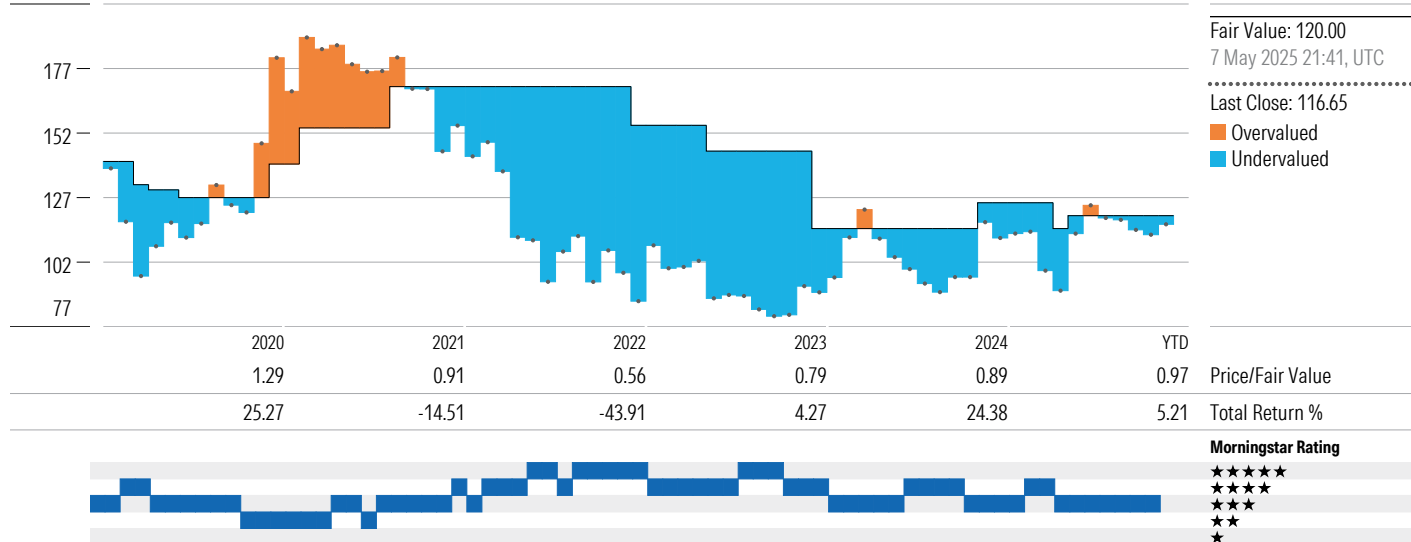


The Walt Disney Co DIS ★★ ★ 12 Nov 2025 22:39, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment
116.65 USD	120.00 USD	0.97	193.48 USD Bil	 Wide	 Large Value	High	Standard	
12 Nov 2025	7 May 2025 21:41, UTC		13 Nov 2025					3 Sep 2025 05:00, UTC

Price vs. Fair Value



Total Return % as of 12 Nov 2025. Last Close as of 12 Nov 2025. Fair Value as of 7 May 2025 21:41, UTC.

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Research Methodology for Valuing Companies

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

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

Disney Earnings: Overreaction to Spots of Weakness That Have Little Consequence for Future Growth

Analyst Note Matthew Dolgin, CFA, Senior Equity Analyst, 13 Nov 2025

Disney's stock fell substantially after the firm reported a 0.5% year-over-year decline in fiscal fourth-quarter revenue. The weakness was entirely in linear entertainment networks and theatrical films. Results in parks and experiences, streaming, and sports were encouraging, as is the 2026 outlook.

Why it matters: Linear entertainment networks are becoming inconsequential, and theatrical sales depend on film release schedules and success, which last year had *Inside Out 2* and *Deadpool & Wolverine*. Quarterly chopiness is expected and not indicative of business health or prospects.

The bottom line: We maintain our \$120 fair value estimate and believe the selloff makes Disney's stock attractive. The critical pieces to our valuation are continuing strength in experiences—the most important component underpinning our wide moat rating—and streaming. Results in both areas were good.

Coming up: Disney has two new cruise ships launching in fiscal 2026. Cruise demand remains high, and domestic parks bookings for 2026 are up 3%. We believe the experiences assets will drive durable long-term segment growth, which is most critical to Disney's financials.

► Fourth-quarter experiences sales grew 6% year over year, while operating income grew twice as fast.

Key stats: Fourth-quarter streaming entertainment sales (excluding ESPN) were up 8% year over year

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Sector

Communication Services

Industry

Entertainment

Business Description

Disney operates in three global business segments: entertainment, sports, and experiences. Entertainment and experiences both benefit from the firm's ownership of iconic franchises and characters. Entertainment includes the ABC broadcast network, several cable television networks, and the Disney+ and Hulu streaming services. Within the segment, Disney also engages in movie and television production and distribution, with content licensed to movie theaters, other content providers, or, increasingly, kept in-house for use on Disney's own streaming platform and television networks. The sports segment houses ESPN and the ESPN+ streaming service. Experiences contains Disney's theme parks and vacation destinations, and also benefits from merchandise licensing.

(10% organically). The 8.5 million Hulu net additions were mostly due to the inclusion of Hulu access for Charter pay-TV subscribers at the end of the quarter.

- Disney+ organically added 4 million subscribers, including 2.5 million internationally, where management is targeting more content investment. Also encouraging, 80% of ESPN streaming subscribers are taking the bundle with Disney+ and Hulu.
- Disney's ability to bundle entirely with its own platforms, plus its willingness to bundle with others, contributes to our view that its streaming services will remain winners as the television industry continues to evolve.

Business Strategy & Outlook Matthew Dolgin, CFA, Senior Equity Analyst, 6 Aug 2025

We believe Disney is successfully navigating the evolution from a media industry driven by linear television networks bundled by pay-TV distributors to one reliant on streaming services. We don't think the new media landscape will ever be as profitable as the prior one, but Disney's brands, deep ownership of valuable intellectual property, and diversity in its business make it best positioned among the legacy media companies to thrive in the modern era. Disney is focusing on streaming, sports, and experiences as it manages a continually declining linear television business.

In streaming, Disney+ and Hulu have reached a large enough scale to turn profitable. Disney can focus solely on optimizing its future, such as with its integration of the Hulu and Disney+ platforms and other bundling opportunities, rather than also trying to reduce near-term financial pain. The wealth of programming Disney owns should give its platforms a place with most streaming consumers however the industry evolves—whether through greater use of bundled packages or a continuation of independent subscriptions.

ESPN and the depth of Disney's sports rights have both mitigated the pain from declining linear television and can offer a further boost once all ESPN programming is made available via a streaming service, which is scheduled to launch in August 2025. We still see challenges for ESPN as the pay TV bundle shrinks, but we believe making ESPN available via streaming is critical to Disney's long-term health, and we think the partnership with the National Football League will provide a boost. We also expect the ESPN services and bundling opportunities with it will further cement Disney's place among streaming winners.

