIM stabilization, and eventual expansion driven by excess cash deployment and strong loan growth, and meaningful asset sensitivity, and trading at a discount to peers on both a P/TBV and P/E basis, we believe F.N.B. shares should outperform peers in the near-to-intermediate-term. F.N.B. pays a $0.12 per share quarterly dividend, a 4+% annualized dividend yield. This equates to a 46% payout ratio in 2022.

Daniel Tamayo, CFA, *Banking*

Fidelity National Information Services, Inc. (FIS)

Strong Buy 1	Price 12/27/2021	Fiscal Year	Adj. EPS Estimate 2020	2021	2022	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$108.44	Dec	$5.47	$6.58	$7.61	16.5	$1.56/1.4%	$67,124

We believe FIS represents one of the best risk/reward profiles across our large cap coverage given its current valuation, coupled with solid financial profile that can sustain high single digit revenue growth and mid-teens EPS growth over the medium term. Importantly, the banking segment (~45% of revs) has accelerated growth into the high-single digits (vs low-to-mid-single digits pre-covid) and we expect the Merchant segment to continue to improve as the world hopefully moves on from the virus in 2022. Additionally, management has recently committed to a more pointed dividend strategy, aiming for 20% dividend growth annually (previously 10%) to reach a 35% payout ratio around 2030. Simply put, we think FIS represents a rare opportunity to buy a secular mid-teens EPS grower with a sustainable and increasing dividend.

John Davis, *Financial Technology & Payments*

Graphic Packaging Holding Company (GPK)

Strong Buy 1	Price 12/27/2021	Fiscal Year	Adj. EBITDA (mln) Estimate 2020	2021	2022	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$19.12	Dec	$1069.50	$1054.62	$1459.74	0.0	$0.30/1.6%	$5,908

Graphic Packaging is a vertically-integrated manufacturer of fiber-based packaging, with leading market positions in both North America and Europe (primarily to food, consumer, and beverage end markets). Graphic has a variety of internal margin tailwinds, which is bullish given the strong historical correlation between the shares' relative performance and EBITDA margin. A gradual shift towards paper/fiber-based packaging in developed markets provides a slight tailwind to organic volume growth. We believe income-oriented investors will also find the over 1.5% dividend yield and double-digit free cash flow yield attractive.

Joshua Wilson, CFA, *Packaging*

Griffon Corporation (GFF)

Outperform 2	Price 12/27/2021	Fiscal Year	Adj. EBITDA (mln) Estimate 2020	2021	2022	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$29.03	Sep	$209.42	$248.00	$250.00	0.1	$0.36/1.2%	$1,555

We believe Griffon is an issue well suited for an equity income portfolio. Griffon raised its quarterly dividend by 13 percent to $0.09 in November 2021 (current yield ~1.5%). We view GFF as one of the premier "value stock plays" within the building products sector, given a valuation roughly two standard deviations below its own historical multiple. Griffon is actively working to enhance its business portfolio, and is in the process of divesting its defense electronics segment and acquiring a margin-accretive ceiling fan business.

Sam J. Darkatsh, *Building Products*

Hewlett Packard Enterprise Company (HPE)

Outperform 2	Price 12/27/2021	Fiscal Year	Non-GAAP EPS Estimate 2020	2021	2022	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$15.92	Oct	$1.35	$1.96	$2.01	8.1	$0.48/3.0%	$21,253

HP Enterprise is largely a cash flow story aspiring to return to growth. After the split from HP Inc., the company undertook significant divestitures and has become a nimbler supplier of network infrastructure. HPE offers a diverse portfolio; we remain constructive on its campus growth, which we continue to believe is underappreciated, and opportunity to gain share. In data centers, HPE remains competitive in servers, and was among the first to promote the pivot to an as-a-Service consumption model. We envision potential enterprise upside from a macro recovery with benefits from price increases. It has not been a stand-out in storage, nor has it articulated a particularly coherent hybrid-cloud story. Candidly, HPE's competitors may offer a clearer narrative, yet lack HPE's breadth as it articulates its “edge to cloud” strategy. Recent operational improvements should yield FCF and multiple expansion. HPE has a dividend yield around 3% and a CY21 FCF yield near 8%.

Please click here for our most recently published research on HPE.
Simon Leopold, *Data Infrastructure*

Huntington Bancshares Incorporated (HBAN)

Strong Buy 1	Price 12/27/2021	Fiscal Year	Non-GAAP EPS Estimate 2020	2021	2022	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$15.40	Dec	$0.70	$1.55	$1.45	9.9	$0.62/4.0%	$22,276

We believe Huntington is positioned as one of the premier Midwest-based banking institutions. Since the Great Financial Crisis, the bank has rapidly grown new checking households and improved its penetration level. In addition, commercial banking initiatives have increased its product breadth and depth, resulting in an increase in commercial relationship penetration. Furthermore, it has revamped its credit and underwriting culture since the last recession, and diversified its loan portfolio well with a roughly even split between commercial and consumer loans. These accomplishments when combined with its focus on consistently producing positive operating leverage have led to better-than-peer profitability metrics. With the bank now in the integration phase of its acquisition of TCF, we are nearing enhanced operating results, as we believe the strategic and financial metrics of the deal will come to fruition under Huntington’s leadership. We expect Huntington to maintain its recently raised $0.155 per share quarterly dividend, an ~4% annualized dividend yield, through the remainder of the 2021 CCAR cycle (4Q21-2Q22), raise the quarterly dividend to $0.16 per share in the 2022 CCAR cycle (3Q22-2Q23), and then raise the quarterly dividend to $0.17 per share in the 2023 CCAR cycle (3Q23-2Q24). Based on our estimates, this equates to a 43% payout ratio in 2022 (excluding merger charges) and a 42% payout ratio in 2023.

David J. Long, CFA, *Banking*

Johnson & Johnson (JNJ)

Outperform 2	Price 12/27/2021	Fiscal Year	Non-GAAP EPS Estimate 2020	2021	2022	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$169.67	Dec	$8.03	$9.80	$10.28	17.3	$4.24/2.5%	$453,290

Our positive thesis on JNJ is based on: 1) comfort with estimates - J&J has a strong track record of delivering on its guidance, and we continue to see upside in the near term; 2) portfolio breadth - J&J's diversified portfolio lessens the risk profile, and we view the Consumer split as a shareholder-friendly action; 3) strong cash flow - a healthy balance sheet and strong cash flow generation adds safety to the dividend; and 4) attractive growth profile - we view a “normalized” organic growth profile for J&J in the 4-5% range, which is driven by a deep pharmaceutical pipeline, a leading position in Electrophysiology and surgical devices, and a broad portfolio of differentiated consumer products.

