



Berkshire

DIVIDEND STRATEGY

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"Casual Friday" Commentary

Casual Friday: Banks' Big Dividend Increases + AbbVie Acquisition – June 28, 2019

Berkshire Dividend Growth and Income Strategy

[Dividend Strategy Scorecard 3.31.2019](#) - [Dividend Strategy Fact Sheet 3.31.2019](#)

Banks received broad approval of their 2019 capital return plans (CCAR). The results were better than expected and the median "all-in yield" (calculated as dividend yield + share repurchase/current price) of the tested banks will exceed 11%. Look for this capital return structure to be a continued tailwind for the sector in the years ahead.

Strong Dividend Increases Announced for Banks in the Berkshire Dividend Strategy:

Plans subject to board approval

- **Wells Fargo & Company (NYSE: WFC)** - Expects to increase stock dividend 13% and plans for \$23.1 Billion in stock repurchases - [Press Release](#)
- **JPMorgan Chase & Co. (NYSE: JPM)** - Expects to increase stock dividend 12.5% and plans for \$29.4 Billion in stock repurchases - [Press Release](#)
- **PNC Financial Services Group, Inc. (NYSE: PNC)** - Expects to increase stock dividend 21% and plans for \$4.3 Billion in stock repurchases - [Press Release](#)

AbbVie (ABBV) Acquisition:

This week, AbbVie announced a \$63 billion dollar acquisition of Allergan. News sent shares of ABBV down sharply. The market initially focused on the negatives, viewing it as a desperate and expensive attempt by ABBV to fill a faltering pipeline. Some of our investors have asked about the sustainability of the dividend, which has grown at a whopping 20% per year over the last 5 years. We expect dividend growth to slow post deal, but we think the stock now offers a nice blend of yield, dividend growth and price appreciation.

Bull Case:

- Management indicated they will use AGN's cash flow to continue **to grow the dividend**
 - 6% current dividend yield in low rate environment
- The acquisition was not expensive compared to other large deals in biotech pharma space
- Acquisition likely adds to cash flow near term
- Manageable debt load
- The deal diversifies revenue stream away from Humira (@20 billion in 2019 sales), which has good patent protection until 2023
- AGN's cosmetic Botox and its eye care business are "cash pay" and not subject to reimbursement risks
- Outside chance something else from AGN's pipeline contributes meaningfully to sales (migraine, bi-polar)
- Potential in ABBV's pipeline (blood cancer, hep C franchise) may be underestimated (but they need to deliver)
- Valuation: Single digit forward P/E

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Dividend Highlights

- Dividend growth can often provide transparent insight into a company's fundamentals and vitality.
- Dividend growth can provide an attractive stream of increasing cash flow to satisfy many financial objectives.

Risks:

- Integration risk of large deal
- Risk of cash flow not materializing
- Government intervention into drug pricing hurts profitability of all companies
- Potential deja vu? ABBV's \$5.8 billion acquisition of Stemcentrx led to \$4 billion write down
- Botox cosmetic has no patent, just a trademark

Historical Dividend Growth Rate:

- 1 year dividend growth rate: 37.63%
- 3 year dividend growth rate: 23.41%
- 5 year dividend growth rate: 20.17%
- Total dividends per share paid out 5 years: \$13.03 / per share

We will continue to monitor the prospects for the combined company. Call/email with questions

Casual Friday BONUS: Summer is finally here and many are likely getting together with friends and family!

- Light summer American wines...great to bring to a gathering - <https://www.bloomberg.com/news/articles/2019-06-28/a-new-wave-of-good-american-rose-wine-rivals-bottles-from-france?srnd=pursuits-vp>
- Beyond wine...interesting gifts for your host - <https://www.bloomberg.com/news/articles/2019-06-28/best-hostess-thank-you-gift-ideas-and-housewarming-presents?srnd=pursuits-vp>

Have a great weekend!

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