Disney has some buffer from the struggling media industry with its parks and other vacation attractions. Strong franchises and properties should allow durable growth, and the firm continues to invest heavily in deepening its offerings, such as with several new cruise ships. Experiences capital spending is slated to average more than \$6 billion annually into the early 2030s, a level that should widen Disney's attraction gap against competition.

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Competitors

	The Walt Disney Co DIS	Comcast Corp Class A CMCSA	Warner Bros. D...ares - Class A WBD	Netflix Inc NFLX
Economic Moat	Wide	Narrow	None	Narrow
Currency	USD	USD	USD	USD
Fair Value	120.00 7 May 2025 21:41, UTC	44.00 30 Oct 2025 17:15, UTC	20.00 10 Dec 2024 03:40, UTC	770.00 22 Oct 2025 06:52, UTC
1-Star Price	186.00	59.40	35.00	1,193.50
5-Star Price	72.00	30.80	10.00	462.00
Assessment	Fairly Valued 13 Nov 2025	Undervalued 13 Nov 2025	Fairly Valued 13 Nov 2025	Overvalued 13 Nov 2025
Morningstar Rating	★★★ 12 Nov 2025 22:39, UTC	★★★★★ 12 Nov 2025 22:38, UTC	★★★ 12 Nov 2025 22:36, UTC	★★ 12 Nov 2025 22:36, UTC
Analyst	Matthew Dolgin, Senior Equity Analyst	Michael Hodel, Director	Matthew Dolgin, Senior Equity Analyst	Matthew Dolgin, Senior Equity Analyst
Capital Allocation	Standard	Standard	Standard	Exemplary
Price/Fair Value	0.97	0.63	1.11	1.50
Price/Sales	2.24	0.85	1.46	11.63
Price/Book	1.92	1.05	1.53	18.90
Price/Earning	16.04	7.22	116.79	48.35
Dividend Yield	0.86%	4.66%	0.00%	0.00%
Market Cap	193.48 Bil	101.92 Bil	54.86 Bil	489.24 Bil
52-Week Range	80.10—124.69	25.75—44.19	7.52—23.19	809.33—1,341.15
Investment Style	Large Value	Large Value	Mid Value	Large Blend

Bulls Say Matthew Dolgin, CFA, Senior Equity Analyst, 6 Aug 2025

- ▶ No peer can match the depth of Disney's iconic characters, franchises, or content library, which will keep the firm's streaming services in high demand and give the firm a leg up in creating new movies and television shows.
- ▶ Disney's streaming services will become a major driver of profits and offset linear declines. The existing DTC business has made a major turn to profitability, and the introduction of traditional ESPN as a streaming service in 2025 should fuel further demand.
- ▶ The allure of Disney's parks business is unmatched and will be a continuing profit engine.

Bears Say Matthew Dolgin, CFA, Senior Equity Analyst, 6 Aug 2025

- ▶ Linear television will continue to decline. Even if successful, newer revenue sources like direct-to-consumer streaming will never equal the profitability Disney once enjoyed.

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- Disney now competes with tech companies for major sports rights, who may have incentive to continue driving up prices. Sports remains material to Disney's future, and being forced to pay up for the critical content will depress profits.
- Too many streaming platforms now exist, and it's questionable whether consumers will be willing to pay high prices or stick with individual services month in and month out.

Economic Moat Matthew Dolgin, CFA, Senior Equity Analyst, 6 Aug 2025

We assign Disney a wide moat based in its intangible assets. Ultimately, we believe the firm's ownership of timeless characters and franchises and its ability to continue creating and attracting top-tier content outweigh near-term challenges it faces related to an evolving media industry. Although we think it's likely that a media industry not built upon the traditional pay-TV bundle will prevent Disney from returning to the level of economic profitability it routinely achieved in years past, we still expect the firm's returns on invested capital to comfortably exceed its cost of capital over the next 20 years.

Recent struggles at Disney are related to the shift from the linear television model, where nearly all US households once subscribed to a pay-TV service offered by distributors like the cable and satellite providers—to the direct-to-consumer, or DTC, streaming model. The attraction of Disney's top-tier networks, led by ESPN, ABC, and The Disney Channel, resulted in this package of Disney channels being included in nearly all subscriptions at industry-leading rates. Relatively high levels of television viewership also boosted advertising revenue. However, cord-cutting and a decline in linear viewership have damped both of those revenue streams.

While the transition to the DTC model is still in progress, Disney has made significant strides with its scale and resulting turn to profitability. We believe the future business model for the industry is still evolving, but in our view, Disney has shown the unique programming it controls will drive its streaming services to continued success. The most important feature, in our view, is that Disney continues to hold premier content and has the highest likelihood among all competitors of maintaining a pipeline of the highest-quality programming. Over the long term, the ability to generate or attract the best content makes economic profitability highly likely.

The intangible assets that underpin Disney's moat include the intellectual property behind franchises and characters that have proved enduring across generations, ESPN's position in the sporting world, and the multiple television and movie production studios Disney has. The interaction among these assets benefits all of the firm's business lines and makes the whole stronger than the individual parts. We don't see any competitors that are close to having the type of built-in pipeline Disney has to attract consumers.

Apart from the ABC broadcast network, ESPN is Disney's premier programming network. It is a leader in sports content and reputation, giving it near-universal carriage in pay-TV bundles at industry-leading

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fees and making it an attractive outlet for premier talent and sports leagues. Although the exposure ESPN historically provided is less of a differentiator than it once was, Disney still has resources to secure major sports rights, and it remains second to none for the reach it can offer to on-air talent for general, all-day sports programming, as opposed to platforms where sports is not a focus. Disney intends to launch its ESPN streaming service in August 2025. Given the sports rights it already controls, we expect ESPN to be an attractive offering for consumers that cut the cord with pay-TV, and subscriber success of ESPN streaming should build on itself, keeping that service as one of the most attractive outlets for sports leagues to reach the biggest audience.

Our view is similar for Disney's entertainment segment. Linear TV networks, which include the ABC broadcast network and various cable networks, face headwinds from the decline in pay-TV subscribers and linear television viewership, but Disney still has multiple top film and TV production studios and enough unique content to drive successful DTC streaming services. Disney+ and Hulu trail only Netflix in streaming subscribers, and we think the existing size and content pipeline will begin to drive durable DTC profitability by 2025. In our view, a streaming service needs scale to give it the resources to operate in a virtuous cycle, where it can generate enough cash to continue securing a wide enough content library to retain large subscriber bases. We believe Disney has major building blocks already in place. All outlets within the segment also benefit from the strong franchises Disney has created, which give it a durable advantage in creating future movies and continuing to monetize content it has created. Finally, while broadcast networks aren't as vital to society as they once were, they remain unique properties that attract content and drive advertising, given their reach.