Jayson Bedford, *Medical Technology*

L3Harris Technologies, Inc. (LHX)

Outperform 2	Price 12/27/2021	Fiscal Year	Non-GAAP EPS Estimate 2020	2021	2022	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$210.33	Dec	$11.60	$12.96	$13.76	16.2	$4.08/1.9%	$42,403

L3Harris has a portfolio of technology solutions and capabilities that are closely aligned with its government customers' priorities and long-term budgetary trends. Following successful M&A and portfolio shaping, the company's portfolio is well-balanced with the ability to scale and expand into market adjacencies, which should continue to support cash flow growth and a stable dividend. Looking ahead, a strong balance sheet and clear path to accelerating FCF generation positions the company to continue to return value to shareholders while acting on strategic acquisitions where necessary. We are especially encouraged by the company's exposure to DoD modernization efforts, which we believe will reduce the impact of broad-based budget trends.

Brian Gesuale, *Advanced Industrial Technology*

Leggett & Platt, Incorporated (LEG)

Outperform 2	Price 12/27/2021	Fiscal Year	Non-GAAP EPS Estimate 2020	2021	2022	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$39.93	Dec	$2.16	$2.74	$3.00	14.6	$1.68/4.2%	$5,327

We believe Leggett & Platt is an issue well-suited for an income portfolio with a dividend yield of ~4.4%. Moving forward, we continue to see further upside for Leggett & Platt driven by: (1) continued strength in consumer demand trends in Leggett’s important end markets (bedding, furniture and auto will benefit as the supply chain continues to improve), (2) ~$75M of fixed cost reductions from 2020 will remain in 2021+, thereby increasing the long-term earnings power versus pre-COVID, and (3) despite the notable raw material inflation through 2021, Leggett is capturing faster price realization (versus prior inflation). Lastly, total liquidity remains strong (~$1.0B at the end of 3Q21) and we believe the dividend remains safe, which should offer some downside protection for patient long-term holders.

Bobby Griffin, CFA, *Furniture & Furnishings Suppliers*

LKQ Corporation (LKQ)

Outperform 2	Price 12/27/2021	Fiscal Year	Non-GAAP EPS Estimate 2020	2021	2022	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$58.63	Dec	$2.55	$3.90	$4.05	15.0	$1.00/1.7%	$17,289

LKQ distributes alternative collision parts and mechanical/specialty vehicle replacement products to professional repair shops throughout the US, as well as selling mechanical and collision parts in Europe. LKQ has been executing crisply of late, despite severe aftermarket collision part supply constraints. We increasingly view LKQ as an effective "inflation hedge" given its success in retaining profits from steel and precious metal inflation. LKQ declared its first ever quarterly cash dividend in December 2021 in the amount of $0.25 per share (the current yield is ~2%).

Sam J. Darkatsh, *Specialty/Industrial Distribution*

MAXIMUS, Inc. (MMS)

Outperform 2	Price 12/27/2021	Fiscal Year	Non-GAAP EPS Estimate 2020	2021	2022	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$78.86	Sep	$3.40	$4.67	$4.16	16.9	$1.12/1.4%	$4,929

In the near term, Maximus will benefit from easing comparisons, a pivot to organic growth, and favorable exposure to an increasing emphasis of social programs. The aging demographic and its pure-play focus on social programs made this a compelling stock during the Obama administration (up 550% vs. 180%), a laggard during the Trump administration, and we believe it can once again outperform the broader markets during the current Democratic administration. We believe all of these factors support the dividend and make Maximus a compelling sales acceleration, margin expansion, and multiple re-rating story in the coming year.

Brian Gesuale, *IT Services*

Medtronic Public Limited Company (MDT)

Outperform 2	Price 12/27/2021	Fiscal Year	Non-GAAP EPS Estimate 2021	2022	2023	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$104.43	Apr	$4.43	$5.69	$6.13	23.6	$2.52/2.4%	$141,649

While Medtronic has encountered some setbacks in Diabetes and RDN, we continue to believe revenue can normalize in the 5% growth range. With modest operating margin expansion, we believe the business can grow earnings in the high single digits. CEO Geoff Martha is also driving a harder line with new products, which have the potential to drive upside. With >$10B in cash, Medtronic is well positioned for tuck-in M&A.

Jayson Bedford, *Medical Technology*

Newell Brands Inc. (NWL)

Strong Buy 1	Price 12/27/2021	Fiscal Year	Non-GAAP EPS Estimate 2020	2021	2022	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$21.84	Dec	$1.79	$1.74	$1.90	12.6	$0.92/4.2%	$9,291

While still early in its turnaround, Newell has stabilized its portfolio, cut SKU count by over 50% to drive efficiencies and reinvest, and replaced most of its senior management after a tumultuous few years. We believe these changes position the company for more predictable top and bottom-line growth as well as improved ability to navigate volatility or deliver upsides in our view, which by extension would justify further valuation expansion. We see continued improvement in working capital, with Newell's cash conversion cycle narrowing from 115 days in 2018 to 72 days in 2020, with a long term target of 50 days. As a result, Newell's FCF margin increased from 3% in 2018 to over 12% in 2020. Net leverage has also been declining and is expected to be under 3x by CY21-end, allowing Newell more flexibility to pursue share buybacks and/or acquisitions; this offers another potential window for improved shareholder return. Currently, NWL's $0.92 annual dividend equates to a ~4% yield at current levels, a premium to the market.

