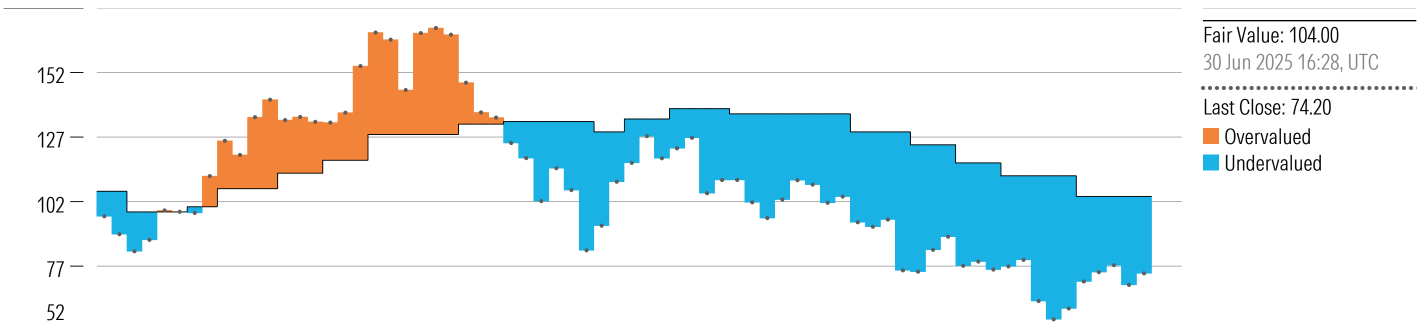
Morningstar Equity Analyst Report | Report as of 2 Oct 2025 18:17, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC. Page 1 of 25

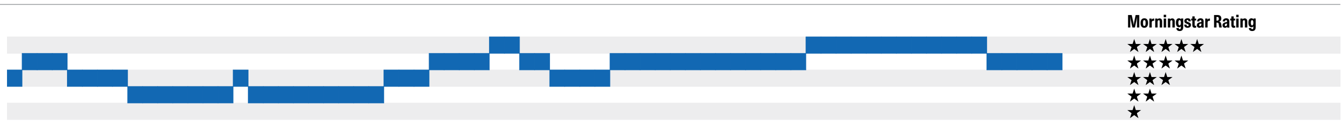
Nike Inc Class B NKE ★★★★ 1 Oct 2025 22:16, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
74.20 USD 1 Oct 2025	104.00 USD 30 Jun 2025 16:28, UTC	0.71	110.07 USD Bil 2 Oct 2025	Wide	Large Value	High	Exemplary	3 Sep 2025 05:00, UTC

Price vs. Fair Value



	2020	2021	2022	2023	2024	YTD	
	1.32	1.30	0.87	0.80	0.65	0.71	Price/Fair Value
	40.64	18.61	-29.04	-6.03	-28.91	-0.36	Total Return %



Total Return % as of 01 Oct 2025. Last Close as of 01 Oct 2025. Fair Value as of 30 Jun 2025 16:28, 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.

Nike's Renewed Focus on Its Competitive Advantages Should Eventually Allow for a Comeback

Business Strategy & Outlook David Swartz, Senior Equity Analyst, 2 Oct 2025

We view Nike as the leader of the athletic apparel market and believe it will recover from its recent problems, such as a lack of product innovation, soft demand for sportswear, and strained relationships with wholesale accounts. Our wide moat rating is based on its intangible brand asset, as we believe it will maintain premium pricing and generate economic profits for at least 20 years. Nike is the largest athletic footwear brand in all major categories and in most markets. While it does face significant competition, we believe it has proven over a long period that it can maintain share and pricing.

Under its Win Now strategy, Nike has a renewed focus on its key partners, its products, and its connections to international athletics. Over the past few years, the firm has invested in its direct-to-consumer network while cutting many wholesale accounts. With this strategy, the firm has reduced its exposure to undifferentiated retailers while increasing its connections with others that bring the Nike brand closer to consumers, carry a full range of products, and allow it to control the brand message. Unfortunately, it has seemingly lost momentum with its core customers through this process. To win back share, Nike is investing in new marketing and products while rebuilding Nike's relationships with retailers and the global sports community.

Although its recovery in China has been slow, we still believe Nike has a great opportunity for revenue

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Sector	Industry
Consumer Cyclical	Footwear & Accessories

Business Description

Nike is the largest athletic footwear and apparel brand in the world. Key categories include basketball, running, and football (soccer). Footwear generates about two thirds of its sales. Its brands include Nike, Jordan (premium athletic footwear and clothing), and Converse (casual footwear). Nike sells products worldwide through company-owned stores, franchised stores, and third-party retailers. The firm also operates e-commerce platforms in more than 40 countries. Nearly all its production is outsourced to contract manufacturers in more than 30 countries. Nike was founded in 1964 and is based in Beaverton, Oregon.

growth there as the market expands through government investment in athletics. Moreover, with worldwide distribution and a huge direct-to-consumer operation that brought $18.8 billion in Nike brand digital sales in fiscal 2025, the firm should benefit as more people in China, Latin America, and other developing regions move into the middle class and gain broadband and online shopping access.

Higher tariffs on US imports are expected to bring $1.5 billion in new annualized expense and reduce Nike's gross margin by about 120 basis points (including mitigation actions) in fiscal 2026. We anticipate the tariff increases will necessitate small price increases that will have a limited negative effect on demand.

Bulls Say David Swartz, Senior Equity Analyst, 2 Oct 2025

- Demand in the global sportswear market has been soft recently, but it should expand, especially in Asia and other developing markets. As the global share leader, Nike is positioned to benefit.
- Nike brought back longtime executive Elliott Hill to serve as its CEO. Given his company knowledge and relationships with key partners, we are confident in his ability to improve results.
- Although currently depressed, Nike's EBIT margins should return to midteen levels in the medium term as it increases full-price sales, releases new merchandise, and grows sales in high-margin markets.

Bears Say David Swartz, Senior Equity Analyst, 2 Oct 2025

- Nike has had a tumultuous period due to economic issues in key regions and its own mistakes. Given the depth of its problems, the timing of a turnaround is uncertain.
- Higher US tariffs are expected to bring $1.5 billion in new annualized expense and reduce Nike's gross margins. The expense may be mitigated through price increases and other actions over time, but this is uncertain.
- Nike's dominance in running shoes has been challenged by the success of relative newcomers like Hoka and On. It has fallen behind some others on innovation.

Economic Moat David Swartz, Senior Equity Analyst, 2 Oct 2025

We assign a wide moat rating to Nike based on its brand intangible asset. The company is the largest athletic apparel and footwear company in the world, operates in nearly every country, and generates more than $45 billion in annual revenue. Although it is presently going through a difficult period, we think its strengths remain and that its financial results will recover. Prior to fiscal 2025, Nike's sales had increased in 13 of the previous 14 years, with the pandemic-affected fiscal 2020 as the sole exception.

