Godsey & Gibb Associates

Investment Actions

First Quarter 2009

Positions Recently Added

Wal-Mart Stores Inc. (WMT) – February 2009

Bentonville, Arkansas based WMT is the world's largest retailer. It operates supercenters, discount stores, neighborhood markets, wholesale clubs and an international division with operations in 12 countries and Puerto Rico. The company has been growing its consumables operations and WMT now maintains a 20% market share of the $500 billion-plus supermarket industry. With sales of over $134 billion within supermarket related categories such as grocery, health and beauty aids, and health and wellness, the Wal-Mart division is the largest supermarket operator in the U.S. Moreover, WMT is financially strong and continues to generate attractive revenue and earnings growth even with the extraordinarily challenging macroeconomic environment. In addition, WMT generates substantial amounts of annual cash flow, creating the potential for dividend growth. We think the economic pressures facing consumers related to falling home values, declining asset prices and rising unemployment reinforce the positive characteristics of a steady growth discount retailer with a dominant market position like WMT.

Johnson and Johnson (JNJ) – February 2009

JNJ manufactures and sells health care products including pharmaceuticals, medical devices and consumer items for baby care, eye care, oral care, over-the-counter pharmaceuticals, skin care, women's health and wound care. JNJ's global presence includes 7 large franchises in medical, surgical and diagnostics, making it the world's largest medical device company. In pharmaceuticals, JNJ markets over 100 drugs in approximately 125 countries. Nine of its pharmaceutical products generate over $1 billion in annual sales. We believe JNJ is both economically defensive and positioned for future growth given the forces shaping the health care environment, which include an aging population focused on wellness and prevention in both developed and developing geographic markets. Moreover, JNJ maintains exceptional financial strength. It maintains a credit rating from Standard & Poor's of "AAA" and generates substantial amounts of free cash flow annually. JNJ also has a long track record of revenue, earnings and dividend growth. Due to its leading positions in pharmaceuticals, medical/surgical products and a variety of consumer health segments, as well as the company's geographic breadth and financial strength, we have added shares of JNJ to portfolios.

Piedmont Natural Gas Co. (PNY) – February 2009

Charlotte, N.C. based Piedmont Natural Gas is a natural gas utility and energy services company that transports, distributes and sells natural gas to over 1 million residential, commercial, and industrial customers in North Carolina, South Carolina and Tennessee. PNY offers multiple characteristics that we view as attractive including a dividend yield of over 4%, a track record of dividend growth, an investment grade credit rating, and reasonable debt levels. Piedmont has raised its dividend for a remarkable 30 consecutive years. Piedmont's geographic footprint in the southeastern U.S. is a benefit in our analysis for steady economic and earnings growth. Based on its defensive characteristics, along with its attractive income generation potential and a favorable regulatory environment, we have added shares of PNY to client portfolios.

Walgreens Co. (WAG) – March 2009

Deerfield, Illinois based WAG is a leading drugstore chain with over 6,000 stores and over $59 billion in annual revenues. The company's pharmacy division generates approximately two-thirds of WAG's total sales. We also believe WAG stands to benefit as the retail drug landscape continues to consolidate. WAG recently acquired stores from several of its competitors, improving its opportunities for future growth. Moreover, the company is growing its in-store Take Care clinics, as well as worksite health centers and home care health services, which we believe position WAG well to benefit from favorable demographic trends in the pharmacy services industry sector. WAG non-pharmacy sales, including over the counter medicines, grocery and seasonal items, are also gaining market share relative to the competition. Through the current cycle, WAG is aggressively focusing on improving efficiency at its current stores and cost cutting. The company also generates attractive levels of cash flow. In addition, management is focused on returning value to shareholders. It has paid a dividend to shareholders every quarter since 1933. Given these positive aspects, and an attractive valuation of under 12x earnings, we have added shares of this top tier pharmacy retailer to portfolios.

Positions Recently Eliminated

General Electric Co. (GE) – January 2009

GE is a global, horizontally integrated conglomerate with business across a number of industrial and financial segments. The macroeconomic backdrop is proving to be very challenging for GE. While the company recently issued $15 billion in common and preferred stock to accelerate its liquidity planning, we have become concerned that impairment to GE's earnings and cash flow generation potential will lead to a dividend cut. Given GE's leading market position in a number of financing areas, including middle market commercial lending, commercial real estate lending and private label credit cards, we believe that future losses from the financial segments of the business may stress the firm's overall business model. Based on our analysis of forward estimates for earnings per share and cash flow for calendar year 2009, we believe the company's dividend is at a heightened risk of a being cut. Most major financial institutions have recently received credit ratings downgrades and announced dividend cuts, and we do not believe GE is immune from the current market and economic forces. With the macroeconomic headwinds and the potential for a dividend reduction, we are removing shares of GE from portfolios in order to preserve capital.

Texas Instruments Inc. (TXN) – January 2009

TXN operates in two business segments: Semiconductor (96% of revenues), which designs, manufactures and sells integrated circuits, and Education Technology (4%), which supplies graphing handheld calculators. TXN can be considered a high-quality company given its high credit rating, strong balance sheet (no debt) and significant annual cash flow. However, these traits do not insulate its core operations from the cyclical realities of economic environment and the semiconductor business. The deterioration in the global economy has been severe. Both companies and individuals are buying fewer computers and other discretionary electronics items. TXN has reduced its capacity utilization in light of rising inventories. Gross margins and overall profitability levels are expected to be under pressure given the global recession. Due to the macroeconomic and business risks, we elected to sell shares of TXN.

Integrys Energy Group Inc. (TEG) – February 2009 (For Income Oriented Clients)

Integrys Energy Group (Integrys or TEG) is a diversified holding company with regulated utility operations through six wholly owned subsidiaries. TEG also manages a wholly owned non-regulated subsidiary, Integrys Energy Services. The company also owns a 34% equity interest in American Transmission Company, LLC, an electric transmission company operating in Wisconsin, Michigan, Minnesota, and Illinois. For income-oriented clients, Godsey & Gibb Associates recommended shares of TEG in the past based on the attractive dividend yield of approximately 6%, a growing dividend, a reasonable payout ratio, an investment grade credit rating and a manageable long term debt-to-total capital ratio. On February 25, TEG reported a large earnings miss, down 77% compared to results from a year ago, due to factors that negatively impacted results for Integrys Energy Services in the quarter. In addition to the significant earnings miss, Integrys announced its plan to divest itself entirely or in part of its non-regulated energy services segment. The company's short-term strategy will be to reduce the scope and scale of the energy services business and refocus its capital on those aspects of the business that it can manage successfully. Moreover, TEG issued 2009 EPS guidance of $2.53 to $2.68, representing expectations for earnings per share which are below the company's current annual dividend of $2.72. In our analysis, based on TEG's disappointing quarterly results which fell far short of consensus estimates, its expected dividend payout ratio of over 100% based on expected 2009 EPS, as well as the risks associated with the announced restructuring (proceeds risk, transactions risk, timing risk, earnings replacement risk), and the apparent inability of Integrys to successfully manage, and especially hedge, energy market volatility, we elected to sell shares of TEG.