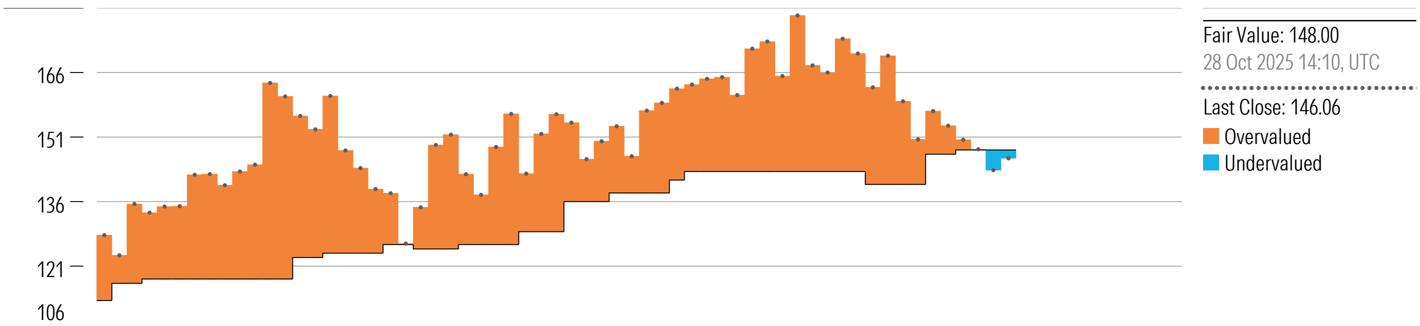
Morningstar Equity Analyst Report | Report as of 22 Jan 2026 18:11, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC. Page 1 of 24

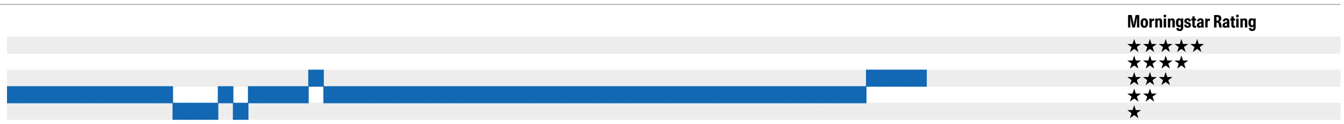
Procter & Gamble Co PG ★★★ 21 Jan 2026 22:32, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
146.06 USD 21 Jan 2026	148.00 USD 28 Oct 2025 14:10, UTC	0.99	350.16 USD Bil 22 Jan 2026	Wide	Large Value	Low	Exemplary	7 Jan 2026 06:00, UTC

Price vs. Fair Value



	2021	2022	2023	2024	2025	YTD	
	1.39	1.21	1.06	1.17	0.97	0.99	Price/Fair Value
	20.01	-5.14	-0.85	17.11	-12.03	1.92	Total Return %



Total Return % as of 21 Jan 2026. Last Close as of 21 Jan 2026. Fair Value as of 28 Oct 2025 14:10, UTC.

Contents

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

Procter & Gamble Earnings: Frigid Sales and Margins Don't Suggest Cracks in Its Standing

Analyst Note Erin Lash, CFA, Sector Director, 22 Jan 2026

Procter & Gamble's fiscal second-quarter sales languished as 1% higher prices were offset by 1% lower volume. Despite a 160-basis-point benefit from cost savings, the combination of unfavorable mix, tariffs, and reinvestment capped adjusted gross margin at 51.2%, down 30 basis points year over year.

Why it matters: While consumer spending remains weak, the geopolitical environment is uncertain, and the competitive backdrop is intense, we view P&G's long-standing focus on extracting inefficiencies to fuel brand spending as a prudent strategic path.

- This report was CEO Shailesh Jejurikar's first since taking over from Jon Moeller. We sense he intends to hone efforts to drive productivity and rightsize the company's category and geographic reach, which strikes us as judicious.
- Long term, we forecast 13% of sales to be directed to research, development, and marketing and 4.3% to capital expenditures (both generally in line with history) as the firm scales its capabilities and platform investments from the past few years while strengthening its value proposition.

The bottom line: We don't expect to make any material changes to our $148 fair value estimate for wide-moat P&G, rendering the shares fairly valued.

- However, we wouldn't require a significant margin of safety before recommending that investors add this competitively advantaged name to their shopping carts.

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Sector	Industry
Consumer Defensive	Household & Personal Products

Business Description

Since its founding in 1837, Procter & Gamble has become one of the world's largest consumer product manufacturers, with annual sales of nearly $85 billion. It operates with a lineup of leading brands, including more than 20 that generate north of $1 billion each in annual global sales, such as Tide laundry detergent, Charmin toilet paper, Pantene shampoo, and Pampers diapers. Sales outside its home turf represent just more than half of the firm's consolidated total.

Between the lines: North America was a notable blemish, down 2% on an organic basis. This lagged the broader market's 1%-2% growth.

- Management was forthright about its challenges. We think it can double down on consumer-valued innovation and marketing to support its brand health, which should boost sales in time.
- These steps mimic actions taken over the past few years in China, where P&G is now boasting market share gains—posting 3% organic growth versus a 1% pullback in its categories—even as the consumer landscape remains grim.

Business Strategy & Outlook Erin Lash, CFA, Sector Director, 28 Oct 2025

Tempered sales have characterized the last few quarters for wide-moat Procter & Gamble, with the firm posting low-single-digit organic sales growth in each period, lagging the mid- to high-single-digit marks that had more recently characterized the business. This was initially a byproduct of more muted price increases (low single digits, down from 7% in the first quarter of 2024). However, we don't believe this suggests cracks in the firm's competitive prowess. After rightsizing its category and geographic reach by shedding around 100 brands beginning just over 10 years ago, P&G also embraced a more holistic approach to brand investing (consisting of how a product performs, the packaging, brand messaging, execution in stores and online, and the value a product offers its retail partners and consumers). And we believe P&G's strategic aims—investing in product innovation and marketing to support its portfolio of daily-use, essential offerings—should ensure its brands maintain their clout with retailers and consumers, supporting its wide moat over the long term.

But despite this, P&G hasn't been immune to inflationary and supply chain pressures over the past few years, which it has looked to mitigate by raising prices and unlocking productivity savings. Rather than favoring profit preservation, though, P&G has continued to prudently reinvest resources in the business to enhance its competitive standing. And as a means to further solidify its edge, management has been working through a thorough review of its stock-keeping units to streamline the shelf (making it easier for consumers to shop) and reduce complexity (with the intent of enhancing service levels) to drive category growth. More recently, P&G announced its intention to surgically rationalize its product and geographic mix, optimize its supply chain, and alter the makeup of its organizational structure. We view these moves as sound and anticipate that they will yield additional cost savings for investment. This aligns with our 10-year forecast for P&G to spend about 13% of sales annually on research, development, and marketing, which is generally in line with historical averages.