Olivia Tong, CFA, *Beauty, Personal Care & Household Products*

OceanFirst Financial Corp. (OCFC)

Strong Buy 1	Price 12/27/2021	Fiscal Year	Non-GAAP EPS Estimate 2020	2021	2022	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$22.25	Dec	$1.24	$1.85	$2.10	12.1	$0.68/3.1%	$1,333

OceanFirst Financial Corp is the Red Bank, New Jersey holding company of OceanFirst Bank, a more than $11 billion asset bank with over 50 branches across New Jersey and New York with recent expansion of lending operations into the Boston, Baltimore, and Washington, D.C. MSAs. Founded over 100 years ago, its primary business is providing a wide array of financial services to individuals and businesses throughout its footprint. Most recently, we reiterated our positive outlook following 3Q21 results where its core loan growth (ex PPP) showed signs of growing momentum as the new teams in the Boston and Baltimore markets are now contributing in a more meaningful way. Additionally, in November 2021 OceanFirst announced a definitive agreement to acquire Partners Bancorp headquartered in Salisbury, MD, which we note should complement the recently hired Baltimore team well with established commercial lending and deposit gathering platforms. That said, we note investors have remained skeptical on acquirers in recent quarters, which may push our thesis out until after the deal closes. All in, we remain positive on shares as we believe the risk/reward dynamic is very attractive.

William J. Wallace IV, *Banking*

PACCAR Inc (PCAR)

Strong Buy 1	Price 12/27/2021	Fiscal Year	Non-GAAP EPS Estimate 2020	2021	2022	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$85.80	Dec	$3.74	$5.13	$7.15	16.7	$1.36/1.6%	$29,893

We continue to view PACCAR (PCAR) uniquely positioned in the truck equipment space given its pristine balance sheet (no manufacturing debt), leading margins and premium truck offering that likely drives heightened pricing power (key given rising input costs), in our view. As such, we view PCAR as uniquely positioned to capitalize on what we view as a firming 2022-2023 Class 8 production outlook, particularly as we believe PCAR garners both "defensive" (liquidity, margins, market share) and "offensive" (major beneficiary assuming quicker freight recovery) qualities for investors. Further, given the rampant adoption of its proprietary MX engine, we surmise PACCAR retains a highly idiosyncratic, high margin and less cyclical parts revenue stream, slated to accelerate early this decade as initial engines reach the lucrative "overhaul" stage. Lastly, in line with its consistent historical track record – spanning more than a decade – of paying an annual special dividend (preferred method of returning capital to shareholders), based on current share prices, we are modeling an effective NTM 12-month dividend yield of ~3.3% (regular + special).

Felix Boeschen, CFA & Patrick Tyler Brown, CFA, *Machinery*

Phillips 66 (PSX)

Outperform 2	Price 12/27/2021	Fiscal Year	Non-GAAP EPS Estimate 2020	2021	2022	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$72.79	Dec	($0.87)	$4.38	$7.50	16.6	$3.68/5.1%	$31,963

Phillips 66, based in Houston, Texas, is one of the world's largest independent refiners. The company owns or has an interest in 13 refineries (2,180 MBbls per day of combined throughput capacity), of which 11 are located in the U.S., while two are in Europe. In addition, the company markets transportation fuels through nearly 8,000 marketer-owned or supplied outlets in the U.S., along with more than 1,000 company- or dealer-owned sites in Europe. Phillips 66 also has a 50% interest in Chevron Phillips Chemical (a joint venture with Chevron Corp.) and a stake in DCP Midstream. PSX also owns a significant LP unit interest in Phillips 66 Partners LP, which is the company's sponsored growth-oriented partnership focused on owning, operating, and developing midstream logistics infrastructure assets. This diversified asset base drives benefits to overall cash flow and balance sheet flexibility, and we expect the core businesses to recover into 2022+, providing better dividend coverage (on a likely further-increased dividend base).

Justin Jenkins, *Independent Refiners*

Pioneer Natural Resources Company (PXD)

Strong Buy 1	Price 12/27/2021	Fiscal Year	Non-GAAP EPS Estimate 2020	2021	2022	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$185.77	Dec	$2.53	$13.69	$21.53	13.6	$2.48/1.3%	$45,328

Pioneer Natural Resources Company, headquartered in Irving, Texas, is an independent oil and gas exploration and production company. Current development focuses on the Permian Basin of West Texas. The company's proved reserves were 1,271 MMboe at year-end 2020 (75% liquids, 95% developed). Beginning in 3Q 2021, Pioneer plans to pay up to 75% of its free cash flow (after the growing base dividend) generated in the prior quarter. Longer term, the company plans to increase the payout ratio above 75% as it transitions to a zero-debt business model with total cash flow returned to shareholders over the next 10 years potentially equal to the company's current market cap (assuming current oil strip).

John Freeman, CFA, *Exploration and Production*

Polaris Inc. (PII)

Strong Buy 1	Price 12/27/2021	Fiscal Year	Non-GAAP EPS Estimate 2020	2021	2022	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$107.00	Dec	$7.74	$9.00	$9.85	11.9	$2.52/2.4%	$6,493

Our bullish stance on Polaris is based on our belief that the company is poised to outperform its product categories through a compelling innovation cycle, while headwinds from tariffs are masking its full earnings power. As a result, we remain confident in the company's ability to generate healthy free cash flow well into the future, while the dividend appears secure given PII's ample liquidity and favorable financial covenants. Further, historically low dealer inventories present a significant pipeline refill opportunity, which should help to drive EPS growth and provides increased visibility into our forecasts.

Joseph Altobello, CFA, *Leisure Products*

Premier, Inc. (PINC)

Outperform 2	Price 12/27/2021	Fiscal Year	Non-GAAP EPS Estimate 2021	2022	2023	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$40.82	Jun	$2.44	$2.59	$2.68	16.7	$0.80/2.0%	$5,085

We think PINC's slow evolution from a low/no growth story to that of a moderate growth/free cash flow story – due in part to easy comparisons - is on track to deliver strong shareholder returns - 2% dividend yield and $250M of share buybacks – with a supportive valuation of 15.5x FY22 EPS.

John W. Ransom, *Healthcare Supply Chain Services*

Primo Water Corporation (PRMW)

Strong Buy 1	Price 12/27/2021	Fiscal Year	Non-GAAP EPS Estimate 2020	2021	2022	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$17.62	Dec	$0.14	$0.65	$0.68	27.3	$0.30/1.7%	$2,853

As sustainability-themed stocks go, Primo is below the proverbial radar. More fundamentally, the backdrop is that water quality in both North America and Europe leaves much to be desired. Primo's multi-pronged sales strategy enables consumers and businesses to get high-quality drinking water at a lower price point than single-use plastic bottles, as well as avoiding the associated waste — hence the sustainability aspect of the story. As of year-end 2021, the entire company is carbon-neutral. The recurring revenue model is bolstered by tuck-in M&A that provides an incremental uplift to estimates. In November 2021, the company announced that the dividend is finally getting a boost, having stayed unchanged at $0.06/ quarter since 2014. In each of 2022, 2023, and 2024, the plan is to raise the quarterly rate by a penny, equating to 15% annualized growth.