As evidence of its competitive edge, Nike's adjusted returns on invested capital, including goodwill, have averaged 27% over the past five fiscal years, well above our 8% estimated weighted average cost of capital. Moreover, we forecast that the company's annual adjusted ROICs, including goodwill, will average 33% over the next decade and exceed its WACC for at least the next 20 years, as required for our wide moat rating. Nike's ROICs possibly get a boost from the firm's outsourcing of production to

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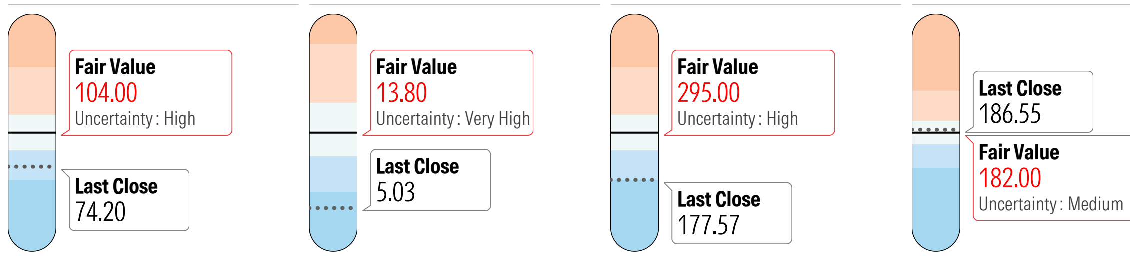
Competitors



	Nike Inc Class B NKE	Under Armour Inc Class A UAA	Lululemon Athletica Inc LULU	adidas AG ADS
Economic Moat	Wide	None	Narrow	Narrow
Currency	USD	USD	USD	EUR
Fair Value	104.00 30 Jun 2025 16:28, UTC	13.80 16 Aug 2025 00:12, UTC	295.00 8 Sep 2025 18:50, UTC	182.00 30 Jul 2025 22:27, UTC
1-Star Price	161.20	24.15	457.25	245.70
5-Star Price	62.40	6.90	177.00	127.40
Assessment	Undervalued 1 Oct 2025	Undervalued 1 Oct 2025	Undervalued 1 Oct 2025	Fairly Valued 2 Oct 2025
Morningstar Rating	★★★★1 Oct 2025 22:16, UTC	★★★★★1 Oct 2025 22:20, UTC	★★★★★1 Oct 2025 22:24, UTC	★★★2 Oct 2025 01:18, UTC
Analyst	David Swartz, Senior Equity Analyst	David Swartz, Senior Equity Analyst	David Swartz, Senior Equity Analyst	David Swartz, Senior Equity Analyst
Capital Allocation	Exemplary	Standard	Exemplary	Standard
Price/Fair Value	0.71	0.36	0.60	1.03
Price/Sales	2.37	0.42	1.97	1.36
Price/Book	8.14	1.15	4.85	6.41
Price/Earning	38.05	16.55	12.12	28.84
Dividend Yield	2.16%	0.00%	0.00%	1.07%
Market Cap	109.59 Bil	2.16 Bil	21.06 Bil	33.31 Bil
52-Week Range	52.28—89.64	4.72—11.89	159.25—423.32	160.75—263.80
Investment Style	Large Value	Small Value	Mid Blend	Large Growth

third-party factories, but we believe its returns on investment would be high even if its asset base were larger.

In addition to quantitative factors, we evaluate activewear producers like Nike using five specific criteria: geographic reach; pricing; sponsorships/visibility; product quality/performance; and control over distribution. We rate the company as high in geographic reach, sponsorships/visibility, pricing, and product quality/performance, but moderate in control over distribution. While there are a small number of other companies, such as narrow-moat Lululemon, that produce quality products and may have stronger direct control over selling than Nike, none of them can approach its visibility and global reach.

A key part of our wide moat rating, Nike benefits from the worldwide popularity of athletics and its products are available in most of the world's industrialized and developing nations. The company ships products to more than 190 countries (with more than half its sales outside North America), has 6,000 or so branded stores that are operated by franchisees, primarily in Greater China, and directly operates more than 1,000 stores (two thirds outside of the US). In (calendar) 2024, Nike's share of the $407 billion (retail) global sports footwear market was estimated at 16%, nearly double that of second-place Adidas (Euromonitor). In North America, its share of the sportswear market—estimated to be about $165 billion in retail sales—was 15% in 2024, far ahead of second-place Adidas' 5% and third-place Lululemon's 4% (Euromonitor). In Western Europe, with $71 billion in retail sales, Nike's leading 17% share was 5 percentage points above that of narrow-moat Adidas. While these markets are highly competitive, we anticipate Nike will hold its leading positions due to its innovation, sponsorships, advertising, and the enduring popularity of its products.

Sportswear is a relatively mature category in North America and Western Europe, but Nike has excellent growth prospects in China. The Chinese sportswear market was estimated at $56 billion at retail in 2024, roughly triple 2013's level. Although athletics has not been part of its culture historically, China has hosted two Olympics and become a power in many sports due to massive government investment and growing opportunities. For example, hundreds of marathons are held each year in China, with leading races attracting tens of thousands of entrants. With 21% share of its sportswear market in 2024, Nike is positioned to benefit from China's athletic aspirations. The company's revenue in Greater China increased to $6.6 billion in fiscal 2025 from $3.9 billion in fiscal 2016, and we forecast compound annual average sales growth of 11% over the next decade. However, we are aware that Nike faces challenges from American and European firms in the region, as well as growing native competitors like narrow-moats Anta and Li Ning, which had market shares of about 23% and 9%, respectively, in 2024 (Euromonitor). Nike is responding to these threats with new flagship stores, greater marketing, and products designed specifically for Chinese consumers.

Very high visibility is a significant part of Nike's success, and it benefits from the immense popularity of athletics. For example, Nike is heavily involved with global football (soccer), and more than 40% of the world's people are fans of the sport, per WorldAtlas. Indeed, there are more than 200 countries with national men's football teams, and more than 120 have women's national teams as well (FIFA). The vast reach of athletics benefits Nike as it sponsors many of the world's most popular athletes, leagues, and teams in virtually all major sports. For example, it is the uniform provider for each of the three-largest sports leagues in the US (NFL, NBA, and MLB). Individuals sponsored by Nike include many of the world's most famous athletes, including Cristiano Ronaldo (football/soccer), Kevin Durant (basketball), and LeBron James (basketball), all three of which have the equivalent of lifetime deals with the brand.

Nike's success in sports sponsorships largely stems from its more than 40-year relationship with Michael Jordan. More than 20 years since the basketball great retired, Nike's Jordan premium sub-brand remains the gold standard for sports marketing, generating more than $7 billion in sales in fiscal 2025 alone. Nike's relationships with athletes at all levels give it visibility and credibility that no other company in its industry has amassed.

While marketing is important, Nike needs to offer quality products to maintain its position. We believe the firm's technical innovations contribute to its brand and support our wide-moat view. It has been known for its innovative products ever since it introduced running shoes with pressurized air in their soles in the 1980s. Nike produces shoes for many sports, but its most important shoes may be those made for runners. Recent editions to its large family of running shoes include Epic React (foam cushioning), VaporMax, and shoes with ZoomX technology. Nike claims the ZoomX substance was developed for the aerospace industry and returns as much as 85% of energy to the runner. While it may be hard to prove such a claim, the firm's dominance in running shoes is clear, as the category produces about $4 billion in annual sales. Indeed, most of the world's leading track and field athletes wear Nike shoes, as do millions of amateur runners. As for basketball and international football, about three quarters of NBA players wear either Nike or Jordan, while about half of the players in the 2022 FIFA World Cup wore Nike cleats.