Bulls Say Erin Lash, CFA, Sector Director, 28 Oct 2025

- If retailers and consumers continue to favor leading branded operators, given their efficiacy halo, P&G's sales trajectory may outpace our expectations.
- Opportunities to further narrow its product mix could enable P&G to more effectively direct brand spending to the highest-return aisles.

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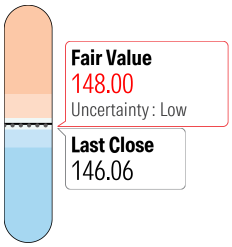
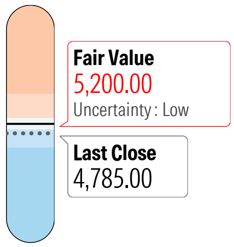
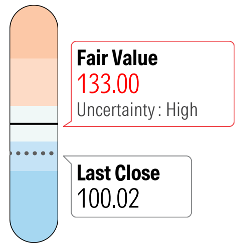
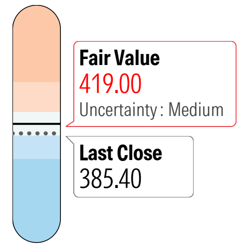
Competitors

	Procter & Gamble Co PG	Unilever PLC ULVR	Kimberly-Clark Corp KMB	L'Oreal SA OR
				
Economic Moat	Wide	Wide	Narrow	Wide
Currency	USD	GBX	USD	EUR
Fair Value	148.00 28 Oct 2025 14:10, UTC	5,200.00 9 Dec 2025 19:56, UTC	133.00 3 Nov 2025 20:45, UTC	419.00 23 Dec 2025 19:20, UTC
1-Star Price	185.00	6,500.00	206.15	565.65
5-Star Price	118.40	4,160.00	79.80	293.30
Assessment	Fairly Valued 21 Jan 2026	Undervalued 22 Jan 2026	Undervalued 21 Jan 2026	Fairly Valued 22 Jan 2026
Morningstar Rating	★★★21 Jan 2026 22:32, UTC	★★★★22 Jan 2026 03:48, UTC	★★★★21 Jan 2026 22:30, UTC	★★★22 Jan 2026 04:08, UTC
Analyst	Erin Lash, Sector Director	Diana Radu, Equity Analyst	Erin Lash, Sector Director	Dan Su, Equity Analyst
Capital Allocation	Exemplary	Standard	Standard	Exemplary
Price/Fair Value	0.99	0.92	0.75	0.92
Price/Sales	4.21	2.11	1.93	4.71
Price/Book	6.42	6.86	24.92	6.59
Price/Earning	21.20	16.52	14.21	30.23
Dividend Yield	2.86%	3.65%	5.04%	1.82%
Market Cap	341.30 Bil	10,434.60 Bil	33.20 Bil	205.72 Bil
52-Week Range	137.62—179.99	4,584.50—5,542.11	96.26—150.45	326.65—408.35
Investment Style	Large Value	Large Blend	Mid Value	Large Blend

- Despite completing two $10 billion cost-reduction efforts, additional savings (likely stemming from reduced overhead and higher returns on its manufacturing footprint and marketing investments) could materialize if efficiency is as ingrained in its culture as management suggests.

Bears Say Erin Lash, CFA, Sector Director, 28 Oct 2025

- A weak consumer spending backdrop in China has been an Achilles' heel for P&G's beauty segment (nearly one fifth of sales), and demand could remain tepid until economic conditions in the region show consistent improvement.
- In fiscal 2026, P&G expects around $400 million in additional costs from tariffs (about 1% of cost of goods sold, assuming no change in levies), which may dent profits if it's unable to extract inefficiencies and/or raise prices.
- Foreign-exchange volatility may hamper profits at times, as a portion of P&G's products are sold in different geographic regions.

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Economic Moat Erin Lash, CFA, Sector Director, 28 Oct 2025

We assign Procter & Gamble a wide economic moat rating, stemming from its strong intangible assets, which have also facilitated a cost advantage. In support of our contention, P&G operates as a leading household and personal-care manufacturer, with around 25% share of the global laundry category, north of 50% of the domestic menstrual care space, around 20% of dishwashing worldwide, and more than one-fifth of the North American men's grooming market, according to Euromonitor. Buttressing its standing, P&G possesses the resources to launch consumer-valued new products (spending 2%-3% of sales or around $2 billion on research and development annually) and market that fare (spending a low-double-digit percentage of sales or more than $8 billion annually on advertising) to drive customer traffic into stores and onto e-commerce platforms. Even as the retail landscape has consolidated, which theoretically affords retailers greater bargaining power, leading brands like those in P&G's portfolio still drive traffic into retail outlets. When combined with its proven ability to keep retail shelves stocked, we believe P&G has solidified its position with its retail partners, thereby bolstering the advantage stemming from its intangible assets. Another byproduct of its intangible assets, P&G has also amassed significant scale over many years, enabling it to achieve lower unit costs than its smaller peers.

Beginning in 2014, P&G began shedding about 100 brands—more than half of its brand portfolio at the time—a decision we viewed as an indication that the firm was looking to become a nimbler, more responsive player in the global consumer products arena. And despite this move, we felt the firm would still have significant clout with retailers, given that the brands it was parting ways with had posted languishing sales (down 3%) and profits (down 16%) over the prior three years, according to the firm. In contrast, the 65 brands that were to remain in its mix had already accounted for more than 85% of the firm's top line and 95% of its profits. As such, we didn't anticipate P&G would sacrifice scale but would benefit from an enhanced focus (in terms of personnel and financial resources), and ultimately an improved share position. For example, P&G's share of the Latin American dishwashing category jumped to 19% in 2024, up from the midteens in 2014.

The fruits of this initiative have also been evident in the firm's adult incontinence business, where it now boasts a mid-teens share on its home turf, up from the low single digits in 2014 (at the expense of industry leader, narrow-moat Kimberly-Clark, which lost around 10 share points over the same period). P&G re-entered the aisle in July 2014, aiming to break down the stigma around adult incontinence products by introducing new offerings that appeal to female consumers under its Always brand. This included the launch of Always Discreet Boutique, which more closely resembled real underwear than other products in the aisle at the time. According to the firm, this product drove a 50% acceleration in category growth after its launch and increased the firm's household penetration by 15 points. Despite selling at a 60% premium to base offerings in this category, management has asserted that Always Discreet now boasts a dollar share in the low teens, up from around 10% before the launch of Boutique.

We attribute these gains to P&G's ability to better align its mix with consumers' evolving preferences after narrowing its category reach.

And while competitive pressures abound, we don't believe P&G's share lead will wither away. Rather than being content with recent performance, management has emphasized the need to consistently bring superior products to market (as it pertains to how a product performs, the packaging, its brand messaging, execution in-store and online, as well as the value a product offers for both its retail partners and the end consumer). Much discussion has centered on the need to be more agile, starting small with product launches and tailoring offerings based on consumer response before rolling out on a larger scale, which we view as a favorable shift from launching new products broadly (often with a delayed rollout) at the outset. Further, we're encouraged that P&G seems to appreciate the need to be present and innovate across all price tiers (allowing it to trade consumers up and down within its brand set) to withstand intense competitive pressures, as the inability to do so has plagued its business in the past.

