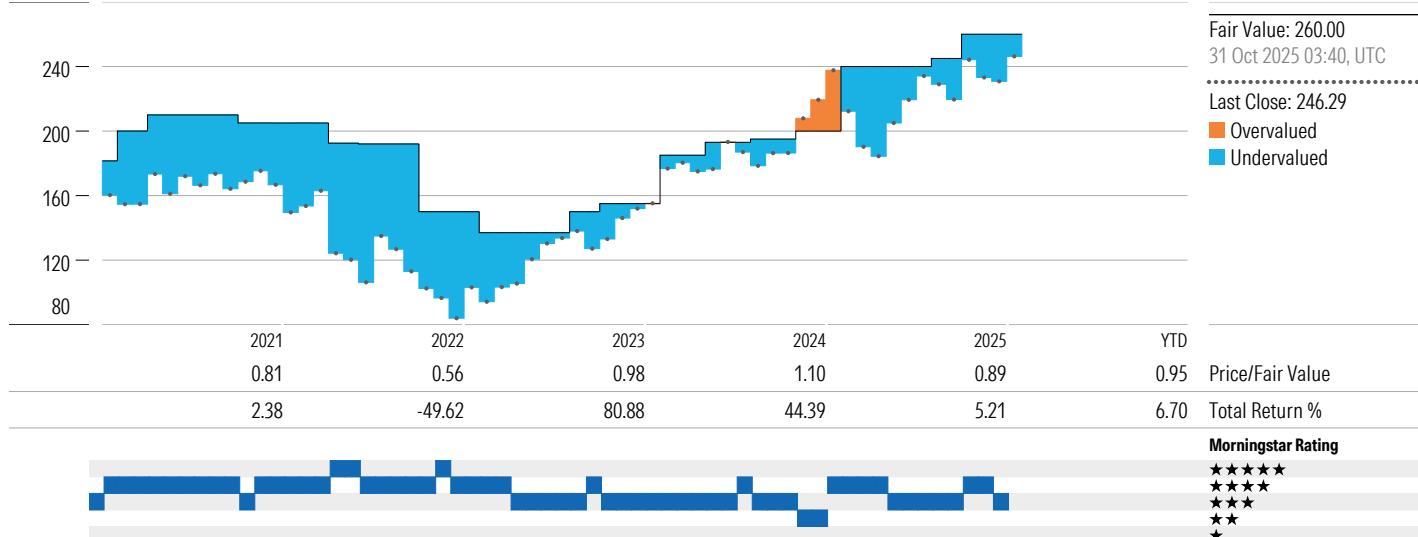


Amazon.com Inc AMZN ★★★ 8 Jan 2026 22:39, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment ¹
246.29 USD 8 Jan 2026	260.00 USD 31 Oct 2025 03:40, UTC	0.95	2.63 USD Tril 8 Jan 2026	Wide	Large Blend	Medium	Exemplary	GGGGGGGGGG

7 Jan 2026 06:00, UTC

Price vs. Fair Value



Total Return % as of 08 Jan 2026. Last Close as of 08 Jan 2026. Fair Value as of 31 Oct 2025 03:40, UTC.

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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.

Amazon Leads in E-Commerce, Public Cloud, AI, and Digital Advertising

Business Strategy & Outlook Dan Romanoff, CPA, Senior Equity Analyst, 7 Feb 2025

Amazon dominates its served markets, notably for e-commerce and cloud services. It benefits from numerous competitive advantages and has emerged as the clear e-commerce leader given its size and scale, which yield an unmatched selection of low-priced goods for consumers. The secular drift toward e-commerce continues unabated with the firm continuing to grind out market share gains despite its size. Prime ties Amazon's e-commerce efforts together and provides a steady stream of high-margin recurring revenue from customers who purchase more frequently from Amazon's properties. In return, consumers get one-day shipping on millions of items, exclusive video content, and other services, which result in a powerful virtuous circle where customers and sellers attract one another. The Kindle and other devices further bolster the ecosystem by helping attract new customers, while making the value proposition irresistible in retaining existing users.

Through Amazon Web Services, or AWS, Amazon is also a clear leader in public cloud services. Additionally, the company's advertising business is already large and continues to scale as ads have made their way into Amazon's streaming outlets, thus offering an attractive option for marketers looking to access a vast audience with a variety of proprietary data points about those very consumers. AWS and advertising growth should continue to outpace e-commerce growth and should be the main growth drivers over the next five years. This is critical, as each of these segments drives higher margins

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Sector	Industry
Consumer Cyclical	Internet Retail

Business Description

Amazon is the leading online retailer and marketplace for third party sellers. Retail related revenue represents approximately 74% of total, followed by Amazon Web Services (17%), and advertising services (9%).

International segments constitute 22% of Amazon's total revenue, led by Germany, the United Kingdom, and Japan.

than the corporate average, which in turn should allow both operating profit and EPS to outgrow revenue as margins continue to expand.

From a retail perspective, we expect continued innovation to help drive further share gains in a post-lockdown world. We also look for continued penetration into categories such as groceries and luxury goods that have not previously translated into the same level of success as other retail categories. We see technology advancements in AWS and a bigger push to service enterprise customers as helping to maintain the company's lead there. Overall, we see good revenue and free cash flow growth for years to come.

Bulls Say

Dan Romanoff, CPA, Senior Equity Analyst, 31 Oct 2025

- Amazon is the clear leader in e-commerce and enjoys unrivaled scale to continue to invest in growth opportunities and drive the very best customer experience.
- High-margin advertising and AWS are growing faster than the corporate average, which should continue to boost profitability over the next several years.
- Amazon Prime memberships help attract and retain customers who spend more with Amazon; this reinforces a powerful network effect while bringing in recurring and high-margin revenue.

Bears Say

Dan Romanoff, CPA, Senior Equity Analyst, 31 Oct 2025

- Regulatory concerns are rising for large technology firms, including Amazon. Further, the firm may face increasing regulatory and compliance issues as it expands internationally.
- New investments, notably in fulfillment, delivery, and AWS, should damp free cash flow growth. Also, Amazon's penetration into some countries might be harder than in the US due to inferior logistic networks.
- Amazon may not be as successful in penetrating new retail categories, such as luxury goods, due to consumer preferences and an improved e-commerce experience from larger retailers.