Nike supports its innovation with high investment in research and development. Its annual research and development spending exceeds $500 million, or about 1% of sales. While its competitors also invest in innovation, their total spending is less due to their smaller revenue bases. For comparison, in 2024, Adidas' research and development expenditure was EUR 170 million, while that of no-moat Puma was EUR 92 million.

Nike offers products through many channels and at many price points, but it achieves premium pricing on key products, supporting our view of its brand power. The firm has always been led by footwear, which accounts for about two thirds of its sales. Many styles of Nike's athletic shoes regularly sell for more than $150 per pair, putting the brand's offerings at or near the top of the market in many categories. The company also offers limited-edition shoes at high prices, such as the footwear offered through a 2022 collaboration with Louis Vuitton that retailed for about $3,000 per pair. Moreover, there is a large secondary market for Nike shoes, with many styles commonly changing hands at more than $1,000 per pair. For example, the Nike-Louis Vuitton items commonly sell for thousands of dollars above original retail prices on resale sites. We regard Nike's ability to sell high-priced items in large quantities as support for a brand-based intangible asset.

As for its distribution, Nike has made a big push into direct selling over the past several years. It has intentionally cut many retailers off from its wholesale distribution to support its own selling efforts and to prioritize third-party sellers that showcase the brand. Nike has invested heavily in its physical stores, including in large flagships in major cities worldwide. It also has a very large digital presence and intends to increase its digital sales further, which should be achievable as it adds more app users in developed markets and as more consumers in developing markets (such as China, India, and Latin America) move into the middle class and gain access to broadband services.

Nike has dozens of apps worldwide and a sizable loyalty program. In 2023, the company disclosed that its primary apps had reached 500 million users. The high usage of Nike's digital tools is a great opportunity for full-price selling with limited marketing costs and a source of vast amounts of consumer data. While other athletic apparel companies have e-commerce, none of them have the reach of Nike.

Even so, Nike continues to have high exposure to wholesale accounts, especially in North America, where it sells through specialty sporting goods stores, department stores, and elsewhere, and in China, where most of its sales come through franchised stores. Nike's exposure to third-party sellers has contributed to inventory and discounting problems at times, but it is also an opportunity to reach large numbers of consumers without the cost of operating thousands of stores. One way that Nike is benefiting from its wholesale distribution is by integrating its loyalty program with those of key retailers, such as narrow-moat Dick's Sporting Goods in the US and UK-based JD Sports.

We do not believe Nike has a moat based on a cost advantage. Although Nike may have some cost edge over competitors in sponsorships due to its status as the premier sportswear brand, we don't view this as significant or maintainable. Moreover, endorsements are great for brand building, but they are difficult to quantify in terms of profit margins. On the production side, Nike has limited advantage in the procurement of raw materials and other costs as virtually all its production is outsourced to factories that serve other sportswear firms as well. Narrow-moat Shenzhou International, for example, is one of Nike's largest suppliers but also produces apparel for Adidas, Puma, and others.

Our view is that Nike's moat is based solely on its brand intangible asset. While Nike's financial resources and relationships with suppliers likely allow for production investment unavailable to others in the short term, any advantage in this area is likely to be transitory. Further, competing producers can probably gain access to similar technologies. Moreover, much of apparel manufacturing remains manually intensive. Competing products to Nike's footwear and clothing are widely available. As such, we do not believe there is any network effect or efficient scale in the apparel business, and switching costs are nonexistent.

Fair Value and Profit Drivers David Swartz, Senior Equity Analyst, 2 Oct 2025

We are holding our fair value estimate on Nike's shares at $104.

Nike overcame a 9% sales decline in Greater China (13% of total) to post 1% growth in fiscal 2026's first quarter. The result outpaced our forecast for a 5.5% sales decline as Nike continues to implement CEO Elliott Hill's "Win Now" plan. The firm's gross margin fell 320 basis points to 42.2% due to higher markdowns and tariffs and led to an EBIT margin that declined to 7.7% from 10.9% despite a 1% cut in operating costs.

Near-term results are expected to be weak due to planned inventory reductions and markdowns. For the second quarter, Nike expects a small sales decline, a gross margin drop of 300-375 basis points, and higher operating costs due to increased marketing, which we support. Increased tariffs on US imports are expected to cause about $1.5 billion (annualized) in additional expense, only some of which can be offset by mitigation efforts in the short run.

For fiscal 2026, we have lifted our sales forecast to a 1% increase from a 1% decline previously after Nike's sales growth outperformed our estimate in the first quarter. However, our full-year EBIT margin forecast falls to 6.3% from 6.7% and our EPS forecast declines to $1.65 from $1.73 due to tariff costs and planned increases in spending on marketing. Most likely, the full impact of Nike's turnaround initiatives will not be apparent until fiscal years 2027 and 2028.

Despite the anticipated near-term sales weakness, we forecast compound average sales growth for Nike of 6% over the next 10 years. We expect it will achieve compound annual revenue growth of 3% in North America, perhaps slightly below expected market growth. We think Nike's innovative products and e-commerce will allow it to hold its market position and premium pricing, but we acknowledge that the market has become very competitive. In Greater China, its fastest-growing segment prior to recent challenges (such as virus-related lockdowns and the forced labor controversy), we expect compound average growth of 11% over the next decade.

As Nike deals with a difficult demand environment and discounts inventory, its gross margin was only 42.7% in fiscal 2025, a decline of more than 300 basis points from fiscal 2022. Moreover, with ongoing struggles and higher tariffs, we forecast a 41.1% gross margin in fiscal 2026. Nonetheless, we forecast Nike's gross margin will return to 46% in fiscal 2028 as its inventory management and sales growth improve. In the long run, we project the company's gross margins to gradually rise to 48% in 10 years. The firm may increase gross margins through greater production and distribution efficiencies, its shift to digital sales, product mix changes, and price increases.

We think Nike's operating margins will strengthen as it achieves cost efficiencies, shifts sales to direct channels, and increases sales in Greater China, its most profitable market. The firm's restructuring plan is expected to bring about $2 billion in expense reductions by the end of fiscal 2026. We forecast Nike's overall EBIT margins will gradually increase from only about 7% in fiscal 2025 to 17% over the next decade. In Greater China, we forecast its EBIT margins will rise to 33.5% from 24.3% in fiscal 2025. Nike's EBIT margins in the region have recently been inconsistent due to economic conditions and competition from native brands but should improve over time as sportswear demand in the market returns to its high-growth path. In North America, we forecast segment operating margins of about 27% after fiscal 2028 as it increases its direct-to-consumer sales and limits discounting of its products.

Risk and Uncertainty David Swartz, Senior Equity Analyst, 2 Oct 2025

Our Morningstar Uncertainty Rating on Nike is High. This rating is based on our quantitative model and challenges like intensifying competition and higher tariffs on US imports. Nike has struggled with economic conditions, supply chain problems, excess inventory, competition, and a lack of compelling merchandise of late. Consequently, the firm made a change at CEO in 2024. Despite its issues, Nike's financial position remains strong, and a credible plan to improve results is underway.