We believe Disney's experiences segment, which consists mostly of theme parks and other vacation-related revenue streams, has the most durable advantage. Disney characters have proven timeless, and we think it would be nearly impossible for new competitors to offer destinations that are as attractive. Securing and building the infrastructure is one challenge, but even if a competitor undertook that massive project, we don't think any can match the depth of attractive characters to drive similar interest at a national or global level. We see NBC Universal as the competitor that most closely rivals Disney, but not only do we think it's a distant second, we doubt it can significantly close the gap. It has far fewer attractions than Disney does, and the time and investment it has put behind adding Epic Universe to its Universal Orlando Resort highlights the lift that matching Disney's scale would entail. Disney's characters and franchises also drive licensing revenue on consumer products, a high-margin source of continuing revenue. In short, Disney can provide a type of experience that we expect will drive consistent demand, and its offering for that type of experience is unique and best in class.

Fair Value and Profit Drivers Matthew Dolgin, CFA, Senior Equity Analyst, 6 Aug 2025

Our fair value estimate for Disney is \$120, which includes our projection for a modest economic slowdown that dampens demand at Disney's theme parks and other experiences in fiscal 2026 and

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2027. Our fair value estimate implies a P/E multiple of 23 times our trough 2026 adjusted earnings estimate.

We project entertainment linear networks revenue to decline midsingle digits annually throughout our 10-year forecast, as pay-TV subscriptions and linear television ratings continue to decline, weighing on both subscription and advertising revenue. We are slightly more optimistic about sports linear networks, but we now expect sports linear and streaming to merge into a more cohesive offering, and we largely see ESPN's flagship streaming offering—due in 2025—and pay-TV network to offset each other. We project sports revenue to grow about 3% annually throughout our forecast.

With its other streaming services, including Disney+, Hulu, and international platforms, we project high-single-digit sales growth annually. We believe there is room to continue adding subscribers—we project about 2 million annually to the domestic platforms and 5 million annually internationally for the next several years—and we expect average revenue per user to trend up, through periodic price increases and higher advertising revenue. However, we expect a competitive market with multiple streaming services, and we believe Disney will remain sensible with pricing as it focuses on profitability, which is why we don't project even bigger subscriber gains. In the US, we project Disney+ and Hulu to each have around 65 million subscribers by 2028, well below leader Netflix. We believe there is room for more upside if these streaming services move into a bundled package with linear television subscriptions, but that outcome would weigh on average revenue per user. Nonetheless, through reduced churn and the potential to better salvage linear networks, we think the move would be wise.

We now project little growth in experiences revenue or profit between 2024 and 2026, with growth in 2025 being wiped out by 2027 through an economic slowdown and less tourism into the United States. Longer term, we project mid-single-digit average annual growth in the experiences segment, driven by theme parks and the related hospitality services as well as new cruise ships that arrive in 2025 and 2026. Due to operating leverage, we expect experience margins to contract from 27% in 2024 to below 26% in 2026 but to then expand to nearly 30% by the end of our forecast.

After the slowdown through 2027, we also project consolidated margins to expand and free cash flow to rise significantly. This is based mostly on a continually improving streaming business, both as a result of the cost-cutting measures Disney initiated in 2022 as well as a rationalization in content spending. We project the firm's segments operating margin to remain in the high teens though 2027 on near-term weakness but then gradually bounce to reach 22% by 2030. We project content spending to grow to \$23 billion in 2025, and we expect further growth each year, as we believe the firm must continue spending to offer attractive programming and retain sports rights. However, cost efficiencies and leverage we expect the firm to get on its growth DTC platforms result in free cash flow rising from our projected \$8 billion in 2025 to \$13 billion by 2030, even as we now anticipate a slight decline in the nearer term.

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Risk and Uncertainty Matthew Dolgin, CFA, Senior Equity Analyst, 6 Aug 2025

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

Outside of its experiences business, Disney historically had three main sources of revenue: fees that it received from pay-TV distributors to carry the Disney bundle of channels, advertising, and licensing fees for movies and television programming distributed by third parties. Each of these revenue sources are now under pressure. Cord-cutting and diminished linear television viewership have depressed carriage fees and advertising revenue. Changes at the box office—from less attendance, fewer movies, and shorter theater windows—have been a headwind to licensing revenue.

A successful evolution for Disney would entail its DTC business more than offsetting the declines associated with its traditional business model. Considering the moat Disney has thanks to the value of its content assets, we think this is possible. However, this shift is still in the early stages and the transition has not been smooth—and there remains a real possibility that Disney's business in this new era will never be as good as it once was.

From an environmental, social, and governance perspective, we believe potential social issues carry the greatest risk. The entertainment industry in general has a history of bad behavior regarding issues like sexual assault and harassment and racial and gender discrimination. Disney has not been immune from lawsuits in the past, and there's always a risk of additional ones. We doubt any individual one could create a material financial impact, but harm to the firm's image could bring consequences with consumers and employees that ultimately dent Disney's business.

Capital Allocation Matthew Dolgin, CFA, Senior Equity Analyst, 9 Apr 2025

We assign Disney a Standard Morningstar Capital Allocation Rating. Our rating is based primarily on our assessment of Disney's business investment decisions, but also considers the firm's balance sheet health and decisions surrounding capital return to shareholders.

Over the course of its history, Disney's decisions have been exceptional. The characters it created, savvy acquisitions, such as Marvel, and the foresight to create its parks business have made Disney an iconic brand and premier company with a Morningstar Economic Moat Rating of wide. However, investment decisions over the past decade have been more mixed. The firm spent roughly \$70 billion, ultimately with a mixture of cash and stock, to buy 21st Century Fox in 2019. We believe that Disney acquired some valuable assets in the deal, but we question whether Disney will receive proper value. Disney acquired many linear television networks, which we think are declining in value, and an additional stake in Hulu, paving the way for the firm's commitment to buy all of the streaming platform. Disney undoubtedly needed to adjust its vision for the company's future as the linear television model that had been so successful began to look like a relic. However, we question whether this was the best way to preserve

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value, and we think focus and capital investment likely would've been better suited elsewhere.

Apart from the debatable decision about buying 21st Century Fox and taking on debt to do it, we think Disney has managed its balance sheet well and made the right decisions regarding return of capital to shareholders. Disney found itself in an unthinkable position when the pandemic struck and its parks business shut down almost completely. The firm was in a good enough financial position to survive the shock and come out of it without a balance sheet that impaired the company. Management wisely, in our view, cut the dividend while the firm brought down leverage and invested aggressively in its direct-to-consumer business, which is crucial to the firm's future. With leverage now back to levels not seen since before the 21st Century Fox acquisition, the firm has begun to return capital to shareholders again.