Economic Moat

Dan Romanoff, CPA, Senior Equity Analyst, 1 May 2024

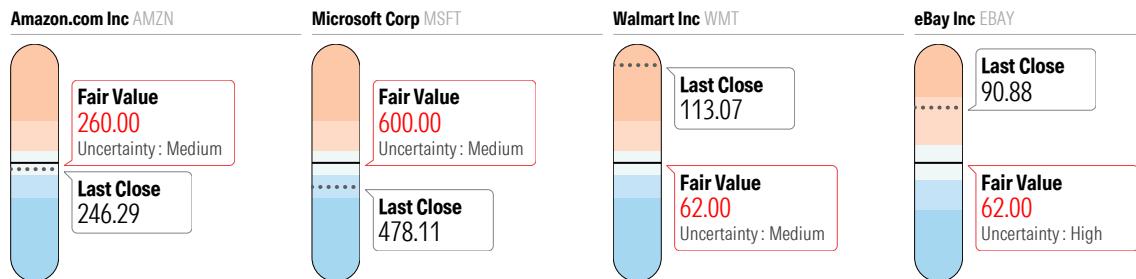
We assign a wide moat rating to Amazon based on network effects, cost advantages, intangible assets, and switching costs. Amazon has been disrupting the traditional retail industry for more than two decades while also emerging as the leading infrastructure-as-a-service provider via Amazon Web Services. This disruption has been embraced by consumers and has driven change across the entire industry as traditional retailers have invested heavily in technology in order to keep pace. Covid-19 has accelerated change, and given the company's technological prowess, massive scale, and relationship with consumers, we think Amazon has widened its lead, which we believe will result in economic returns well in excess of its cost of capital for years to come.

We believe Amazon's retail business has a wide moat stemming from network effects associated with

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Competitors



Economic Moat	Wide	Wide	Wide	Narrow
Currency	USD	USD	USD	USD
Fair Value	260.00 31 Oct 2025 03:40, UTC	600.00 31 Jul 2025 03:51, UTC	62.00 30 Nov 2025 22:45, UTC	62.00 3 Nov 2025 20:07, UTC
1-Star Price	351.00	810.00	83.70	96.10
5-Star Price	182.00	420.00	43.40	37.20
Assessment	Fairly Valued 8 Jan 2026	Undervalued 8 Jan 2026	Overvalued 8 Jan 2026	Overvalued 8 Jan 2026
Morningstar Rating	★★★ 8 Jan 2026 22:39, UTC	★★★★ 8 Jan 2026 22:39, UTC	★ 8 Jan 2026 22:41, UTC	★★ 8 Jan 2026 22:41, UTC
Analyst	Dan Romanoff, Senior Equity Analyst	Dan Romanoff, Senior Equity Analyst	Brett Husslein, Analyst	Dan Wasiolek, Senior Equity Analyst
Capital Allocation	Exemplary	Exemplary	Standard	Standard
Price/Fair Value	0.95	0.80	1.82	1.47
Price/Sales	3.77	12.28	1.29	3.99
Price/Book	6.98	9.90	9.35	8.67
Price/Earning	40.52	34.45	39.41	20.44
Dividend Yield	0.00%	0.70%	0.83%	1.29%
Market Cap	2,632.89 Bil	3,553.49 Bil	901.19 Bil	41.08 Bil
52-Week Range	161.38–258.60	344.79–555.45	79.81–117.45	58.71–101.15
Investment Style	Large Blend	Large Blend	Large Blend	Mid Value

its marketplace, where more buyers and sellers continually attract more buyers and sellers; a cost advantage tied to purchasing power, logistics, vertical integration (proprietary brands, owned delivery, and so on), and a negative cash conversion cycle; and intangible assets associated with technology and branding. We also believe AWS is a wide-moat business, thanks to high customer switching costs; a cost advantage associated with economies of scale where few competitors can keep up with Amazon's investment pace; intangible assets arising from semiconductor and facility development; and a network effect associated with a marketplace for software created to make AWS work better. We also would assign Amazon's burgeoning advertising business a narrow moat based on intangible assets from its proprietary data on hundreds of millions of users and a network effect again focusing on buyers and sellers meeting in the largest available venues. We believe that the wide moat for Amazon's entire business is greater than the sum of its parts; we prefer to analyze Amazon's moat on the whole, as the company's segments reinforce one another and returns result in an unrivaled consumer experience.

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Together, we believe Amazon's retail business enjoys a wide moat supported by cost advantages, intangible assets, and network effects. We assess the moat around Amazon's retail business based on a combination of online stores, third-party seller services, subscription services, and physical stores, as we find it challenging to think about durable competitive advantages for each of these segments in isolation. Given its massive scale, Amazon has created cost advantages including buying power, economies of scope, route density, and research and development. From a total gross merchandise value perspective, with approximately \$580 billion in 2021, it finally surpassed Walmart. Similarly, Amazon is the largest online retailer and is an order of magnitude larger than Walmart and 4 times larger than Shopify, assuming we classify Shopify as a demand aggregator. Additionally, the company has become more vertically integrated over time and most recently has built out its own transportation network. Size dictates certain scales of efficiency, but we think Amazon is the definition of operational excellence.

These advantages are related and reinforce one another in a virtuous circle. Low prices and an unmatched selection have come to define the company in consumer's minds, giving rise to intangible assets from branding and technology (search capabilities and recommendation engine). Product searches are more likely to begin on Amazon at this point than they are Google. Amazon has become the only demand aggregator at scale in the US because of its wide selection, intelligent recommendation algorithms, low prices, and convenience, which combine into a powerful business model.

We also believe Amazon's retail business benefits from network effects. The sheer number of consumers shopping on Amazon makes it attractive to third party sellers, while the marketplace expands the selection available to shoppers and makes Amazon a more attractive online destination for consumers. In fact, 50%-55% of total goods sold by Amazon are through its third-party marketplace. At the heart of third-party seller services is the commission Amazon collects from the independent seller. However, these services also include Fulfillment by Amazon, distribution facility storage, shipping, payment processing, and other related items.

To improve the consumer experience and more tightly tie users to Amazon, the company has moved increasingly into content. Consumers can now have Prime Video, Music Unlimited, Kindle Unlimited, Prime Gaming, and other similar subscription services. The company even produces original content for Prime Video to help reinforce the notion that consumers can get anything they need from Amazon. We view the Kindle, Echo, Fire, and other Amazon original devices as interesting on their own merits, but think the underlying point is to once again draw in more consumers to Amazon's retail properties and engage those customers that are already within the ecosystem. Amazon's hardware helps to enable Amazon's services. The Kindle, for example, dovetails perfectly with Kindle Unlimited, which for a \$9.99 monthly subscription, allows users to read from a selection of more than one million book titles. The company even offers a direct-to-Kindle book publishing service.

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The common thread that weaves throughout Amazon's retail business is Amazon Prime, which for \$139 per year allows users unlimited free shipping on millions of stock-keeping units, including same-day or one-day shipping on many items, access to Prime Video and Prime Music, and a variety of other benefits. We view Prime subscriptions and the differentiated user experience they offer as critical to attracting and retaining customers. Prime memberships generate high cash flow that can be reinvested in further improving the user experience on the technology, content, and delivery fronts. Prime customers are very sticky and tend to purchase from Amazon more frequently and across more retail categories. We think content combined with Prime subscriptions actually build a switching cost that consumers would need to overcome, although these switching costs might not last for decades in order to warrant it as a moat source.

