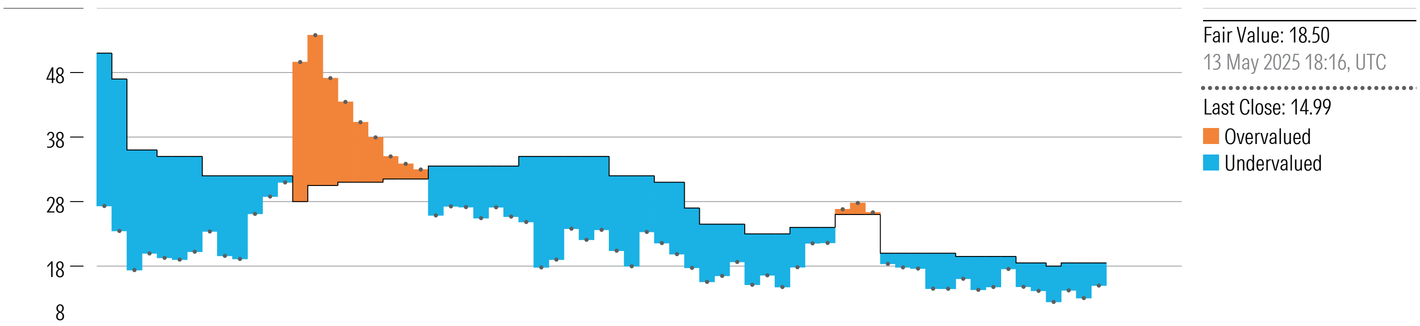
Morningstar Equity Analyst Report | Report as of 3 Jul 2025 22:30, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NASDAQ - ALL MARKETS Page 1 of 23

Tripadvisor Inc TRIP ★★★ 3 Jul 2025 21:47, UTC

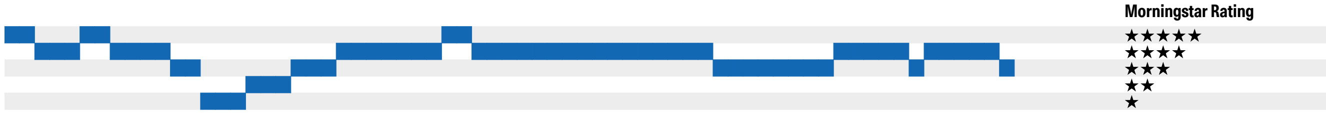
Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
14.99 USD 2 Jul 2025	18.50 USD 13 May 2025 18:16, UTC	0.81	2.07 USD Bil 3 Jul 2025	None	Small Value	High	Standard	4 Jun 2025 05:00, UTC

Price vs. Fair Value



	2020	2021	2022	2023	2024	YTD
Price/Fair Value	0.90	0.81	0.56	0.90	0.76	0.81
Total Return %	-5.27	-5.28	-34.04	19.74	-31.40	1.49

Morningstar Rating



Total Return % as of 02 Jul 2025. Last Close as of 02 Jul 2025. Fair Value as of 13 May 2025 18:16, 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.

Tripadvisor: Starboard's Investment Could Portend Actions That Unlock Shareholder Value

Analyst Note Dan Wasiolek, Senior Equity Analyst, 3 Jul 2025

Shares of Tripadvisor increased 18% during July 3 trading, as activist firm Starboard Value announced a 9% stake in the company.

Why it matters: Investors cheered the announcement, as we think Starboard could push management to monetize its leading experiences or dining segments, which we believe would stand to unlock further shareholder value.

- We estimate that Tripadvisor's experience brand, Viator (46% of total revenue in 2024), holds a leading low-single-digit booking share of the $150 billion market. We believe the business could fetch 2-3 times 2024 sales, or about $12-$17 per share.
- Tripadvisor could also look to crystallize its dining brand, TheFork (10%), which hosts a leading international restaurant booking platform. We think this business could also be valued at 2-3 times 2024 revenue, or about $2-$4 per share.

The bottom line: We maintain our $18.50 per share fair value estimate for no-moat Tripadvisor. After the move higher, shares are now trading near our valuation.

- We model Tripadvisor's Viator and TheFork brands to grow sales 9% and 10%, respectively, on average during 2025-34, well above long-term (1988-2019) US GDP growth and hotel revenue per available room growth of 2.4% and 3.2%, respectively.

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Sector	Industry
Consumer Cyclical	Travel Services

Business Description

Tripadvisor is the world's leading travel metasearch company. Its platform offers 1 billion reviews and information on several million accommodations, restaurants, experiences, airlines, and cruises. In 2024, 52% of revenue came from the company's core Brand Tripadvisor segment, which includes hotel revenue generated through advertising on its metasearch platform. Viator, its experiences brand, was 46% of sales in 2024, and TheFork, its dining brand, represented 10% of revenue (about 8% of sales were intersegment, which are eliminated from consolidated revenue).

- In our view, wide-moat Booking and narrow-moat Expedia could both be suitors, as the experiences business would help complete a fully connected travel experience for the leading online travel companies.

Business Strategy & Outlook Dan Wasiolek, Senior Equity Analyst, 13 May 2025

In the first quarter of 2025, Tripadvisor's metasearch business saw improved auction pricing, although volumes remained anemic (unquantified), as US consumer sentiment presents a headwind. Also, intense metasearch competition blocks Tripadvisor from holding a network advantage over the next decade, despite the continued rise in industry online penetration and the company's ongoing investment in experiences (Viator) and dining (TheFork) segments, which we think exhibit network moat characteristics.

The company has a network of user-generated reviews and travel content (experiences, restaurants, and hotels) and an industry-leading experiences and restaurants position. As a result, Tripadvisor is a top-10 travel iOS mobile application in two markets around the world, versus 129, 102, and 23 markets for peers Booking, Airbnb, and Expedia, respectively, according to App Annie as of Feb. 22, 2025. Nevertheless, we believe its core metasearch platform (where barriers to entry are lower than in online travel agency bookings) faces growing competition from mass market artificial intelligence search products and wide-moat companies Alphabet and, in the future, Amazon and Meta, which we believe will keep marketing costs elevated over the next few years and cause its hotel branded business to lose revenue share. Still, we think that the company might reengage exploring an initial public offering of its experience platform and like that it continues to allocate capital toward the vertical, as we see Tripadvisor and this $250 billion market having strong growth opportunities in the online travel space. Tripadvisor's leading global experience position is witnessed by Booking and Expedia moving away from building a presence in the vertical organically and instead partnering to use Tripadvisor's content. Meanwhile, Tripadvisor's online restaurant booking platform, TheFork, is also the market's leading international network, rivaled only by Booking's OpenTable, which leads in the United States. We think Tripadvisor might also consider an IPO of this asset at some point.

