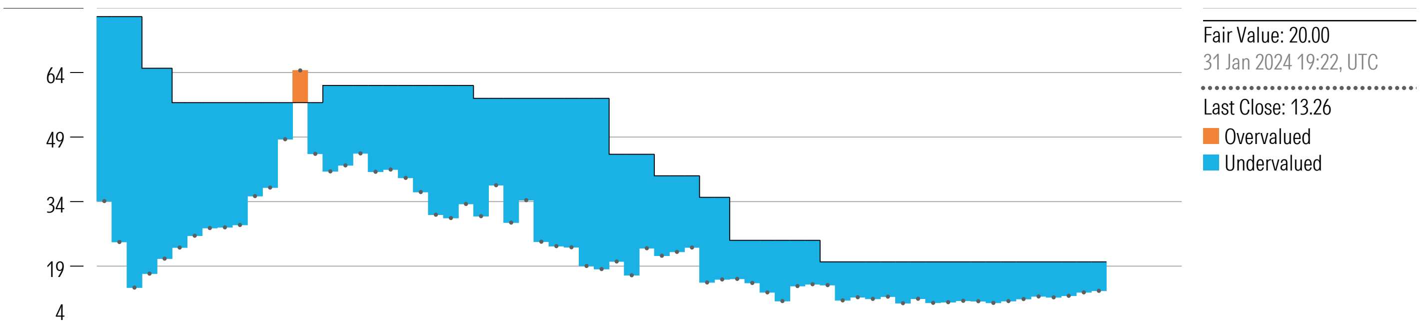
Morningstar Equity Analyst Report | Report as of 25 Jul 2025 06:49, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NASDAQ - ALL MARKETS

Paramount Global Class B PARA ★★★★ 24 Jul 2025 21:27, UTC

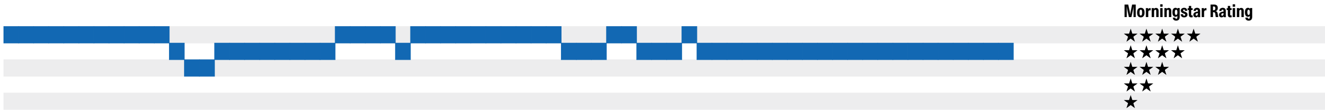
Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
13.26 USD 24 Jul 2025	20.00 USD 31 Jan 2024 19:22, UTC	0.66	8.94 USD Bil 24 Jul 2025	None	Small Value	Very High	Poor	4 Jun 2025 05:00, UTC

Price vs. Fair Value



	2020	2021	2022	2023	2024	YTD	
	0.65	0.49	0.38	0.59	0.52	0.66	Price/Fair Value
	-8.93	-16.43	-40.89	-10.07	-27.92	27.72	Total Return %

Morningstar Rating



Total Return % as of 24 Jul 2025. Last Close as of 24 Jul 2025. Fair Value as of 31 Jan 2024 19:22, UTC.

Contents

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The primary analyst covering this company does not own its stock.

[1]The ESG Risk Rating Assessment is a representation of Sustainalytics' ESG Risk Rating.

Paramount: With FCC Approval in Hand, the Skydance Merger Will Close in Short Order

Analyst Note Matthew Dolgin, CFA, Senior Equity Analyst, 25 Jul 2025

The Federal Communications Commission announced its approval of Skydance's merger with Paramount, the final regulatory approval the firms were awaiting. In short order, the deal will close, and the merged company will continue operating as Paramount under the leadership of David Ellison.

Why it matters: Paramount was in limbo over the past year, with placeholder co-CEOs and operations that were limited by the pending change in ownership. With new management now able to execute its own plan, the firm can firmly pursue its vision with its studio, streaming service, and TV networks.

The bottom line: We maintain our $20 fair value estimate and no-moat rating for Paramount. Based on information disclosed when the firms announced the merger, as well as the cash Skydance is infusing and shares Paramount is using to then buy Skydance, we've considered the deal neutral to valuation.

- We expect substantial cost efficiencies—Skydance initially forecast $2 billion—and think the revenue outlook will be better with Skydance management team in place. This should offset a potentially dilutive valuation Paramount is paying for Skydance.
- We will soon get much more detail on Skydance's financials and whether that warrants an adjustment to our fair value estimate. This will supplement our analysis of the deal's other components, which we discussed in our note after the merger's announcement last July.

Between the lines: We think shareholders have done well with this deal. Paramount was trading at

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Sector

Communication Services

Industry

Entertainment

Business Description

Paramount Global operates in three global business segments: TV media, filmed entertainment, and direct to consumer. The TV media business includes television production studios and various broadcast and cable networks, including CBS, 15 owned CBS affiliates, Paramount, Nickelodeon, MTV, BET, and VH1. Filmed entertainment consists multiple film studios, most importantly Paramount Pictures. The film studios produce and distribute movies that they license to movie theaters and other media outlets. Direct to consumer includes the Paramount+, Pluto TV, and BET+ streaming services. Much of the content on Paramount's streaming platforms is created by the production studios housed within the firm's other two business segments.

about $10 in the days before the merger was announced. Shareholders will now sell up to half their shares, if they've chosen that option, for $15 per share to Skydance.

- We believe there is further value beyond the $15 mark, but unlocking that value may require substantive signs of business improvement.
- We expect Skydance management to enhance the Paramount+ streaming service and Paramount's studios. Growth there can ease investors' fears for the declining television networks business.

Business Strategy & Outlook Matthew Dolgin, CFA, Senior Equity Analyst, 27 Feb 2025

Like peers, Paramount has been in a period of transition and facing significant uncertainty about how and whether the traditional linear television business will co-exist or evolve in a media environment dominated by streaming services. Based on its current state, we think the company has the right strategy for streaming and advantages related to distribution and content ownership that will enable it to successfully manage the industry's evolution.

Paramount has been making encouraging progress with Paramount+, its subscription streaming platform. To simplify the value proposition for consumers and reduce costs, Showtime was folded into Paramount+. Paramount+ also now includes local CBS programming, including the sports programming that's broadcast on the local stations. The firm is also open to partnerships and bundles, whether paired with other subscription services like Walmart+ or with pay-TV distributors. We think these are the right moves that will result in the widest possible exposure—and therefore monetization—of Paramount's attractive content and should also improve customer stickiness.

Linear television continues to struggle, and we don't expect that to change. However, we expect some of the value that had been in linear to transfer to streaming rather than disappearing. Throughout the company's financial struggles amid the industry transition over the past few years, there has been no diminution in quality or popularity of the firm's core content. CBS continues to garner the largest audiences of all television networks and holds NFL and March Madness rights into the 2030s. Paramount Pictures and CBS Studios remain among the most prolific creators of film and television programming. We expect content creation will continue to drive licensing revenue, and the content that Paramount keeps for its own distribution outlets will remain valuable for consumers as the firm becomes agnostic to whether they're receiving access through traditional television or streaming services. Still, we expect a more subdued business that won't be able to increase profits nearly as much as in the past.