Advertising is tangentially related to Amazon's retail operations in that it takes place on Amazon's own online properties. Advertising is growing rapidly and is likely the segment with the highest operating margins in Amazon's portfolio, likely in excess of 30%, which is would be directionally comparable to margins earned by Facebook when it was a similarly sized business (other was \$21 billion in revenue in 2020, compared with \$18 billion in revenue for Facebook in 2015). We believe advertising dollars flow to where the eyeballs are and where information is known about the online user, which fits in very well with Amazon's strengths. We therefore expect advertising to grow rapidly over the next several years and continue to boost the company's overall profitability.

Looking at advertising in isolation, we would likely give it a narrow moat rating based on intangible assets arising from proprietary technology (data), and network effects, although assigning a moat rating here is difficult because Amazon doesn't disclose much about this business. That said, we can see Amazon's advertising becoming a wide-moat business as it becomes more established and more details are disclosed. We think Amazon's advertising business is attractive to advertisers because there is proprietary information about the consumers and real-time data about when they are searching for a particular product, and Amazon already enjoys substantial traffic. We expect this business to continue to grow rapidly and offer an attractive alternative to platforms from social network and internet search providers.

Amazon Web Services enjoys a wide moat supported by switching costs, network effects, intangible assets, and cost advantages. Amazon was a pioneer in public cloud infrastructure as a service and platform as a service and retains a substantial lead over its closest rival, Microsoft. AWS has driven profitability for the entire company; although it represents 10%-15% of revenue, it generates 60%-65% of total operating profit dollars for Amazon. We also expect AWS to remain a key growth driver for the company over the next decade.

AWS differs from the company's e-commerce operations in that it is enterprise-facing rather than

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consumer-facing. Enterprise customers rely on AWS for core IT infrastructure, which represents significant switching costs in terms of the time and expense of integrating applications with core software elements, such as the database, and dedicates a user to a specific set of software development tools. Ultimately, the operational risks to changing mission-critical technology infrastructure is high, which is why core elements such as ERP systems and cloud providers are rarely changed.

Further, we believe it is cheaper initially for companies to move workloads to the cloud, as there are fewer upfront costs and a lower bar to clear for maintenance and administration. Additionally, Amazon has devoted significant R&D resources to adding advanced features to the platform. Along those lines, AWS offers scale advantages to clients in that it is cheaper and faster to set up IT infrastructure in the cloud compared with undertaking the same effort independently. Customers also benefit from the ability to scale up compute power for burst requirements, paying for only what they need and having it available effectively on-demand. We have seen some of the largest technology companies in the world simply fail to keep pace with Amazon's massive investments in IaaS over the years, and AWS' cost advantage over its rivals is obvious. Those firms struggle to compete in a meaningful way against AWS.

Amazon has amassed significant technology and process knowledge, which we believe is an intangible asset for the firm as a whole and also for AWS. These assets could also apply to the logistics aspect of the retail business. The company expanded its distribution network by roughly 50% in 2020 while managing through a global pandemic. Given the size of its footprint, this is a monumental achievement and speaks to the company's ability to quickly plan, construct, and expand facilities based on specific needs. The knowledge base to quickly and efficiently bring massive server farms online for AWS is similarly impressive and only comes from the experience of previously building hyperscale data centers. Additionally, the firm designs its own semiconductors, which are used to power its server arrays, and also developed proprietary robotic automation technology used in its fulfillment centers.

As with other large software companies, we see a network effect within AWS' ecosystem for third-party software, although we view this as more of secondary moat source. The large ecosystem of AWS users has benefited from the software development efforts of those same users, as they turn around and offer applications written on AWS for AWS users. Thus, users help attract other users to AWS. We see Microsoft and Salesforce in particular as the best comparable examples in software of creating network effects.

We think network effects, intangible assets, cost advantages, and switching combine to form a powerful moat for all of Amazon. We think many of these areas reinforce one another and see little difficulty in Amazon continuing to deliver returns on invested capital well in excess of its cost of capital over the long term.

Fair Value and Profit Drivers

Dan Romanoff, CPA, Senior Equity Analyst, 31 Oct 2025

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Our fair value estimate for Amazon is \$260 per share, which implies a 2025 enterprise value to sales multiple of 4 times and a 2% free cash flow yield.

Over the long term, we expect e-commerce to continue to take share from brick-and-mortar retailers. We further expect Amazon to gain share online. We believe that over the medium term, covid pulled forward some demand by changing consumer behavior and better penetrating some retail categories, such as groceries, pharmacy, and luxury goods, that previously had not gained as much traction online. We think Prime subscriptions and the accompanying benefits, combined with selection, price, and convenience continue to drive the retail story. We also see international as being a longer-term opportunity within retail. We model total retail-related revenue growing at an 8% compound annual growth rate (CAGR) over the next five years.

We believe the critical growth drivers over the medium term will be AWS and advertising. Since these segments earn materially higher margins than the rest of the business, we also expect them to drive margins higher over time. Over the next five years, we project AWS revenue growing at an 18% CAGR and advertising revenue growing at an 18% CAGR. In total, Amazon should grow at an 11% CAGR through 2029. We model GAAP operating margin expanding from 11% (actual) in 2024 to approximately 13% in 2029 as the company grows into its expanded footprint and optimizes its substantial investment in delivery.

Risk and Uncertainty

Dan Romanoff, CPA, Senior Equity Analyst, 2 Aug 2024

We assign Amazon a Morningstar Uncertainty Rating of Medium.

Amazon must protect its leading online retailing position, which can be challenging as consumer preferences change, especially post-covid-19 (as consumers may revert to prior behaviors), and traditional retailers bolster their online presence. Maintaining an e-commerce edge has pushed the company to make investments in nontraditional areas, such as producing content for Prime Video and building out its own transportation network. Similarly, the company must also maintain an attractive value proposition for its third-party sellers. Some of these investment areas have raised investor questions in the past, and we expect management to continue to invest according to its strategy, despite periodic margin pressure from increased spending.

The company must also continue to invest in new offerings. AWS, transportation, and physical stores (both Amazon branded and Whole Foods) are three notable areas of investment. These decisions require capital allocation and management focus and may play out over a period of years rather than quarters.

Continued international expansion will likely require similar investment and management attention but will also increase exposure to different regulatory environments. Some countries have instituted or may institute protectionist policies. Even domestically over the last several years, lawmakers from both

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parties have increasingly focused on the amount of market power large technology companies have accrued. Antitrust, data privacy, and section 230 have been repeatedly invoked.

From an environmental, social, and governance perspective, data breaches and service outages are a concern for any type of cloud service provider. As a retailer, Amazon has personal information for hundreds of millions of consumers around the world, while AWS hosts proprietary mission-critical data for enterprises.