Bulls Say Dan Wasiolek, Senior Equity Analyst, 13 May 2025

- Penetration levels are low and growing in the experience and dining markets. Tripadvisor is well positioned to benefit over the long term, given its critical-mass revenue share in these markets.
- Tripadvisor's TheFork is the leading online restaurant reservation platform in Europe, where online penetration levels can likely increase.
- Tripadvisor garners 300 million monthly unique visitors and a large amount of travel content, including more than 1 billion reviews in aggregate, which supports its network advantage.

Bears Say Dan Wasiolek, Senior Equity Analyst, 13 May 2025

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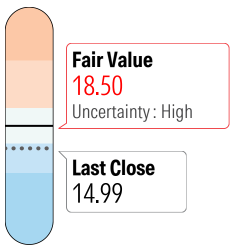
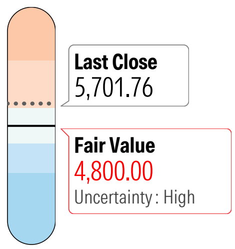
Competitors

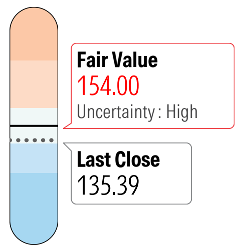
Tripadvisor Inc TRIP



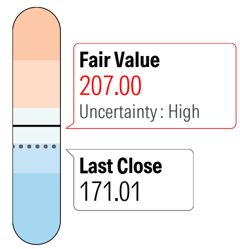
Booking Holdings Inc BKNG



Airbnb Inc Ord...ares - Class A ABNB



Expedia Group Inc EXPE



	Tripadvisor Inc TRIP	Booking Holdings Inc BKNG	Airbnb Inc Ord...ares - Class A ABNB	Expedia Group Inc EXPE
Economic Moat	None	Wide	Wide	Narrow
Currency	USD	USD	USD	USD
Fair Value	18.50 13 May 2025 18:16, UTC	4,800.00 5 May 2025 15:52, UTC	154.00 5 May 2025 00:18, UTC	207.00 15 May 2025 17:50, UTC
1-Star Price	28.68	7,440.00	238.70	320.85
5-Star Price	11.10	2,880.00	92.40	124.20
Assessment	Fairly Valued 3 Jul 2025	Overvalued 3 Jul 2025	Fairly Valued 3 Jul 2025	Undervalued 3 Jul 2025
Morningstar Rating	★★★3 Jul 2025 21:47, UTC	★★3 Jul 2025 21:28, UTC	★★★3 Jul 2025 21:55, UTC	★★★★3 Jul 2025 21:29, UTC
Analyst	Dan Wasiolek, Senior Equity Analyst	Dan Wasiolek, Senior Equity Analyst	Dan Wasiolek, Senior Equity Analyst	Dan Wasiolek, Senior Equity Analyst
Capital Allocation	Standard	Exemplary	Standard	Standard
Price/Fair Value	0.81	1.19	0.89	0.85
Price/Sales	1.19	7.97	7.71	1.69
Price/Book	3.31	—	10.56	20.38
Price/Earning	25.73	35.99	34.37	18.48
Dividend Yield	0.00%	0.64%	0.00%	0.47%
Market Cap	2.07 Bil	186.03 Bil	84.24 Bil	22.43 Bil
52-Week Range	10.43—18.66	3,180.00—5,799.01	99.88—163.93	110.20—207.73
Investment Style	Small Value	Large Blend	Large Blend	Mid Blend

- Metasearch has lower barriers than online travel agencies, and competition from new entrants that already have large user traffic (such as Meta, Amazon, Alibaba, and Google) could meaningfully affect the firm’s growth outlook.
- People could use generative artificial intelligence through search engines and social platforms for travel information instead of Tripadvisor's metasearch platform.
- Google continues to deemphasize free organic search, which can elevate marketing costs for Tripadvisor.

Economic Moat Dan Wasiolek, Senior Equity Analyst, 13 May 2025

We have a no-moat rating for Tripadvisor based on a prognosis of intensifying competition in the company's core metasearch business, which represented 52% of its 2024 revenue and 89% of its 2024 EBITDA.

We believe Tripadvisor's metasearch model has relatively low barriers to entry. Metasearch platforms don't control the inventory they show on their websites, as hoteliers and OTAs (like Booking and Expedia) provide this content. Obtaining the quantity and quality of hotel information and relationships that these agencies have would require hiring thousands of sales and call center employees for an extended period. In fact, Booking annual spending on personnel eclipses the total revenue reported by Tripadvisor in a year. In our view, the main barrier to new entrants replicating a metasearch platform is having the customer traffic to attract travel suppliers and OTAs to share their content and garner reviews from travelers. We think this business faces more threat of displacement from mass-market artificial intelligence products than online travel agencies that own the supply relationships. Additionally, wide-moat companies such as Alphabet, Amazon, Meta, and Alibaba have sizable user bases and budgets and could present an increasing metasearch threat in the future. In fact, Alphabet's Google continues to build out travel supply content on its metasearch network within its search engine. Perhaps even more concerning, the technology giant is adding travel-related features on Google Maps, which could become a powerful travel platform, given its location, user intent data, artificial intelligence, and navigation capabilities. We also envision artificial intelligence helping a company like Meta leverage its global database of personal travel content into a metasearch network, which would add another major competitor to Tripadvisor. Also, Amazon has tested and in some cases launched metasearch travel offerings over the last several years and could provide a powerful competitor with its shopping expertise (book a beach vacation and have sunscreen shipped to your hotel or vacation rental).

We see signs that existing competition is already pressuring Tripadvisor's results. For example, its branded hotel segment, which constitutes two thirds of its core brand Tripadvisor metasearch business (the remainder is largely advertising), reached 75% of 2019's level in 2024 versus 84% in 2023, and compared with US and European hotel industry revenue per available room reaching all-time highs. Also, Google continues to emphasize its metasearch platform and paid links ahead of organic search links, which presents a challenge for Tripadvisor to compete for future traffic and market share. This headwind is illustrated by the domains expedia.com, booking.com, airbnb.com, and tripadvisor.com receiving about 27%, 18%, 20%, and 67% of their respective traffic from organic searches in April 2025, according to Similarweb. Further, we view the percentage of traffic that comes direct to these network as a signal of users being aware of and finding value in the customer experience, supporting network advantages. Here, only 25% of tripadvisor.com traffic was direct in April 2025, according to Similarweb, below the 49% at booking.com, 45% at expedia.com, and 62% at airbnb.com.