Bulls Say Matthew Dolgin, CFA, Senior Equity Analyst, 9 May 2025

- CBS is overlooked. NFL rights, television franchises, and continual leadership in prime-time broadcast television will bring value even if pay-TV subscribership continues declining.
- Paramount+ has been gaining traction with consumers and looks like it will be a surviving streaming

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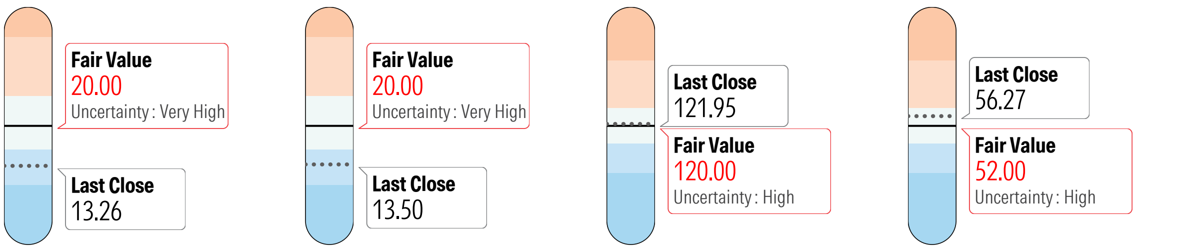
Competitors



	Paramount Global Class B PARA	Warner Bros. D...ares - Class A WBD	The Walt Disney Co DIS	Fox Corp Class A FOXA
Economic Moat	None	None	Wide	None
Currency	USD	USD	USD	USD
Fair Value	20.00 31 Jan 2024 19:22, UTC	20.00 10 Dec 2024 03:40, UTC	120.00 7 May 2025 21:41, UTC	52.00 12 May 2025 16:55, UTC
1-Star Price	35.00	35.00	186.00	80.60
5-Star Price	10.00	10.00	72.00	31.20
Assessment	Undervalued 24 Jul 2025	Undervalued 24 Jul 2025	Fairly Valued 24 Jul 2025	Fairly Valued 24 Jul 2025
Morningstar Rating	★★★★24 Jul 2025 21:27, UTC	★★★★24 Jul 2025 21:26, UTC	★★★24 Jul 2025 21:31, UTC	★★★24 Jul 2025 21:47, UTC
Analyst	Matthew Dolgin, Senior Equity Analyst	Matthew Dolgin, Senior Equity Analyst	Matthew Dolgin, Senior Equity Analyst	Matthew Dolgin, Senior Equity Analyst
Capital Allocation	Poor	Standard	Standard	Standard
Price/Fair Value	0.66	0.68	1.02	1.08
Price/Sales	0.31	0.85	2.38	1.63
Price/Book	0.54	0.97	2.12	2.21
Price/Earning	10.96	—	21.04	12.86
Dividend Yield	1.51%	0.00%	0.82%	0.96%
Market Cap	8.94 Bil	33.40 Bil	219.24 Bil	25.30 Bil
52-Week Range	9.95—13.30	6.64—13.68	80.10—124.69	36.09—58.74
Investment Style	Small Value	Mid Value	Large Value	Mid Blend

service. Revenue is growing quickly, and it is moving toward profitability

- Paramount's studios remain top-tier for content creation and intellectual property ownership. Outside of Paramount+, this offers licensing opportunities.

Bears Say Matthew Dolgin, CFA, Senior Equity Analyst, 9 May 2025

- Linear television will continue to decline. Even if successful, newer revenue sources like direct-to-consumer streaming will never equal the profitability Paramount once enjoyed.
- Paramount+ significantly trails streaming competitors, and there is little evidence pointing to a change from its also-ran status in a saturated market.
- Movie theaters and the film industry have been permanently changed by streaming and consumers' preference to view video entertainment at home, which will reduce the monetization and profitability of the film division.

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Economic Moat Matthew Dolgin, CFA, Senior Equity Analyst, 27 Feb 2025

We assign no moat to Paramount, due to the secular decline in its linear television business, which continues to make up most of the firm's revenue and nearly all its profits. We believe several of Paramount's attributes will enable the firm to survive in the new media landscape. However, we don't expect streaming to ever be as profitable for Paramount as traditional linear television was, and the continuing decline in the traditional television business will likely damp future financial performance.

We still think Paramount has some valuable intangible assets, including the CBS broadcast network, production studios that are topnotch in their ability to create popular content, and a variety of wide-reaching distribution outlets that can reach consumers via streaming, traditional television, and movie theaters.

In the streaming world, Paramount has much less of a distribution advantage than it once did. Platforms from Netflix and the big tech companies have become equally or more desirable video entertainment outlets than traditional television networks. No longer do networks like CBS or Showtime operate as part of an oligopoly for television series or movies to reach consumers looking for home video entertainment. However, while the viewership of linear networks has declined significantly, and Paramount+, Paramount's primary streaming platform, is not currently in the same league as the biggest and most popular streaming platforms, we still see advantages to the menu of distribution that Paramount offers.

Television networks remain attractive outlets for content owners to reach consumers, particularly for major live events. No television network or streaming platform has wider potential reach in the US than the four major broadcast networks, which include CBS. Broadcast networks have universal carriage in pay-TV packages that still count about half of US households as subscribers, and they are accessible for free to any US household that chooses to get an over-the-air signal with an antenna.

Sports leagues have incentive to favor broadcast networks even over potentially higher bids, as more viewership promotes the long-term value of their brands. Even as some NFL games have moved to streaming services, those games are often simulcast on broadcast networks in the participating teams' home markets. Generally, streaming viewership for sporting events lags network television viewership. CBS is currently positioned well with its sports rights. CBS owns a share of NFL rights through 2033, NCAA March Madness basketball rights through 2032, and Big Ten college football rights through 2030. Having rights to major sporting events gives broadcast networks high bargaining power with pay-TV distributors, supporting affiliate fees and making them unlikely to ever be excluded from pay-TV service bundles.

We expect second-tier linear networks with other types of content to prove less durable. However, we think the combination of widely distributed linear networks with a streaming platform, like Paramount+, is valuable while we are in a period of transition that will ultimately lead to a blurring of the distinction between linear and streaming programming. The important feature for Paramount is that it has these repositories for consumers to find the content it creates.

Major film and television studios' advantages go beyond their industry-leading financial budgets. Most notably, major studios like Paramount Pictures have deep relationships with industry talent and wide film distribution and marketing channels, giving them an advantage in attracting the premier owners and creators of content. Coupled with their relatively large content budgets and existing intellectual property that they can leverage, major studios generally provide the highest-probability of success for content creators and the most shots on goal for major hits.

Smaller or independent studios, as well as wealthy financiers, typically partner with major studios to help with financing or distribution. It is rare for them to produce commercial hits without major studio partnership. Even new competitors with tremendous financial resources, such as tech companies in recent years, haven't shown themselves to be on the same competitive playing field in film, in part because they don't have relationships with movie theaters and are often producing content solely for their own streaming platforms.

Streaming platforms from traditional tech companies, including Netflix, are much more advanced in creating television shows and have put themselves into the same league as the legacy television production studios, like those that Paramount owns. This should continue to drive more competition for top shows that it has historically. We haven't seen any evidence that Paramount's production ability is diminished—it produced 10 of the top 20 most-viewed linear television series during the 2022-23 television season—but we don't see the dominant oligopoly that once supported a narrow moat for Paramount.

Fair Value and Profit Drivers Matthew Dolgin, CFA, Senior Equity Analyst, 9 May 2025

Our fair value estimate is $20, implying an enterprise value/EBITDA multiple of 9 and price/earnings multiple of 14 times our 2025 forecast.

We project an average of 2% annual revenue growth for 2025-29. Our sales estimates are based on the trade-offs between the firm's TV media and direct-to-consumer segments. We think that strength in one will cause more pressure in the other under any scenario for how the transition from linear television to streaming continues to play out. If cord-cutting continues at a rapid rate and pay-TV subscriptions begin to die out, we'd expect much more bundling of and linear programming on streaming services, leading to faster streaming subscriber growth and higher prices. On the other hand, if pay-TV distributors can stem their subscriber losses by including streaming services in their subscriptions, the less incremental streaming revenue streaming services will receive.

We expect to see more deals like the one Paramount has with Charter that gives Charter's pay-TV subscribers receive access to the Paramount+ streaming service as part of their pay-TV subscription. This outlook drives our projections for continuing growth in streaming subscribers but with only modest growth in subscription revenue per user. Bundle agreements will result in Paramount receiving a lower wholesale rate while shifting the customer base more toward the ad-supported tier. We also expect streaming advertising revenue grows at a double-digit clip as ad-supported subscriptions become a bigger portion of the streaming subscriber base and more live programming makes its way to the streaming service.

We believe these deals will have positives and negatives for the traditional television business, but they should benefit streaming and put Paramount in a much better position for the new era of media. In all, we expect mid-single-digit declines, on average, in the TV Media segment throughout our five-year forecast, while the direct-to-consumer segment averages low-double-digit annual growth.

We project filmed entertainment revenue to grow 3% annually throughout our forecast. We believe attendance at movie theaters has returned to what will be long-term normalized levels following the shutdowns that occurred due to the pandemic. We also think we've reached a bottom in licensing film content to third parties. We generally expect Paramount to retain the pay-one film window rights for its biggest movie releases, but we think it will become more open to licensing second-tier and older content to other content providers.