Pavel Molchanov, *Renewable Energy and Clean Technology*

Rent-A-Center, Inc. (RCII)

Strong Buy 1	Price 12/27/2021	Fiscal Year	Non-GAAP EPS Estimate 2020	2021	2022	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$49.20	Dec	$3.53	$6.05	$7.00	8.1	$1.36/2.8%	$3,270

We believe RCII is well-suited for an income portfolio with a dividend yield of ~3% and strong free cash flow. In our view, the rent-to-own industry is well positioned to continue to benefit in a COVID-19 recovery due to tighter consumer credit conditions and further adoptions of virtual rent-to-own offerings by retailers and consumers. Specifically, we anticipate Rent-A-Center will benefit from (1) potential tighter credit conditions in CY22 (more RTO customers), (2) the impact of inflation on the traditional retail business (more RTO customers; drives more gross margin dollars), (3) further growth in its virtual lease to own business through its digital initiatives, expanded capabilities with Acima, and new retail partnerships, and (4) improved value proposition in the core Rent-A-Center business (increased digital penetration).

Bobby Griffin, CFA, *Hardline Retail*

Synovus Financial Corp. (SNV)

Outperform 2	Price 12/27/2021	Fiscal Year	Operating EPS Estimate 2020	2021	2022	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$47.67	Dec	$2.80	$4.67	$4.10	10.2	$1.32/2.8%	$7,041

Synovus Financial Corp., headquartered in Columbus, Georgia, has ~$55 billion in assets and operates in Georgia, South Carolina, Alabama, Florida, and Tennessee. The company is currently in the middle of completing their "Synovus Forward" initiative, which is projected boost the profitability profile through yielding $175 million in pre-tax benefit by year-end 2022. Synovus sports an above average dividend yield and plans to support earnings growth through exhausting its current share repurchase authorization ($33 million remain) by the end of 2021.

Michael Rose, *Banking*

Target Corporation (TGT)

Strong Buy 1	Price 12/27/2021	Fiscal Year	Non-GAAP EPS Estimate 2020	2021	2022	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$224.10	Jan	$9.42	$13.40	$13.50	16.7	$3.60/1.6%	$109,675

We believe Target is an issue well-suited for an income portfolio. We continue to view Target as a long-term winner in today's retail environment, given management's investments in supply chain, private-label, and omni-channel distribution. Moreover, new customer acquisition is still in relatively early stages, as Target is one of the best national distribution points today in the U.S. for good/better discretionary products for which consumers are used to shopping for more up-channel. Lastly, Target's financial position (~$6 billion in TTM free cash flow) and omni-channel capabilities should allow it to manage through any economic uncertainty.

Bobby Griffin, CFA, *Hardline Retail*

Telephone and Data Systems, Inc. (TDS)

Strong Buy 1	Price 12/27/2021	Fiscal Year	OIBDA (mln) Estimate 2020	2021	2022	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$20.42	Dec	$1190.00	$1156.55	$1185.89	0.0	$0.70/3.4%	$2,342

We believe the risk/reward relationship for TDS shares is favorable given the significant hard assets at U.S. Cellular (e.g. over 4K Towers, minority interests including Verizon L.A., and large amount of spectrum). Moreover, USM recently wrapped up the VoLTE project, that should provide significant cost savings to USM as well as increasing high margin roaming revenues. And, USM has started its 5G deployment that, while it is in early innings, should allow the company to protect its subscriber base and grow revenues. Lastly, we expect TDS Telecom to continue to benefit from strong broadband trends, especially as the company does fiber overbuilds both in and out of territory.

Ric Prentiss, *Telecommunications Services*

Texas Instruments Incorporated (TXN)

Outperform 2	Price 12/27/2021	Fiscal Year	Non-GAAP EPS Estimate 2020	2021	2022	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$191.84	Dec	$6.21	$8.17	$8.69	23.5	$4.60/2.4%	$179,562

With analog industry consolidation now near an end, we believe the playing field has now been leveled through the current cycle, with strong secular demand and continued low customer inventory set to drive growth as the industry is expected to remain supply constrained through 2022. Further, we expect structural pricing dynamics to represent an incremental tailwind to revenue and profits moving through the cycle. Finally, the company pioneered the concept of prioritizing shareholder returns in semis, consistently leading the industry.

Chris Caso, *Semiconductors*

Texas Roadhouse, Inc. (TXRH)

Strong Buy 1	Price 12/27/2021	Fiscal Year	Non-GAAP EPS Estimate 2020	2021	2022	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$88.75	Dec	$0.45	$3.59	$3.90	24.7	$1.60/1.8%	$6,225

Texas Roadhouse, Inc., based in Louisville, Kentucky, owns, operates, and franchises over 650 full-service casual dining restaurants including the core Texas Roadhouse concept and the internally developed Bubba's 33 concept (future growth vehicle). The company has a long track record of significant comp outperformance and market share gains, which we attribute to its strong operating culture (led by regional and managing partners with “skin in the game”) and compelling value proposition. It has also sustained mid-single digit percentage unit growth for many years with consistently strong new unit performance. The company’s market share gains have accelerated during the pandemic, with average unit volumes up over 20% vs. 2019 levels moving through 3Q21, driven by strong off-premise gains (~2.5x vs. 2019) and dine-in sales that exceeded 2019 levels. While margins are under a bit of pressure due to multi-decade high beef costs and other inflationary pressures, we believe the company has strong pricing power and continue to see a path towards historical store margin levels (17-18%) into 2023, supporting materially higher EPS (RJE 2023 $4.84 vs. 2019 $2.46). The company also has a pristine balance sheet with nearly ~$240M of net cash as of 3Q21, is forecast to generate $250M/$330M in annual FCF in 2021/2022, and recently reinstated a quarterly dividend of $0.40 (~2% current yield). We’d also expect the company to resume share repurchases soon assuming no material change in COVID/industry sales conditions.