The strain on Tripadvisor's metasearch demand comes despite the company's consolidated platform presenting one of the industry's most complete array of travel content (lodging, experiences, dining, transportation, and reviews). Tripadvisor's network has 1 billion travel reviews and 300 million monthly unique users. The company's metasearch lodging content is driven by hoteliers and online travel agencies providing their content to the platform to reach the large travel audience offered by Tripadvisor's network. As a result, Tripadvisor's platform has more than 1 million traditional hotels. That said, Tripadvisor has for years deemphasized vacation rentals and severely trails the 8 million tallied on both Airbnb's and Booking's platforms. We think this lack of rental supply signals either that online travel agencies like Airbnb and Booking do not view Tripadvisor's platform as a needed distribution channel for vacation rentals, or that the metasearch company is focused on first improving its monetization of traditional hotel content.

Beyond lodging content, the company's Viator brand boasts an industry-leading 400,000 bookable experiences, 4 times the next nearest competitor, and its TheFork brand has 55,000 bookable international restaurants. Both these brands have higher barriers to entry than its metasearch segment, given they own and manage the supplier relationships. In experiences, key online travel agency peers, like Booking and Expedia, have moved away from efforts to organically build a presence in the vertical, instead choosing to partner with Tripadvisor's Viator. Meanwhile, no operator comes close to the supply and demand scale that Tripadvisor's TheFork has built in the international online dining reservation market (although Booking's OpenTable dominates the North American industry), which we think illustrates network effect characteristics. And the company's experience and dining business has seen a strong sales recovery to 293% and 141% of 2019's level in 2024, providing proof that its online travel agency network is resonating.

In our view, the 5%-6% average operating margin for Tripadvisor during the next five years is a useful quantitative metric to determine whether a moat exists. Here, operating margins sit below peers and support our quantitative and qualitative analysis that Tripadvisor does not stand to hold a competitive advantage over the next 10 years.

Fair Value and Profit Drivers Dan Wasiolek, Senior Equity Analyst, 13 May 2025

After reviewing first-quarter results, we have lifted our fair value estimate to $18.50 per share from $18 due to increased 2025 revenue. Our fair value estimate implies a 2025 adjusted EBITDA multiple of 10 times.

First-quarter sales increased 1%, with its experiences and dining platforms up 10% and 12%, while its hotel metasearch segment dropped 7% despite encouraging pricing stabilization amid ongoing intense competition. EBITDA margins fell to 11% from 11.8% due to higher marketing costs. Artificial intelligence is helping Tripadvisor's core hotel metasearch business surface with more relevant content to its users, leading to enhanced conversion, helping auction pricing improve (unquantified). As a result, we have increased our 2025 revenue growth and EBITDA margin to 4% and 16.8%, respectively, from 2% and 15.9% previously.

Looking beyond 2025, while we see value in Tripadvisor's review content and agree with the company's decision to partner with large language models like Perplexity, we think this business faces more threat of displacement from mass-market artificial intelligence products than online travel agencies that own the supply relationships. As a result, our 2025-34 sales forecast for the brand business is flat growth. We continue to model strong growth for the experiences and dining segment. We estimate Tripadvisor's Viator and TheFork brands to average 9% and 10% annual revenue growth, respectively, in the next 10 years as they benefit from leading content in these growing verticals.

We think competition and investment in verticals like experiences will cause the company to invest heavily in marketing. As a result, we expect marketing as a percent of revenue at 42.3% over the next 10 years. As a result of our revenue and expense forecasts, we see operating margins of 4.9% in 2034 from 12.0% in 2019.

We still assume a 9% cost of equity. This is in line with the 9% rate of return we expect investors will demand of a diversified equity portfolio.

Risk and Uncertainty Dan Wasiolek, Senior Equity Analyst, 13 May 2025

Our Morningstar Uncertainty Rating on Tripadvisor is High.

US tariff uncertainty could elevate inflation and reduce consumer consumption, which could delay our forecast recovery in demand. Focused entry from Google, Amazon, Meta, Alibaba, and the like would have a meaningful impact on Tripadvisor's growth, as the barriers to replicating its business model could be surmounted within a few years, in our opinion. A majority of traffic for the tripadvisor.com domain comes from search. A growing Google presence on its search platform could lead to increasing paid search costs, as organic search traffic becomes less prominent in search results. Additionally, Kayak and Trivago metasearch competition could intensify, driven by the deep marketing pockets of Booking (which owns Kayak) and Expedia (which owns Trivago). Also, customer concentration is a risk for the company, with Booking and Expedia generating a combined 22% of total revenue in 2024. Further, generative artificial intelligence could replace Tripadvisor's metasearch traffic for top of the funnel discovery travel search queries.

Common stockholders can nominate only 25% of the board, with the rest made up of board members and senior executives from IAC, Expedia, and Liberty Interactive. Liberty owns 56% of the voting power, which may result in conflicts of interest and prevent the board from protecting minority shareholders.

Finally, Tripadvisor faces environmental, social, and governance risks around innovation tax code changes, data breaches, and potential fees should its platform be viewed as anticompetitive.

Capital Allocation Dan Wasiolek, Senior Equity Analyst, 13 May 2025

Although we see Tripadvisor's balance sheet as sound, we view its investment strategy and shareholder distribution as fair, resulting in a Standard Capital Allocation Rating.

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Tripadvisor's balance sheet remains sound, given the company's medium revenue cyclicality and operating leverage. Further, we see plenty of financial flexibility, as we forecast a neutral debt to cash position on average over the next handful of years. The company's existing debt of roughly $836 million is not scheduled to mature until 2025-26, which we see as very manageable, given its $1.1 billion in cash (as of Dec. 31, 2024) and our expectation for about $800 million in cumulative free cash flow generation to the firm during 2025-29.

We hold a fair view on Tripadvisor's investment strategy. We like that the company is investing in building out its advantaged experiences platform, aided by the strong strategic acquisitions of Viator (leading tours site) and TheFork (leading European restaurant site) in 2014. Thus far, the growth from these brands has been encouraging. Tripadvisor established its industry-leading experience presence with the astute acquisition of Viator in 2014. At the time of the $200 million purchase, Tripadvisor paid around 4 times trailing revenue for a Viator platform that had already amassed 480,000 attractions, of which 20,000 were bookable online and generating around $50 million in sales that year, based on our estimate. This purchase price looks attractive, given Viator supply network has reached well over 1 million attractions, of which 400,000 were online bookable, while taking in sales of $840 million in 2024. The acquisition also looks strong when compared against the 6-12 times trailing revenue private peer GetYourGuide received in an April 2019 raise, which was said to value the company at over $1 billion with rumors of the deal pricing it as high as $1.78 billion, despite that platform hosting just 50,000 attractions and taking in $192 million in sales (according to PitchBook) that year. That said, we hold some concern that Tripadvisor is deemphasizing its alternative accommodation investments, while peers continue to build out their vacation rental networks.