Analyst Notes Archive

Disney Earnings: Lots of News, but Largely Mundane Financial Results Matthew Dolgin, CFA, Senior Equity Analyst, 6 Aug 2025

Disney has made a lot of news, and further transformation of its business is imminent, but fiscal third-quarter results weren't particularly notable. Strong experiences growth and the upward trend in streaming profits countered lackluster sports results and streaming sales. Why it matters: Disney is successfully managing the decline of the traditional television industry, which once made up most of its profits. Now, the rapidly declining entertainment linear networks make up less than 20% of operating profit; linear ESPN is stable; and streaming profits are expanding. Entertainment streaming operating income grew for the fourth straight quarter to reach \$346 million, versus negative \$19 million a year ago. This profit from streaming was half as high as from entertainment linear networks. The gap will close further as linear declines while streaming trends up. Excluding Star India, which Disney divested in December, sports operating income declined 4% year over year, largely due to higher rights fees, and sales grew 1.5%. However, the sales trend has been up, and the fate of this segment will be determined by streaming ESPN, set to launch Aug. 21. The bottom line: We maintain our \$120 fair value estimate, as our outlook is unchanged. We think Disney has positioned itself well to navigate the evolving media industry, and its experiences business, which is the dominant factor behind our wide-moat rating, continues getting stronger. Experiences operating income grew 13% year over year on 8% higher sales, boosted by the launch of a new cruise ship last year and strong domestic results that included flat attendance and higher spending per guest. The firm has two additional cruise ships due this year. The whirlwind of news included ESPN's deal with the National Football League, the official launch date for the ESPN streaming service, and the consolidation of the Hulu and Disney+ streaming platforms. Each of these items should further enhance streaming prospects.

Disney Earnings: Stellar Results With No Inking of Recession Fears Matthew Dolgin, CFA, Senior Equity Analyst, 7 May 2025

The Walt Disney Co

DIS★★★

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Disney's fiscal second quarter was spectacular in virtually every aspect. Most importantly, experiences grew revenue and operating income 6% year over year with even stronger results domestically, and management expects a stronger second half. Streaming continues to grow and become more profitable. Why it matters: We've been concerned that an economic slowdown and strained relations between the US and foreign countries would cause material downside pressure on Disney. We remain cautious about this, but management has seen little impact so far, and its outlook remains optimistic. Within domestic parks, management has seen very little headwind from reduced foreign tourism, and second-half bookings are up midsingle digits. For the full year, Disney now expects experiences operating income at the top end of its previous guidance for 6%-8% growth. In media, management said the advertising market is healthy right now, with live sports doing especially well. Going into advertising upfronts this month for the upcoming television season, Disney is seeing robust demand for advertising in linear and streaming. The bottom line: Even after May 7's 10% rise, we believe Disney is undervalued. However, despite the upbeat outlook, we still believe Disney's near-term results—and its stock—will be very sensitive to economic conditions. We don't intend to make a material change to our \$115 fair value estimate. Big picture: Beyond the near-term environment, the second-quarter report boosted our comfort in our wide moat rating even as Disney's traditional television business continues to decline. Disney's franchises and characters support our moat, and we continue to see evidence of their contributions. The firm announced a deal to bring a Disney park to Abu Dhabi with a partner, Miral. While financial details were sparse, Disney will contribute no capital but will get to oversee the park's development and will receive service fees and royalties to allow use of Disney's brands.

Disney: Reducing Our Valuation to \$115 From \$125 on Near-Term Macroeconomic Challenges

Matthew Dolgin, CFA, Senior Equity Analyst, 9 Apr 2025

Disney's stock has gotten punished amid US tariff announcements and strained relations with foreign countries. Tariffs shouldn't have much of a direct impact on Disney, but Disney would be especially sensitive to a resulting economic slowdown and chilled US tourism. Why it matters: Disney's experiences segment, including its theme parks, hotels, and cruises, made up nearly 60% of operating profit in 2024, and we've expected total profits to be similarly reliant on experiences for the next few years. This business is at risk in the current backdrop. We now anticipate a slower economy and believe experiences, with its reliance on its guests taking expensive vacations, will be weak over the next couple of years. We also think Disney is at risk of anti-American sentiment if Canadians travel less to the US and Asian theme parks are stigmatized. We have also slightly reduced our Disney media forecast through 2026 on weaker ad revenue, which is also economically cyclical. The bottom line: We reduced our fair value estimate to \$115 from \$125. We believe that Disney remains undervalued, with a wide moat and good long-term prospects. Our forecast does not consider a severe recession, but we're comfortable that Disney's fundamental undervaluation allows for a substantial buffer if an economic downturn is harsh. However, we expect the stock to remain sensitive to worsening news. We now

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project 3% experiences growth in 2025, despite existing vacation bookings and new cruise ships. We project a 7% decline in experiences revenue in 2026 before returning to growth. We project the experiences operating margin to contract by nearly five percentage points from 2024 to 2026. Key stats: In total, we now expect no revenue or operating profit growth from 2024 to 2026, with slight increases in 2025 and slight declines in 2026. We project earnings per share to be flat in 2025 and down 5% in 2026. Our fair value estimate implies a P/E multiple of 24 times our trough 2026 forecast.

Media and Entertainment: Tariffs Won't Cause Much Direct Harm, but Resulting Economic Weakness Could Matthew Dolgin, CFA, Senior Equity Analyst, 3 Apr 2025

Most US media and entertainment stocks sold off with the rest of the market. Notable companies that dropped as much or more than the broad market were Disney, Live Nation, Warner Bros. Discovery, and Roku. Why it matters: Tariffs specifically won't have much impact on companies' costs in this industry. Other than Roku, most don't rely much or at all on selling goods. However, most do rely directly on consumer spending, so economic weakness that results from the tariffs could impede business. Disney's parks and experiences generate most of its profit. A recession would likely depress tourism and reduce attendance at Disney's parks. Apart from economic weakness, Disney is at risk of less international tourism to the US, particularly from Canada, due to chilled foreign relations. We believe Live Nation has similar exposure, as concert attendance is a luxury that consumers could pull back from if needed. We believe Warner's underperformance is related largely to its debt burden, as many stocks of highly leveraged firms are weak, perhaps on fears of tightening credit. The bottom line: We're not currently adjusting any fair value estimates for media and entertainment firms due to multiple areas of speculation about resulting economic effects. However, a recession would dampen our near-term forecast and slightly lower fair value estimates for many of these firms. Wide-moat Disney should see its business cool in a recession, but we think the stock is sufficiently pricing in that risk, relative to our \$125 fair value estimate. At current stock levels, we believe the firm's improving streaming business makes up for potential experiences weakness. We also believe no-moat Warner's recent streaming success will persist, so the firm can meet its obligations and prices in a sufficient buffer versus our \$20 fair value estimate. Narrow-moat Live Nation is now trading at our \$130 fair value estimate, which does not price in recession risk.