As a global business, Nike is affected by economic conditions in many parts of the world. Consumer spending on the company's products has been uneven due to inflation, war, currency movement, trade restrictions, and other issues.

The athleisure trend and growth in activewear has attracted new competition. While Nike is the market leader in many categories and in most markets, competitors like narrow-moat Deckers' Hoka and On have emerged as challengers. Nike is under constant pressure to release new products that resonate with consumers and may miss sales projections if it fails to do so.

We do not believe the environmental, social, and governance risks that affect Nike will materially impact its financial results or investment prospects. Nonetheless, the firm tends to be a lightning rod for controversy due to its high visibility. There are ongoing controversies concerning the treatment of its female and minority employees, its efforts to reduce taxation, and the treatment of workers in its supply chain. Moreover, Nike has become entangled in a forced labor controversy in China that has caused a consumer backlash in the country and international criticism. Any lasting effects on its operations in the nation could be damaging, as China is the fastest-growing sportswear market in the world and Nike's most profitable region.

Capital Allocation David Swartz, Senior Equity Analyst, 2 Oct 2025

We assign an Exemplary Capital Allocation Rating to Nike. In the 15 years between October 2010 and October 2025, Nike generated an average annual total return to investors of 10% (includes dividends). Nike is the largest US-based apparel firm and the largest athletic apparel company in the world. Its adjusted ROICs, including goodwill, have averaged 27% over the past five years, well above our estimated weighted average cost of capital on the company of 8%.

Elliott Hill, a Nike veteran of more than 30 years, replaced John Donahoe as CEO in fiscal 2025. He is attempting to rejuvenate the firm under his "Win Now" plan. However, we do not expect that the firm's capital allocation policies will change.

Nike has a strong balance sheet, having operated in a net cash position for most of the past decade. Although the firm issued $6 billion in unsecured notes when the pandemic hit in the spring of 2020, we believe this was just a precaution, and that the firm now has more cash than it needs to fund operations and capital return plans. We forecast Nike will generate an annual average of $5.4 billion in free cash flow to the firm over the next five years. Most of Nike's long-term debt matures after 2028.

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Nike has been investing heavily in its direct-to-consumer efforts in recent years, and we have viewed this as a sound and successful strategy. The firm has been expanding its physical store base and its online operations. Its direct-to-consumer sales accounted for 42% of its Nike brand revenue in fiscal 2025, up from less than 20% before 2015. We forecast Nike's fiscal 2026 capital expenditures at about $940 million (2% of sales), with much of the investment going into its direct-to-consumer efforts. As it is a high growth and high profit margin opportunity, we anticipate Nike will continue to build its direct-to-consumer operations for years to come.

We think Nike has created value through acquisitions and dispositions. In 2003, Nike bought Converse for just $305 million. Converse, known for its casual athletic canvas shoes, had gone bankrupt in 2001 and had just $205 million in sales in 2002, but Nike resurrected it. In fiscal 2025, Converse produced $1.7 billion in sales and $240 million in operating profit. Although Nike continues to own Converse, it has divested other brands. In 2012, for example, it sold Cole Haan for $570 million, 24 years after it had bought it for $95 million. In 2019, Nike sold Hurley, which it had acquired in 2002, for an undisclosed amount. We view dispositions of niche brands as beneficial to shareholders as they allow Nike to focus on its core business.

Nike has returned significant cash to shareholders through dividends and stock buybacks. The company issues about $2 billion in yearly dividends, and we expect its long-term dividend payout ratio will be roughly 50%. Nike also returns cash to shareholders through buybacks, having repurchased about $14 billion in shares over the past four fiscal years. The company has reduced its share count by roughly 17% over the past decade, and we expect it will repurchase almost $12 billion (net) in stock over the next five years. We believe companies increase shareholder value when repurchasing shares below our fair value estimates, as has recently been the case with Nike.

Analyst Notes Archive

Nike Earnings: Signs of a Comeback but Finish Line Remains Distant; Shares Very Attractive David Swartz,Senior Equity Analyst,1 Oct 2025

Nike overcame a 9% sales decline in Greater China (13% of total) to post 1% growth in fiscal 2026's first quarter. Its gross margin fell 320 basis points to 42.2% due to higher markdowns and tariffs, and led to an EBIT margin that declined to 7.7% from 10.9% despite a 1% cut in operating costs.Why it matters: Nike outpaced our estimate for a 5.5% sales decline as it continues to implement CEO Elliott Hill's "Win Now" plan. The firm is prioritizing its connections to sports, rebuilding relationships with wholesale partners, clearing overexposed lifestyle products, and innovation. One positive sign is that North America sales outpaced our estimate for a 3% decline by growing 4% on an 11% increase in wholesale. Even so, Nike's plan to reposition its digital operations in the region to full-price selling is far from complete. Meanwhile, Nike continues to face challenges in both store and digital channels in Greater China. Nonetheless, we continue to think the region has high potential and forecast sales growth to

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return to double digits in fiscal 2027. The bottom line: Wide-moat Nike's shares are undervalued relative to our $104 per share fair value estimate, which we do not expect to change materially. We think investors are overlooking its potential to build to midteen operating margins through product releases, new marketing, and price hikes. For the current quarter, Nike expects a small sales decline, a gross margin drop of 300-375 basis points, and higher operating costs due to increased marketing, which we support. Much (175 basis points) of the gross margin reduction is due to tariffs, which we think will be mitigated over time. Big picture: We think retailers—like the combined Foot Locker and narrow-moat Dick's Sporting Goods—are reacting positively to Nike's new running shoe lineup. We think it will reclaim lost selling space in this and other performance categories through innovation and new marketing.

Nike Earnings: Hurdles Remain but Efforts Should Bring Back Winning Ways; Shares Attractive David Swartz,Senior Equity Analyst,27 Jun 2025

Nike's sales plummeted 12% in its May-ended fiscal 2025 fourth quarter, as it continues to work through excess inventory. Its EBIT margin of 2.7% was down from 12.3% in the prior year, and its earnings per share fell to $0.14 from $0.99. Why it matters: CEO Elliott Hill's Win Now turnaround plan includes discounting and less distribution of overexposed footwear. Hill is responding to competitive threats through a focus on sports, stronger wholesale partnerships (including a return to wide-moat Amazon), and product innovation. Although a weak period, Nike's sales decline was less than our 15% forecast, and its EBIT margin was above our 1.4% estimate. Greater China (13% of sales) remains very challenged (sales down 21%), but we think Nike is in position to benefit from the market's eventual recovery. We believe Nike's advantages in products, marketing, and connections to athletics will allow it to win back share and reduce discounting in fiscal 2026. Although unlikely until at least fiscal 2027, we think it will return to mid-single-digit yearly sales growth and double-digit EBIT margins. The bottom line: We think wide-moat Nike is very undervalued but expect to reduce our $112 per share fair value estimate by a mid-single-digit percentage. Sales declines are likely to continue in fiscal 2026 (especially in the first half), and Nike disclosed that higher tariffs on US imports are expected to bring $1 billion in new expense and reduce its gross margin by about 75 basis points (includes mitigation actions). We are adjusting our Morningstar Uncertainty Rating on Nike to High from Medium based on our quantitative model and challenges like intensifying competition and tariffs. Between the lines: Nike imports about 16% of its US footwear from China, which has been subjected to sky-high tariffs. The company intends to reduce this percentage to below 10% by the end of fiscal 2026.