Capital Allocation

Dan Romanoff, CPA, Senior Equity Analyst, 7 Feb 2025

We assign Amazon an Exemplary Capital Allocation Rating. The rating reflects our assessments of a sound balance sheet, exceptional investments, and appropriate shareholder distributions. We think investments back into the business are most likely to be the key driver of total shareholder returns and are therefore appropriately prioritized over other capital returns such as dividends and buybacks, which Amazon does not offer. The company regularly makes small tuck-in acquisitions, which we view as immaterial to the company's financials.

The balance sheet is sound, with a substantial net cash position. We expect the balance sheet to remain solid as the company has typically maintained a conservative position and has historically generated substantial free cash flow from AWS and advertising to fund growth throughout the business.

Management's track record of investing in areas that investors were initially skeptical of but were ultimately vindicated has been remarkable. Chairman and CEO Jeff Bezos founded the company in 1994 and has led the company until he stepped down in 2021 but remains on the board of directors. He has been succeeded by Andy Jassy, former CEO of AWS. We note Mr. Bezos remains actively involved with the company as the executive chairman of the board, and that Mr. Jassy has been at the company for 23 years and was a driving force behind the foundation and growth of AWS. We think Mr. Jassy has managed the company through a very challenging period involving covid, and now faces a surge in generative AI demand, which carries a new set of challenges that we believe he is well suited to handle. Ultimately, we assess the overall investment track record as exceptional.

Analyst Notes Archive

Amazon Earnings: AWS Acceleration Leads the Way in Overall Good Results

Dan Romanoff, CPA, Senior Equity Analyst, 31 Oct 2025

Amazon's third-quarter results beat the high end of guidance on the top line and would've beat it on the bottom line, save for \$4.3 billion of unusual items. Sales grew 12% year over year in constant currency to \$180.2 billion, while operating margin was 9.7% versus 11.0% a year ago. Why it matters: Results are good, with upside on the top and normalized bottom lines, which is a good setup heading into the holiday season. The temperature on tariffs has eased as many trade deals have been forged, although

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China remains a work in progress. Consumer buying patterns are unchanged. Amazon produced upside in all segments relative to our model, with the most upside coming in AWS, third-party sellers, and online stores. Grocery is performing well, and same-day delivery is rapidly expanding, which should support good growth for several years. Excluding a \$2.5 billion settlement with the FTC and \$1.8 billion in severance, operating income would've been \$21.7 billion, with 12.0% margin, versus the high end of guidance at \$20.5 billion. The bottom line: We raise our fair value estimate to \$260 per share, from \$245 previously, based on good results and guidance. The stock is jumping after hours, leaving shares fairly valued, in our view. AWS was strong, as growth accelerated to 20% year over year, a pace that CEO Andy Jassy thinks can continue for "a while." As such, the firm is capacity-constrained and plans to accelerate expansion based on demand signals. Demand is very strong for artificial intelligence, but core workloads also performed well. Amazon detailed innovation within the AWS portfolio that is helping attract new customers. Anthropic's use of Trainium 2, with its compelling price performance and the fact that Trainium 3 will arrive by the end of 2025, could extend AWS' surging growth through next year. Coming up: Guidance is slightly better than we anticipated for revenue and profitability, resulting in slight increases to our estimates over the next 18 months.

Amazon Earnings: Good Results, With AWS Still a Winner; Fear on Profitability Guidance Is Overblown

Dan Romanoff, CPA, Senior Equity Analyst, 1 Aug 2025

Amazon reported second-quarter results that beat the high end of guidance on both the top and bottom lines. Revenue grew by 12% year over year in constant currency to \$167.6 billion, while operating margin was 11.4% compared with 9.9% a year ago. Why it matters: Results were clearly good, with upside on the top and bottom lines, which we think is positive against the macro backdrop. Trade deals are being inked rapidly, so our concerns about US tariffs have shrunk. Consumer buying behavior remains unchanged. Revenue in online stores, third-party sellers, subscriptions, and advertising came in ahead of our model, while Amazon's physical stores underperformed. Amazon Web Services was largely in line. Advertising was impressive and helped buoy overall results once again. The bottom line: We raise our fair value estimate to \$245 per share from \$240 based on the results and the mixed but generally solid guidance. The stock is trading down, which strikes us as an overreaction, and shares look attractive. While some might be disappointed by the AWS results, given the strong performance of peers, AWS faces the same capacity constraints and still came in ahead of our estimates for the first half of 2025. Coming up: Guidance is mixed compared with FactSet consensus estimates, with revenue ahead and profitability light. We have made only slight changes to our model based on performance and guidance. Satellite launch costs for Project Kuiper will likely pressure margins for a couple of quarters, while new AWS capacity coming online later this year should have a similar impact. Correction (Aug. 1, 2025): AWS margins were down from the first quarter, not the second.

Amazon Earnings: Good Quarter Overall With AWS Decent; Guidance Light on Operating Income

Dan

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Romanoff, CPA, Senior Equity Analyst, 2 May 2025

Amazon reported first-quarter results that beat the high end of guidance on both the top and bottom lines. Revenue grew by 10% year over year in constant currency to \$155.7 billion, while operating margin was 11.8% versus 10.7% a year ago. Currency hurt sales growth by \$1.4 billion. Why it matters: Results were generally good, with upside broadly on the top and bottom lines, which we think is positive in the face of looming tariffs. We see some prebuying behavior ahead of tariffs, which is worth monitoring if the tariff situation persists beyond the second quarter. Amazon produced upside to revenue in each of segments relative to our model except for third-party sellers, which was slightly light. Consumer buying behavior has not really changed in the face of tariffs, even through April. Advertising was impressive and helped buoy overall results. While there could be some mild disappointment around solid AWS results given Azure's very strong results on April 30, we note AWS faces the same capacity constraints and still produced upside to our estimate in the first quarter. Artificial intelligence workloads are growing in excess of 100% year over year on AWS. The bottom line: We maintain our fair value estimate of \$240 per share as we see good results in conjunction with mixed guidance and we see shares as attractive. Coming up: Overall guidance is mixed, with revenue solid and profitability light relative to our model. Satellite launch costs for Project Kuiper will likely pressure margins for a couple quarters, while new AWS capacity coming online later this year will have a similar impact. We do not think these will have a major impact on Amazon's long-term profitability, but we have already been modelling relatively flat margins for 2025, so have not made meaningful changes. Considering the tariff situation, we see guidance as solid. Second-quarter guidance includes revenue of \$159 billion-\$164 billion, with operating income of \$13.0 billion-\$17.5 billion.