Disney Earnings: Excellent Results All Around Except With Streaming Subscriptions Matthew Dolgin, CFA, Senior Equity Analyst, 5 Feb 2025

Disney's fiscal first-quarter revenue grew 5% year over year, while operating profit grew 38%. Achievement of streaming profitability, strong movie releases, and strength in sports drove the profit gains. Streaming subscribers were roughly flat as the firm continues fine-tuning its offering. Why it matters: Financial success in streaming and strength in other businesses has blunted the impact of the rapidly declining linear networks business, which was once Disney's cash cow. We don't forecast

The Walt Disney Co DIS ★★★ 12 Nov 2025 22:39, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment¹
116.65 USD 12 Nov 2025	120.00 USD 7 May 2025 21:41, UTC	0.97	193.48 USD Bil 13 Nov 2025	Wide	Large Value	High	Standard	 3 Sep 2025 05:00, UTC

significant streaming subscriber growth, but it's critical the subscriber base doesn't erode. In the quarter, Disney added 1.6 million Hulu subscribers but lost 700,000 net Disney+ subscribers (including 1.5 million internationally) and 700,000 ESPN+ subscribers. Average revenue per international Disney+ subscriber grew 22% year over year on price increases, so some churn makes sense. Entertainment streaming revenue grew 10% year over year on a much larger subscriber base than a year ago and higher prices. Critically, profits continued to grow after first achieving profitability last year. The operating margin was 4.8%, up from 4.4% last quarter and losses last year. The bottom line: Overall, Disney's results were very encouraging. We maintain our \$125 fair value estimate and believe the firm's wide moat will lead it to continue posting good results on strength in streaming and experiences even as linear networks remain in rapid decline. Big picture: Experiences remains the most important driver of Disney's value—still making up about 60% of operating profit and 40% of revenue—and the outlook here continues to improve. Despite disruptions due to hurricanes in Florida and the firm realizing preliminary expenses for cruise ships not yet launched, revenue grew 3% year over year during the quarter, and operating income was flat. After weakness in the second half of last year, a couple of new cruise ships, and other new experiences opening, growth is set to accelerate.

Disney, Fox, Warner Bros. Discovery: No Venu, No Problem; It's a Better Outcome for All Matthew Dolgin, CFA, Senior Equity Analyst, 10 Jan 2025

Walt Disney, Fox, and Warner Bros. Discovery announced that they are discontinuing their sports streaming joint venture, Venu. The service will never launch. This comes after the Jan. 6 news that Disney has agreed to acquire control of Fubo and allow Fubo to offer a sports streaming package. Why it matters: Venu was to be the first sports streaming pay-TV service. Now Fubo is positioned to be first to offer a skinny sports bundle. Disney will ultimately control this, assuming its combination with Fubo is approved. We expect other distributors will be allowed to offer similar packages. As part of the Disney agreement, Fubo already has rights to launch a package with Disney properties. Based on Fubo's commentary, we believe it can include Fox as well. We expect Fubo will come to agreements with other owners of sports rights and offer a more complete package than Venu would have. Fubo's lawsuit and the injunction that had delayed Venu's launch—both resolved with the acquisition agreement—lead us to believe that Fubo will not be allowed exclusivity for a skinny bundle, especially if Disney controls it. Offering such a package should be attractive to all pay-TV distributors. The bottom line: This outcome is more favorable for Disney, Fox, and Warner Bros. Discovery than Venu would have been. While some costs are already sunk, the firms save on the marketing and ongoing expenses associated with running Venu, which we think had a tough path to value creation. We had not priced in success for Venu. We are maintaining our fair value estimates and moat ratings for Disney (\$125, wide moat), Fox (\$45, no moat), and Warner Bros. Discovery (\$20, no moat). Big picture: Offering sports-only packages may hasten the decline of the traditional linear pay-TV bundle. However, a sports package should have greater durability. This option for consumers may also help them see value in the traditional bundle, which we

The Walt Disney Co

DIS

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12 Nov 2025 22:39, UTC

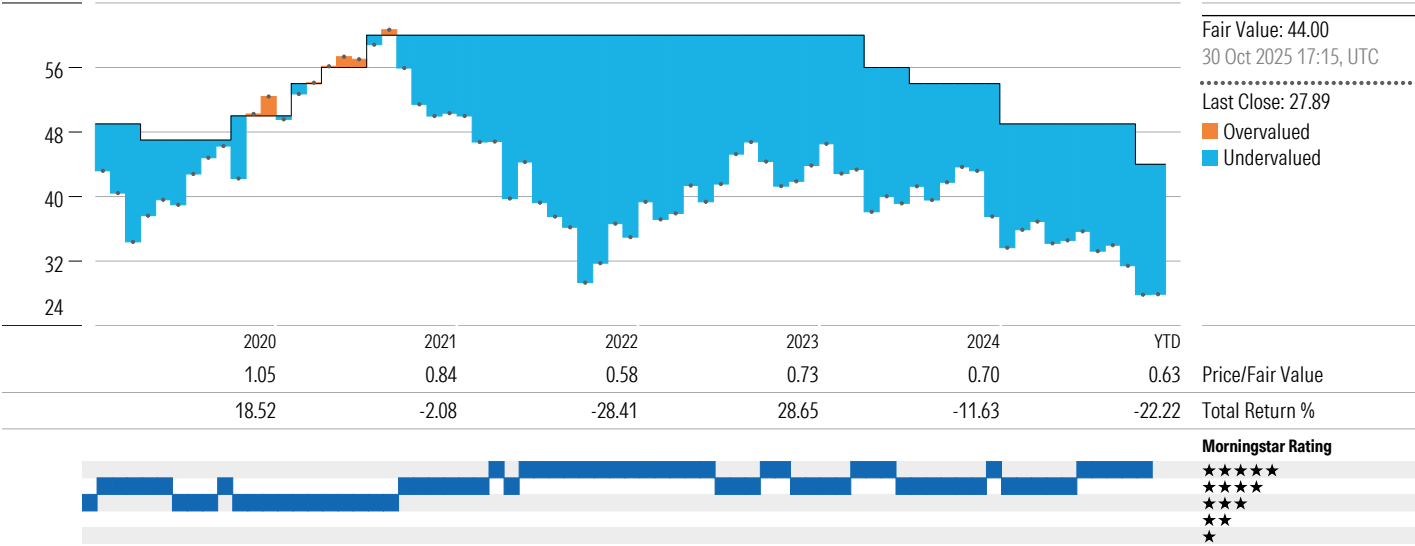
Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment¹
116.65 USD	120.00 USD	0.97	193.48 USD Bil	Wide	Large Value	High	Standard	
12 Nov 2025	7 May 2025 21:41, UTC		13 Nov 2025					3 Sep 2025 05:00, UTC