We project cash content spending of about $16.5 billion in 2025 and for sales growth to influence the firm's ability and willingness to increase its spending longer term. Paramount spent $16 billion in 2024, and we expect the amount to rise 2% annually throughout our forecast.

We believe the firm can find other cost efficiencies as well, related to the Showtime/Paramount+ combination as well as less need to spend on Paramount+ marketing as the service becomes better established and bundled with other streaming platforms and pay-TV subscriptions. However, we don't expect much margin expansion due to the continuing decline we expect in the traditional television business and the outsize profitability that Paramount's TV Media business has contributed.

Risk and Uncertainty Matthew Dolgin, CFA, Senior Equity Analyst, 27 Feb 2025

Our Morningstar Uncertainty Rating for Paramount is Very High. The evolution of the media industry currently taking place is the main factor behind our assessment.

Each of Paramount's historical revenue streams—fees it receives from pay-TV distributors and local network affiliates, linear advertising revenue, and content licensing—is under pressure as linear television viewership declines, streaming platforms, including Paramount+, keep more of their content in house, and movie theater sales remain below pre-covid-19 levels. We believe a successful transition to a model that incorporates a mature streaming business and the incremental revenue it brings can alleviate some, but not all, of the shortfall relative to historical growth and profitability. However, there's also risk that Paramount cannot drive adequate adoption of its streaming service to come close to the pre-streaming model and that revenue and margins deteriorate further as TV revenue continues to decline.

The success of Paramount's transition depends on how the uncertainty surrounding the streaming model plays out. We see a lot of potential variability regarding how consumers ultimately purchase streaming subscriptions—whether primarily as part of a bundle of services or individually—and therefore how big Paramount's streaming subscriber base can be and at what price points. We also see a range of outcomes in terms of how streaming co-exists with linear and therefore how quickly and how much further pay-TV subscribers will decline.

We believe potential social issues carry the greatest potential environmental, social, and governance risk. The entertainment industry in general has a history of bad behavior regarding issues like sexual assault and harassment and racial and gender discrimination. We doubt any individual incident could create a material financial impact, but harm to the firm's image could bring consequences with consumers and employees that ultimately dent the firm's business.

Capital Allocation Matthew Dolgin, CFA, Senior Equity Analyst, 27 Feb 2025

We assign Paramount a Poor Morningstar Capital Allocation Rating. Our rating is driven primarily by the firm's management of its balance sheet and shareholder distributions, but it is also influenced by the lack of clear investment efficacy.

We have a mixed view of the firm's balance sheet management, as we see positives and negatives. Paramount is still highly leveraged, with a net debt/EBITDA ratio of 3.8 and over $14.5 billion in long-term debt at the end of 2024. However, management has managed the debt load well. About half the debt matures after 2040, all debt carries a fixed interest rate, and the firm has only about $1 billion maturing before 2028. Management used proceeds from the sale of the noncore Simon & Schuster publishing business to pay down debt and has other noncore assets, in our view, that could be used to alleviate the debt burden without impairing the business.

The balance sheet stress is due in large part to the investments the firm has made in its streaming platform, which has not yet produced positive financial results. We question whether the firm was best served by pursuing the streaming platform as aggressively as it has, but whether the decision was wise or not, execution has lagged while peers have made much better progress.

Management also has a mixed record on shareholder distributions, in our view. The firm wisely raised over $2.5 billion in cash in early 2021 by issuing equity at over $90 per share when the stock temporarily spiked. However, the additional cash was almost the precise amount that the firm proceeded to lose and distribute over the next three years via negative free cash flow and a dividend. The verdict may still

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be out on whether the streaming investments were worthwhile, but we think management stuck to a high dividend for too long while the firm was in a vulnerable financial position and facing an industry in transition. Management finally reduced the dividend by about 80% in spring 2023 but still pays out over $100 million annually at the current level. As a company controlled by Shari Redstone through her control of National Amusements, which has only a minority of the economic interest, it's also possible for decisions such as the dividend policy or receptiveness to offers for core assets to overlook the best interests of the majority of shareholders. We saw hints of this in the initial negotiations with Skydance, but we feel the agreement that the sides finally struck was fair to the noncontrolling shareholders. We expect the Skydance merger to close, but approval is not a slam dunk.

Analyst Notes Archive

Paramount Earnings: Progress Continues, but the Road Remains Very Long Matthew Dolgin, CFA,Senior Equity Analyst,9 May 2025

Paramount continues to make progress in streaming to offset the decline of traditional television on the top line. However, despite progress, streaming is not yet profitable, exacerbating television profit declines. Excluding last year's Super Bowl ad revenue, total revenue grew 2% year over year. Why it matters: TV media, responsible for almost all of Paramount's profit, is declining quickly. It's imperative for streaming to continue expanding and generate profits. It seems Paramount+ is gaining traction with consumers, but warning signs still exist. Streaming revenue grew 9% year over year, to $2 billion, and Paramount+ added 1.5 million subscribers in the quarter. Despite the reduced ad revenue, revenue per Paramount+ subscriber grew 2.5%, and this metric is up 30% on a two-year comparison. Hours watched per user grew 17% year over year. However, near-term financial progress may stall. The firm cited a soft streaming advertising market, as much more inventory has come on the market. This has especially hurt Pluto, Paramount's free service. Also, management expects fewer subscribers next quarter, as an international bundle ends. The bottom line: We maintain our $20 fair value estimate. While the perpetual decline in its cash cow legacy business leads us to say Paramount no longer has a moat, the firm's studios and television properties should allow it to transition to the next era of media. Big picture: Without the benefit of Super Bowl ad revenue, total adjusted EBITDA declined by $300 million, or 30%, to $688 million. We suspect that, excluding Super Bowl profits, earnings would have been closer to flat year over year. First-quarter TV media's adjusted EBITDA dropped by $523 million, to $922 million, largely attributable to Super Bowl advertising. Filmed entertainment's adjusted EBITDA was $20 million, up $23 million from last year, while the streaming loss improved by $177 million to $109 million.

Paramount Earnings: Encouraging Results and Outlook Even as Profit Disappoints Matthew Dolgin, CFA,Senior Equity Analyst,27 Feb 2025

We think Paramount's fourth-quarter results and strides it made in 2024 should excite investors. The quarter featured a hiccup in progress toward streaming profitability, but this was consistent with management's outlook. The stagnant stock is awaiting completion of the Skydance merger. Why it matters: It appears the market is overlooking a host of positive data points as skepticism has built that Skydance will get approval for its acquisition of Paramount amid the change in leadership at the Federal Communications Commission and the US president's pending lawsuit against CBS. The Paramount+ streaming service added 5.6 million net subscribers in the fourth quarter and 10 million for the full year. Direct-to-consumer revenue, which consists mostly of Paramount+, grew 8% year over year in the quarter and 13% for the full year. Total fourth-quarter revenue was up 5%. The full-year DTC adjusted EBITDA loss was cut by more than two thirds, to under $500 million, but the loss was $286 million in the fourth quarter—still a 40% improvement year over year. Total fourth-quarter EBITDA dropped by $114 million on film marketing costs and linear television declines. The bottom line: We maintain our $20 fair value estimate. Although the continuing decline in the traditional television business underpins our no-moat rating for Paramount, we expect consolidated results to continue improving as the evolution toward streaming matures. We are very encouraged by the streaming results, both on the top and bottom lines. Management cited big strides in engagement among its Paramount+ subscribers, which should lead to stickiness and more advertising revenue opportunity on a subscriber base now close to 80 million. Management reiterated that domestic streaming should reach EBITDA profitability in 2025, and we expect continuing streaming profit improvement to keep firmwide profits trending up throughout our forecast, especially as linear TV declines become less impactful.