Amazon Earnings: Good Quarter With Reasonable Guidance After Unusual Adjustments Dan

Romanoff, CPA, Senior Equity Analyst, 7 Feb 2025

We are raising our fair value estimate for wide-moat Amazon to \$240 per share from \$200 after the company reported strong fourth-quarter results. The firm's first-quarter outlook was slightly better than we expected, despite including more than \$2 billion of incremental currency pressure on revenue. Additionally, given the early returns on the profitability front from the ongoing network improvement efforts, we modestly raised our profitability and working capital assumptions throughout our forecast period, which had a substantial impact on our valuation. When operating margins are relatively modest, even small improvements are meaningful. We see shares as fairly valued, after a strong run since early August. Retail demand trends have remained stable the last seven quarters, with e-commerce performing reasonably well but still showing signs of consumer stress. Fourth-quarter revenue grew 10% year over year, as reported to \$187.8 billion, compared with the top end of guidance at \$188.5 billion. Currency was a \$700 million greater headwind than anticipated. Relative to our estimates, online stores, physical stores, and AWS performed best, while third party seller services and advertising

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were slightly light. The two key segments for long-term growth, AWS and advertising, expanded 19% and 18% year over year, respectively, as reported. Amazon's advertising growth continues to perform inline with or better than large internet peers, while AWS' growth was strong and like Azure, is capacity constrained, so investment will surge further in 2025. Margins have been consistently stronger than anticipated over the past couple years, and we think there is room for expansion as the multi-hub strategy and increased use of robotics continue to unlock efficiencies. Fourth-quarter profitability was impressive, with operating profit at \$21.2 billion, compared with the high end of guidance at \$20.0 billion. This resulted in an operating margin of 11.3%, compared with 7.8% a year ago.

AI DeepSeek Coverage Summary: Maintaining Our Fair Values; Pullback Was Healthy Eric Compton, CFA, Director, 28 Jan 2025

We have consolidated our recent DeepSeek-related coverage in this note. Artificial intelligence affects companies across much of our coverage, including semiconductors, cloud infrastructure, software, utilities, and energy. Many of the firms under our coverage with an "AI premium" were already trading in 1- to 2-star territory. Our valuations were already positioned for a pullback of this nature, as we were having a hard time justifying the increases in revenue implied by these valuations. We view the current pullback as healthy, even as we remain positive on the long-term potential of AI. We have maintained our fair value estimates across the affected companies. Our thesis, after the release of DeepSeek, is that we were going to see instances of sleeker, more-efficient AI models that would not rely on massive clusters of AI GPUs and related hardware. This was the only way the ecosystem was going to successfully address large numbers of use cases in the long term. We believe that lower costs—making AI cheaper, therefore more economical—increase the number of use cases it is viable for, and as a result, should increase demand. This is the same path the PC revolution followed, with computing power becoming cheap enough that millions of individuals could use it at an affordable cost. The same happened with the cloud and SaaS revolution thereafter, where the incremental cost of adding users was close to zero. We believe a future where AI was both prohibitively expensive and also "taking over the world" was not likely. As such, we view the advancements made by DeepSeek as promising and healthy for the overall ecosystem. For more in-depth coverage on specific industries, please refer to our notes on Nvidia, the hyperscalers, semiconductor equipment companies, TSMC, Apple and networking, utilities, European utilities, HVAC, and industrials.

DeepSeek's R1 Launch Shows There Are No Moats in Large Language Model Space Malik Ahmed Khan, CFA, Equity Analyst, 27 Jan 2025

DeepSeek, a Chinese artificial intelligence company, released its open-source reasoning model, R1, earlier this month. The model's capabilities roughly match those of advanced models by OpenAI, Anthropic, and Google while having materially lower training costs. Why it matters: R1's impressive performance/cost dynamics have raised investor concerns about the necessity of the billions of dollars

Amazon.com Inc AMZN ★★★ 8 Jan 2026 22:39, UTC

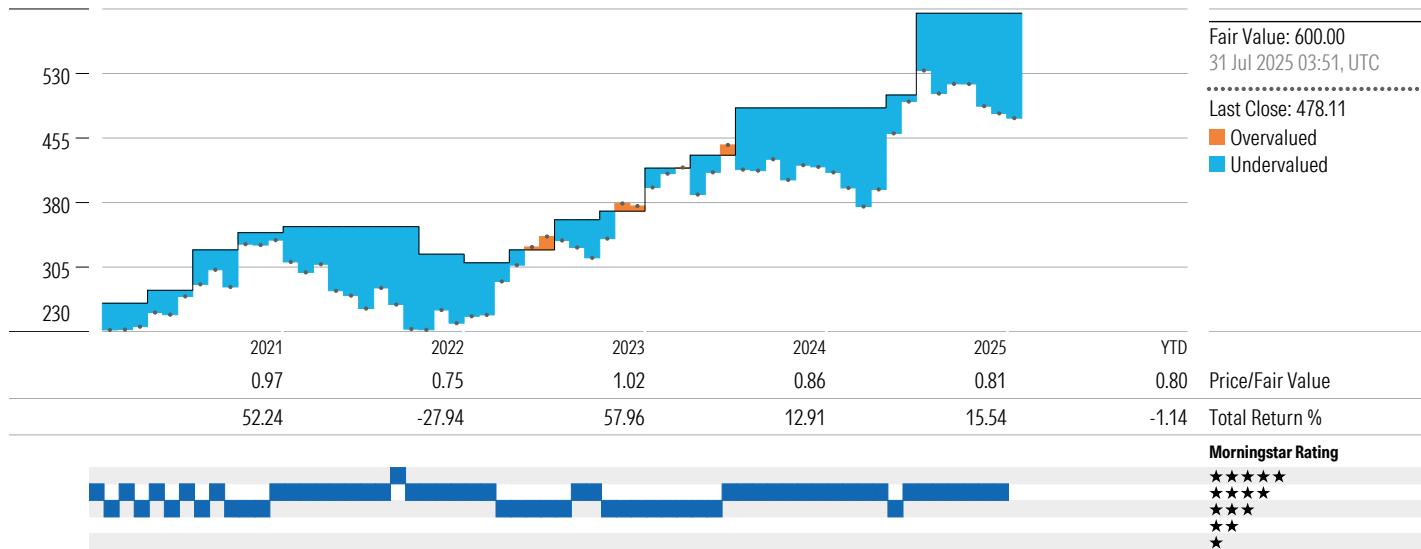
Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment ¹
246.29 USD 8 Jan 2026	260.00 USD 31 Oct 2025 03:40, UTC	0.95	2.63 USD Tril 8 Jan 2026	Wide	Large Blend	Medium	Exemplary	 7 Jan 2026 06:00, UTC

of capital expenditures by large US tech companies so far and the billions more they are planning to spend on generative AI in the coming years. R1's launch and the dramatically lower pricing, which is more than 90% below OpenAI's latest reasoning model, go hand-in-hand with our broader "commodification of complements" view of the large language model space. We believe that as the price of LLMs (the complementary good) goes down, the value and usage of the public cloud vendors' primary good, cloud infrastructure, actually increases. To that end, we believe Amazon, Microsoft, and Google actually benefit from reduced LLM pricing in the long run. The bottom line: We maintain our fair value estimates for Microsoft (\$490), Amazon (\$200), and Alphabet (\$220) and see these wide-moat firms benefiting from a commodified LLM layer, with increased spending on AI creating tailwinds for their public cloud businesses. While we expect capital expenditures by the public cloud vendors to remain elevated in the near term, we see these expenditures as primarily geared toward serving generative AI demand, which should flourish with lower pricing of LLMs, as opposed to training leading-edge models. At the same time, we expect these large US tech companies to replicate some of the AI techniques that DeepSeek leveraged to drive the cost of R1 down, as a means of reducing their own model training and inference costs, potentially lowering medium- to long-term capital expenditures. III