Apparel Industry: Tariffs Are Potentially Disastrous but Could Be Rescinded at Any Time David Swartz,Senior Equity Analyst,3 Apr 2025

The Trump administration announced tariffs on imports to the US that are materially higher than had been expected. This policy has significant implications for apparel manufacturers and retailers as, according to trade associations and other sources, approximately 98% of clothing and 99% of footwear that is sold in the US is imported, primarily from Asia. Indeed, according to the United States Fashion Industry Association, about 60% of US apparel is supplied by just three Asian countries: China, Vietnam, and Bangladesh. These three nations were hit extremely hard by the new policy, as tariff rates were set at 54% for China, 46% for Vietnam, and 37% for Bangladesh. High tariffs were imposed on most other key apparel-sourcing countries in Southeast Asia as well.We are not reducing our fair value estimates on apparel firms under our coverage at this time given that the duration of the new tariffs is unknown. If the tariffs prove to be short-lived, then we anticipate that the effect on the industry will be small. The Trump administration has frequently announced policies and then reversed them with little effect. If, however, the tariffs are in place for a prolonged period (such as a few months or more), then we anticipate that they will cut into operating margins and require price increases that will reduce demand. There is also the possibility that a trade war will cause a recession in the US and that multinationals will face retaliatory tariffs and trade restrictions in multiple countries.Many sportswear firms, such as wide-moat Nike and narrow-moats Adidas, Lululemon, and Deckers, have very high exposure to the new tariffs, as China and Vietnam are key sourcing countries. It will be impossible for them to avoid the tariffs, especially as Vietnam has become the key producer of technical sports footwear. Even so, Nike trades at a very large discount to our $112 per share fair value estimate and has the financial resources to overcome the near-term challenges.

Nike Earnings: Not Winning Now, but Early Stages of Turnaround Plan Encouraging; Shares Undervalued David Swartz,Senior Equity Analyst,21 Mar 2025

Although wide-moat Nike reported large declines in sales and earnings in third-quarter fiscal 2025 (ended February), its results were better than expected and new CEO Elliott Hill outlined a solid plan to get the firm back on track. His “win now” plan includes actions to grow through wholesale partnerships, use e-commerce as a premium channel, increase product innovation, and strengthen ties to sports. The strategy is being implemented in all of Nike’s key regions. It will require some significant inventory cleanup and is unlikely to pay immediate dividends in a tough global sportswear market, but we had already anticipated this in our model. Thus, we do not expect to make any material change to our $112 fair value estimate and think there is an opportunity for patient investors. After an initial spike on the earnings report, Nike’s shares fell 5% during March 20 postmarket trading, likely due to the dim near-term outlook.Nike’s third-quarter sales decline of 9% was slightly better than our estimate for an 11% fall. Nike brand sales in North America (45% of the total) slid 4%, but Greater China sales (16% of the total) missed our 9% decline projection by plummeting 17%. Nike has had sales declines in the latter region in three of the last four years, but is aggressively liquidating inventory and implementing its other win now plans to improve customer traffic in its thousands of franchised Chinese stores. We project a return to double-digit percentage sales growth in Greater China in fiscal 2027.Despite its current challenges, Nike continues to manage its costs well and outperform on profitability. Its 7%

operating margin in the quarter was poor by its usual standards, but beat our estimate by 260 basis points, nonetheless. Coupled with an unusually low tax rate, its EPS of $0.54 was $0.25 above our estimate. We think Nike can build annual operating margins around 16% in the long run.

Nike: Recent Struggles Offer an Attractive Opportunity to Invest in Global Sportswear Leader David Swartz,Senior Equity Analyst,2 Jan 2025

We rate Nike as very undervalued relative to our $112 per share fair value estimate. Amid one of its most challenging periods in decades, its shares fell nearly 30% in 2024, but we believe new CEO Elliott Hill is making the right moves to bolster its brand value, which is the source of our wide moat rating. Hill's general plan is to invest in the firm's connections to global sports, which we regard as the firm's greatest advantage, while cutting costs elsewhere. In the long run, we think Nike can return to midteens EBIT margins as it increases full-price selling, releases new merchandise, and increases sales in high-margin markets.Under former CEO John Donahoe, Nike prioritized direct selling over product development and inadvertently created opportunities for more-innovative competitors in major categories, such as On and narrow-moat Deckers' Hoka in running shoes. Adding to Nike's problems, overall demand for sportswear in key markets like North America (43% of revenue) and Greater China (15%) has been soft due to economic issues. Hill had worked at Nike for 32 years prior to his retirement in 2020, with his last title being that of president of consumer and marketing, so he has extensive insider knowledge. He has a lot of work to do to improve relationships with wholesale partners and to increase full-price selling in company-owned digital channels, but we think that he is up to the task. We are maintaining our Exemplary Capital Allocation Rating.That said, Nike's financial results are likely to get worse before they get better. We project double-digit percentage sales declines and operating margins below 5% in both the third and fourth quarters of fiscal 2025 as Hill intends to increase discounting to clear inventory ahead of new product releases. This is especially true in footwear, as Nike is pulling back on overexposed lines to make room for more-competitive merchandise. We anticipate it will return to sales growth in fiscal 2026, but visibility is low.

Nike Earnings: Results and Weak Guidance Suggest Turnaround Not Imminent; Shares Undervalued David Swartz,Senior Equity Analyst,20 Dec 2024

Although Nike reported second-quarter sales and earnings above expectations, it was a generally poor result by its usual standards. Moreover, the outlook for the rest of fiscal 2025 is dismal as CEO Elliott Hill, on the job since October, intends to increase discounting to clear inventory ahead of new product releases in fiscal 2026. We expect to cut our $117 per share fair value estimate by a mid-single-digit percentage on the results and guidance, but regard Nike's shares as very undervalued. Our wide moat rating on the firm is based on its brand intangible asset, and we believe Hill is making the right moves to bolster its brand value. His general plan is to invest in Nike's connections to global sports, which we regard as the firm's greatest advantage.Nike's sales fell 8% in the quarter, but this was slightly better than our estimate for a 9% drop. All its segments posted sales declines, including high-single-digit drops in North America (42% of the total), Europe, the Middle East, and Africa (27%), and Greater China (14%). Footwear was especially weak (sales down 11%) as the company is pulling back on overexposed shoe lines to make room for more innovative products to be more competitive against upstart brands like On and narrow-moat Deckers' Hoka. We think Nike will be successful in this effort, but it has a lot of work to do to improve relationships with wholesale partners and to increase full-price selling in its company-owned digital channels, which have too often been used for clearance.As sales were soft, Nike's second-quarter EBIT margin fell nearly 3 percentage points to 11.3%, but this was better than our 9.6% forecast as cost-control efforts had some positive effect. Nike is investing in marketing while cutting expenses elsewhere, which we regard as prudent for its brand health. In the long run, we think Nike can return to midteens EBIT margins as it increases full-price sales, releases new merchandise, and increases sales in high-margin markets.