Paramount Earnings: Encouraging Streaming Results Seen, but There's Disappointment Everywhere Else Matthew Dolgin, CFA,Senior Equity Analyst,8 Nov 2024

Paramount continued to post excellent streaming results across all metrics in its third quarter, but the rest of its business remained weak. We were especially disappointed by the lack of television advertising growth in an election season and continuing weakness in licensing films and television shows. The perpetual decline in traditional television is behind our no-moat rating, but we still see the stock as materially undervalued relative to our $20 fair value estimate. With the Skydance takeover still expected to close in the first half of 2025, we believe risk is significantly mitigated at current levels.Direct-to-consumer, or DTC, revenue, which consists mostly of streaming platforms, grew 10% year over year, and adjusted EBITDA was positive for the second straight quarter. The firm added an impressive 3.5 million Paramount+ subscribers, bringing the global total to 72 million, but we don't see this level of subscriber additions as durable or indicative of organic enthusiasm for the service. Inclusion of the service for many Charter cable customers in the US and a similar bundle with Canal in France, both of which commenced this quarter, drove the strength.DTC adjusted EBITDA was $49 million, but management noted that this segment is not yet persistently profitable. Though costs are indeed under better control, this quarter benefitted from the timing of content and marketing spending.

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Management reiterated that Paramount+ should reach domestic profitability in 2025, but we expect the international side to keep the segment unprofitable through 2026.The swing in DTC EBITDA from a loss of $238 million a year ago was single-handedly responsible for growth in companywide EBITDA despite total revenue declining 6%. Total EBITDA grew 20% year over year, to $858 million. Cost cuts throughout the business have helped support margins, which expanded to 12.7% from 10% a year ago, with the company on track to meet its $500 million in annualized cost reductions in 2024.

Paramount: Skydance Offer Looks Superior, but Go-Shop Period Extended for Bronfman Bid Matthew Dolgin, CFA,Senior Equity Analyst,22 Aug 2024

Edgar Bronfman Jr. and a consortium of investors have made a competing bid for control of Paramount Global. Paramount's special committee determined that the offer is sufficient to extend the go-shop period, which has now expired for all other competing bids, to Sept. 5 to consider the Bronfman offer. Both the Skydance and Bronfman offers entail the buyer acquiring National Amusements and, with it, the bulk of Paramount Class A voting shares that National Amusements holds. Both also include a $1.5 billion cash infusion into Paramount, which will continue operating independently. We see two consequential differences between the offers: the extent to which Class B shareholders can cash out a portion of their position, and whether Paramount will acquire Skydance as part of the agreement. Comparing other details of the two offers is not straightforward, and both Skydance and the Bronfman group will have the opportunity to revise their bids. But as it currently stands, we believe Skydance's offer is superior. We are maintaining our $20 fair value estimate for no-moat Paramount.Under the Skydance offer, Paramount's Class B shareholders can cash out at least half of their shares for $15 per share if they choose. Based on The Wall Street Journal's reporting, we estimate Class B shareholders would have the option to cash out only 15%-20% of their shares at $16 per share based on the amount of cash Bronfman's group has set aside. With the current stock price hovering around $11 for a struggling business, we think the option to cash out 50% of shares or more, as Skydance offers, is a more attractive alternative.Bronfman's pitch for the superiority of his deal points to the lack of dilution that Paramount's shareholders would face from not having to buy Skydance. We think the magnitude of dilution is overstated, and we believe the Skydance acquisition price is reasonable, so we don't think Paramount's shareholders will be better off without acquiring Skydance.

Paramount Earnings: Streaming Strength and Cost Savings Plan Overshadow Broader Revenue Weakness Matthew Dolgin, CFA,Senior Equity Analyst,9 Aug 2024

Paramount's direct-to-consumer segment, which includes the Paramount+ and Pluto streaming services, swung to a surprise profit in the second quarter, and DTC sales matched last quarter's result despite lacking the boost that the Super Bowl provided. Management is also implementing a portion of the cost restructuring that Skydance identified when it struck its merger agreement with Paramount. Results in the rest of Paramount's business were unsurprisingly weak, but at Paramount's current

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market value, it shouldn't take much good news to generate enthusiasm. We're maintaining our $20 fair value estimate.Direct-to-consumer revenue was up 13% year over year, with Paramount+ standing out. Paramount+ average revenue per user grew 26% year over year even as the subscriber base was 15% larger over that time. We're unconcerned about the nearly 3 million net decline in subscribers during the quarter because management attributed most of the loss to the termination of a partnership in South Korea that did not have much impact on financials. The firm also had some subscriber dropoff related to those who joined for the Super Bowl. However, considering the firm had added 8 million subscribers over the prior two quarters, any decline in the US is likely modest.We expect DTC subscriber growth to pick up significantly in the near term, as Charter cable subscribers will receive access to Paramount+'s ad-supported service as part of their cable subscriptions in September. We expect to see more agreements like this one. Although they may dampen ARPU growth in the near term and make the decline in linear television look worse, as subscription revenue will now be split between these two segments, we see a lot of opportunity that will come from the bigger DTC subscriber base, not least of which is the ability to maximize advertising revenue, which has averaged mid-to-high teens growth in the segment for the past year and a half—even after excluding Super Bowl-related advertising.

Paramount: Improved Skydance Deal Looks Even Better Than We Expected Matthew Dolgin, CFA,Senior Equity Analyst,8 Jul 2024

Last week's reporting on the Skydance-Paramount transaction, which we highlighted in our July 3 note, was largely consistent with the deal that Paramount's board approved yesterday. Although we still haven't seen sufficient detail on Skydance's business to offer a detailed take on valuation, the information we've gotten makes us like the deal even more for current Paramount shareholders. We are maintaining our $20 per share fair value estimate. Unless further disclosure leads us to believe Skydance's pro forma estimates are materially off base, we don't intend to adjust our fair value estimate in light of this deal.As we previously stated, we think the new terms for Paramount's Class B shareholders are much improved from the initial rumored offer. Now the deal includes a 45-day go-shop period and gives the shareholders the option to cash out at least half of their shares for $15, which we think is reasonable. Our reluctance in endorsing the deal had been the follow-on merger between Paramount and Skydance once Skydance gains control of Paramount through its acquisition of National Amusements. After seeing details of the follow-on merger, we take much greater comfort.We estimate that Skydance currently generates about $2 billion in annual revenue and is unprofitable, and Paramount will acquire Skydance for $4.75 billion in stock after Skydance buys National Amusements. However, this headline price tag is inflated considering other aspects of the deal, and we estimate Paramount's true cost for Skydance, based on Paramount's unaffected stock price as of July 1, is closer to $2.7 billion. According to PitchBook, Skydance's most recent funding round—in 2022, when media valuations were generally higher—valued the firm at $4.5 billion. Given all the information we have received and the assets we know Skydance has, we see the acquisition price as fair.

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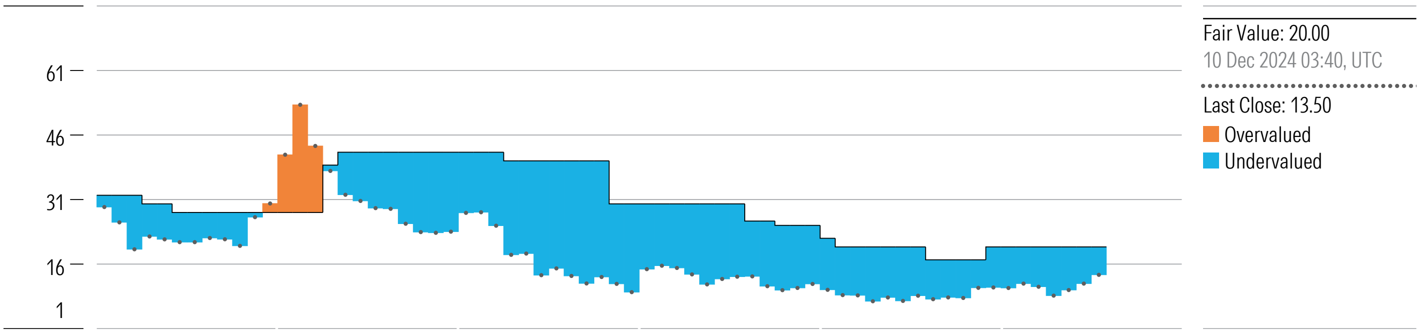
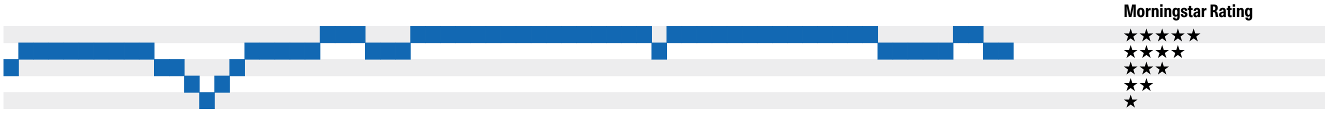
Paramount Global Class B PARA ★★★★ 24 Jul 2025 21:27, UTC