Amazon.com Inc AMZN ★★★ 8 Jan 2026 22:39, UTC

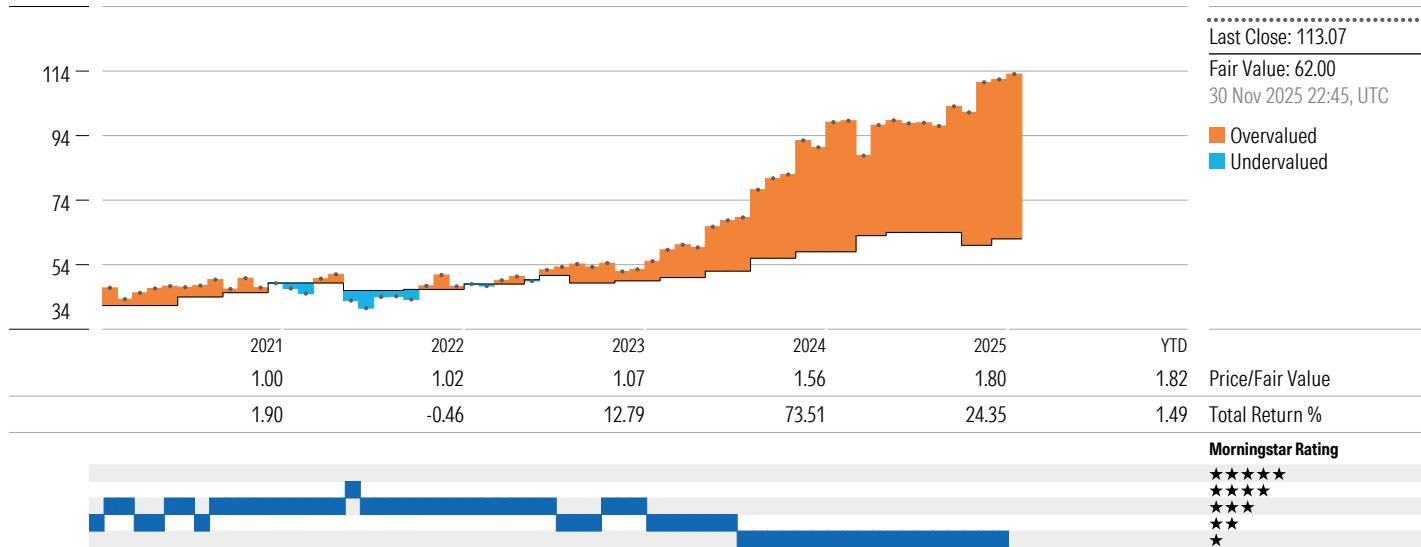
Competitors Price vs. Fair Value

Microsoft Corp MSFT



Total Return % as of 08 Jan 2026. Last Close as of 08 Jan 2026. Fair Value as of 31 Jul 2025 03:51, UTC.

Walmart Inc WMT

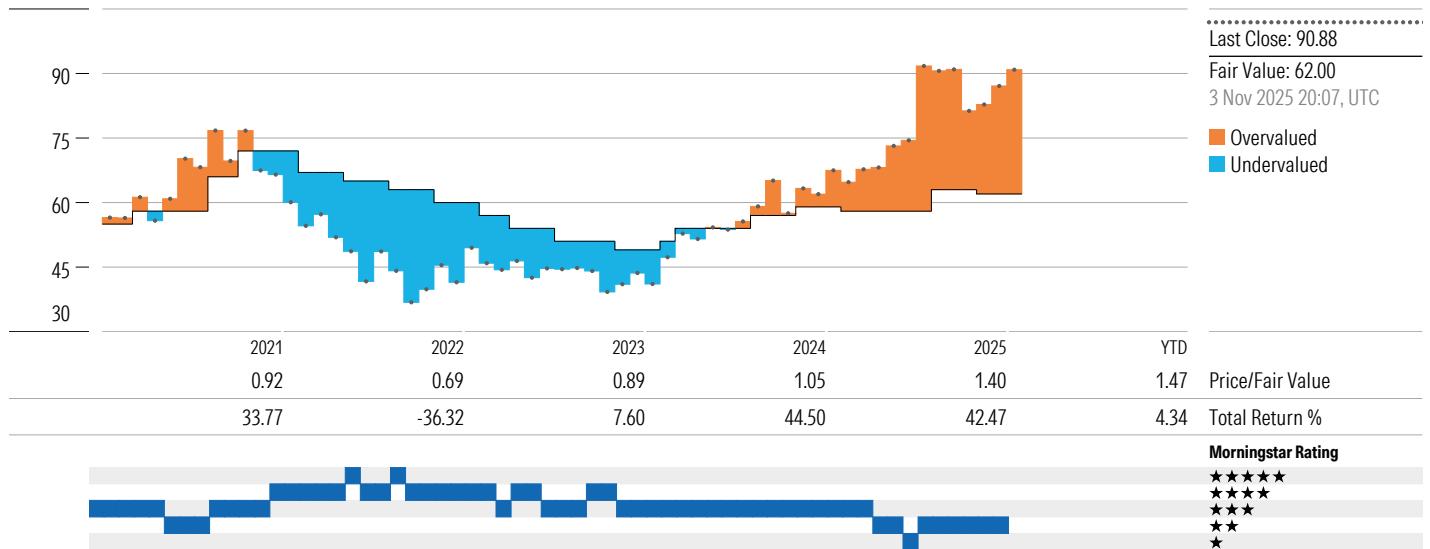


Total Return % as of 08 Jan 2026. Last Close as of 08 Jan 2026. Fair Value as of 30 Nov 2025 22:45, UTC.

Amazon.com Inc AMZN ★★★ 8 Jan 2026 22:39, UTC

Competitors Price vs. Fair Value

eBay Inc EBAY



Total Return % as of 08 Jan 2026. Last Close as of 08 Jan 2026. Fair Value as of 3 Nov 2025 20:07, UTC.