We believe its brand investments should help keep lower-priced private-label offerings from gaining much traction. For instance, P&G has consistently held around 25% of the global laundry detergent space, far outpacing the just about 4% for private label. We've also seen this manifest in the composition of its organic sales growth. Over fiscal 2018-22, price contributed a 2.4% boost to its top line, while volumes increased 2.3%, suggesting the pricing power P&G maintains. And while volumes slipped 3% in fiscal 2023, on the heels of a 10% price hike, we view this drawdown as muted given the pronounced price increases it implemented. To further these efforts, P&G has been reviewing its suite of stock-keeping units to streamline shelf space (making it easier for consumers to shop) and reduce complexity (which should enhance service levels), with the ultimate goal of driving category growth. More recently, P&G disclosed its intentions to surgically rationalize select areas of its product/geographic mix (including trimming its feminine care pad offering in Asia and exiting Bangladesh), optimize its supply chain, and alter the makeup of its organizational structure. We view these efforts as prudent and anticipate they will yield additional cost savings that the firm can allocate to its core lineup to ensure its mix continues to resonate with consumers' evolving preferences.

A byproduct of its dominant brands and clout with retailers is that P&G has unlocked a cost edge, with its wide-ranging scale affording negotiating power with suppliers. As a means to assess the firm's cost position, we've attempted to home in on direct operating costs related to manufacturing and distribution, while removing discretionary costs, such as advertising and R&D, noncash costs including depreciation and amortization, and nonrecurring expenses to gauge which firms are best positioned to overcome customer acquisition costs. On this basis, P&G boasts a direct operating margin of around 40%, which is fairly consistent with the 41% average for the household and personal care companies we cover, which tend to be competitively advantaged. However, when excluding the robust direct operating margins of moaty beauty care firms L'Oreal and Galderma (60% and 62%, respectively), the industry average falls to 38%.

Further quantitative support can be seen in returns on invested capital (including goodwill), which have averaged nearly 15% annually over the past 10 years, exceeding our 7% cost of capital estimate. We think the firm can continue to outearn its cost of capital over the next 20 years, in line with our view that P&G has amassed a wide economic moat.

Fair Value and Profit Drivers Erin Lash, CFA, Sector Director, 28 Oct 2025

We're edging up our fair value estimate for P&G to $148 per share from $147, after unpacking its fiscal first-quarter marks to reflect a time value of money benefit. Incorporated within its fiscal 2026 outlook (flat organic sales to 4% growth and $6.85-$7.09 in adjusted EPS), P&G sees $400 million in added costs from tariffs (1% of cost of goods sold, assuming no change in levies). The most significant drivers of the tariffs are China (which accounts for about 10% of its total US imports) and Canada (as a portion of its finished products are manufactured in the US). Even as a majority of its manufacturing is already close to the end consumer, we surmise that P&G will employ multiple levers in the near term to mitigate this pressure, including identifying inefficiencies, investing in margin-accretive innovations, and selectively raising prices (up 2.0%-2.5% on average across its mix as of September). As such, our long-term outlook holds, calling for about 4% annual sales growth and nearly 25% operating margins at the end of our explicit forecast, up from an average of 23%-24% over the past five years. Our valuation implies a fiscal 2026 enterprise value/adjusted EBITDA of 14 times.

Despite gains over the past few years from consumers' penchant for cleaning and hygiene fare since covid initially came on the scene, we had viewed the acceleration in P&G's top line throughout fiscal 2019 and into 2020 as a testament to the merits of its strategic agenda to rightsize its brand mix and drive productivity savings to fuel further investments behind consumer-valued innovation. Although we expect competitive angst to resurface amid challenging macroeconomic conditions around the globe, we think P&G is well suited to weather this uncertain landscape. For one, since the last economic downturn (during which P&G chalked up low-single-digit quarterly organic top-line gains), the firm has prudently taken a more holistic approach to brand investing, encompassing how a product performs, the packaging, brand messaging, execution in stores and online, and the value a product offers its retail partners and end consumers. Furthermore, management has adjusted its mix to include more daily-use fare, pruning discretionary offerings—including its professional beauty brands—a few years ago.

While inflationary headwinds had been eating into the firm's margins and promotional intensity has stepped up in a few categories, we think management remains squarely focused on unearthing efficiencies in its underlying business (reducing overhead, lowering material costs from product design and formulation efficiencies, and increasing manufacturing and marketing productivity) and investing to tout the prowess of its fare, which we view as prudent. In this context, we're encouraged by its intentions to continue leaning into brand spending as an opportunity to showcase the value its products offer consumers, rather than preserving profits in this uncertain climate. This aligns with our forecast, which calls for P&G to allocate approximately 3% of sales to R&D and 10%-11% of sales to marketing on a long-term basis.

Risk and Uncertainty Erin Lash, CFA, Sector Director, 28 Oct 2025

We assign P&G a Low Uncertainty Rating. Throughout the sector, consternation has surrounded the competitive landscape and the ability of firms to offset inflation in raw materials, labor, packaging, and transportation with higher prices. Adding to these challenges from an environmental, social, and governance perspective, any product recalls (necessitated by substandard quality) or claims of price-fixing could also weigh on volume. And more recently, the impending impact of tariffs has caused considerable angst. But we don't see any of these factors impairing its brand standing or cash flows. With about 50% of its sales derived outside the US, P&G is exposed to changes in foreign-exchange rates, which could constrain its reported financials, with a more pronounced profit impact, as the firm isn't always manufacturing in the locations where it's selling. This challenge is unlikely to abate fully.

Beyond this, P&G had also been challenged by past executional missteps, which saw it overextend as it sought to build out its category and geographic footprint. But we think it's been charting a new course by reducing headcount and overhead, improving manufacturing efficiency, and freeing up funds to reinvest in its business.

Although much attention has focused on P&G's inability to drive durable sales gains in the past, particularly in its grooming arm, we see similarities to the challenges that had plagued its beauty business. In the latter case, beauty had succumbed to intense competition from established branded operators and niche local players at a time when its innovation failed to align with consumer trends. However, management sought to course-correct, opting to part ways with unprofitable products and launch fare centered on its core anti-aging messaging. We think P&G has also taken a sound strategic path to rebut pressures in its grooming business—by recalibrating its pricing, investing in on-trend new products, and launching its own subscription-based sales model.

Capital Allocation Erin Lash, CFA, Sector Director, 28 Oct 2025

We maintain our Exemplary Capital Allocation Rating for P&G, based on our assessment of the company's sound balance sheet, a fair investment record, and appropriate shareholder distributions. After more than four years at the helm and 37 years at the firm, CEO Jon Moeller is ceding the corner office to COO Shailesh Jejurikar on Jan. 1, 2026. Moeller will continue to serve as executive chairman to ensure a smooth transition. With his career at P&G dating back to 1989, we think Jejurikar possesses an innate understanding of the firm's expansive category and geographic footprint. Further, we posit that he has helped craft the firm's strategic playbook (centered on stringently extracting costs while directing additional resources toward product innovation that resonates with consumers and marketing that fare), thus, we don't expect it to pivot off its current course.

