Berkshire
DIVIDEND STRATEGY

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"Casual Friday" Commentary

Casual Friday: New Purchase + Payphone Line At The Masters? – *April 6th, 2018*

Growth stocks have come under attack (Facebook privacy scandal, anti- Amazon tweets) and potential for trade wars are creating ongoing volatility. *Our view?* Attractive entry points are created for equity income investors, because we do not believe these events will materially alter the secular growth path of earnings. For now, estimates are holding up and earning season will begin in earnest next week.

New Purchase - Quality Goes On Sale:

Consistent with our comments above, we used the latest bout of volatility to reduce accumulated cash and initiate a position in **Schlumberger (SLB)**.

Rationale for Purchase:

- Global, diversified, high quality oil service provider poised to benefit from synchronized global recovery and rationalization of crude oil supply/demand dynamics.
- Attractive dividend yield – recently as high as 3.1%.
- Dividend commitment well covered by operating cash flow.
- Solid balance sheet: debt is modest (26% of capital) and EBITDA covers current interest expense by a factor of 12.
- Its global scale, technology advantages and intangibles affords it comparatively high return on capital vs. peers.
- Attractive entry point
    - Energy industry has recently gone through a painful recession and earnings are recovering, yet prices have lagged proportionately.
    - SLB's share price has declined from a 2014 peak of $118.30 and from a more recent, pre-correction high of $80.

Dividend growth on hold, but poised to grow going forward?

We believe so - in time. SLB's management is balanced in how it returns excess cash to shareholders, and is opportunistic when choosing between: share repurchase, acquisitions, shoring up its balance sheet and increasing the dividend. Past moves show above average discipline.

SLB's dividend increases can be "lumpy" but as the chart below shows, attractive. During prosperous times like the 2010-2015 period, the dividend increased from $.21 cents, to $.50 cents where it stands today. The industry went through a bad recession in 2015, SLB weathered the storm and maintained the dividend at current levels so current payout ratio appears elevated. Dividend increases have been on hiatus of late, but may be poised to resume as earnings rebound. Some Wall Street analysts surveyed via Bloomberg have modest increases occurring at some point in 2018 and 2019 as earnings recover to above the $3 range by 2019. Meanwhile, we are happy collecting a 3% dividend and potential for appreciation in synch with a global recovery. The chart below shows the dividend path relative to earnings, which underpins our thesis:
Schlumberger (SLB) – Dividends per Share and EPS

Quarter End Update:

Q1 18' was highlighted with strong dividend growth in the portfolio (ABBV, CSCO, INTC, NSC all reporting double digit dividend growth)
Dividend Growth Scorecard 3.31.18

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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.

"Payphone Line" at The Masters?...
Cell phones are banned, so the pay phone becomes a hot commodity!
Plus 33 other incredibly interesting facts about the Masters:
http://www.businessinsider.com/things-you-never-knew-about-the-masters-2017-4

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