think needs to evolve to include streaming. 🇺🇸🇺🇸🇺🇸

The Walt Disney Co DIS ★★★ 12 Nov 2025 22:39, UTC

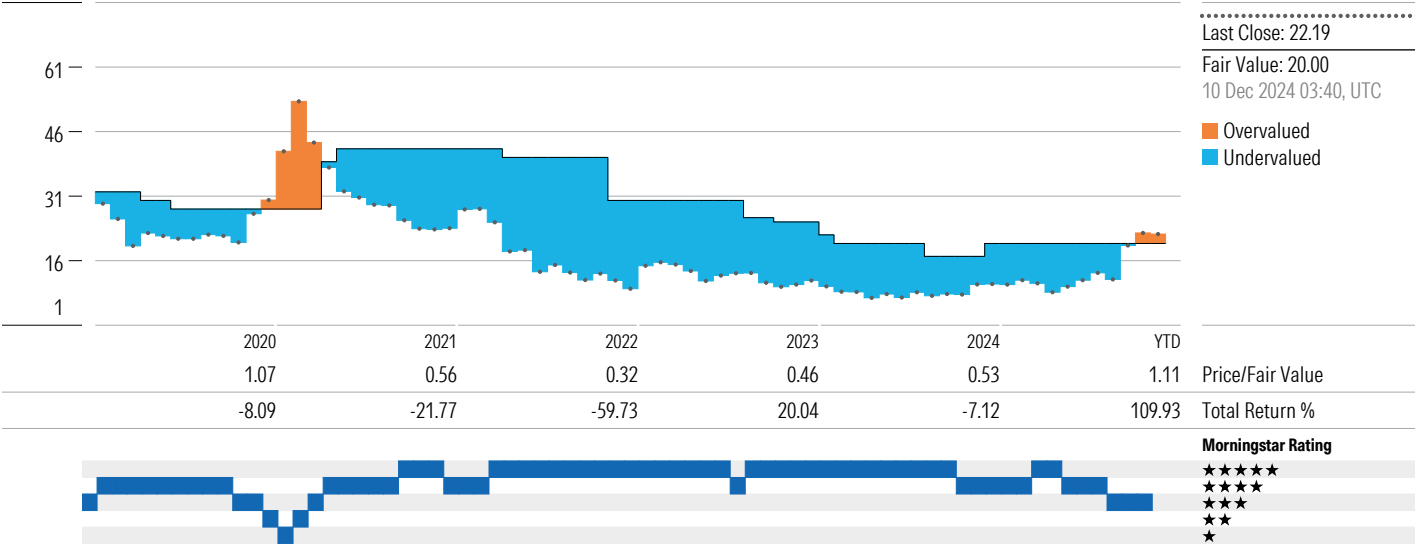
Competitors Price vs. Fair Value

Comcast Corp Class A CMCSA



Total Return % as of 12 Nov 2025. Last Close as of 12 Nov 2025. Fair Value as of 30 Oct 2025 17:15, UTC.

Warner Bros. Discovery Inc Ordinary Shares - Class A WBD

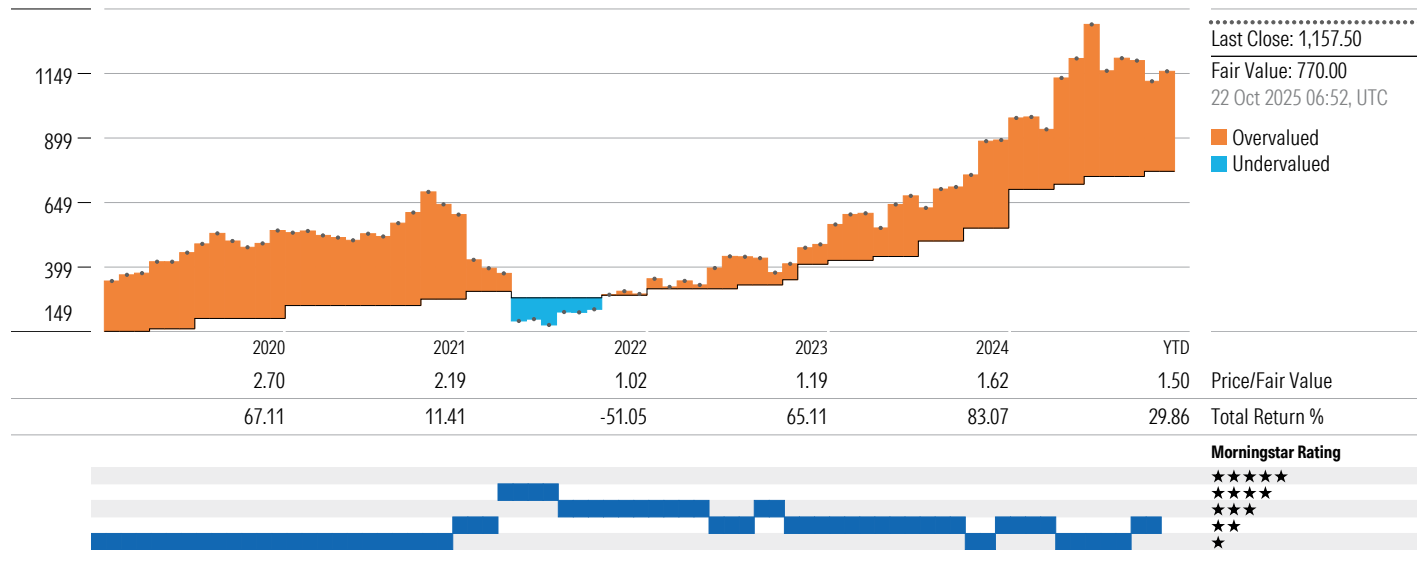


Total Return % as of 12 Nov 2025. Last Close as of 12 Nov 2025. Fair Value as of 10 Dec 2024 03:40, UTC.

The Walt Disney Co DIS ★★ ★ 12 Nov 2025 22:39, UTC

Competitors Price vs. Fair Value

Netflix Inc NFLX



Total Return % as of 12 Nov 2025. Last Close as of 12 Nov 2025. Fair Value as of 22 Oct 2025 06:52, UTC.