When taken together, we believe that the relative lack of cyclicality in its operations, combined with low leverage levels, will ensure its balance-sheet strength persists. In this context, we forecast net debt/ adjusted EBITDA of 1.1 times on average over the next five years, generally in line with the 1.2 times level the firm has chalked up on average between fiscal 2021 and fiscal 2025. Further, with our expectations for free cash flow to amount to 20% of sales on average through fiscal 2030, we have few qualms about the health of its balance sheet.

The soundness of P&G's capital allocation and corporate governance came under fire almost a decade ago when activist Nelson Peltz amassed an ownership stake of more than $3 billion, or about 1% of shares outstanding. He took aim at P&G's insular culture and lagging financial performance. We had contended that P&G was already on a path to drive significant and lasting change in the business. While we think bureaucracy impaired the company's ability to respond more effectively to competitive headwinds and evolving consumer trends in the past, we've been encouraged by the firm's goal over the past decade or so to enhance accountability across the organization. The impediments that plagued P&G during former CEO Bob McDonald's tenure left a lasting impression on management, and we think the organization has been keen to avoid succumbing to the same pitfalls of overemphasizing operational improvement at the expense of value-added innovation.

In this vein, the firm announced in late 2018 intentions to shake up its organizational structure by focusing on six sector business units that now have direct control over strategy, product and package innovation, and supply chain in its largest markets, including North America, China, Japan, as well as developed European markets, which in aggregate make up about 80% of sales and 90% of aftertax profit. The remaining regions have fallen under the purview of Jejurikar. This shift facilitated better alignment of the firm's resources and allowed for decision-making closer to the consumer, which we consider prudent. While we think this structure helps P&G to be more responsive and agile, we don't expect it to jeopardize the company's ability to harness the benefits of its scale and negotiating leverage.

Beyond his prior critique of corporate governance, we don't view Peltz's previous directive to organize the business into three stand-alone units—beauty, grooming, and healthcare; fabric and home care; and baby, feminine, and family care—as judicious. Instead, we think this move could ultimately increase the business' costs and complexity, undoing the progress made to date. Further, we believe this organizational structure would impede P&G's ability to leverage its scale, negotiating leverage, and consumer insights to the extent possible as a combined organization. While we perceive a split of its operations as unwise at this juncture, we think the firm could still look to part ways with other brands, including its consumer tissue business (particularly the Charmin and Bounty brands, which we estimate generate around $4 billion in total sales annually), if efforts to reignite sales cool. Although we don't anticipate that P&G will act as a consolidator, we think it could selectively pursue smaller, bolt-on acquisitions to enhance its capabilities or category exposure when the opportunity arises.

We also expect bolstering shareholder returns to remain a key capital allocation priority (building off of the more than $125 billion returned in total over the last 10 years). Our forecast still calls for high-single-digit annual increases in its dividend and a low-single-digit percentage of shares repurchased each year, which we view as a prudent use of cash when orchestrated at a discount to our assessment of intrinsic value.

Analyst Notes Archive

Procter & Gamble Earnings: Cost Savings Pursuit a Wise Course to Boost Brand Investment Erin Lash, CFA,Sector Director,29 Jul 2025

Procter & Gamble's fourth quarter featured a 2% bump in organic sales (driven by a benefit from higher prices and favorable mix) that came alongside a 150-basis-point uptick in the adjusted operating margin to 20.8%. Why it matters: Even in the face of intense competition and macroeconomic angst, we think P&G maintains an unrelenting focus on judiciously investing in its brands and capabilities to drive higher growth and wider margins. We don't think P&G is keen to chase short-term volumes, but it is resolute in its commitment to bring superior products to market across price tiers. The prudence of this approach is illustrated in the fact that price has contributed positively to organic sales growth 19 of the past 20 years. We forecast research, development, and marketing will continue to eat up around 13% of sales over our explicit forecast, generally in line with the levels expended historically. The bottom line: We don't expect much change to our $140 per share fair value estimate (beyond time value) for wide-moat P&G or our long-term assumptions (4% annual sales growth against mid-20s operating margins). At a 10%-15% premium to our intrinsic valuation, shares don't strike us as particularly attractive. However, trepidation around competition and macro pressures could weigh on the stock and create a more favorable risk/reward opportunity. Coming up: Without providing much specificity, P&G disclosed its intentions to surgically rationalize select areas of its product/geographic mix (including trimming its feminine care pad offering in Asia and exiting Bangladesh), optimize its supply chain, and alter the makeup of its organizational structure. We view each of these efforts as an opportunity to enhance its focus and speed up its decision making, with the ultimate aim of unlocking savings that can be reinvested back into its brands. We perceive these initiatives as astute means by which to withstand mounting headwinds.

Procter & Gamble: Moeller to Pass the CEO Torch to Jejurikar in 2026, but Strategic Shift Unlikely Erin Lash, CFA,Sector Director,28 Jul 2025

After more than four years at the helm and 37 years at the firm, CEO Jon Moeller is ceding the corner office to COO Shailesh Jejurikar on Jan. 1, 2026. Moeller will continue to serve as executive chairman to ensure a smooth transition. Why it matters: Even as firms throughout the consumer products space face challenges (from weak consumer spending to mounting cost pressures), we've held that P&G is adeptly suited to navigate the uncertain terrain with its dominant brand mix, entrenched retail relationships, and cost edge. With his career at P&G dating back to 1989, we think Jejurikar possesses an innate understanding of the firm's expansive category and geographic footprint. Further, we posit that he has helped craft the firm's strategic playbook (centered on stringently extracting costs while directing additional resources toward product innovation that resonates with consumers and marketing that fare), thus, we don't expect it to pivot off its current course. The bottom line: This announcement does not alter our $140 per share fair value estimate for wide-moat P&G, which is based on our expectations for 3%-4% annual sales growth and mid-20s operating margins by the end of our 10-year explicit forecast, up from an average of 23% since fiscal 2021. Trading at a more than 10% premium to our intrinsic valuation, shares aren't a bargain at present, but we wouldn't require a significant margin of safety before recommending this competitively advantaged operator. Between the lines: We expect bolstering shareholder returns will remain a key capital allocation priority under Jejurikar's watch. P&G directed approximately $60 billion to dividends and share repurchases during Moeller's time as CEO. We forecast that it will maintain a dividend payout ratio of 60%-70% while also repurchasing a low-single-digit percentage of shares outstanding each year over our explicit forecast.