Brian M. Vaccaro, CFA, *Restaurants*

The Allstate Corporation (ALL)

Outperform 2	Price 12/27/2021	Fiscal Year	Non-GAAP EPS Estimate 2020	2021	2022	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$116.08	Dec	$14.73	$12.85	$8.80	9.0	$3.24/2.8%	$35,157

Allstate Corp. is our top pick in personal lines insurance. In the last couple of years, the company has become laser focused on improving its competitive position with a lower expense ratio by rolling out the integrated services platform, and more recently the transformational growth strategy, which includes direct business discounts and the acquisition of National General Holdings Corporation. They have also lowered LAE through the use of Quick photo claim app, where ~75% of the company’s drivable claims are settled in one day. Allstate is positioned to harvest meaningful pricing advantages and report significantly lower rates of accident frequency through the rollout of its Drivewise app. The stock has underperformed the market ~15% YTD as accident frequency has increased with miles driven and severity has increased with inflation. PGR reported November results on 12/15/21 with sequential improvement in the UCR, which could be a sign that trough earnings for the auto insurance industry is behind us. ALL continues to trade at relative forward P/E multiple levels not seen since the financial crisis (2008/2009) and has a dividend yield of ~2.8%.

C. Gregory Peters, *Insurance*

The Home Depot, Inc. (HD)

Outperform 2	Price 12/27/2021	Fiscal Year	Non-GAAP EPS Estimate 2020	2021	2022	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$404.09	Jan	$12.02	$15.35	$15.75	26.3	$6.60/1.6%	$425,507

We believe Home Depot is well-suited for an income portfolio with a dividend yield of +2%. Home Depot’s strategic investments over the past several years in digital/omni-channel capabilities position the company well to capitalize on market share consolidation opportunities.While the prior comparisons are tough, the industry backdrop for Home Depot remains favorable driven by the consumer gaining confidence to take on more complex projects, greater interest in homeownership from the Millennial generation, low interest rates, and higher equity values in homes. Meanwhile, ASP should remain elevated through a strong Pro backlog (big ticket) and the consumer trading up to more innovative product.

Bobby Griffin, CFA, *Hardline Retail*

The Scotts Miracle-Gro Company (SMG)

Strong Buy 1	Price 12/27/2021	Fiscal Year	Non-GAAP EPS Estimate 2020	2021	2022	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$161.95	Sep	$7.24	$9.23	$8.75	17.5	$2.64/1.6%	$9,037

Our bullish stance on Scotts Miracle-Gro (SMG) is based on our belief that the step-up in its U.S. Consumer business during the pandemic should prove largely sustainable, while its Hawthorne hydroponics segment is likely to continue to benefit from substantial demand among cannabis growers for the foreseeable future. Importantly, the company's highly resilient business model, strong balance sheet and focus on cash generation should help to drive future dividend growth.

Joseph Altobello, CFA, *Beauty, Personal Care & Household Products*

The Williams Companies, Inc. (WMB)

Strong Buy 1	Price 12/27/2021	Fiscal Year	GAAP EPS Estimate 2020	2021	2022	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$26.26	Dec	$0.17	$1.00	$1.08	26.3	$1.64/6.2%	$33,350

The Williams Companies, Inc., based in Tulsa, Oklahoma, is a large-cap midstream energy company that primarily gathers, processes, and transports natural gas and natural gas liquids. The company's operations are concentrated in the Pacific Northwest, Rockies, Gulf Coast, Southern California, and across the Eastern Seaboard. Williams landed "right footed" heading into the COVID-19 crisis from the perspective of simplified C-Corp structure, conservative payout model, and most importantly, the meaningful steps over the past few years to improve its balance sheet. Moreover, Williams' healthy mix of geographies, commodities, and demand-pull vs. supply-push customers has kept the company on solid ground - the result is a healthy runway of transmission projects supplemented by near-term operating leverage and G&P optimization potential. Favorable 2021 guidance relative to Street expectations (followed by strong execution) and now more visible prospects of additional growth in 2022 separate Williams from peers (with a decent chance for various upstream divestiture catalysts as the market firms). We expect WMB to trade at a premium to midstream C-Corps as its relative stability and moderate upside catalysts differentiate the stock amid the current energy sector uncertainty - with the well-covered dividend adding to total return opportunity, in our view.

Justin Jenkins, CFA & J.R. Weston, CFA, *Midstream Suppliers*

Union Pacific Corporation (UNP)

Strong Buy 1	Price 12/27/2021	Fiscal Year	Non-GAAP EPS Estimate 2020	2021	2022	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$247.95	Dec	$8.19	$10.00	$11.25	24.8	$4.72/1.9%	$161,242

We remain enamored by Union Pacific's (UNP) solid inflation-plus pricing focus that could accelerate as ongoing success in implementing precision scheduled railroading produces a better service product. We're confident these operational changes will not only improve the service delivery product and streamline the network but also make UNP more truck competitive – opening up more volume opportunities. In turn, with a seemingly stronger focus on growth and stringent view towards capital spending, we see momentum around earnings and FCF growth in dollars that will support UNP's dividend and share buyback opportunities going forward.

Patrick Tyler Brown, CFA, *Transportation Services*

United Parcel Service, Inc. (UPS)

Strong Buy 1	Price 12/27/2021	Fiscal Year	Non-GAAP EPS Estimate 2020	2021	2022	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$215.11	Dec	$8.23	$11.60	$11.90	18.6	$4.08/1.9%	$189,082

We continue to see mounting industry tailwinds in the residential parcel delivery complex anchored by a pronounced shift toward eCommerce and a seemingly positively evolving pricing landscape. On a company-specific level, we view UPS as one of the most idiosyncratic inflection stories in our coverage, anchored by its recent management change (CEO + CFO), which is fueling a distinct "better not bigger" focused go-to-market approach that has already substantially accelerated domestic margins and free cash flow, a trend we see as continuing in the coming years in our view. Moreover, on the heels of inflecting FCF, we continue to see the possibility for future dividend growth, particularly as UPS's new management team is increasingly scrutinizing Capex spending following critical hub automation initiatives (that are now largely completed). Lastly, while we are cognizant of lingering macro (COVID) concerns particularly in UPS's industrial skewed markets, we still view UPS as one of the more defensive names in our transport coverage given its critical global logistics network.