Chief executive officer Matt Goldberg has a background in digital marketing and consumer-focused experience, some of which is in the travel industry (he's a former Lonely Planet CEO). We think Goldberg's background can serve Tripadvisor well as the company looks to improve its leveraging of data to improve marketing efficiency and customer experience. But we think Goldberg and the company face an uphill battle in the metasearch business, which faces direct competition from Google and recent efforts by online travel agency peers to focus on driving direct traffic.

We see Tripadvisor's shareholder distribution as appropriate, as the company refrains from paying a dividend (something growth companies in growing industries tend to shy away from, given the opportunity to invest in growth prospects). We also think share repurchases have been prudent, averaging $129 million annually during the prepandemic years of 2015-19.

Analyst Notes Archive

Tripadvisor Earnings: Shares Up on Signs of Life in the Metasearch Business but Competition Remains Dan Wasiolek,Senior Equity Analyst,7 May 2025

First-quarter sales increased 1%, with experiences and dining platforms up 10% and 12%, while its hotel metasearch segment dropped 7% despite encouraging pricing stabilization amid intense competition. EBITDA margins fell to 11% from 11.8% due to higher marketing costs. Why it matters: Tripadvisor's leading experiences and dining offerings continue to perform well, while its metasearch business finds its footing aided by artificial intelligence. We continue to think Tripadvisor's Viator (experiences) and TheFork (dining) brands can produce about 10% revenue growth in 2025, even after reaching 354% and 161% of 2019's level in 2024, respectively, driven by its leading supply and the desire for entertainment. AI is helping Tripadvisor's core hotel metasearch business surface with more relevant content to its users, leading to enhanced conversion, helping auction pricing improve (unquantified). Still, the segment's sales reached just 81% of 2019's level, as volumes remained anemic. The bottom line: Shares of no-moat Tripadvisor rose 10% during May 7 trading in reaction to positive pricing commentary in its metasearch business. Still, we don't plan a material change to our $18 per share fair value estimate for no-moat Tripadvisor, as competition remains fierce. Shares are cheap. We plan to maintain a 6% decline in branded Tripadvisor segment revenue for 2025, as metasearch sales continue to face intense competition. We do expect nominal growth for the business starting in 2026 as its competitive position begins to stabilize. Big picture: We remain constructive on Tripadvisor's experiences, given Tripadvisor’s leading 1%-2% booking share position in the large $300 billion vertical that still has just 30% online penetration. We see Viator growing revenue around 10% on average the next 10 years. Further, we see EBITDA margins approaching 20%, up from single digits in 2024, driven by its leading position in a fragmented market that is hard to aggregate.

Tariff Impact Causes Us to Reduce Online Travel Fair Value Estimates by 3%-4% Dan Wasiolek,Senior Equity Analyst,4 Apr 2025

Shares of our online travel coverage dropped 5%-9% on April 3 after President Donald Trump announced a 10% baseline tariff on all imports, with select countries facing higher tariffs.Why it matters: Tariffs are likely to hurt travel demand due to a weaker economic outlook, which had already been evidenced by a recent softening in US consumer sentiment. The Index of Consumer Sentiment dropped for a third consecutive month in March, to its lowest level since November 2022, as expectations for personal finances, unemployment, and inflation deteriorated, according to the University of Michigan. US travel demand growth has outstripped GDP, with revenue per available room increasing an average of 3.3% versus 2.4% for GDP during 1988-2019. But it is not immune from economic slowdowns, as shown in revPAR dropping 2% in 2008 amid a slight GDP decline.The bottom line: We cut our fair value estimates for the online travel companies by 3%-4%, to $4,600 for wide-moat Booking, $152 for wide-moat Airbnb, $204 for narrow-moat Expedia, and $18 for no-moat Tripadvisor. Of these, we highlight Airbnb, which trades in 4-star territory. We think investors are discounting Airbnb's network advantage, which we see driving strong international alternative accommodation and experience bookings, leading to 11% revenue growth on average during 2026-34. Our updated revenue

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growth outlook for 2025 is 3.5% for Booking (versus 8% previously), 5% for Airbnb (10%), 3% for Expedia (6%), and 4% for Tripadvisor (6%).

Tripadvisor Earnings: Ongoing Competition in Hotel Metasearch Offsetting Strength in Experiences

Dan Wasiolek,Senior Equity Analyst,20 Feb 2025

Despite enduring strength in its experiences segment, Tripadvisor's shares moved lower by 6% during Feb. 20 trading, as its hotel metasearch business continues to face the structural competitive headwinds that drive our no-moat rating. Although we plan to lift our near-term experiences sales estimates, this will be more than offset by lower revenue from the metasearch brand over the next several years. We plan to lower our $19.50 per share fair value estimate. We see shares as undervalued.Tripadvisor's total sales growth was in line with our 5% estimate. Its experience segment remained strong in the fourth quarter, with revenue growing 16%. We remain constructive on experiences, given Tripadvisor's leading 1%-2% booking share position in the large $300 billion vertical that still has just 30% online penetration. In 2025, we now see experiences revenue growing by a low-double-digit percentage versus high single digits previously and think that level can endure for the foreseeable future. It remains a different story in the brand Tripadvisor business, which houses the company's hotel metasearch offering. In fact, Tripadvisor's branded hotel segment revenue was down 7%, amounting to 81% of 2019's level, which compares with the 120% recovery seen in the US hotel industry. Although we see value in Tripadvisor's review content and agree with the company's decision to partner with large language models like Perplexity, we think this business faces more threat of displacement from mass-market artificial intelligence products than online travel agencies that own the supply relationships. As a result, we plan to reduce our 2025-33 sales forecast for the brand business to about flat growth from 3% previously.EBITDA margins for the full year were 18.5% versus 18.7% in 2023. Tripadvisor guided 2025 margins between 16%-18%, as it expects to invest into marketing and technology behind its brands, which we think is necessary in a competitive landscape.