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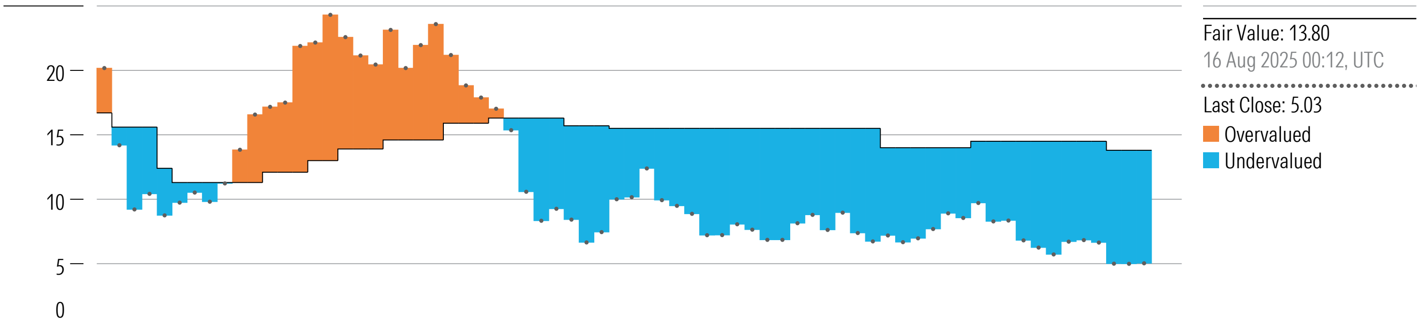
Nike Inc Class B NKE ★★★★ 1 Oct 2025 22:16, UTC

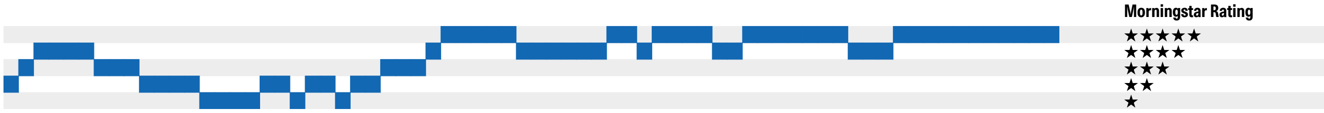
Competitors Price vs. Fair Value

Under Armour Inc Class A UAA



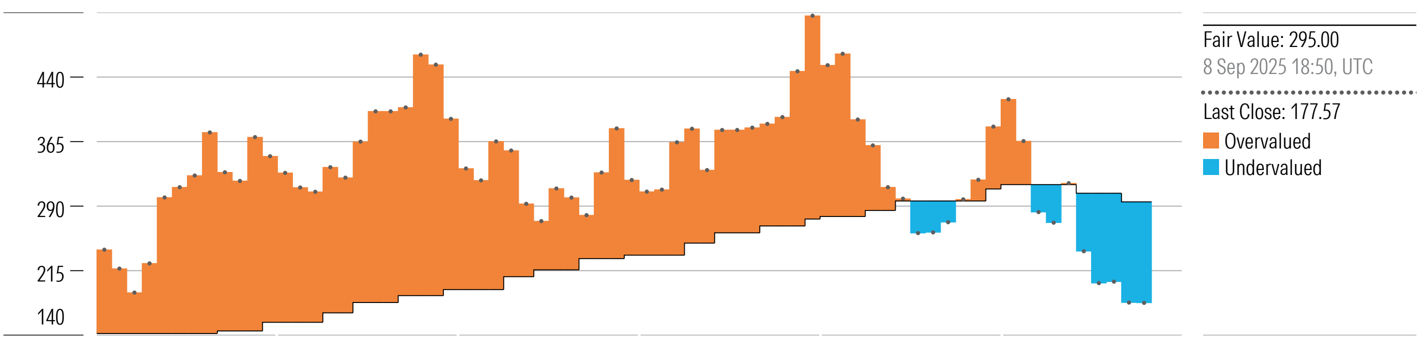
	2020	2021	2022	2023	2024	YTD
Price/Fair Value	1.42	1.33	0.66	0.57	0.57	0.36
Total Return %	-20.51	23.41	-52.05	-13.48	-5.80	-39.25

Morningstar Rating



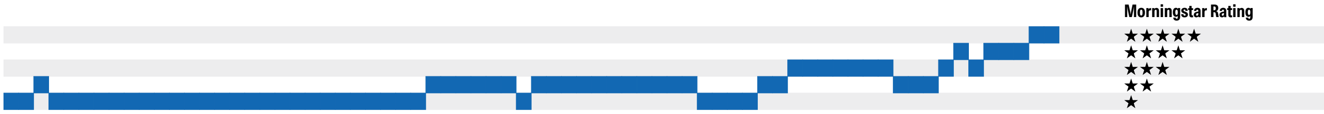
Total Return % as of 01 Oct 2025. Last Close as of 01 Oct 2025. Fair Value as of 16 Aug 2025 00:12, UTC.

Lululemon Athletica Inc LULU



	2020	2021	2022	2023	2024	YTD
Price/Fair Value	2.25	2.03	1.38	1.86	1.23	0.60
Total Return %	50.23	12.48	-18.16	59.59	-25.21	-53.57

Morningstar Rating



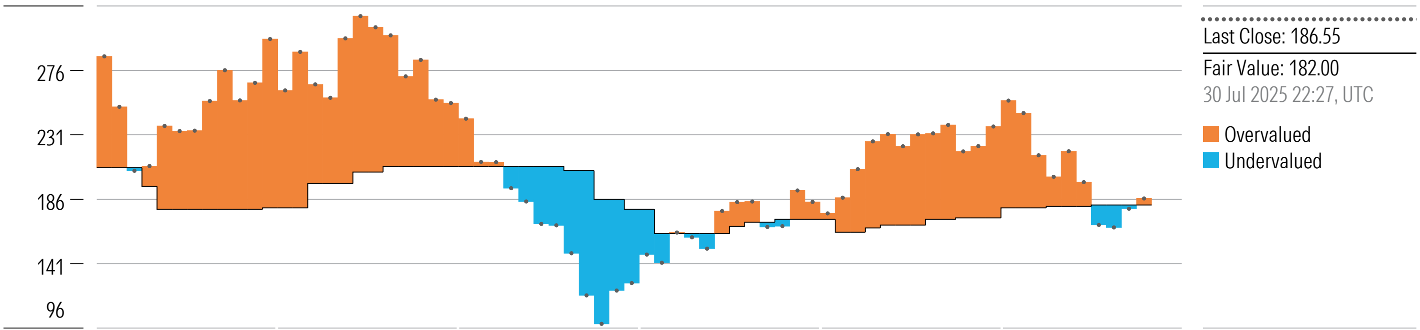
Total Return % as of 01 Oct 2025. Last Close as of 01 Oct 2025. Fair Value as of 8 Sep 2025 18:50, UTC.

Morningstar Equity Analyst Report | Report as of 2 Oct 2025 18:17, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC.