Amazon.com Inc AMZN ★★★ 8 Jan 2026 22:39, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment ¹
246.29 USD 8 Jan 2026	260.00 USD 31 Oct 2025 03:40, UTC	0.95	2.63 USD Tril 8 Jan 2026	Wide	Large Blend	Medium	Exemplary	 7 Jan 2026 06:00, UTC

Morningstar Valuation Model Summary

Financials as of 30 Oct 2025	Actual			Forecast				
	2022	2023	2024	2025	2026	2027	2028	2029
Fiscal Year, ends 31 Dec								
Revenue (USD Mil)	513,983	574,785	637,959	714,029	789,761	870,994	958,490	1,052,101
Operating Income (USD Mil)	12,248	36,852	68,593	78,476	100,121	107,481	121,249	135,826
EBITDA (USD Mil)	53,709	85,515	173,491	183,374	261,232	278,500	302,212	323,363
Adjusted EBITDA (USD Mil)	53,709	85,515	173,491	183,374	261,232	278,500	302,212	323,363
Net Income (USD Mil)	-2,722	30,425	59,248	75,844	82,215	86,836	97,755	110,129
Adjusted Net Income (USD Mil)	-2,722	30,425	59,248	75,844	82,215	86,836	97,755	110,129
Free Cash Flow To The Firm (USD Mil)	11,223	42,662	109,183	43,028	114,367	121,738	132,847	141,999
Weighted Average Diluted Shares Outstanding (Bil)	10	10	11	11	11	11	11	11
Earnings Per Share (Diluted) (USD)	-0.27	2.90	5.53	7.01	7.50	7.92	8.92	10.05
Adjusted Earnings Per Share (Diluted) (USD)	-0.27	2.90	5.53	7.01	7.50	7.92	8.92	10.05
Dividends Per Share (USD)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Margins & Returns as of 30 Oct 2025	Actual			Forecast				
	3 Year Avg	2022	2023	2024	2025	2026	2027	2029
Operating Margin %	6.5	2.4	6.4	10.8	11.0	12.7	12.3	12.9
EBITDA Margin %	—	10.5	14.9	27.2	25.7	33.1	32.0	31.5
Adjusted EBITDA Margin %	—	10.5	14.9	27.2	25.7	33.1	32.0	30.7
Net Margin %	4.7	-0.5	5.3	9.3	10.6	10.4	10.0	10.5
Adjusted Net Margin %	4.7	-0.5	5.3	9.3	10.6	10.4	10.0	10.5
Free Cash Flow To The Firm Margin %	8.9	2.2	7.4	17.1	6.0	14.5	14.0	13.5
Growth & Ratios as of 30 Oct 2025	Actual			Forecast				
	3 Year CAGR	2022	2023	2024	2025	2026	2027	2029
Revenue Growth %	10.7	9.4	11.8	11.0	11.9	10.6	10.3	9.8
Operating Income Growth %	40.2	-50.8	200.9	86.1	14.4	27.6	7.4	12.0
EBITDA Growth %	51.0	-9.2	59.2	102.9	5.7	42.5	6.6	8.5
Adjusted EBITDA Growth %	43.1	-9.2	59.2	102.9	5.7	42.5	6.6	8.5
Earnings Per Share Growth %	19.5	-108.2	-1185.5	90.6	26.8	7.0	5.6	12.6
Adjusted Earnings Per Share Growth %	19.5	-108.2	-1185.5	90.6	26.8	7.0	5.6	12.6
Valuation as of 30 Oct 2025	Actual			Forecast				
		2022	2023	2024	2025	2026	2027	2029
Price/Earnings		-311.1	52.4	39.7	35.1	32.8	31.1	27.6
Price/Sales		1.7	2.7	3.6	3.7	3.3	3.0	2.7
Price/Book		5.9	7.9	8.2	7.4	6.1	5.1	4.3
Price/Cash Flow		—	—	—	—	—	—	—
EV/EBITDA		17.3	19.2	13.7	14.6	10.2	9.6	8.8
EV/EBIT		75.6	44.6	34.6	34.1	26.7	24.9	22.1
Dividend Yield %		—	—	—	—	—	—	—
Dividend Payout %		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Free Cash Flow Yield %		—	—	—	—	—	—	—
Operating Performance / Profitability as of 30 Oct 2025	Actual			Forecast				
		2022	2023	2024	2025	2026	2027	2029
Fiscal Year, ends 31 Dec								
ROA %		-0.6	5.8	9.5	12.0	11.2	10.4	10.2
ROE %		-1.9	15.1	20.7	21.0	18.5	16.4	15.6
ROIC %		12.4	15.5	18.1	17.3	17.7	18.0	19.2

Amazon.com Inc AMZN ★★★ 8 Jan 2026 22:39, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment ¹
246.29 USD 8 Jan 2026	260.00 USD 31 Oct 2025 03:40, UTC	0.95	2.63 USD Tril 8 Jan 2026	Wide	Large Blend	Medium	Exemplary	 7 Jan 2026 06:00, UTC

Financial Leverage (Reporting Currency)	Actual			Forecast				
	2022	2023	2024	2025	2026	2027	2028	2029
Fiscal Year, ends 31 Dec	14.1	8.0	5.4	1.6	1.4	1.0	0.9	0.8
Debt/Capital %	3.2	2.6	2.2	1.7	1.7	1.6	1.5	1.5
Assets/Equity	1.3	0.6	0.2	-0.1	-0.3	-0.5	-0.7	-1.0
Net Debt/EBITDA	2.6	1.6	0.8	0.3	0.2	0.1	0.1	0.1
Total Debt/EBITDA	3.0	-121.3	-8,261.5	-10.9	-66.2	-114.2	-121.3	-90.4
EBITDA/ Net Interest Expense								

Forecast Revisions as of 30 Oct 2025	2025		2026		2027	
	Current	Prior	Current	Prior	Current	Prior
Prior data as of 31 Jul 2025	260.00	245.00	—	—	—	—
Fair Value Estimate Change (Trading Currency)						
Revenue (USD Mil)	714,029	706,181	789,761	774,782	870,994	849,667
Operating Income (USD Mil)	78,476	76,748	100,121	93,537	107,481	103,999
EBITDA (USD Mil)	183,374	164,667	261,232	223,700	278,500	235,443
Net Income (USD Mil)	75,844	67,736	82,215	76,955	86,836	84,039
Earnings Per Share (Diluted) (USD)	7.01	6.25	7.50	7.02	7.92	7.67
Adjusted Earnings Per Share (Diluted) (USD)	7.01	6.25	7.50	7.02	7.92	7.67
Dividends Per Share (USD)	0.00	0.00	0.00	0.00	0.00	0.00

Key Valuation Drivers as of 30 Oct 2025	Discounted Cash Flow Valuation as of 30 Oct 2025		USD Mil
	Cost of Equity %	Present Value Stage I	
Cost of Equity %	9.0	870,581	
Pre-Tax Cost of Debt %	5.5	585,743	
Weighted Average Cost of Capital %	8.3	1,115,040	
Long-Run Tax Rate %	21.0		
Stage II EBI Growth Rate %	8.8		
Stage II Investment Rate %	29.9		
Perpetuity Year	20		