Procter & Gamble Earnings: Macro Volatility Caps Sales and Profits; Shares Still Strike Us as Rich

Erin Lash, CFA,Sector Director,24 Apr 2025

Procter & Gamble's fiscal third-quarter organic sales ticked up a mere 1% on price hikes. The adjusted gross margin slumped 30 basis points to 51%, as productivity savings and stepped-up prices were offset by unfavorable mix, inflation, and reinvestment in the business. Why it matters: While P&G isn't immune to challenges resulting from weak consumer spending and the impending hit from higher tariffs, we're encouraged that investments behind consumer-valued innovation and marketing, which we forecast at 13% of sales long term, remain a priority. Unlike in past recessionary cycles, P&G is launching products across price tiers. We posit that this stymies private-label's advancement; shares of this lower-priced fare are down in its large developed markets (qualitatively referenced). With just three months left in its fiscal year, management tempered its guidance to 2% organic sales growth (from 3%-5%) and $6.72-$6.82 in adjusted EPS ($6.91-$7.05). Shares slipped around 5% on the print and updated forecast. The bottom line: We intend to tweak our near-term expectations in line with the wide-moat firm's revised outlook, resulting in a low-single-digit reduction to our $143 per share fair value estimate. Even after the rout, we view the stock as heated, trading at more than a 10% premium to our intrinsic valuation. If the selloff persists, we'd recommend this competitively advantaged name. Coming up: In fiscal 2026, P&G sees $1 billion-$1.5 billion in added costs from tariffs (3% of cost of goods sold, assuming no change in levies). The largest drivers are China (which accounts for about 10% of its total US imports) and Canada (as a portion of its finished products are manufactured in the US). Even as a majority of its manufacturing is already close to the end consumer, we surmise P&G will employ multiple levers in the near term to thwart this pressure, including unearthing inefficiencies, investing in margin-accretive innovation, and surgically raising prices.

Procter & Gamble Earnings: Sales Trend Higher on Continued Brand Spending; Shares Look Expensive Erin Lash, CFA,Sector Director,22 Jan 2025

Procter & Gamble posted a 3% rise in organic sales, on a 2% bump in volumes and a 1% benefit from favorable mix. However, margins contracted, with the adjusted gross margin down 30 basis points to 52.4%, and the adjusted operating margin off 80 basis points to 26.2%. Why it matters: Even in the face of macro, geopolitical, and competitive headwinds, P&G continues to invest in consumer-valued innovation and marketing to ensure its products win at the shelf for retailers and consumers. We don't expect P&G will divert itself from this course, as we forecast it will funnel 13% of sales (more than $13 billion annually) on average annually to R&D and marketing over our 10-year forecast. To fund investments in its brands and capabilities, we expect P&G will scour the business to drive savings by reducing overhead, lowering material costs, and increasing productivity. The bottom line: Our $143 per share fair value estimate for wide-moat P&G holds, as results through the first half of the fiscal year and guidance continue to align with our full-year outlook for 3.6% organic sales growth, and nearly 6% growth in adjusted earnings per share. While shares look heated, trading 20% above our valuation, we think this name should remain on investors' radars to the extent angst around competition and a waning macro landscape dent the share price. Between the lines: The tide appears to be turning for P&G in its second-largest market, China (10% of sales by our estimate), where organic sales slipped a mere 3% in the quarter—a far cry from the 15% decline chalked up in the prior sequential quarter. The gains were particularly notable in its premium skincare brand, SK-II, which boasted 5% organic sales growth, versus a 20% retreat in the first fiscal quarter. We attribute this improvement to diligent investments behind its brands and capabilities supporting its competitive position and brand prowess, despite tepid consumer confidence and anti-Japanese sentiment around SK-II.

Procter & Gamble: Despite Harvesting a Stout Competitive Edge, Shares Are Far From a Bargain Erin Lash, CFA,Sector Director,24 Nov 2024

Procter & Gamble reaffirmed its long-term targets for sales growth ahead of the markets in which it plays and mid to high-single-digit adjusted earnings per share growth at its recent biennial investor event at its headquarters in Cincinnati, Ohio, on Nov. 21. Why it matters: Over the past three quarters, organic sales growth has slowed to a low-single-digit pace from the mid to high-single digits that had characterized the business, prompting questions about whether growth had dried up. We think P&G has a vast opportunity to leverage expertise across its categories to continue bringing consumer-valued innovation to market. One recent example is the Power Mop, based on technology from Bounty, now the largest launch within the Swiffer line. We're also encouraged that P&G seems to appreciate the need to be present and innovate across price tiers, which is a shift from the past. This should buoy its household penetration, which is just 40% in the US, even for a dominant brand like Tide. The bottom line: While we surmise P&G is prudently supporting the tenets of its wide moat, our $143 per share fair value estimate is unchanged. Shares trade at a 20% premium, and we think investors should await a more attractive risk/reward opportunity. Between the lines: To fund continued investments in its brands and capabilities, we expect P&G will scour the business to unlock efficiencies. For one, P&G is employing artificial intelligence to test marketing messages at one-tenth of the cost of its prior approach. Further, AI is aiding in idea creation, enabling content development in minutes while cutting the review and editing time to one to two hours (from more than 600 prior). The firm is also investing in automated technology to assess the quality of each product on its manufacturing lines in real-time. This should reduce the expense associated with tarnished products while also enhancing their value in the eyes of retailers.

Procter & Gamble Earnings: Even Amid Global Macro Pressures, Sales and Margins Edge Higher Erin Lash, CFA,Sector Director,18 Oct 2024

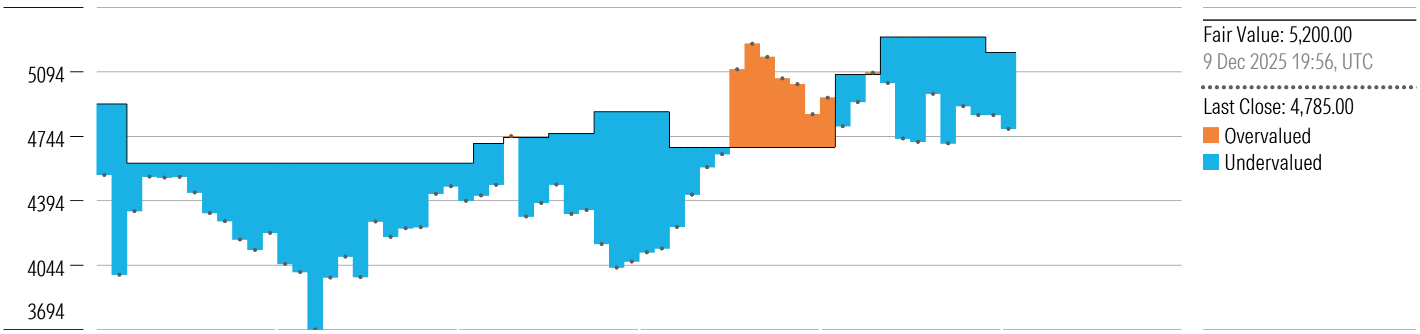
Organic sales growth remained tepid, increasing just 2% in its fiscal first quarter, reflecting a 1-percentage-point contribution from both price and volumes. But this is a far cry from the mid- to high-single-digit percentage gains the business has boasted the past few years. Why it matters: Despite this, we see P&G's strategic aims—spending behind its brands and capabilities to ensure its acclaim with retailers and consumers persists—as a prudent means to buoy brand strength longer term. We forecast P&G to funnel 13% of sales (nearly $14 billion annually) on average to research, development, and marketing over our forecast. To fund these investments, we think P&G will scour the business to unlock efficiencies. This proved a 230-basis-point benefit to adjusted operating margins in the quarter (with inflation and brand spending serving as offsets), with margins up 30 basis points to 26.7%. The bottom line: Our $143 per share fair value estimate and our long-term forecast (nearly 4% annual revenue growth and mid-20s operating margins) stand. Although overvalued now, trading at a 20% premium to our valuation, we think investors should keep an eye on this wide-moat name if angst around competition and a slumping macro landscape dent the share price. Between the lines: A lackluster consumer spending backdrop in China (a high-single-digit percentage of sales) continues to be a blemish. This is particularly evident with its premium SK-II brand, which posted a more-than 20% drop in sales. But management emphatically tried to downplay concerns. P&G hasn't ceased investing in consumer-valued innovation and marketing to support its brand health, which, we think, will boost sales in the region in time. While the consolidated beauty business (nearly 20% of sales) slipped 2% in the quarter on China weakness, segment sales in North America and Europe boasted outsize expansion, up 8% and 6%, respectively, which we attribute to the prowess of its leading brand mix.