Competitors Price vs. Fair Value

Warner Bros. Discovery Inc Ordinary Shares - Class A WBD

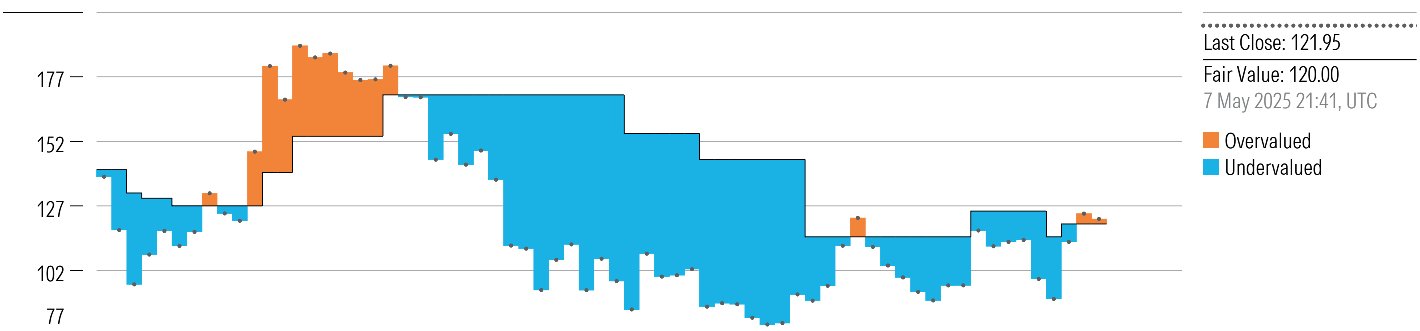


	2020	2021	2022	2023	2024	YTD
Price/Fair Value	1.07	0.56	0.32	0.46	0.53	0.68
Total Return %	-8.09	-21.77	-59.73	20.04	-7.12	27.72

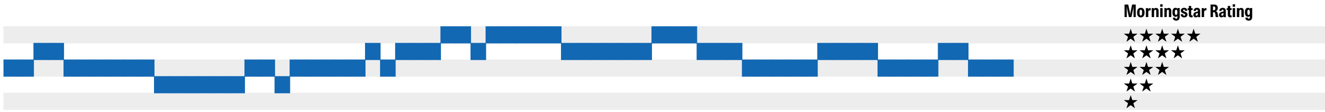


Total Return % as of 24 Jul 2025. Last Close as of 24 Jul 2025. Fair Value as of 10 Dec 2024 03:40, UTC.

The Walt Disney Co DIS



	2020	2021	2022	2023	2024	YTD
Price/Fair Value	1.29	0.91	0.56	0.79	0.89	1.02
Total Return %	25.27	-14.51	-43.91	4.27	24.38	9.97



Total Return % as of 24 Jul 2025. Last Close as of 24 Jul 2025. Fair Value as of 7 May 2025 21:41, UTC.

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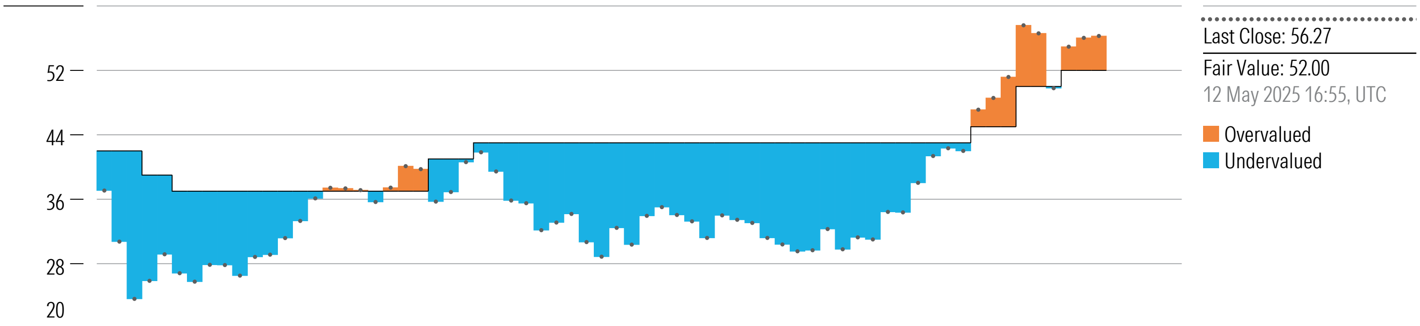
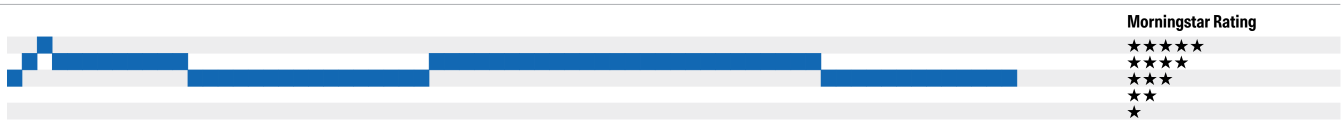
Paramount Global Class B PARA ★★★★ 24 Jul 2025 21:27, UTC

Competitors Price vs. Fair Value

Fox Corp Class A FOXA



	2020	2021	2022	2023	2024	YTD	
	0.79	0.90	0.71	0.69	1.08	1.08	Price/Fair Value
	-20.21	28.33	-16.37	-0.63	65.52	16.39	Total Return %



Total Return % as of 24 Jul 2025. Last Close as of 24 Jul 2025. Fair Value as of 12 May 2025 16:55, UTC.

Morningstar Equity Analyst Report | Report as of 25 Jul 2025 06:49, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NASDAQ - ALL MARKETS

Paramount Global Class B PARA ★★★★ 24 Jul 2025 21:27, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
13.26 USD 24 Jul 2025	20.00 USD 31 Jan 2024 19:22, UTC	0.66	8.94 USD Bil 24 Jul 2025	None	Small Value	Very High	Poor	4 Jun 2025 05:00, UTC

Morningstar Valuation Model Summary

Financials as of 08 May 2025	Actual			Forecast				
Fiscal Year, ends 31 Dec	2022	2023	2024	2025	2026	2027	2028	2029
Revenue (USD Mil)	30,154	29,652	29,213	29,037	29,394	29,838	31,170	31,791
Operating Income (USD Mil)	2,871	1,972	2,726	2,531	2,617	2,596	3,408	3,629
EBITDA (USD Mil)	2,467	-52	-5,076	2,791	2,999	2,984	3,813	4,042
Adjusted EBITDA (USD Mil)	3,276	2,390	3,118	2,902	2,994	2,984	3,813	4,042
Net Income (USD Mil)	1,104	-608	-6,190	896	1,113	1,097	1,722	1,833
Adjusted Net Income (USD Mil)	1,171	400	1,041	939	1,113	1,097	1,722	1,833
Free Cash Flow To The Firm (USD Mil)	18	5,104	8,897	583	1,089	1,347	1,968	2,516
Weighted Average Diluted Shares Outstanding (Mil)	650	652	664	672	670	670	670	670
Earnings Per Share (Diluted) (USD)	1.60	-1.02	-9.32	1.33	1.66	1.64	2.57	2.74
Adjusted Earnings Per Share (Diluted) (USD)	1.71	0.53	1.54	1.40	1.66	1.64	2.57	2.74
Dividends Per Share (USD)	0.96	0.39	0.20	0.20	0.20	0.20	0.20	0.20