Tripadvisor: Acquisition of Liberty Tripadvisor Opens the Opportunity to Unlock Value in Experiences

Dan Wasiolek,Senior Equity Analyst,19 Dec 2024

No-moat Tripadvisor shares rose 8% during Dec. 19 trading as the company announced it would acquire Liberty Tripadvisor for $435 million. In our view, the merger is a constructive move for Tripadvisor for two reasons. First, the transaction essentially amounts to Tripadvisor repurchasing the 27 million of its shares held by Liberty for an average price of $16.21 per share. We view this as favorable repurchase relative to our $19.50 fair value estimate, which we plan to maintain. Second, the acquisition simplifies Tripadvisor's corporate structure by removing the controlling shareholder, which opens the opportunity for the company to explore ways to unlock value in its industry-leading experiences business through a potential spinoff or IPO. We think it is reasonable that Tripadvisor's experiences business is worth about $15 per share, based on applying a 10 times multiple on

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normalized earnings in 2030 and discounting that back to 2025. We reiterate our Standard Capital Allocation Rating.We remain constructive on the company's experiences business (49% of our total 2024 estimated revenue excluding intersegment eliminations). Here, we see the network resonating with suppliers and travelers, as the platform offers 350,000 bookable experiences, 4 times the nearest competitor, and is seeing increasing direct traffic (unquantified). Further, Tripadvisor sizes the vertical at $280 billion in 2025, 30% of which is booked online versus around 70% for the total travel market. As a result, we think investors should expect low-double-digit sales growth for the segment on average for the next 10 years, supported by prudent investments to increase supply and demand in international markets.

Tripadvisor Earnings: Experiences and Dining Remain Strong, While Hotel Is Still Weak; Shares Cheap Dan Wasiolek,Senior Equity Analyst,7 Nov 2024

No-moat Tripadvisor's third-quarter results were largely in line with our expectations. The company's brand segment, which hosts its hotel metasearch business, had revenue down 12%, near our forecast for a 14% decline, amid intense competition. Meanwhile, Tripadvisor's industry-leading experiences and dining businesses reported healthy sales increases of 10% and 17%, respectively, compared with our 10% and 11% estimates. We don't plan to change our $19.50 fair value estimate for Tripadvisor shares materially, as we plan to largely maintain our full-year forecast for 2% revenue growth and an EBITDA margin of 17.1% (down 160 basis points from 2023). We see shares as undervalued.Within Tripadvisor's brand segment, metasearch hotel business revenue declined 17%, as pricing and volumes remain challenged by competition from wide-moat Alphabet. While we applaud management's strategy to leverage artificial intelligence and focus investments on improving its mobile app offering to members, we don't expect industry headwinds to dissipate. As a result, we expect just low-single-digit average annual revenue growth for this business for the foreseeable future.We remain more constructive on the company's experiences business (51% of total revenue excluding intersegment eliminations). Here, we see the network resonating with suppliers and travelers, as the platform offers 350,000 bookable experiences, 4 times the nearest competitor, and is seeing increasing direct traffic, although this was unquantified. Further, Tripadvisor sizes the vertical at $280 billion in 2025, 30% of which is booked online versus around 70% for the total travel market. As a result, we think investors should expect low-double-digit sales growth for the segment on average for the next 10 years, fostered near-term by prudent investments to grow international supply and demand.

Tripadvisor Earnings: Intense Competition Still Negatively Affecting Financial and Share Performance Dan Wasiolek,Senior Equity Analyst,7 Aug 2024

No-moat Tripadvisor’s shares fell 12% in after-hours trading on Aug. 6 as results in its metasearch hotel business continued to lag the performance of the US hotel industry meaningfully amid lasting competition from wide-moat Alphabet’s Google. Having largely accounted for this systematic pressure,

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Tripadvisor Inc TRIP ★★★ 3 Jul 2025 21:47, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
14.99 USD 2 Jul 2025	18.50 USD 13 May 2025 18:16, UTC	0.81	2.07 USD Bil 3 Jul 2025	None	Small Value	High	Standard	4 Jun 2025 05:00, UTC

we only plan to reduce our $20 fair value estimate by $0.50-$1.00 per share to account for near-term demand softness in the travel industry, as well as some incremental marketing expense needed in an intensely competitive market. Shares are undervalued, but we don't expect headwinds facing the company to ease for the foreseeable future.Total sales grew 1%, in line with management's expectations, although its branded hotel metasearch segment declined 14%, dropping to just 71% of 2019's level from 74% last quarter, and remaining well below the 115% mark of the US hotel industry's revenue per available room. While hotel branded pricing was up, management commented that it was weaker than expected throughout the quarter and into July due to competition. Tripadvisor noted that it has stabilized user volume declines and has seen a higher mix of direct traffic, and while this is somewhat encouraging, we expect the company will need to spend heavily on promotions and marketing to endure these trends. As a result, we plan to reduce our 2024 and 2025 revenue growth estimates to 2% and 5%, respectively, from 3% and 6% prior, despite increasing marketing as a percentage of sales in both years to around 54.5% from 53%-54%.While Tripadvisor's metasearch hotel business continues to struggle, it remains the industry leader in the experiences and dining verticals with its respective Viator and TheFork brands. To this point, sales for Viator and TheFork reached 287% and 136% of 2019's level, respectively. That said, maintaining high growth rates at these levels becomes increasingly challenging, with Viator and TheFork achieving sales growth of just 13% and 11%, respectively.

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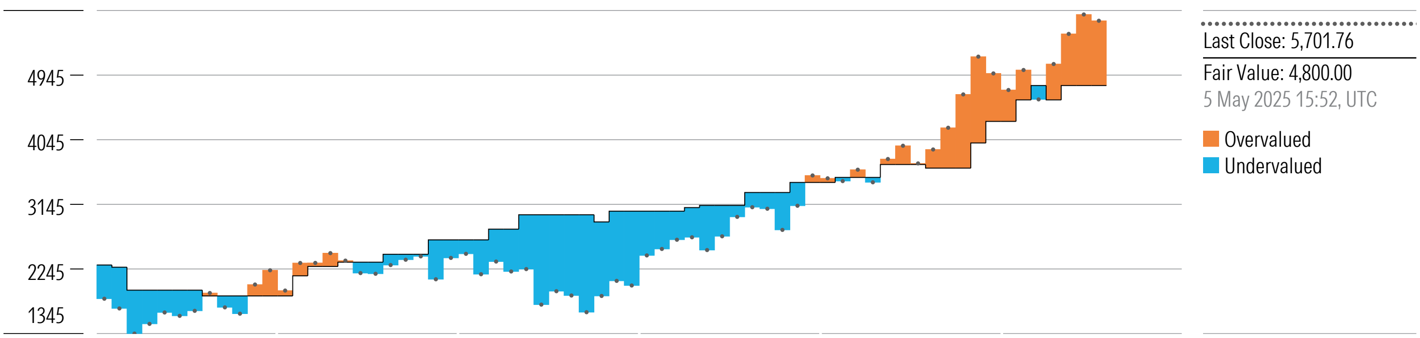
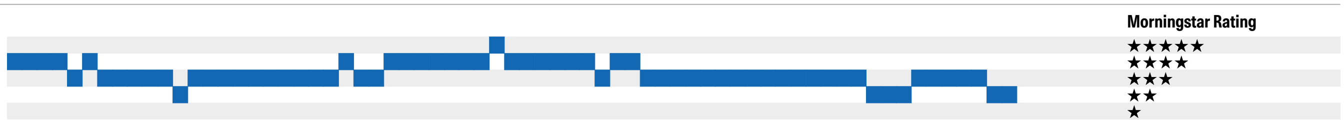
Tripadvisor Inc TRIP ★★★ 3 Jul 2025 21:47, UTC