Nike Inc Class B NKE ★★★★ 1 Oct 2025 22:16, UTC

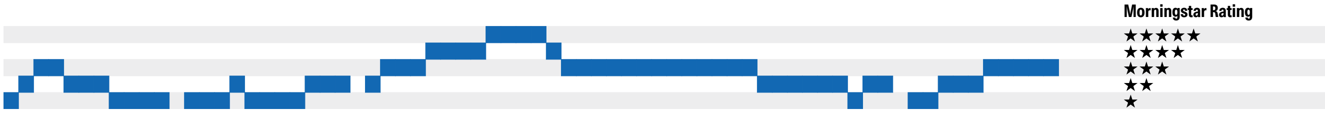
Competitors Price vs. Fair Value

adidas AG ADS



	2020	2021	2022	2023	2024	YTD
Price/Fair Value	1.66	1.21	0.71	1.07	1.37	1.03
Total Return %	2.80	-14.00	-48.36	45.03	28.96	-20.38

Morningstar Rating



Total Return % as of 01 Oct 2025. Last Close as of 01 Oct 2025. Fair Value as of 30 Jul 2025 22:27, UTC.

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Nike Inc Class B NKE ★★★★ 1 Oct 2025 22:16, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
74.20 USD 1 Oct 2025	104.00 USD 30 Jun 2025 16:28, UTC	0.71	110.07 USD Bil 2 Oct 2025	Wide	Large Value	High	Exemplary	3 Sep 2025 05:00, UTC

Morningstar Valuation Model Summary

Financials as of 02 Oct 2025	Actual			Forecast				
Fiscal Year, ends 31 May	2023	2024	2025	2026	2027	2028	2029	2030
Revenue (USD Mil)	51,217	51,362	46,309	46,815	49,036	51,919	55,026	58,378
Operating Income (USD Mil)	5,915	6,311	3,702	2,942	4,426	6,815	7,827	8,576
EBITDA (USD Mil)	7,054	7,383	4,618	3,855	5,295	7,704	8,735	9,539
Adjusted EBITDA (USD Mil)	6,774	7,155	4,542	3,793	5,295	7,704	8,735	9,539
Net Income (USD Mil)	5,070	5,700	3,219	2,438	3,691	5,654	6,488	7,106
Adjusted Net Income (USD Mil)	5,070	5,700	3,219	2,438	3,691	5,654	6,488	7,106
Free Cash Flow To The Firm (USD Mil)	5,296	6,389	3,513	3,732	4,392	5,805	6,322	6,922
Weighted Average Diluted Shares Outstanding (Mil)	1,570	1,530	1,488	1,478	1,455	1,434	1,412	1,391
Earnings Per Share (Diluted) (USD)	3.23	3.73	2.16	1.65	2.54	3.94	4.59	5.11
Adjusted Earnings Per Share (Diluted) (USD)	3.23	3.73	2.16	1.65	2.54	3.94	4.59	5.11
Dividends Per Share (USD)	1.33	1.45	1.57	1.69	1.77	1.99	2.23	2.49

Margins & Returns as of 02 Oct 2025		Actual			Forecast					
	3 Year Avg	2023	2024	2025	2026	2027	2028	2029	2030	5 Year Avg
Operating Margin %	11.0	11.6	12.3	8.0	6.3	9.0	13.1	14.2	14.7	11.5
EBITDA Margin %	—	13.8	14.4	10.0	8.2	10.8	14.8	15.9	16.3	—
Adjusted EBITDA Margin %	—	13.2	13.9	9.8	8.1	10.8	14.8	15.9	16.3	13.2
Net Margin %	9.3	9.9	11.1	7.0	5.2	7.5	10.9	11.8	12.2	9.5
Adjusted Net Margin %	9.3	9.9	11.1	7.0	5.2	7.5	10.9	11.8	12.2	9.5
Free Cash Flow To The Firm Margin %	10.1	10.3	12.4	7.6	8.0	9.0	11.2	11.5	11.9	10.3

Growth & Ratios as of 02 Oct 2025		Actual			Forecast					
	3 Year CAGR	2023	2024	2025	2026	2027	2028	2029	2030	5 Year CAGR
Revenue Growth %	-0.3	9.7	0.3	-9.8	1.1	4.8	5.9	6.0	6.1	4.7
Operating Income Growth %	-17.8	-11.4	6.7	-41.3	-20.5	50.4	54.0	14.9	9.6	18.3
EBITDA Growth %	-13.7	-8.3	4.7	-37.5	-16.5	37.4	45.5	13.4	9.2	17.8
Adjusted EBITDA Growth %	-15.5	-9.9	5.6	-36.5	-16.5	39.6	45.5	13.4	9.2	16.0
Earnings Per Share Growth %	-16.8	-14.0	15.4	-41.9	-23.7	53.7	55.5	16.5	11.2	18.8
Adjusted Earnings Per Share Growth %	-16.8	-14.0	15.4	-41.9	-23.7	53.7	55.5	16.5	11.2	18.8

Valuation as of 02 Oct 2025	Actual			Forecast				
	2023	2024	2025	2026	2027	2028	2029	2030
Price/Earning	32.6	25.5	28.1	45.0	29.2	18.8	16.2	14.5
Price/Sales	3.1	2.8	1.8	2.3	2.2	2.1	2.0	1.9
Price/Book	11.8	10.1	6.8	8.8	9.6	9.4	8.9	8.3
Price/Cash Flow	—	—	—	—	—	—	—	—
EV/EBITDA	24.1	20.2	19.0	—	—	—	—	—
EV/EBIT	27.6	22.9	23.3	—	—	—	—	—
Dividend Yield %	1.3	1.5	2.6	2.3	2.4	2.7	3.0	3.4
Dividend Payout %	41.0	38.9	72.6	102.4	70.0	50.4	48.4	48.8
Free Cash Flow Yield %	—	—	—	—	—	—	—	—

Operating Performance / Profitability as of 02 Oct 2025	Actual			Forecast				
Fiscal Year, ends 31 May	2023	2024	2025	2026	2027	2028	2029	2030
ROA %	13.5	15.0	8.8	7.0	11.7	17.8	20.1	21.5
ROE %	36.2	39.5	24.4	19.7	32.7	49.8	55.0	57.5
ROIC %	26.0	28.1	17.5	14.4	20.7	29.9	32.8	34.1

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Nike Inc Class B NKE ★★★★ 1 Oct 2025 22:16, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
74.20 USD 1 Oct 2025	104.00 USD 30 Jun 2025 16:28, UTC	0.71	110.07 USD Bil 2 Oct 2025	Wide	Large Value	High	Exemplary	3 Sep 2025 05:00, UTC

Financial Leverage (Reporting Currency)	Actual			Forecast				
Fiscal Year, ends 31 May	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**
Debt/Capital %	7.0	7.7	11.0	5.7	4.3	4.1	3.9	3.7
Assets/Equity	2.7	2.6	2.8	2.8	2.8	2.8	2.7	2.7
Net Debt/EBITDA	0.2	0.1	0.4	0.4	0.4	0.3	0.2	0.2
Total Debt/EBITDA	1.8	1.7	2.4	2.6	1.5	1.0	0.9	0.8
EBITDA/ Net Interest Expense	-1,129.0	-44.4	-42.4	-52.7	-70.2	-96.5	-103.2	-106.2