Margins & Returns as of 08 May 2025		Actual			Forecast					
	3 Year Avg	2022	2023	2024	2025	2026	2027	2028	2029	5 Year Avg
Operating Margin %	-4.5	9.5	6.7	9.3	8.7	8.9	8.7	10.9	11.4	9.7
EBITDA Margin %	—	8.2	-0.2	-17.4	9.6	10.2	10.0	12.2	12.7	—
Adjusted EBITDA Margin %	—	10.9	8.1	10.7	10.0	10.2	10.0	12.2	12.7	11.0
Net Margin %	-6.5	3.7	-2.1	-21.2	3.1	3.8	3.7	5.5	5.8	4.4
Adjusted Net Margin %	2.9	3.9	1.4	3.6	3.2	3.8	3.7	5.5	5.8	4.4
Free Cash Flow To The Firm Margin %	15.9	0.1	17.2	30.5	2.0	3.7	4.5	6.3	7.9	4.9

Growth & Ratios as of 08 May 2025		Actual			Forecast					
	3 Year CAGR	2022	2023	2024	2025	2026	2027	2028	2029	5 Year CAGR
Revenue Growth %	0.7	5.5	-1.7	-1.5	-0.6	1.2	1.5	4.5	2.0	1.7
Operating Income Growth %	-12.4	-29.2	-31.3	38.2	-7.2	3.4	-0.8	31.3	6.5	5.9
EBITDA Growth %	3,165.7	-62.2	-102.1	9661.5	-155.0	7.4	-0.5	27.8	6.0	-22.9
Adjusted EBITDA Growth %	-11.1	-26.3	-27.1	30.5	-6.9	3.2	-0.3	27.8	6.0	5.3
Earnings Per Share Growth %	—	-76.9	-163.8	813.7	-114.3	24.5	-1.4	57.0	6.4	—
Adjusted Earnings Per Share Growth %	—	-51.3	-69.0	190.6	-9.2	18.8	-1.4	57.0	6.4	—

Valuation as of 08 May 2025	Actual			Forecast				
	2022	2023	2024	2025	2026	2027	2028	2029
Price/Earning	9.9	27.9	6.8	9.5	8.0	8.1	5.2	4.8
Price/Sales	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Price/Book	0.5	0.4	0.4	0.5	0.5	0.5	0.4	0.4
Price/Cash Flow	—	—	—	—	—	—	—	—
EV/EBITDA	7.6	10.5	6.7	7.6	7.4	7.4	5.8	5.5
EV/EBIT	8.7	12.7	7.6	8.8	8.5	8.6	6.5	6.1
Dividend Yield %	5.7	2.6	1.9	1.5	1.5	1.5	1.5	1.5
Dividend Payout %	56.1	73.6	13.0	14.3	12.0	12.2	7.8	7.3
Free Cash Flow Yield %	—	—	—	—	—	—	—	—

Operating Performance / Profitability as of 08 May 2025	Actual			Forecast				
Fiscal Year, ends 31 Dec	2022	2023	2024	2025	2026	2027	2028	2029
ROA %	1.9	-1.1	-13.4	2.0	2.4	2.3	3.4	3.3
ROE %	4.6	-2.6	-35.9	5.0	5.9	5.5	8.0	7.9
ROIC %	7.4	-1.7	-20.2	8.9	9.4	9.1	11.8	12.5

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Paramount Global Class B PARA ★★★★ 24 Jul 2025 21:27, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
13.26 USD 24 Jul 2025	20.00 USD 31 Jan 2024 19:22, UTC	0.66	8.94 USD Bil 24 Jul 2025	None	Small Value	Very High	Poor	4 Jun 2025 05:00, UTC

Financial Leverage (Reporting Currency)	Actual			Forecast				
Fiscal Year, ends 31 Dec	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**
Debt/Capital %	61.0	61.7	67.6	48.3	45.9	44.3	41.9	45.5
Assets/Equity	2.4	2.3	2.7	2.5	2.5	2.4	2.3	2.4
Net Debt/EBITDA	5.8	-257.7	-2.5	4.1	3.7	3.5	2.4	1.8
Total Debt/EBITDA	5.3	6.6	5.0	4.5	4.4	4.5	3.5	4.2
EBITDA/ Net Interest Expense	4.0	3.1	4.4	3.9	4.1	4.1	5.4	5.2

Forecast Revisions as of 9 May 2025	2025		2026		2027	
Prior data as of 26 Feb 2025	**Current**	**Prior**	**Current**	**Prior**	**Current**	**Prior**
Fair Value Estimate Change (Trading Currency)	20.00	20.16	—	—	—	—
Revenue (USD Mil)	29,037	29,110	29,394	29,597	29,838	30,019
Operating Income (USD Mil)	2,531	2,646	2,617	2,844	2,596	2,807
EBITDA (USD Mil)	2,902	3,025	2,994	3,223	2,984	3,197
Net Income (USD Mil)	939	957	1,113	1,306	1,097	1,398
Earnings Per Share (Diluted) (USD)	1.33	1.43	1.66	1.95	1.64	2.09
Adjusted Earnings Per Share (Diluted) (USD)	1.40	1.43	1.66	1.95	1.64	2.09
Dividends Per Share (USD)	0.20	0.20	0.20	0.20	0.20	0.20

Key Valuation Drivers as of 08 May 2025	
Cost of Equity %	11.0
Pre-Tax Cost of Debt %	8.0
Weighted Average Cost of Capital %	8.5
Long-Run Tax Rate %	25.0
Stage II EBI Growth Rate %	2.0
Stage II Investment Rate %	15.0
Perpetuity Year	10

Additional estimates and scenarios available for download at https://pitchbook.com/.

Discounted Cash Flow Valuation as of 08 May 2025	**USD Mil**
Present Value Stage I	5,610
Present Value Stage II	5,783
Present Value Stage III	14,376
Total Firm Value	**25,769**
Cash and Equivalents	2,661
Debt	14,501
Other Adjustments	1,226
Equity Value	**12,703**
Projected Diluted Shares	670
Fair Value per Share (USD)	**20.00**

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Paramount Global Class B PARA ★★★★ 24 Jul 2025 21:27, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
13.26 USD 24 Jul 2025	20.00 USD 31 Jan 2024 19:22, UTC	0.66	8.94 USD Bil 24 Jul 2025	None	Small Value	Very High	Poor	4 Jun 2025 05:00, UTC

ESG Risk Rating Breakdown

Exposure	
Company Exposure[1]	26.1
– Manageable Risk	25.2
Unmanageable Risk[2]	**0.8**

Management	
Manageable Risk	25.2
– Managed Risk[3]	12.4
Management Gap[4]	**12.8**

Overall Unmanaged Risk	**13.6**

● Subject ○ Subindustry (24.0)

26.1 **Low**

0 — Low — Medium — High — 55+

49.2% **Average**

100 — Strong — Average — Weak — 0

- Exposure represents a company's vulnerability to ESG risks driven by their business model
- Exposure is assessed at the Subindustry level and then specified at the company level
- Scoring ranges from 0-55+ with categories of low, medium, and high-risk exposure

- Management measures a company's ability to manage ESG risks through its commitments and actions
- Management assesses a company's efficiency on ESG programs, practices, and policies
- Management score ranges from 0-100% showing how much manageable risk a company is managing

ESG Risk Rating

13.64 **Low**

Negligible **Low** **Medium** **High** **Severe**

ESG Risk Ratings measure the degree to which a company's value is impacted by environmental, social, and governance risks, by evaluating the company's ability to manage the ESG risks it faces.

1. A company's Exposure to material ESG issues 2. Unmanageable Risk refers to risks that are inherent to a particular business model that cannot be managed by programs or initiatives 3. Managed Risk = Manageable Risk multiplied by a Management score of 49.2% 4. Management Gap assesses risks that are not managed, but are considered manageable 5. ESG Risk Rating Assessment = Overall Unmanaged Risk = Management Gap plus Unmanageable Risk

ESG Risk Rating Assessment[5]

ESG Risk Rating is of Jun 04, 2025. Highest Controversy Level is as of Jul 08, 2025. Sustainalytics Subindustry: Broadcasting. Sustainalytics provides Morningstar with company ESG ratings and metrics on a monthly basis and as such, the ratings in Morningstar may not necessarily reflect current Sustainalytics' scores for the company. For the most up to date rating and more information, please visit: sustainalytics.com/esg-ratings/.