The Walt Disney Co DIS ★★★

12 Nov 2025 22:39, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment¹
116.65 USD 12 Nov 2025	120.00 USD 7 May 2025 21:41, UTC	0.97	193.48 USD Bil 13 Nov 2025	Wide	Large Value	High	Standard	 3 Sep 2025 05:00, UTC

Morningstar Valuation Model Summary

Financials as of 13 Nov 2025

Fiscal Year, ends 30 Sep	Actual			Forecast				
	2023	2024	2025	2026	2027	2028	2029	2030
Revenue (USD Mil)	88,898	91,361	94,425	97,731	101,753	104,865	109,634	113,294
Operating Income (USD Mil)	8,992	11,914	13,832	14,399	15,897	16,834	18,522	19,953
EBITDA (USD Mil)	11,347	13,819	18,634	19,997	21,481	22,411	24,183	25,640
Adjusted EBITDA (USD Mil)	20,099	22,241	21,553	19,328	20,878	21,833	23,616	25,112
Net Income (USD Mil)	2,354	4,972	12,404	10,441	10,961	11,567	12,741	13,841
Adjusted Net Income (USD Mil)	6,923	9,195	10,312	11,348	11,745	12,242	13,288	14,310
Free Cash Flow To The Firm (USD Mil)	4,958	8,772	12,022	8,625	8,438	8,777	10,541	11,589
Weighted Average Diluted Shares Outstanding (Mil)	1,830	1,831	1,811	1,811	1,810	1,810	1,810	1,810
Earnings Per Share (Diluted) (USD)	1.28	2.71	6.86	5.77	6.06	6.39	7.04	7.65
Adjusted Earnings Per Share (Diluted) (USD)	3.77	4.96	5.93	6.27	6.49	6.76	7.34	7.91
Dividends Per Share (USD)	0.00	0.75	1.00	1.50	1.50	1.60	1.70	1.80

Margins & Returns as of 13 Nov 2025

	3 Year Avg	Actual			Forecast					5 Year Avg
		2023	2024	2025	2026	2027	2028	2029	2030	
Operating Margin %	10.2	10.1	13.0	14.6	14.7	15.6	16.1	16.9	17.6	16.6
EBITDA Margin %	15.9	12.8	15.1	19.7	20.5	21.1	21.4	22.1	22.6	21.5
Adjusted EBITDA Margin %	—	22.6	24.3	22.8	19.8	20.5	20.8	21.5	22.2	21.0
Net Margin %	7.1	2.7	5.4	13.1	10.7	10.8	11.0	11.6	12.2	11.3
Adjusted Net Margin %	9.6	7.8	10.1	10.9	11.6	11.5	11.7	12.1	12.6	11.9
Free Cash Flow To The Firm Margin %	9.3	5.6	9.6	12.7	8.8	8.3	8.4	9.6	10.2	9.1

Growth & Ratios as of 13 Nov 2025

	3 Year CAGR	Actual			Forecast					5 Year CAGR
		2023	2024	2025	2026	2027	2028	2029	2030	
Revenue Growth %	4.5	7.5	2.8	3.4	3.5	4.1	3.1	4.6	3.3	3.7
Operating Income Growth %	26.9	32.8	32.5	16.1	4.1	10.4	5.9	10.0	7.7	7.6
EBITDA Growth %	16.0	-4.2	21.8	34.8	7.3	7.4	4.3	7.9	6.0	12.3
Adjusted EBITDA Growth %	10.0	24.0	10.7	-3.1	-10.3	8.0	4.6	8.2	6.3	3.1
Earnings Per Share Growth %	58.6	-25.6	111.7	153.1	-16.0	5.0	5.5	10.2	8.6	2.2
Adjusted Earnings Per Share Growth %	58.6	6.8	31.6	19.6	5.7	3.6	4.2	8.5	—	2.2

Valuation as of 13 Nov 2025

	Actual			Forecast				
	2023	2024	2025	2026	2027	2028	2029	2030
Price/Earning	25.5	23.1	19.7	18.6	18.0	17.3	15.9	—
Price/Sales	1.7	1.9	2.2	2.1	2.1	2.0	1.9	—
Price/Book	1.8	2.1	1.9	1.8	1.7	1.6	1.5	—
Price/Cash Flow	—	—	—	—	—	—	—	—
EV/EBITDA	9.2	9.7	11.4	12.8	11.8	11.3	10.4	—
EV/EBIT	20.5	18.1	178.3	17.1	15.5	14.7	13.3	—
Dividend Yield %	—	0.7	0.9	1.3	1.3	1.4	1.5	—
Dividend Payout %	0.0	15.1	16.9	23.9	23.1	23.7	23.2	22.8
Free Cash Flow Yield %	—	—	—	—	—	—	—	—

Operating Performance / Profitability as of 13 Nov 2025

Fiscal Year, ends 30 Sep	Actual			Forecast				
	2023	2024	2025	2026	2027	2028	2029	2030
ROA %	1.5	1.2	2.5	6.3	5.1	5.1	5.1	5.3
ROE %	3.2	2.3	4.7	10.8	8.5	8.4	8.3	8.6
ROIC %	3.6	3.2	4.7	7.0	7.8	8.4	8.6	9.3

The Walt Disney Co DIS ★★★

12 Nov 2025 22:39, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment¹
116.65 USD 12 Nov 2025	120.00 USD 7 May 2025 21:41, UTC	0.97	193.48 USD Bil 13 Nov 2025	Wide	Large Value	High	Standard	3 Sep 2025 05:00, UTC

Financial Leverage (Reporting Currency)		Actual			Forecast				
Fiscal Year, ends 30 Sep		2023	2024	2025	2026	2027	2028	2029	2030
Debt/Capital %		25.2	21.8	—	14.8	13.8	13.5	13.7	13.6
Assets/Equity		2.0	1.9	1.7	1.7	1.6	1.6	1.6	1.6
Net Debt/EBITDA		3.1	3.1	—	1.5	1.2	0.9	0.6	0.2
Total Debt/EBITDA		2.5	2.2	—	2.1	1.9	1.9	2.0	2.0
EBITDA/ Net Interest Expense		16.6	17.7	16.5	16.2	15.7	17.9	21.2	27.1
Forecast Revisions as of 13 Nov 2025		2026		2027		2028			
Prior data as of 6 Aug 2025		Current	Prior	Current	Prior	Current	Prior	Current	Prior
Fair Value Estimate Change (Trading Currency)		120.00	119.99	—	—	—	—	—	—
Revenue (USD Mil)		97,731	95,781	101,753	98,322	104,865	100,720		
Operating Income (USD Mil)		14,399	13,787	15,897	15,307	16,834	16,169		
EBITDA (USD Mil)		19,328	18,402	20,878	19,806	21,833	20,618		
Net Income (USD Mil)		11,348	9,790	11,745	10,635	12,242	11,206		
Earnings Per Share (Diluted) (USD)		5.77	4.88	6.06	5.41	6.39	5.79		
Adjusted Earnings Per Share (Diluted) (USD)		6.27	5.39	6.49	5.86	6.76	6.17		
Dividends Per Share (USD)		1.50	1.20	1.50	1.50	1.60	1.60		

Key Valuation Drivers as of 13 Nov 2025

Cost of Equity %	9.0
Pre-Tax Cost of Debt %	5.8
Weighted Average Cost of Capital %	8.2
Long-Run Tax Rate %	24.0
Stage II EBI Growth Rate %	5.5
Stage II Investment Rate %	12.0
Perpetuity Year	20