Morningstar Equity Analyst Report | Report as of 22 Jan 2026 18:11, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC.

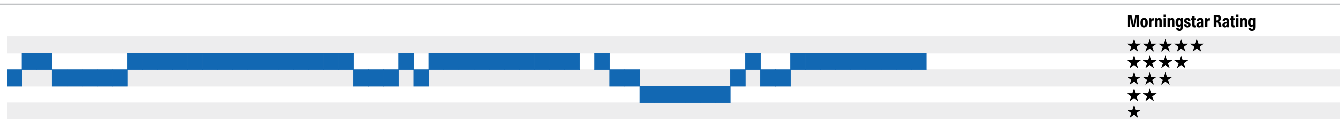
Procter & Gamble Co PG ★★★ 21 Jan 2026 22:32, UTC

Competitors Price vs. Fair Value

Unilever PLC ULVR

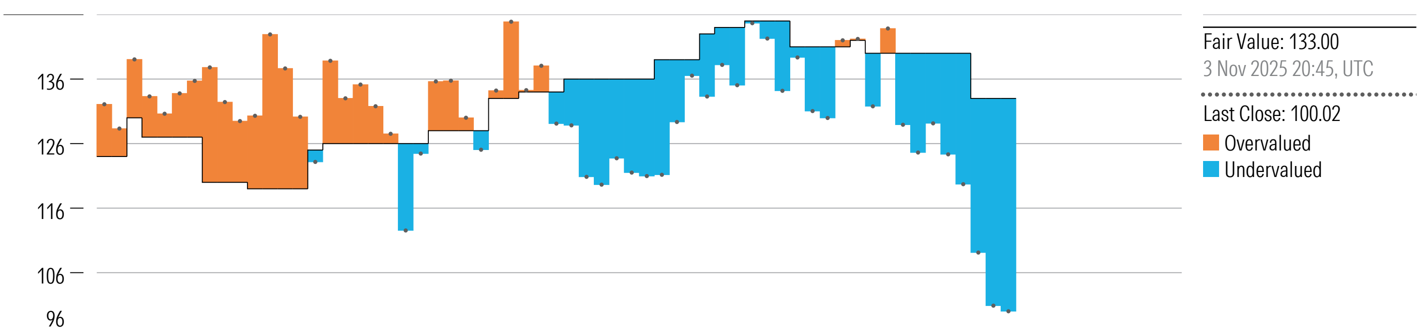


	2021	2022	2023	2024	2025	YTD	
	0.92	0.97	0.83	1.04	0.93	0.92	Price/Fair Value
	-6.81	9.68	-5.55	23.55	4.89	-1.53	Total Return %

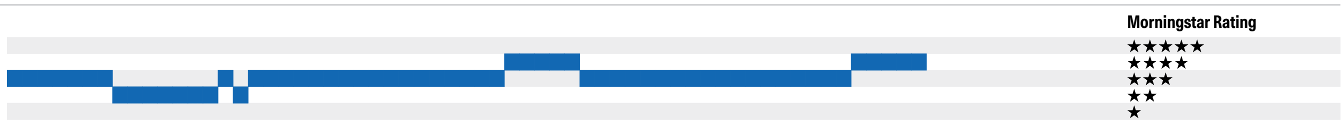


Total Return % as of 21 Jan 2026. Last Close as of 21 Jan 2026. Fair Value as of 9 Dec 2025 19:56, UTC.

Kimberly-Clark Corp KMB



	2021	2022	2023	2024	2025	YTD	
	1.20	1.06	0.89	0.93	0.76	0.75	Price/Fair Value
	9.38	-1.77	-7.01	11.86	-19.16	-0.86	Total Return %



Total Return % as of 21 Jan 2026. Last Close as of 21 Jan 2026. Fair Value as of 3 Nov 2025 20:45, UTC.

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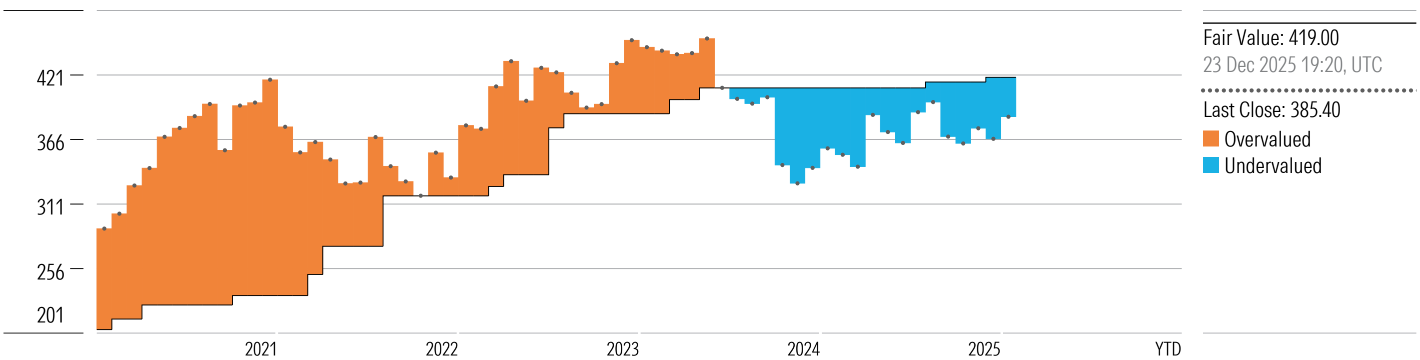
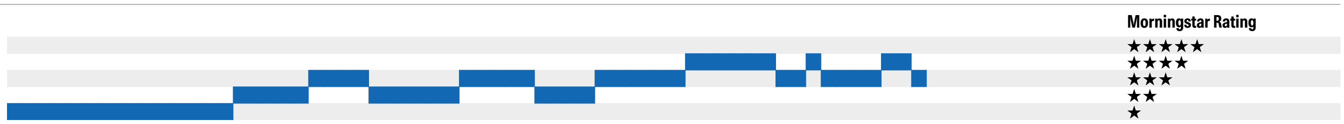
Procter & Gamble Co PG ★★★ 21 Jan 2026 22:32, UTC