Peer Analysis 04 Jun 2025

Peers are selected from the company's Sustainalytics-defined Subindustry and are displayed based on the closest market cap values

Company Name	Exposure		Management		ESG Risk Rating	
Paramount Global	26.1 | Low	0 — 55+	49.2 | Average	100 — 0	13.6 | Low	0 — 40+
The Walt Disney Co	28.5 | Low	0 — 55+	46.7 | Average	100 — 0	16.0 | Low	0 — 40+
Warner Bros. Discovery Inc	27.1 | Low	0 — 55+	52.5 | Strong	100 — 0	13.6 | Low	0 — 40+
Fox Corp	24.2 | Low	0 — 55+	53.8 | Strong	100 — 0	11.6 | Low	0 — 40+
—	— | —	0 — 55+	— | —	100 — 0	— | —	0 — 40+

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Appendix
Historical Morningstar Rating

Paramount Global Class B PARA 24 Jul 2025 21:27, UTC

Dec 2025	Nov 2025	Oct 2025	Sep 2025	Aug 2025	Jul 2025	Jun 2025	May 2025	Apr 2025	Mar 2025	Feb 2025	Jan 2025
—	—	—	—	—	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★
Dec 2024	Nov 2024	Oct 2024	Sep 2024	Aug 2024	Jul 2024	Jun 2024	May 2024	Apr 2024	Mar 2024	Feb 2024	Jan 2024
★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★
Dec 2023	Nov 2023	Oct 2023	Sep 2023	Aug 2023	Jul 2023	Jun 2023	May 2023	Apr 2023	Mar 2023	Feb 2023	Jan 2023
★★★★	★★★★	★★★★★	★★★★	★★★★	★★★★	★★★★★	★★★★★	★★★★	★★★★	★★★★	★★★★★
Dec 2022	Nov 2022	Oct 2022	Sep 2022	Aug 2022	Jul 2022	Jun 2022	May 2022	Apr 2022	Mar 2022	Feb 2022	Jan 2022
★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★	★★★★★	★★★★★
Dec 2021	Nov 2021	Oct 2021	Sep 2021	Aug 2021	Jul 2021	Jun 2021	May 2021	Apr 2021	Mar 2021	Feb 2021	Jan 2021
★★★★★	★★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★	★★★
Dec 2020	Nov 2020	Oct 2020	Sep 2020	Aug 2020	Jul 2020	Jun 2020	May 2020	Apr 2020	Mar 2020	Feb 2020	Jan 2020
★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★

Warner Bros. Discovery Inc Ordinary Shares - Class A WBD 24 Jul 2025 21:26, UTC

Dec 2025	Nov 2025	Oct 2025	Sep 2025	Aug 2025	Jul 2025	Jun 2025	May 2025	Apr 2025	Mar 2025	Feb 2025	Jan 2025
—	—	—	—	—	★★★★	★★★★	★★★★★	★★★★★	★★★★	★★★★	★★★★
Dec 2024	Nov 2024	Oct 2024	Sep 2024	Aug 2024	Jul 2024	Jun 2024	May 2024	Apr 2024	Mar 2024	Feb 2024	Jan 2024
★★★★	★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★
Dec 2023	Nov 2023	Oct 2023	Sep 2023	Aug 2023	Jul 2023	Jun 2023	May 2023	Apr 2023	Mar 2023	Feb 2023	Jan 2023
★★★★★	★★★★★	★★★★★	★★★★★	★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★
Dec 2022	Nov 2022	Oct 2022	Sep 2022	Aug 2022	Jul 2022	Jun 2022	May 2022	Apr 2022	Mar 2022	Feb 2022	Jan 2022
★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★	★★★★	★★★★
Dec 2021	Nov 2021	Oct 2021	Sep 2021	Aug 2021	Jul 2021	Jun 2021	May 2021	Apr 2021	Mar 2021	Feb 2021	Jan 2021
★★★★★	★★★★★	★★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★	★★	★	★★
Dec 2020	Nov 2020	Oct 2020	Sep 2020	Aug 2020	Jul 2020	Jun 2020	May 2020	Apr 2020	Mar 2020	Feb 2020	Jan 2020
★★★	★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★

The Walt Disney Co DIS 24 Jul 2025 21:31, UTC

Dec 2025	Nov 2025	Oct 2025	Sep 2025	Aug 2025	Jul 2025	Jun 2025	May 2025	Apr 2025	Mar 2025	Feb 2025	Jan 2025
—	—	—	—	—	★★★	★★★	★★★	★★★★	★★★★	★★★	★★★
Dec 2024	Nov 2024	Oct 2024	Sep 2024	Aug 2024	Jul 2024	Jun 2024	May 2024	Apr 2024	Mar 2024	Feb 2024	Jan 2024
★★★	★★★	★★★★	★★★★	★★★★	★★★★	★★★	★★★	★★★	★★★	★★★	★★★★
Dec 2023	Nov 2023	Oct 2023	Sep 2023	Aug 2023	Jul 2023	Jun 2023	May 2023	Apr 2023	Mar 2023	Feb 2023	Jan 2023
★★★★	★★★★	★★★★★	★★★★★	★★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★★
Dec 2022	Nov 2022	Oct 2022	Sep 2022	Aug 2022	Jul 2022	Jun 2022	May 2022	Apr 2022	Mar 2022	Feb 2022	Jan 2022
★★★★★	★★★★★	★★★★★	★★★★★	★★★★	★★★★★	★★★★★	★★★★	★★★★	★★★★	★★★	★★★★
Dec 2021	Nov 2021	Oct 2021	Sep 2021	Aug 2021	Jul 2021	Jun 2021	May 2021	Apr 2021	Mar 2021	Feb 2021	Jan 2021
★★★	★★★	★★★	★★★	★★★	★★	★★★	★★★	★★	★★	★★	★★
Dec 2020	Nov 2020	Oct 2020	Sep 2020	Aug 2020	Jul 2020	Jun 2020	May 2020	Apr 2020	Mar 2020	Feb 2020	Jan 2020
★★	★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★★	★★★★	★★★	★★★

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Fox Corp Class A FOXA 24 Jul 2025 21:47, UTC

Dec 2025	Nov 2025	Oct 2025	Sep 2025	Aug 2025	Jul 2025	Jun 2025	May 2025	Apr 2025	Mar 2025	Feb 2025	Jan 2025
—	—	—	—	—	★★★	★★★	★★★	★★★	★★★	★★★	★★★
Dec 2024	Nov 2024	Oct 2024	Sep 2024	Aug 2024	Jul 2024	Jun 2024	May 2024	Apr 2024	Mar 2024	Feb 2024	Jan 2024
★★★	★★★	★★★	★★★	★★★	★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★
Dec 2023	Nov 2023	Oct 2023	Sep 2023	Aug 2023	Jul 2023	Jun 2023	May 2023	Apr 2023	Mar 2023	Feb 2023	Jan 2023
★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★
Dec 2022	Nov 2022	Oct 2022	Sep 2022	Aug 2022	Jul 2022	Jun 2022	May 2022	Apr 2022	Mar 2022	Feb 2022	Jan 2022
★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★	★★★	★★★	★★★
Dec 2021	Nov 2021	Oct 2021	Sep 2021	Aug 2021	Jul 2021	Jun 2021	May 2021	Apr 2021	Mar 2021	Feb 2021	Jan 2021
★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★
Dec 2020	Nov 2020	Oct 2020	Sep 2020	Aug 2020	Jul 2020	Jun 2020	May 2020	Apr 2020	Mar 2020	Feb 2020	Jan 2020
★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★★	★★★★	★★★

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Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, indepth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss shortterm market-price movements), but we believe these negatives are mitigated by deep analysis and our longterm approach.

Morningstar's equity research group ("we," "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our singlepoint star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

When considering a company's moat, we also assess whether there is a substantial threat of value destruction, stemming from risks related to ESG, industry disruption, financial health, or other idiosyncratic issues. In this context, a risk is considered potentially value destructive if its occurrence would eliminate a firm's economic profit on a cumulative or midcycle basis. If we deem the probability of occurrence sufficiently high, we would not characterize the company as possessing an economic moat.