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

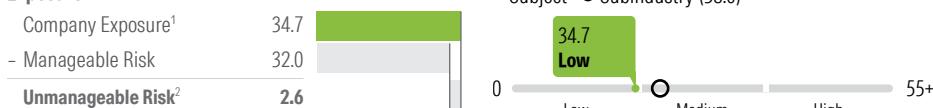
Discounted Cash Flow Valuation as of 30 Oct 2025	USD Mil	
	Present Value Stage I	Present Value Stage II
Present Value Stage I	870,581	
Present Value Stage II	585,743	
Present Value Stage III	1,115,040	
Total Firm Value	2,571,364	
Cash and Equivalents	101,202	
Debt	52,623	
Other Adjustments	0	
Equity Value	2,619,943	
Projected Diluted Shares	11	
Fair Value per Share (USD)	260.00	

Amazon.com Inc AMZN ★★★ 8 Jan 2026 22:39, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment ¹
246.29 USD 8 Jan 2026	260.00 USD 31 Oct 2025 03:40, UTC	0.95	2.63 USD Tril 8 Jan 2026	Wide	Large Blend	Medium	Exemplary	 7 Jan 2026 06:00, UTC

ESG Risk Rating Breakdown

Exposure



● Subject ○ Subindustry (38.0)

34.7
Low

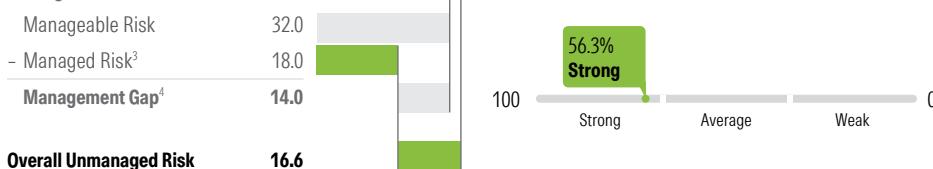
0

Low

Medium

High

Management



56.3%
Strong

100

Strong

Average

Weak

Overall Unmanaged Risk



16.6
Low

Negligible

Low

Medium

High

Severe

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

1. A company's Exposure to material ESG issues 2. Unmanageable Risk refers to risks that are inherent to a particular business model that cannot be managed by programs or initiatives 3. Managed Risk = Manageable Risk multiplied by a Management score of 56.3% 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

- 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 Assessment⁵



ESG Risk Rating is of Dec 03, 2025. Highest Controversy Level is as of Dec 08, 2025. Sustainalytics Subindustry: Online and Direct Marketing Retail. 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 07 Jan 2026

Company Name	Exposure	Management	ESG Risk Rating
Amazon.com Inc	34.7 Low	56.3 Strong	16.6 Low
Microsoft Corp	32.8 Low	60.3 Strong	14.4 Low
Walmart Inc	43.1 Medium	61.3 Strong	18.6 Low
eBay Inc	37.8 Medium	60.8 Strong	16.6 Low
Douglas AG	29.1 Low	34.4 Average	19.7 Low

Appendix

Historical Morningstar Rating

Amazon.com Inc AMZN 8 Jan 2026 22:39, UTC

Dec 2026	Nov 2026	Oct 2026	Sep 2026	Aug 2026	Jul 2026	Jun 2026	May 2026	Apr 2026	Mar 2026	Feb 2026	Jan 2026
—	—	—	—	—	—	—	—	—	—	—	★★★
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
★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★

Microsoft Corp MSFT 8 Jan 2026 22:39, UTC

Dec 2026	Nov 2026	Oct 2026	Sep 2026	Aug 2026	Jul 2026	Jun 2026	May 2026	Apr 2026	Mar 2026	Feb 2026	Jan 2026
—	—	—	—	—	—	—	—	—	—	—	★★★★★
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
★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★

Walmart Inc WMT 8 Jan 2026 22:41, UTC

Dec 2026	Nov 2026	Oct 2026	Sep 2026	Aug 2026	Jul 2026	Jun 2026	May 2026	Apr 2026	Mar 2026	Feb 2026	Jan 2026
—	—	—	—	—	—	—	—	—	—	—	★
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
★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★

eBay Inc EBAY 8 Jan 2026 22:41, UTC

Dec 2026	Nov 2026	Oct 2026	Sep 2026	Aug 2026	Jul 2026	Jun 2026	May 2026	Apr 2026	Mar 2026	Feb 2026	Jan 2026
—	—	—	—	—	—	—	—	—	—	—	★★
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
★★★	★★★	★★★	★★★	★★	★★	★★	★★	★★	★★	★★	★★

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, 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 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	

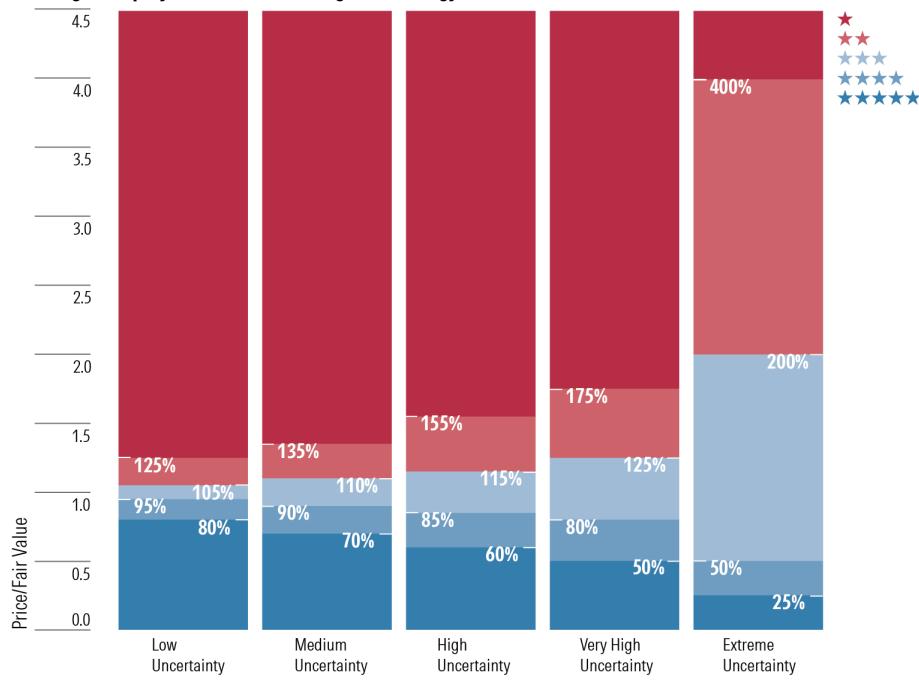
Our uncertainty rating is based on the interquartile range, or the middle 50% of potential outcomes, covering the 25th percentile–75th percentile. This means that when a stock hits 5 stars, we expect there is a 75% chance that the intrinsic value of that stock lies above the current market price. Similarly,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

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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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