Competitors Price vs. Fair Value

L'Oreal SA OR



	2021	2022	2023	2024	2025	YTD	
	1.79	1.05	1.16	0.83	0.87	0.92	Price/Fair Value
	35.44	-18.84	36.89	-22.68	9.29	5.13	Total Return %



Total Return % as of 21 Jan 2026. Last Close as of 21 Jan 2026. Fair Value as of 23 Dec 2025 19:20, UTC.

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Procter & Gamble Co PG ★★★ 21 Jan 2026 22:32, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
146.06 USD 21 Jan 2026	148.00 USD 28 Oct 2025 14:10, UTC	0.99	350.16 USD Bil 22 Jan 2026	Wide	Large Value	Low	Exemplary	7 Jan 2026 06:00, UTC

Morningstar Valuation Model Summary

Financials as of 28 Oct 2025	Actual			Forecast				
Fiscal Year, ends 30 Jun	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**
Revenue (USD Mil)	82,006	84,039	84,284	85,397	87,425	90,539	94,088	97,896
Operating Income (USD Mil)	18,134	19,886	21,565	21,938	21,383	22,153	23,035	23,903
EBITDA (USD Mil)	20,848	21,441	23,298	25,021	24,523	25,351	26,298	27,264
Adjusted EBITDA (USD Mil)	20,848	22,782	24,412	25,021	24,523	25,351	26,298	27,264
Net Income (USD Mil)	14,653	14,879	15,974	17,081	16,652	17,250	17,931	18,608
Adjusted Net Income (USD Mil)	14,653	16,287	16,754	17,081	16,652	17,250	17,931	18,608
Free Cash Flow To The Firm (USD Mil)	14,317	15,811	17,155	18,005	17,163	17,660	18,296	18,952
Weighted Average Diluted Shares Outstanding (Mil)	2,484	2,472	2,454	2,436	2,396	2,354	2,313	2,273
Earnings Per Share (Diluted) (USD)	5.90	6.02	6.51	7.01	6.95	7.33	7.75	8.19
Adjusted Earnings Per Share (Diluted) (USD)	5.90	6.59	6.83	7.01	6.95	7.33	7.75	8.19
Dividends Per Share (USD)	3.68	3.83	4.08	4.36	4.67	4.99	5.34	5.72

Margins & Returns as of 28 Oct 2025		Actual			Forecast					
	3 Year Avg	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**5 Year Avg**
Operating Margin %	22.8	22.1	23.7	25.6	25.7	24.5	24.5	24.5	24.4	24.7
EBITDA Margin %	—	25.4	25.5	27.6	29.3	28.1	28.0	28.0	27.9	—
Adjusted EBITDA Margin %	—	25.4	27.1	29.0	29.3	28.1	28.0	28.0	27.9	28.2
Net Margin %	18.2	17.9	17.7	19.0	20.0	19.1	19.1	19.1	19.0	19.3
Adjusted Net Margin %	19.0	17.9	19.4	19.9	20.0	19.1	19.1	19.1	19.0	19.2
Free Cash Flow To The Firm Margin %	18.9	17.5	18.8	20.3	21.1	19.6	19.5	19.5	19.4	19.8

Growth & Ratios as of 28 Oct 2025		Actual			Forecast					
	3 Year CAGR	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**5 Year CAGR**
Revenue Growth %	1.7	2.3	2.5	0.3	1.3	2.4	3.6	3.9	4.1	3.0
Operating Income Growth %	6.6	1.8	9.7	8.4	1.7	-2.5	3.6	4.0	3.8	2.1
EBITDA Growth %	4.2	1.1	2.8	8.7	7.4	-2.0	3.4	3.7	3.7	3.2
Adjusted EBITDA Growth %	5.8	1.1	9.3	7.1	2.5	-2.0	3.4	3.7	3.7	2.2
Earnings Per Share Growth %	3.9	1.6	2.0	8.1	7.7	-0.9	5.4	5.8	5.6	4.7
Adjusted Earnings Per Share Growth %	3.9	1.6	11.7	3.6	2.7	-0.9	5.4	5.8	5.6	4.7

Valuation as of 28 Oct 2025	Actual			Forecast				
	2023	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**
Price/Earning	25.7	25.0	23.3	20.8	21.0	19.9	18.8	17.8
Price/Sales	4.4	4.6	4.4	4.0	3.9	3.8	3.6	3.5
Price/Book	8.1	8.1	7.5	6.8	6.8	6.9	7.0	7.1
Price/Cash Flow	—	—	—	—	—	—	—	—
EV/EBITDA	18.6	18.2	16.3	14.7	15.0	14.5	13.9	13.5
EV/EBIT	21.4	20.9	18.5	16.7	17.2	16.6	15.9	15.3
Dividend Yield %	2.4	2.3	2.6	3.0	3.2	3.4	3.7	3.9
Dividend Payout %	62.4	58.1	59.7	62.2	67.2	68.2	68.9	69.8
Free Cash Flow Yield %	—	—	—	—	—	—	—	—

Operating Performance / Profitability as of 28 Oct 2025	Actual			Forecast				
Fiscal Year, ends 30 Jun	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**
ROA %	12.1	12.2	12.8	13.7	13.4	13.7	14.1	14.5
ROE %	31.1	29.4	30.6	32.3	32.4	34.6	37.0	39.6
ROIC %	16.1	17.5	18.8	18.8	18.3	18.8	19.4	20.0

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Procter & Gamble Co PG ★★★ 21 Jan 2026 22:32, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
146.06 USD 21 Jan 2026	148.00 USD 28 Oct 2025 14:10, UTC	0.99	350.16 USD Bil 22 Jan 2026	Wide	Large Value	Low	Exemplary	7 Jan 2026 06:00, UTC

Financial Leverage (Reporting Currency)

Fiscal Year, ends 30 Jun	Actual 2023	Actual 2024	Actual 2025	Forecast 2026	Forecast 2027	Forecast 2028	Forecast 2029	Forecast 2030
Debt/Capital %	9.0	7.9	8.7	8.0	7.8	8.2	8.2	8.4
Assets/Equity	2.6	2.4	2.4	2.4	2.4	2.5	2.6	2.7
Net Debt/EBITDA	1.3	1.1	1.1	1.0	1.1	1.1	1.1	1.2
Total Debt/EBITDA	1.7	1.5	1.5	1.3	1.3	1.4	1.4	1.4
EBITDA/ Net Interest Expense	-95.2	-105.5	86.0	42.7	43.1	42.9	42.3	42.4