Forecast Revisions as of 2 Oct 2025	2026		2027		2028	
Prior data as of 30 Jun 2025	**Current**	**Prior**	**Current**	**Prior**	**Current**	**Prior**
Fair Value Estimate Change (Trading Currency)	104.00	103.77	—	—	—	—
Revenue (USD Mil)	46,815	45,763	49,036	48,254	51,919	51,108
Operating Income (USD Mil)	2,942	3,059	4,426	4,387	6,815	7,005
EBITDA (USD Mil)	3,793	3,892	5,295	5,238	7,704	7,875
Net Income (USD Mil)	2,438	2,541	3,691	3,673	5,654	5,825
Earnings Per Share (Diluted) (USD)	1.65	1.73	2.54	2.54	3.94	4.09
Adjusted Earnings Per Share (Diluted) (USD)	1.65	1.73	2.54	2.54	3.94	4.09
Dividends Per Share (USD)	1.69	1.69	1.77	1.77	1.99	1.99

Key Valuation Drivers as of 02 Oct 2025	
Cost of Equity %	9.0
Pre-Tax Cost of Debt %	5.8
Weighted Average Cost of Capital %	7.9
Long-Run Tax Rate %	18.0
Stage II EBI Growth Rate %	10.0
Stage II Investment Rate %	78.8
Perpetuity Year	20

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

Discounted Cash Flow Valuation as of 02 Oct 2025	**USD Mil**
Present Value Stage I	45,318
Present Value Stage II	13,376
Present Value Stage III	95,953
Total Firm Value	**154,647**
Cash and Equivalents	9,151
Debt	7,966
Other Adjustments	-877
Equity Value	**149,473**
Projected Diluted Shares	1,468
Fair Value per Share (USD)	**104.00**

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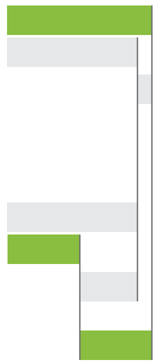
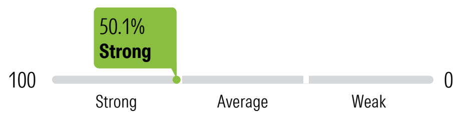
Nike Inc Class B NKE ★★★★ 1 Oct 2025 22:16, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
74.20 USD 1 Oct 2025	104.00 USD 30 Jun 2025 16:28, UTC	0.71	110.07 USD Bil 2 Oct 2025	Wide	Large Value	High	Exemplary	3 Sep 2025 05:00, UTC

ESG Risk Rating Breakdown

Exposure	
Company Exposure[1]	32.0
– Manageable Risk	28.8
Unmanageable Risk[2]	**3.1**
Management	
Manageable Risk	28.8
– Managed Risk[3]	14.5
Management Gap[4]	**14.4**
Overall Unmanaged Risk	**17.5**





- 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

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 50.1% 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 Sep 03, 2025. Highest Controversy Level is as of Sep 08, 2025. Sustainalytics Subindustry: Footwear. 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 03 Sep 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	
Nike Inc	32.0 | Low	0 – 55+	50.1 | Strong	100 – 0	17.5 | Low	0 – 40+
Under Armour Inc	32.1 | Low	0 – 55+	53.0 | Strong	100 – 0	16.8 | Low	0 – 40+
adidas AG	31.5 | Low	0 – 55+	55.0 | Strong	100 – 0	16.0 | Low	0 – 40+
Lululemon Athletica Inc	25.6 | Low	0 – 55+	49.6 | Average	100 – 0	14.1 | Low	0 – 40+
Puma SE	33.5 | Low	0 – 55+	64.7 | Strong	100 – 0	14.1 | Low	0 – 40+

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Appendix
Historical Morningstar Rating

Nike Inc Class B NKE 1 Oct 2025 22:16, 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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Dec 2025 —	Nov 2025 —	Oct 2025 ★★★	Sep 2025 ★★★	Aug 2025 ★★★	Jul 2025 ★★★	Jun 2025 ★★★	May 2025 ★★	Apr 2025 ★★	Mar 2025 ★★	Feb 2025 ★	Jan 2025 ★
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Research Methodology for Valuing Companies

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.

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.

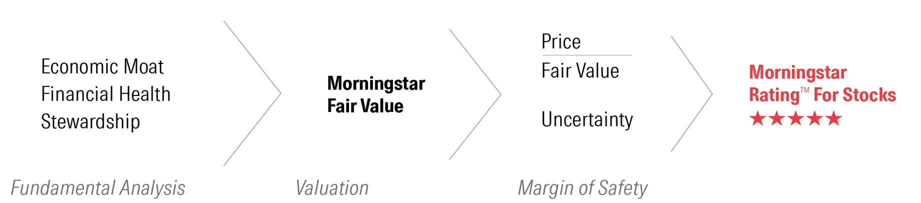
Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total present value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return 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

Morningstar Equity Research Star Rating Methodology



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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

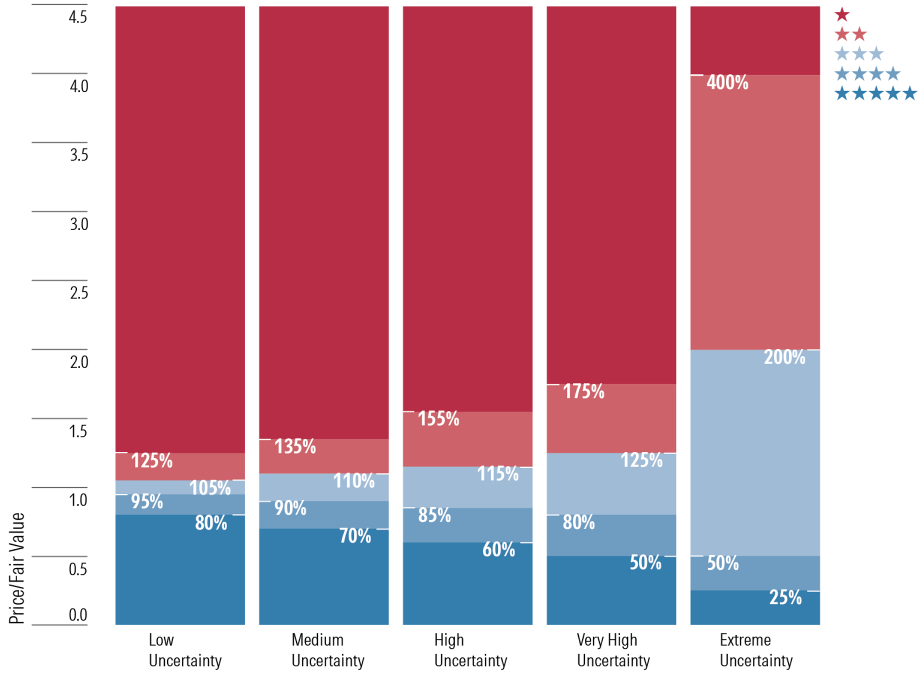
Our uncertainty rating is based on the interquartile range, or the middle 50% of potential outcomes, covering the 25th percentile–75th percentile. This means that when a stock hits 5 stars, we expect there is a 75% chance that the intrinsic value of that stock lies above the current market price. Similarly,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

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.

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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