Competitors Price vs. Fair Value

Booking Holdings Inc BKNG

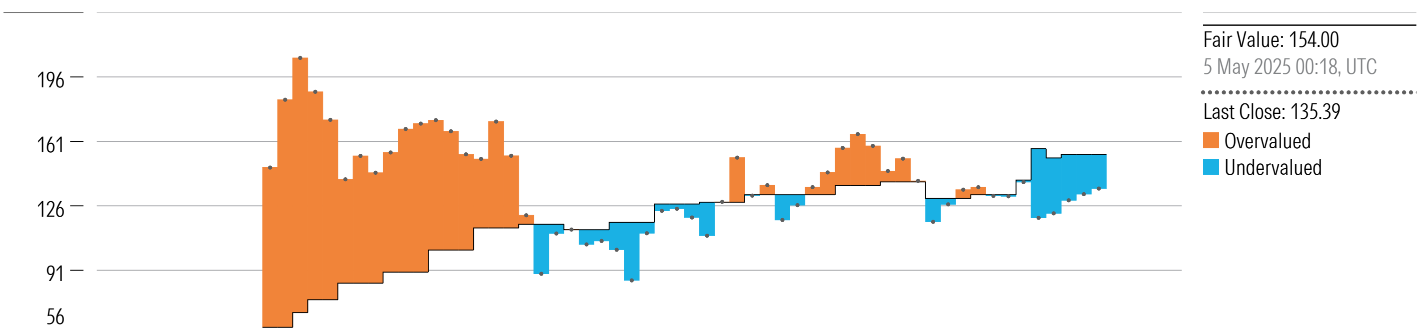


	2020	2021	2022	2023	2024	YTD	
	1.19	0.91	0.66	1.03	1.16	1.19	Price/Fair Value
	8.45	7.72	-16.00	76.02	41.05	15.15	Total Return %

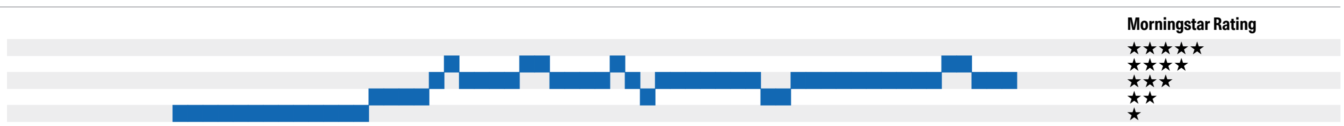


Total Return % as of 02 Jul 2025. Last Close as of 02 Jul 2025. Fair Value as of 5 May 2025 15:52, UTC.

Airbnb Inc Ordinary Shares - Class A ABNB



	2020	2021	2022	2023	2024	YTD	
	2.45	1.63	0.73	1.03	1.00	0.89	Price/Fair Value
	—	13.41	-48.65	59.23	-3.47	3.03	Total Return %



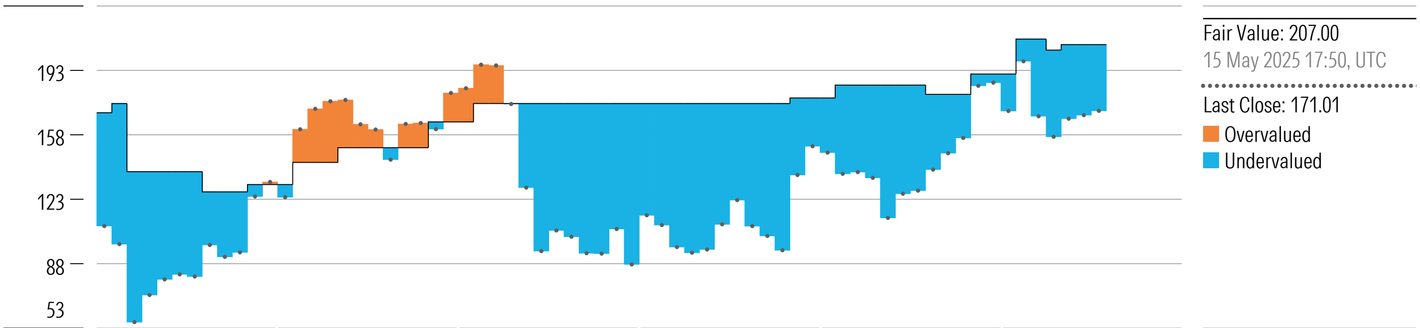
Total Return % as of 02 Jul 2025. Last Close as of 02 Jul 2025. Fair Value as of 5 May 2025 00:18, UTC.

Morningstar Equity Analyst Report | Report as of 3 Jul 2025 22:30, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NASDAQ - ALL MARKETS

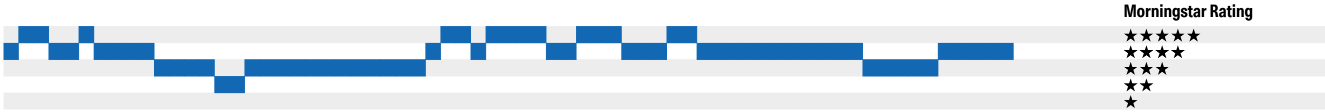
Tripadvisor Inc TRIP ★★★ 3 Jul 2025 21:47, UTC

Competitors Price vs. Fair Value

Expedia Group Inc EXPE



	2020	2021	2022	2023	2024	YTD
Price/Fair Value	1.01	1.10	0.50	0.85	0.98	0.85
Total Return %	22.75	36.50	-51.53	73.28	22.76	-7.79



Total Return % as of 02 Jul 2025. Last Close as of 02 Jul 2025. Fair Value as of 15 May 2025 17:50, UTC.