Forecast Revisions as of 28 Oct 2025

Prior data as of 29 Aug 2025	2026 Current	2026 Prior	2027 Current	2027 Prior	2028 Current	2028 Prior
Fair Value Estimate Change (Trading Currency)	148.00	147.29	—	—	—	—
Revenue (USD Mil)	85,397	85,397	87,425	87,425	90,539	90,539
Operating Income (USD Mil)	21,938	21,938	21,383	21,383	22,153	22,153
EBITDA (USD Mil)	25,021	25,021	24,523	24,523	25,351	25,351
Net Income (USD Mil)	17,081	17,081	16,652	16,652	17,250	17,250
Earnings Per Share (Diluted) (USD)	7.01	7.01	6.95	6.95	7.33	7.33
Adjusted Earnings Per Share (Diluted) (USD)	7.01	7.01	6.95	6.95	7.33	7.33
Dividends Per Share (USD)	4.36	4.36	4.67	4.67	4.99	4.99

Key Valuation Drivers as of 28 Oct 2025

Cost of Equity %	7.5
Pre-Tax Cost of Debt %	5.5
Weighted Average Cost of Capital %	7.0
Long-Run Tax Rate %	24.0
Stage II EBI Growth Rate %	4.3
Stage II Investment Rate %	28.0
Perpetuity Year	20

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

Discounted Cash Flow Valuation as of 28 Oct 2025

	USD Mil
Present Value Stage I	129,832
Present Value Stage II	77,668
Present Value Stage III	143,143
Total Firm Value	**350,643**
Cash and Equivalents	0
Debt	0
Other Adjustments	-2,907
Equity Value	**353,550**
Projected Diluted Shares	2,418
Fair Value per Share (USD)	**148.00**

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Procter & Gamble Co PG ★★★ 21 Jan 2026 22:32, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
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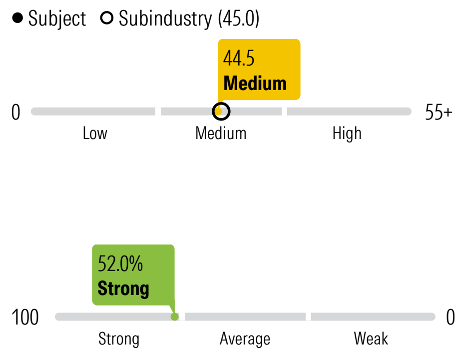
ESG Risk Rating Breakdown

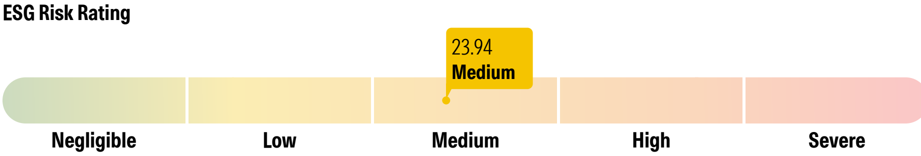
Exposure	
Company Exposure[1]	44.5
– Manageable Risk	39.4
Unmanageable Risk[2]	**5.0**
Management	
Manageable Risk	39.4
– Managed Risk[3]	20.5
Management Gap[4]	**18.9**
Overall Unmanaged Risk	**23.9**



- 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 52.0% 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 Jan 07, 2026. Highest Controversy Level is as of Jan 08, 2026. Sustainalytics Subindustry: Personal Products. 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

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
Procter & Gamble Co	44.5 | Medium	52.0 | Strong	23.9 | Medium
Kimberly-Clark Corp	45.6 | Medium	52.7 | Strong	24.3 | Medium
L'Oreal SA	41.4 | Medium	66.4 | Strong	16.9 | Low
Colgate-Palmolive Co	41.7 | Medium	54.7 | Strong	21.3 | Medium
Unilever PLC	43.6 | Medium	70.9 | Strong	16.1 | Low

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Appendix
Historical Morningstar Rating

Procter & Gamble Co PG 21 Jan 2026 22:32, 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
★	★★	★★	★★	★★	★★	★★	★★	★★	★★	★★	★★

Unilever PLC ULVR 22 Jan 2026 03:48, 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
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Overview

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

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

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

1. Economic Moat

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

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

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

2. Estimated Fair Value

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

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

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

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

Economic Moat Financial Health Stewardship	**Morningstar Fair Value**	Price Fair Value Uncertainty	**Morningstar Rating™ For Stocks** ★★★★★
Fundamental Analysis	*Valuation*	*Margin of Safety*	

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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

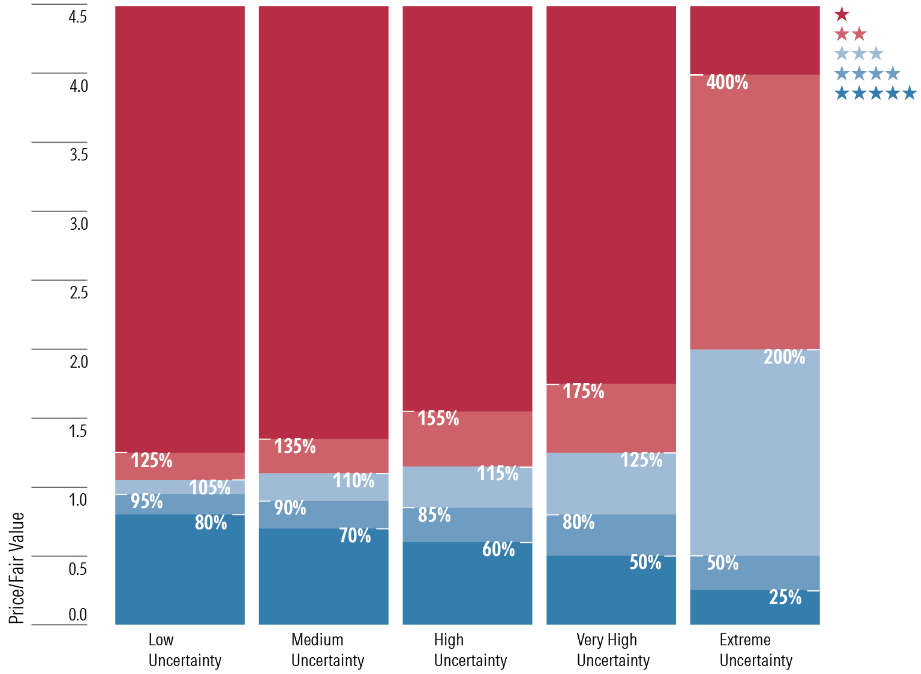
Our uncertainty rating is based on the interquartile range, or the middle 50% of potential outcomes, covering the 25th percentile–75th percentile. This means that when a stock hits 5 stars, we expect there is a 75% chance that the intrinsic value of that stock lies above the current market price. Similarly,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