Patrick Tyler Brown, CFA & Felix Boeschen, *Transportation Services*

Valero Energy Corporation (VLO)

Strong Buy 1	Price 12/27/2021	Fiscal Year	Non-GAAP EPS Estimate 2020	2021	2022	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$73.13	Dec	($3.11)	$1.43	$6.25	51.1	$3.92/5.4%	$29,764

Valero Energy Corp., based in San Antonio, Texas, is the world's largest independent refiner. The company currently operates 14 refineries (3,130 MBbls per day of combined throughput capacity), of which 12 are located in the U.S., one in Canada, and one in Europe. The company also owns several U.S. ethanol plants. Valero remains the best-positioned refiner in our view to capitalize on what we see as a strong recovery for U.S./global oil demand into 2022+. The company’s disciplined strategy in recent years has put the company at the forefront of top-tier refining operations, while the position in both renewable diesel and now carbon capture is well ahead of energy industry peers. We think both trends represent a "re-rate" story for the stock, while the broader macro pivots toward the refining industry's favor, allowing for comfort in a solid dividend payout with upside optionality over time.

Justin Jenkins, *Independent Refiners*

Verizon Communications Inc. (VZ)

Outperform 2	Price 12/27/2021	Fiscal Year	Non-GAAP EPS Estimate 2020	2021	2022	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$52.68	Dec	$4.90	$5.37	$5.19	9.8	$2.56/4.9%	$218,201

Verizon Communications, headquartered in New York, New York, is one of the largest telecommunications providers in the United States. The company provides wireless voice and data services to over 100 million customers in the U.S. through Verizon Wireless. Additionally, Verizon provides local exchange, long distance, Internet, video, and other related services to residential, business, wholesale, and government customers. Post-C-Band commitments, we believe leverage can return to within the target 2x range sooner than the four- to five-year timeframe outlined by management. Even with elevated leverage, Verizon's recurring revenue business model has remained steady throughout the COVID crisis, and we believe its FCF generation will remain intact regardless of any future overhang from the pandemic. Additionally, the dividend yield should remain attractive for investors seeking some equity exposure in an inflationary environment.

Frank G. Louthan, IV, *Telecommunications Services*

Walmart Inc. (WMT)

Outperform 2	Price 12/27/2021	Fiscal Year	Non-GAAP EPS Estimate 2021	2022	2023	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$140.76	Jan	$5.48	$6.43	$6.68	25.7	$2.20/1.6%	$393,706

We believe WMT is an issue well-suited for an income portfolio with a dividend yield of ~2.0% and Walton Family ownership at +50% (read: the dividend is very important). Walmart is executing a solid long-term global strategy and operating with the best consistency in its U.S. business we have seen in, arguably, the last decade. Furthermore, we believe Walmart Connect has the potential to be a strong sales and margin contributor (materially higher than WMT's other core businesses once scaled) over the coming years — yielding faster and more consistent EPS growth. Finally, Walmart's business is not only defensible with new incremental service-based revenue streams (admittedly still small, but growing), but also has the omni-channel capabilities, financial strength, and leadership to win and continue to gain market share in today's retail environment.

Bobby Griffin, CFA & Mitch Ingles, CFA, Sr. Res. Assoc., *Hardline Retail*

Webster Financial Corporation (WBS)

Outperform 2	Price 12/27/2021	Fiscal Year	Non-GAAP EPS Estimate 2020	2021	2022	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$56.20	Dec	$2.69	$4.70	$4.75	11.9	$1.60/2.8%	$5,074

Webster Financial Corp. is the Waterbury, Connecticut, holding company for Webster Bank with over $32 billion in assets and more than 130 branches in southern New England. With origins dating back to 1935, its primary business is providing an array of financial services to individuals and businesses throughout the greater New England region. We recently reiterated our positive outlook following 3Q21 results where we saw the second consecutive quarter of core loan growth (ex PPP) exceeding 10% on an annualized basis. We believe investor focus remains squarely on the pending merger with Sterling Bancorp, which recently received approval from the Fed, where management appears more bullish every time we hear from them on the opportunities it will provide. We believe management has a firm grasp on the risk points associated with deal integration and that the financial merits of the deal are being mispriced. That said, we concede that the timeline of our investment thesis is likely pushed to after the deal closes (expected February 1, 2022) when investors will have a chance to see the combined financials and get updates on management's progress on the integration.

William J. Wallace IV, *Banking*

[1] P/E multiple based on fiscal 2021 EPS estimate.
[2] $ in millions.

REITs

In context of elevated broader market valuations, miniscule global interest rates, and persistent underperformance of other high dividend yield sectors that are less predictable and/or not well-supported by cash flow (i.e., Energy and Utilities), we believe REITs offer an attractive source of risk-adjusted dividend income. The prolonged cash flow/earnings growth during this real estate cycle has been fueled in part by more discipline in development activity as compared to previous cycles. High levels of construction cost inflation has helped restrict excessive development and support the value of existing properties while stable demand from the ongoing recovery has driven rents higher in most real estate asset classes. Compared to prior cycles, today's REITs generally have stronger balance sheets and smaller relative development commitments.

The FTSE NAREIT All Equity REITs Index (which includes infrastructure and timber REITs) is up +30% YTD on a total return basis. Looking ahead, overall REIT dividend growth is less visible than in years past, but we believe the REITs on this list are well-positioned to provide investors a reliable dividend income stream. Names on this list come from real estate sectors that are generally known for 1) predictable demand and/or longer-term leases; 2) low capex requirements; and 3) not facing negative secular changes in demand, i.e., regional malls.

Agree Realty Corporation (ADC)

Strong Buy 1	Price 12/27/2021	Fiscal Year	FFO/Share Estimate 2020	2021	2022	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$69.83	Dec	$3.23	$3.56	$3.86	19.6	$2.72/3.9%	$4,874

We believe Agree's 1) well-diversified, top-tier portfolio; 2) fortress-like balance sheet (supported by the sector's most attractive cost of capital); and 3) strong external growth pipeline (focused on industry leading retailers operating in essential tenant categories) will deliver reliable earnings and dividend growth. Furthermore, we believe Agree's ability to maintain its dividend, effectively raise equity, and aggressively push forward with acquisitions despite a global economic shutdown (while registering little effect on operating cash flows), should give investors even more confidence in the risk/reward profile of ADC shares and the durability of the company's shareholder distribution.