2. Estimated Fair Value

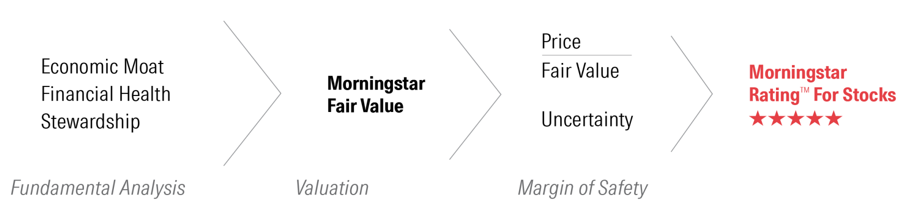
Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in workingcapital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Morningstar Equity Research Star Rating Methodology



Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total present value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty Around That Fair Value Estimate

Morningstar's Uncertainty Rating is designed to capture the range of potential outcomes for a company's intrinsic value. This rating is used to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating is aimed at identifying the confidence we should have in assigning a fair value estimate for a given stock.

Our Uncertainty Rating is meant to take into account anything that can increase the potential dispersion of future

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outcomes for the intrinsic value of a company, and anything that can affect our ability to accurately predict these outcomes. The rating begins with a suggested rating produced by a quantitative process based on the trailing 12-month standard deviation of daily stock returns. An analyst overlay is then applied, with analysts using the suggested rating, historical rating data, and their own knowledge of the company to inform them as they make the final Uncertainty Rating decision. Ultimately, the rating decision rests with the analyst. Analysts take into account many characteristics when making their final decision, including cyclical factors, operational and financial factors such as leverage, company-specific events, ESG risks, and anything else that might increase the potential dispersion of future outcomes and our ability to estimate those outcomes.

Our recommended margin of safety—the discount to fair value demanded before we'd recommend buying or selling the stock—widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the potential dispersion of outcomes, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the Uncertainty Rating provides guidance in portfolio construction based on risk tolerance.

Our Uncertainty Ratings are: Low, Medium, High, Very High, and Extreme.

	Margin of Safety	
Qualitative Analysis Uncertainty Ratings	★★★★★Rating	★Rating
Low	20% Discount	25% Premium
Medium	30% Discount	35% Premium
High	40% Discount	55% Premium
Very High	50% Discount	75% Premium
Extreme	75% Discount	300% Premium

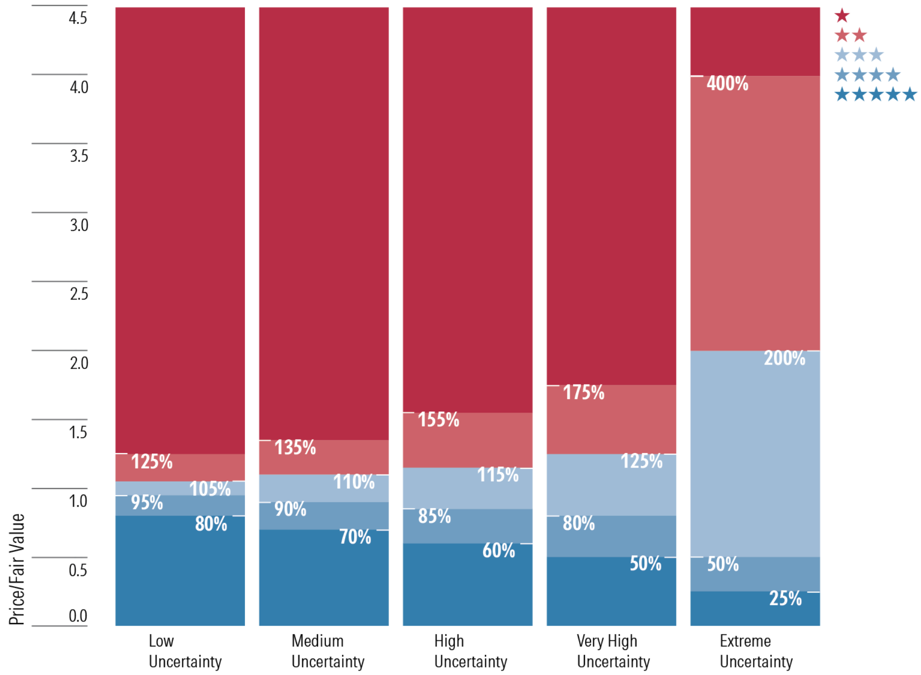
Our uncertainty rating is based on the interquartile range, or the middle 50% of potential outcomes, covering the 25th percentile–75th percentile. This means that when a stock hits 5 stars, we expect there is a 75% chance that the intrinsic value of that stock lies above the current market price. Similarly, when a stock hits 1 star, we expect there is a 75% chance that the intrinsic value of that stock lies below the current market price.

4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more details about our methodology, please go to https://shareholders.morningstar.com

Morningstar Equity Research Star Rating Methodology



Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

★★★★★ We believe appreciation beyond a fair risk adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

★★★★ We believe appreciation beyond a fair risk-adjusted return is likely.

★★★ Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

★★ We believe investors are likely to receive a less than fair risk-adjusted return.

★ Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multi-year time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Capital Allocation Rating: Our Capital Allocation (or Stewardship) Rating represents our assessment of the quality of management's capital allocation, with particular emphasis on the firm's balance sheet, investments,

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and shareholder distributions. Analysts consider companies' investment strategy and valuation, balance sheet management, and dividend and share buyback policies. Corporate governance factors are only considered if they are likely to materially impact shareholder value, though either the balance sheet, investment, or shareholder distributions. Analysts assign one of three ratings: "Exemplary", "Standard", or "Poor". Analysts judge Capital Allocation from an equity holder's perspective. Ratings are determined on a forward looking and absolute basis. The Standard rating is most common as most managers will exhibit neither exceptionally strong nor poor capital allocation.

Capital Allocation (or Stewardship) analysis published prior to Dec. 9, 2020, was determined using a different process. Beyond investment strategy, financial leverage, and dividend and share buyback policies, analysts also considered execution, compensation, related party transactions, and accounting practices in the rating.

Capital Allocation Rating: Our Capital Allocation (or Stewardship) Rating represents our assessment of the quality of management's capital allocation, with particular emphasis on the firm's balance sheet, investments, and shareholder distributions. Analysts consider companies' investment strategy and valuation, balance sheet management, and dividend and share buyback policies. Corporate governance factors are only considered if they are likely to materially impact shareholder value, though either the balance sheet, investment, or shareholder distributions. Analysts assign one of three ratings: "Exemplary", "Standard", or "Poor". Analysts judge Capital Allocation from an equity holder's perspective. Ratings are determined on a forward looking and absolute basis. The Standard rating is most common as most managers will exhibit neither exceptionally strong nor poor capital allocation.

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Sustainalytics ESG Risk Rating Assessment: The ESG Risk Rating Assessment is provided by Sustainalytics; a Morningstar company.

Sustainalytics' ESG Risk Ratings measure the degree to which company's economic value at risk is driven by environment, social and governance (ESG) factors.

Sustainalytics analyzes over 1,300 data points to assess a company's exposure to and management of ESG risks. In other words, ESG Risk Ratings measures a company's unmanaged ESG Risks represented as a quantitative score. Unmanaged Risk is measured on an open-ended scale starting at zero (no risk) with lower scores representing less unmanaged risk and, for 95% of cases, the unmanaged ESG Risk score is below 50.

Based on their quantitative scores, companies are grouped into one of five Risk Categories (negligible, low, medium, high, severe). These risk categories are absolute, meaning that a 'high risk' assessment reflects a comparable degree of unmanaged ESG risk across all subindustries covered.

The ESG Risk Rating Assessment is a visual representation of Sustainalytics ESG Risk Categories on a 1 to 5 scale. Companies with Negligible Risk = 5 Globes, Low Risk = 4, Medium Risk = 3 Globes, High Risk = 2 Globes, Severe Risk = 1 Globe. For more information, please visit sustainalytics.com/esg-ratings/

Ratings should not be used as the sole basis in evaluating a company or security. Ratings involve unknown risks and uncertainties which may cause our expectations not to occur or to differ significantly from what was expected and should not be considered an offer or solicitation to buy or sell a security.

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