Morningstar Equity Analyst Report | Report as of 3 Jul 2025 22:30, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NASDAQ - ALL MARKETS Page 14 of 23

Tripadvisor Inc TRIP ★★★ 3 Jul 2025 21:47, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
14.99 USD 2 Jul 2025	18.50 USD 13 May 2025 18:16, UTC	0.81	2.07 USD Bil 3 Jul 2025	None	Small Value	High	Standard	4 Jun 2025 05:00, UTC

Morningstar Valuation Model Summary

Financials as of 13 May 2025	Actual			Forecast				
Fiscal Year, ends 31 Dec	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**
Revenue (USD Mil)	1,492	1,788	1,835	1,904	2,046	2,206	2,394	2,552
Operating Income (USD Mil)	101	148	113	75	107	128	140	156
EBITDA (USD Mil)	198	213	177	158	194	225	242	268
Adjusted EBITDA (USD Mil)	295	334	339	320	373	437	476	515
Net Income (USD Mil)	20	10	5	66	95	126	142	154
Adjusted Net Income (USD Mil)	109	187	189	202	233	268	294	316
Free Cash Flow To The Firm (USD Mil)	8	260	225	123	149	169	177	192
Weighted Average Diluted Shares Outstanding (Mil)	146	145	145	118	89	83	77	70
Earnings Per Share (Diluted) (USD)	0.14	0.07	0.03	0.56	1.07	1.53	1.83	2.20
Adjusted Earnings Per Share (Diluted) (USD)	0.75	1.29	1.30	1.71	2.63	3.24	3.80	4.50
Dividends Per Share (USD)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Margins & Returns as of 13 May 2025		Actual			Forecast					
	3 Year Avg	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**5 Year Avg**
Operating Margin %	6.3	6.8	8.3	6.2	3.9	5.3	5.8	5.8	6.1	5.4
EBITDA Margin %	—	13.3	11.9	9.7	8.3	9.5	10.2	10.1	10.5	—
Adjusted EBITDA Margin %	—	19.8	18.7	18.5	16.8	18.2	19.8	19.9	20.2	19.0
Net Margin %	0.7	1.3	0.6	0.3	3.5	4.6	5.7	5.9	6.0	5.1
Adjusted Net Margin %	9.4	7.3	10.5	10.3	10.6	11.4	12.2	12.3	12.4	11.8
Free Cash Flow To The Firm Margin %	9.1	0.5	14.5	12.3	6.4	7.3	7.7	7.4	7.5	7.2

Growth & Ratios as of 13 May 2025		Actual			Forecast					
	3 Year CAGR	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**5 Year CAGR**
Revenue Growth %	26.7	65.4	19.8	2.6	3.7	7.5	7.8	8.5	6.6	6.8
Operating Income Growth %	—	-177.1	46.5	-23.7	-33.6	43.2	19.2	9.2	11.6	6.7
EBITDA Growth %	-366.4	-1090.0	7.6	-16.9	-10.7	23.0	15.8	7.4	10.8	9.3
Adjusted EBITDA Growth %	50.2	195.0	13.2	1.5	-5.5	16.5	17.0	9.1	8.2	8.7
Earnings Per Share Growth %	—	-112.7	-49.8	-50.0	1514.5	92.3	42.6	19.9	20.2	129.6
Adjusted Earnings Per Share Growth %	—	-350.5	72.4	1.1	31.0	54.0	23.2	17.3	18.5	129.6

Valuation as of 13 May 2025	Actual			Forecast				
	2022	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**
Price/Earning	24.0	16.7	11.4	10.2	6.7	5.4	4.6	3.9
Price/Sales	1.7	1.7	1.0	1.1	1.0	0.9	0.9	0.8
Price/Book	3.0	3.6	2.3	9.9	7.6	6.3	5.0	5.4
Price/Cash Flow	—	—	—	—	—	—	—	—
EV/EBITDA	8.1	8.3	5.0	6.8	5.8	5.0	4.6	4.2
EV/EBIT	23.7	18.8	14.9	29.1	20.3	17.0	15.6	14.0
Dividend Yield %	—	—	—	—	—	—	—	—
Dividend Payout %	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Free Cash Flow Yield %	—	—	—	—	—	—	—	—

Operating Performance / Profitability as of 13 May 2025	Actual			Forecast				
Fiscal Year, ends 31 Dec	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**
ROA %	0.8	0.4	0.2	2.6	3.4	4.9	6.3	6.4
ROE %	2.3	1.2	0.5	31.5	46.6	54.9	52.1	68.2
ROIC %	3.8	7.4	7.3	6.5	8.8	10.3	11.2	12.3

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Tripadvisor Inc TRIP ★★★ 3 Jul 2025 21:47, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
14.99 USD 2 Jul 2025	18.50 USD 13 May 2025 18:16, UTC	0.81	2.07 USD Bil 3 Jul 2025	None	Small Value	High	Standard	4 Jun 2025 05:00, UTC

Financial Leverage (Reporting Currency)

Fiscal Year, ends 31 Dec	Actual 2022	2023	2024	Forecast 2025	2026	2027	2028	2029
Debt/Capital %	26.9	23.4	30.5	26.4	36.4	27.4	12.5	18.2
Assets/Equity	3.0	2.9	2.7	12.0	13.8	11.1	8.2	10.7
Net Debt/EBITDA	-0.5	-0.7	-0.9	-1.1	-1.1	-1.3	-1.7	-1.6
Total Debt/EBITDA	3.1	2.7	2.7	2.6	2.9	1.7	0.6	0.8
EBITDA/ Net Interest Expense	8.7	334.0	67.8	-32.0	-24.9	-12.5	-11.1	-12.0

Forecast Revisions as of 13 May 2025

Prior data as of 4 Apr 2025	2025 Current	2025 Prior	2026 Current	2026 Prior	2027 Current	2027 Prior
Fair Value Estimate Change (Trading Currency)	18.50	17.98	—	—	—	—
Revenue (USD Mil)	1,904	1,871	2,046	2,019	2,206	2,179
Operating Income (USD Mil)	75	55	107	89	128	125
EBITDA (USD Mil)	320	298	373	352	437	432
Net Income (USD Mil)	202	189	233	221	268	264
Earnings Per Share (Diluted) (USD)	0.56	0.36	1.07	0.59	1.53	0.94
Adjusted Earnings Per Share (Diluted) (USD)	1.71	1.33	2.63	1.61	3.24	2.00
Dividends Per Share (USD)	0.00	0.00	0.00	0.00	0.00	0.00

Key Valuation Drivers as of 13 May 2025

Cost of Equity %	9.0
Pre-Tax Cost of Debt %	8.0
Weighted Average Cost of Capital %	8.4
Long-Run Tax Rate %	22.5
Stage II EBI Growth Rate %	2.7
Stage II Investment Rate %	25.7
Perpetuity Year	11

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

Discounted Cash Flow Valuation as of 13 May 2025

	USD Mil
Present Value Stage I	354
Present Value Stage II	56
Present Value Stage III	924
Total Firm Value	**1,334**
Cash and Equivalents	1,064
Debt	836
Other Adjustments	86
Equity Value	**1,648**
Projected Diluted Shares	92
Fair Value per Share (USD)	**18.50**