RJ Milligan, *REITs*

Arbor Realty Trust, Inc. (ABR)

Outperform 2	Price 12/27/2021	Fiscal Year	Non-GAAP EPS Estimate 2020	2021	2022	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$18.25	Dec	$1.75	$1.83	$1.72	10.0	$1.44/7.9%	$2,908

Arbor Realty Trust is an internally managed specialty finance company, structured as a REIT, that focuses on loan origination and servicing. Arbor focuses primarily on small balance multifamily loans through both the balance sheet loan portfolio and the agency origination and servicing businesses. We believe the diversified business lines and longer duration investments will result in a more stable and more predictable income stream than peers. The strong visibility into future cash flows gives us high confidence around our dividend outlook.

Stephen Laws, *REITs*

CareTrust REIT, Inc. (CTRE)

Strong Buy 1	Price 12/27/2021	Fiscal Year	FFO/Share Estimate 2020	2021	2022	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$22.55	Dec	$1.38	$1.50	$1.58	15.0	$1.06/4.7%	$2,188

Skilled nursing facilities (SNFs) are critical and primarily government-funded properties within the healthcare continuum. While the near/medium-term outlook for SNFs and seniors housing (~85%/15% of CTRE's rents) will be choppy due to still-depressed occupancy, a challenging labor environment, likely more operator issues, and uncertainty over timing/size of additional government support, we believe the long-term outlook and recovery upside is attractive. While CTRE has been range-bound this year, we continue to remind investors that REITs with smaller asset bases, strong balance sheets, plentiful external growth opportunities, and favorable costs of capital – much like CTRE – can be powerful recipes for robust earnings, NAV, and dividend growth…and outperformance.

Please click here for our most recently published research on CTRE.

Jonathan Hughes, CFA, *REITs*

Digital Realty Trust, Inc. (DLR)

Strong Buy 1	Price 12/27/2021	Fiscal Year	AFFO/Share Estimate 2020	2021	2022	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$173.50	Dec	$5.82	$6.33	$6.72	27.4	$4.64/2.7%	$48,774

Digital Realty Trust, Inc. is a REIT headquartered in Austin, Texas that owns, acquires, repositions, and manages technology-related real estate. Digital Realty Trust targets high quality, strategically located properties containing applications and operations critical to the day-to-day operations of technology industry tenants and corporate and institutional data center users. The company owns a portfolio of over 200 properties, including properties held as investments in unconsolidated joint ventures, comprising over 27 million rentable square feet. Management is executing, particularly in Europe, and has been able to weather the storm of rent roll-downs far better than peers, in our view. With good diversification by region and deal size, we believe the organic growth story is rounding into form for DLR.

Frank G. Louthan, IV, *Telecommunications Services*

Easterly Government Properties, Inc. (DEA)

Outperform 2	Price 12/27/2021	Fiscal Year	FFO/Share Estimate 2020	2021	2022	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$22.72	Dec	$1.26	$1.31	$1.35	17.4	$1.06/4.7%	$2,211

Overall, DEA's well-conceived, lower risk strategy and long history of near flawless execution combined with an accommodative capital markets environment sets it up for prolonged success, in our view. Sourcing deals, maintaining cap rate discipline on acquisitions, and advancing the ball on its modest-sized development pipeline should be enough to drive 2-3% annual earnings growth, allow modest dividend increases, and attract a loyal and risk-averse shareholder base. Unlike many office REIT peers, DEA does not suffer a material overhang from changes to office use related to COVID-19, including de-densification, fear of mass transit, and work from home, as the company focuses on net-lease-like office buildings that are fully occupied under longer-duration leases and serve a vital and/or strategic purpose for U.S. Government tenants, that drive a reliable, highly predictable, and moderately growing cash flow stream, supports an attractive dividend, and offers attractive external growth opportunities.

William A. Crow, *REITs*

Gaming and Leisure Properties, Inc. (GLPI)

Strong Buy 1	Price 12/27/2021	Fiscal Year	FFO/Share Estimate 2020	2021	2022	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$47.17	Dec	$3.11	$3.32	$3.44	14.2	$2.68/5.7%	$10,965

After collecting 100% of rent in 2020 despite a complete shutdown of U.S. casinos, we believe investors should have greater confidence in the strength of the gaming operators and durability of landlord cash flows. We expect GLPI (as well as the other gaming REITs) will continue to re-rate to a higher multiple more in line with the traditional net lease REITs. We believe GLPI shares offer a particularly compelling risk-adjusted return to yield-oriented investors and expect the company will continue to grow its distribution commensurate with external growth.

Please click here for our most recently published research on GLPI.

RJ Milligan, *REITs*

M.D.C. Holdings, Inc. (MDC)

Strong Buy 1	Price 12/27/2021	Fiscal Year	Adj. EPS Estimate 2020	2021	2022	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$54.30	Dec	$5.17	$8.25	$9.60	6.6	$2.00/3.7%	$3,952

We continue to recommend M.D.C. Holdings (MDC) following its 3Q21 results (link to report). Despite adjustments to account for slowing buyer traffic and order growth, we continue to think MDC shares warrant a significant positive re-rating relative to the current valuation while generating close to 23% ROIC and mid-teens earnings growth. Operating challenges for MDC and other home builders continue to pop up, including longer construction cycle times, supply chain issues, and delayed new community openings. Nonetheless, new home demand continues to outstrip available supply — particularly in MDC's core markets — despite the re-introduction of seasonal demand patterns this summer. Accordingly, we think longer-term investors should look through the near-term data noise, focus on the big picture, and take advantage of a historically attractive entry-point in this rapidly improving homebuilding franchise.

Buck Horne, CFA, *Housing*

Medical Properties Trust, Inc. (MPW)

Strong Buy 1	Price 12/27/2021	Fiscal Year	FFO/Share Estimate 2020	2021	2022	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$22.27	Dec	$1.57	$1.75	$1.93	12.8	$1.12/5.0%	$13,276

Standing alone as the only pure-play, hospital-focused healthcare REIT, MPW benefits from investing in an asset class characterized by solid lease coverages, attractive yields, and plentiful external growth opportunities both domestically and internationally. We believe MPW's current price does not reflect the recent positive actions taken to raise attractively priced JV capital and reduce operator concentration. Earnings, NAV, and dividend growth have surpassed peers over the past several years with expectations for continued outperformance. MPW also faces less risk from labor headwinds due to solid operator lease coverages (~2.5x EBITDAR coverage) and hospitals being in the best financial shape in years. MPW has been a consistently under-owned name among REIT-dedicated investors, despite strong outperformance. We believe this underweight status will be harder to justify and as more investors underwrite MPW, a positive change in sentiment could occur helping fuel further outperformance.