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

Discounted Cash Flow Valuation as of 13 Nov 2025

	USD Mil
Present Value Stage I	78,708
Present Value Stage II	71,865
Present Value Stage III	93,941
Total Firm Value	244,514
Cash and Equivalents	5,695
Debt	42,026
Other Adjustments	8,097
Equity Value	216,280
Projected Diluted Shares	1,815
Fair Value per Share (USD)	120.00

The Walt Disney Co

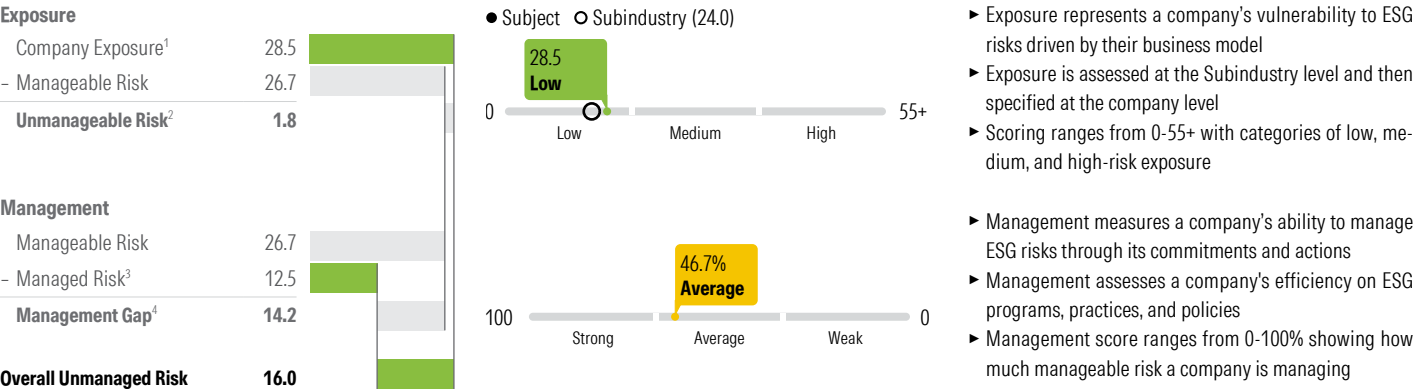
DIS

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12 Nov 2025 22:39, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment¹
116.65 USD	120.00 USD	0.97	193.48 USD Bil	Wide	Large Value	High	Standard	
12 Nov 2025	7 May 2025 21:41, UTC		13 Nov 2025					3 Sep 2025 05:00, UTC

ESG Risk Rating Breakdown



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 46.7% 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 Assessment⁵



ESG Risk Rating is of Sep 03, 2025. Highest Controversy Level is as of Nov 08, 2025. Sustainability Subindustry: Movies and Entertainment. Sustainability provides Morningstar with company ESG ratings and metrics on a monthly basis and as such, the ratings in Morningstar may not necessarily reflect current Sustainability's 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 Sustainability-defined Subindustry and are displayed based on the closest market cap values					
Company Name	Exposure		Management		ESG Risk Rating	
The Walt Disney Co	28.5 Low	0 —●— 55+	46.7 Average	100 —●— 0	16.0 Low	0 —●— 40+
Paramount Skydance Corp	26.1 Low	0 —●— 55+	49.2 Average	100 —●— 0	13.6 Low	0 —●— 40+
Comcast Corp	43.0 Medium	0 —●— 55+	51.2 Strong	100 —●— 0	23.4 Medium	0 —●— 40+
Warner Bros. Discovery Inc	27.1 Low	0 —●— 55+	52.5 Strong	100 —●— 0	13.6 Low	0 —●— 40+
Netflix Inc	22.6 Low	0 —●— 55+	43.0 Average	100 —●— 0	13.4 Low	0 —●— 40+

Appendix

Historical Morningstar Rating

The Walt Disney Co DIS 12 Nov 2025 22:39, 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 ★★★★

Comcast Corp Class A CMCSA 12 Nov 2025 22:38, 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 ★★★★★
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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 12 Nov 2025 22:36, 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 ★★★★

Netflix Inc NFLX 12 Nov 2025 22:36, 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, in-depth 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 short-term market-price movements), but we believe these negatives are mitigated by deep analysis and our long-term 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 single-point 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 working capital 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.

Qualitative Analysis Uncertainty Ratings	Margin of Safety	
	★★★★★ 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

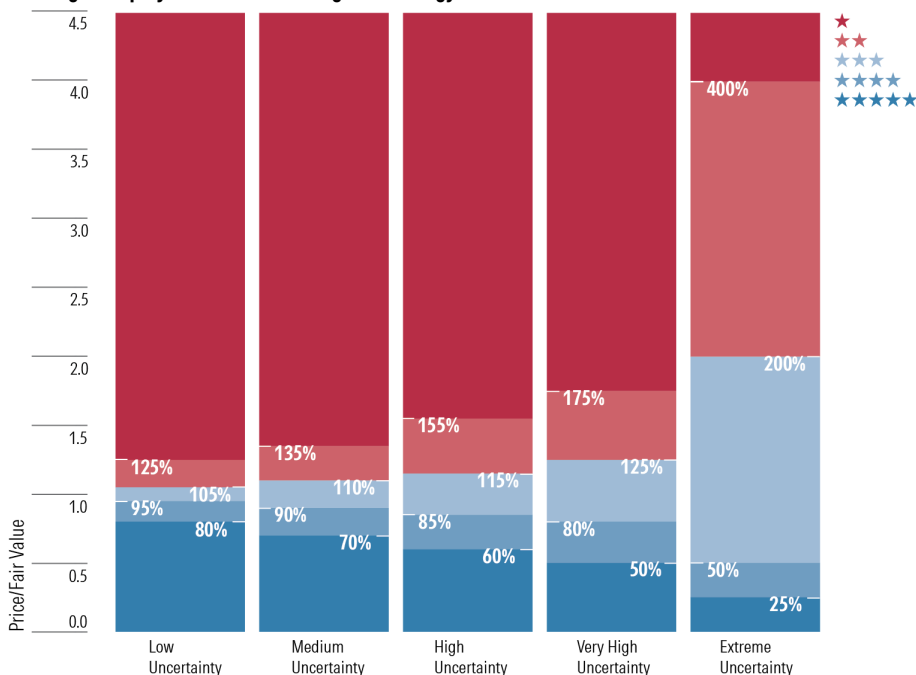
Our uncertainty rating is based on the interquartile range, or the middle 50% of potential outcomes, covering the 25th percentile–75th percentile. This means that when a stock hits 5 stars, we expect there is a 75% chance that the intrinsic value of that stock lies above the current market price. Similarly,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