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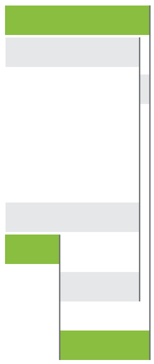
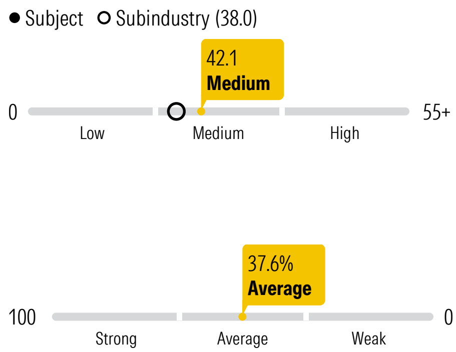
Tripadvisor Inc TRIP ★★★ 3 Jul 2025 21:47, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
14.99 USD 2 Jul 2025	18.50 USD 13 May 2025 18:16, UTC	0.81	2.07 USD Bil 3 Jul 2025	None	Small Value	High	Standard	4 Jun 2025 05:00, UTC

ESG Risk Rating Breakdown

Exposure	
Company Exposure[1]	42.1
– Manageable Risk	39.1
Unmanageable Risk[2]	**3.0**
Management	
Manageable Risk	39.1
– Managed Risk[3]	14.7
Management Gap[4]	**24.4**
Overall Unmanaged Risk	**27.4**

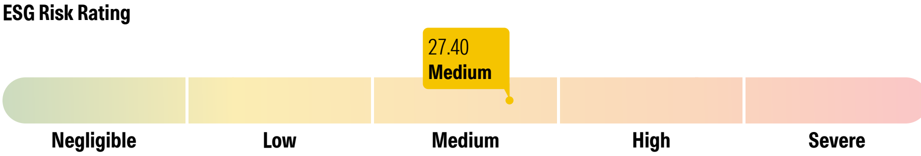




- Exposure represents a company's vulnerability to ESG risks driven by their business model
- Exposure is assessed at the Subindustry level and then specified at the company level
- Scoring ranges from 0-55+ with categories of low, medium, and high-risk exposure

- 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 37.6% 4. Management Gap assesses risks that are not managed, but are considered manageable 5. ESG Risk Rating Assessment = Overall Unmanaged Risk = Management Gap plus Unmanageable Risk

ESG Risk Rating Assessment[5]

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

Peer Analysis 04 Jun 2025

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

Company Name	Exposure	Management	ESG Risk Rating
Tripadvisor Inc	42.1 | Medium	37.6 | Average	27.4 | Medium
Expedia Group Inc	41.3 | Medium	51.3 | Strong	21.7 | Medium
Booking Holdings Inc	33.0 | Low	60.3 | Strong	14.4 | Low
Block Inc	34.2 | Low	42.3 | Average	20.7 | Medium
Airbnb Inc	37.7 | Medium	41.6 | Average	23.1 | Medium

Exposure scale: 0 – 55+; Management scale: 100 – 0; ESG Risk Rating scale: 0 – 40+

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Appendix
Historical Morningstar Rating

Tripadvisor Inc TRIP 3 Jul 2025 21:47, UTC

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

Booking Holdings Inc BKNG 3 Jul 2025 21:28, 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
★★	★★★	★★★	★★★	★★★	★★★	★★★★	★★★	★★★★	★★★★	★★★★	★★★★

Airbnb Inc Ordinary Shares - Class A ABNB 3 Jul 2025 21:55, 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 ★★★
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 ★★★
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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.

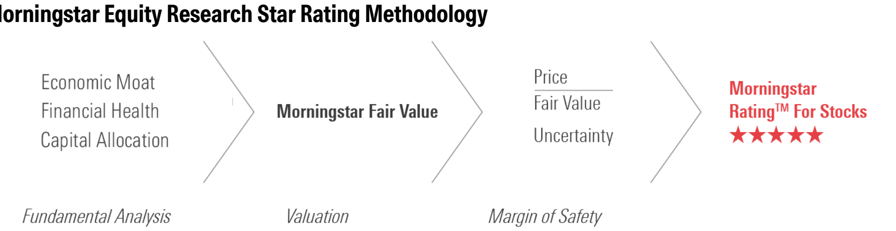
Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total present value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return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

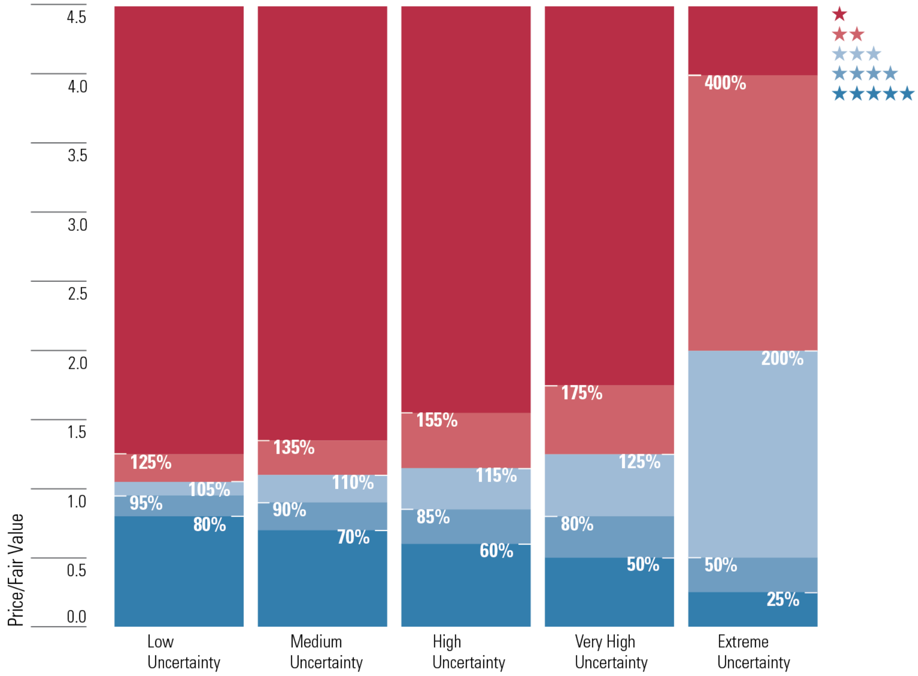
Our uncertainty rating is based on the interquartile range, or the middle 50% of potential outcomes, covering the 25th percentile–75th percentile. This means that when a stock hits 5 stars, we expect there is a 75% chance that the intrinsic value of that stock lies above the current market price. Similarly,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