Jonathan Hughes, CFA, *REITs*

National Retail Properties, Inc. (NNN)

Strong Buy 1	Price 12/27/2021	Fiscal Year	FFO/Share Estimate 2020	2021	2022	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$47.30	Dec	$2.49	$2.71	$2.97	17.5	$2.12/4.5%	$8,401

We believe National Retail is strongly committed to its dividend (which has risen for 32 consecutive years). Furthermore, we believe the company's ability to maintain its distribution during the height of the global economic shutdown last year, despite a sharp (albeit temporary) drop in operating cash flows, should give investors even more confidence in the durability and relative risk/reward profile embedded in the company's current dividend. Looking forward, we believe the company's 1) strong balance sheet, 2) relationship-based investment strategy, and 3) experienced leadership team, leave NNN well positioned to navigate the evolving retail landscape and expect the company will continue to grow its dividend on an annual basis commensurate with external growth.

RJ Milligan, *REITs*

New Residential Investment Corp. (NRZ)

Outperform 2	Price 12/27/2021	Fiscal Year	Non-GAAP EPS Estimate 2020	2021	2022	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$11.00	Dec	$1.46	$1.44	$1.41	7.7	$1.00/9.1%	$5,132

New Residential is an externally managed residential mortgage REIT that focuses on investing in and actively managing investments related to residential real estate, such as mortgage servicing rights, real estate securities, residential mortgage loans, and consumer loans. We expect the diversified platform, focus on purchase volumes, and high recapture rate to contribute to attractive near-term results and contribute to more stable ROEs than peers that have a higher mix of income tied to refinance volumes. We believe New Residential will continue to pay an attractive dividend and is an attractive investment for income investors.

Please click here for our most recently published research on NRZ.
Stephen Laws, *REITs*

PotlatchDeltic Corporation (PCH)

Strong Buy 1	Price 12/27/2021	Fiscal Year	GAAP EPS Estimate 2020	2021	2022	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$57.57	Dec	$2.47	$6.35	$3.15	9.1	$1.76/3.1%	$3,894

We continue to recommend PotlatchDeltic (PCH) following our recent timber industry report (Link to report). Supply chain problems have been forcing home builders to delay deliveries into 2022. Accordingly, many are now expecting double-digit growth in starts and deliveries next year. This, coupled with inventory levels at home improvement centers clearing out, has likely contributed to lumber forming a bottom in August. Moreover, we remain impressed by the resiliency of PCH’s operations to continue to overcome numerous challenges like wet weather, trucking shortages, and a sawmill fire/outage. As lumber prices likely stabilize at structurally higher levels, we believe PCH is poised to generate consistently strong cash flows that remain underappreciated. We’ve aligned our 2022 lumber assumptions ($550/mbf) with our Canadian Forest Products team, but even with this conservative assumption, we see PCH generating ample cash flow to fuel new dividend increases and/or special payouts.

Buck Horne, CFA, *REITs*

STAG Industrial, Inc. (STAG)

Outperform 2	Price	Fiscal	Core FFO/share Estimate				Dividend/	Market
	12/27/2021	Year	2020	2021	2022	P/E[1]	Yield	Cap.[2]
	$46.56	Dec	$1.89	$2.05	$2.15	22.7	$1.45/3.1%	$8,112

STAG Industrial's business strategy continues to reflect acquiring and managing stabilized assets, which continue to offer greater risk-adjusted returns on a time-weighted basis, while also completing select value-add opportunities in the marketplace to fuel incremental growth. Management continues to drive value creation through the company's external growth platform, while benefiting from robust industrial property fundamentals, driven by steady demand and strong operating metrics. The unquenchable demand for distribution space is set to benefit for a number of years from eCommerce, logistics, reverse logistics, re-shoring, and inventory rebuilding trends, while also benefiting from strength in old economy businesses. We continue to believe that fundamentals will remain positive for some time, and thus we expect STAG to deliver attractive FFO, NAV, and dividend growth for the next several years.

William A. Crow, *REITs*

VICI Properties Inc. (VICI)

Strong Buy 1	Price	Fiscal	FFO/Share Estimate				Dividend/	Market
	12/27/2021	Year	2020	2021	2022	P/E[1]	Yield	Cap.[2]
	$29.28	Dec	$1.75	$1.77	$2.01	16.5	$1.44/4.9%	$18,416

We believe VICI is the best positioned gaming net lease REIT given its 1) expected AFFO growth through 2022 (the highest growth rate in all of net-lease), 2) captive external growth pipeline, 3) low leverage balance sheet, and 4) high-quality management team. After posting 100% rent collections and remaining active on the external growth front despite the pandemic, we expect VICI (as well as the other gaming REITs) will earn a multiple rerating in line with the more traditional net lease REITs. Furthermore, we believe VICI shares offer a particularly compelling risk-adjusted return to yield-oriented investors and expect the company will continue to grow its distribution commensurate with external growth.

RJ Milligan, *REITs*

Welltower Inc. (WELL)

Strong Buy 1	Price	Fiscal	FFO/Share Estimate				Dividend/	Market
	12/27/2021	Year	2020	2021	2022	P/E[1]	Yield	Cap.[2]
	$84.04	Dec	$3.56	$3.16	$3.55	26.6	$2.44/2.9%	$37,083

We remain constructive on senior housing and while our enthusiasm for the medium/long-term seniors housing recovery has not changed, at this point, we acknowledge the labor headwind narrative may leave the stocks somewhat range-bound in the near term. Positively though, any near-term distress could lead to increased investment opportunities, and no seniors housing industry participant is better-positioned to consolidate market share than WELL. We remain optimistic that as labor headwinds subside, meaningful NOI gains can resume and in turn, drive outperformance in 2022 and beyond. We also believe the rate and affordability outlook we highlighted in June remains strong and helps somewhat offset cost headwinds. Longer-term, increasing demand from the "Silver Tsunami" of aging demographics and declining new supply impact could create potential multiyear cycle of strong seniors housing performance.

Jonathan Hughes, CFA, *REITs*

[1] P/E multiple based on fiscal 2021 EPS estimate.
[2] $ in millions.

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