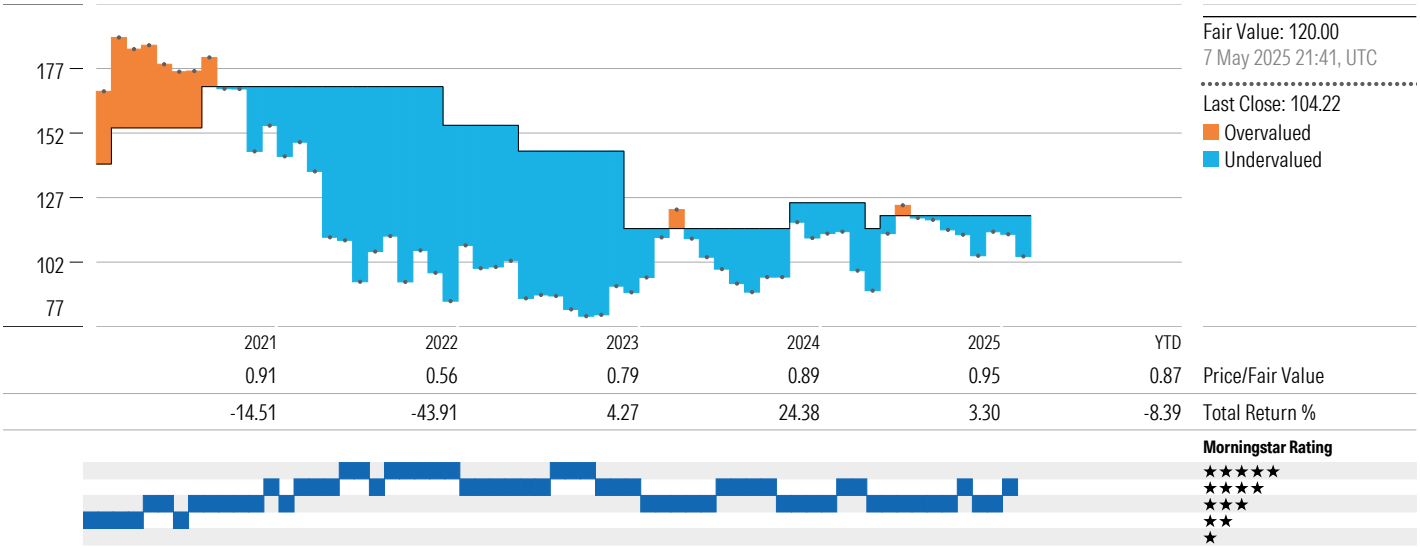
The Walt Disney Co DIS ★★★★ 3 Feb 2026 22:45, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
104.22 USD 3 Feb 2026	120.00 USD 7 May 2025 21:41, UTC	0.87	184.63 USD Bil 3 Feb 2026	Wide	Large Value	Medium	Standard	7 Jan 2026 06:00, UTC

Price vs. Fair Value



	2021	2022	2023	2024	2025	YTD
Price/Fair Value	0.91	0.56	0.79	0.89	0.95	0.87
Total Return %	-14.51	-43.91	4.27	24.38	3.30	-8.39

Total Return % as of 03 Feb 2026. Last Close as of 03 Feb 2026. Fair Value as of 7 May 2025 21:41, UTC.

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

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

Disney: Company Lands With a Perfect Scenario, Naming D'Amaro CEO While Holding On to Walden

Analyst Note Matthew Dolgin, CFA, Senior Equity Analyst, 3 Feb 2026

Disney's drawn-out search for Bob Iger's successor has finally ended, with an anticipated choice. Experiences chairman Josh D'Amaro will take over as CEO on March 18. Importantly, the other frontrunner, entertainment co-chair Dana Walden, will stay with the firm as chief creative officer.

Why it matters: We didn't see any perfect CEO candidate, considering how broad and diverse Disney's business is. We saw arguments for both D'Amaro and Walden as the right choice, thought the firm couldn't go wrong with either, and that they were great complements, but that co-CEOs would be risky.

- Hiring D'Amaro was the right choice, in our view, due to his familiarity and success with Disney's experiences unit, which makes up about 60% of the firm's operating profit, is the biggest source of future growth, and is the key reason why we believe Disney is undervalued.

The bottom line: We are maintaining our $120 fair value estimate and don't anticipate any drastic changes to Disney's trajectory. We believe the firm has a wide moat that positions it for long-term success across entertainment and experiences.

Between the lines: The supreme importance of experience led us to prefer D'Amaro, but we see greater risk in Disney's entertainment business, making leadership crucial. That industry is in transition. It remains to be seen whether streaming can offset the decline of traditional television.

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Sector
Communication Services

Industry
Entertainment

Business Description

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

- D'Amaro doesn't have experience squarely in entertainment or with content creation, so we think retaining Walden is important. She joined Disney through its acquisition of Twenty-First Century Fox and has deep relationships and experience in Hollywood and the entertainment industry.
- With its wealth of franchises and intellectual property and continuity at the top of an entertainment business that has performed well recently, we expect Disney to be positioned for success, even as we don't believe the streaming model will ever be as lucrative as traditional pay TV was.

Business Strategy & Outlook Matthew Dolgin, CFA, Senior Equity Analyst, 21 Nov 2025

With heavy investment and good execution in parks and experiences and streaming, Disney has transitioned its business so that the ongoing, swift decline in traditional pay television is no longer a critical threat to the company. Its diverse portfolio of successful businesses sets it apart from its traditional media peers.

With full ownership of Hulu to go along with Disney+, Disney has diverse streaming entertainment content and a global presence that positions it in the upper tier of global streaming platforms, with a global subscriber base we believe trails only Netflix and Amazon. More importantly, the firm has rapidly improved streaming profitability, swinging from a $2.5 billion operating loss in fiscal 2023 to a $1.3 billion profit in 2025. We expect that these streaming services will generate more profit for Disney than its linear entertainment networks in fiscal 2026, with streaming and linear entertainment each making up a midteens percentage of total company profit.

The linear TV medium is still important for ESPN, but with its rollout of a streaming alternative for linear ESPN programming, the ongoing demise of traditional pay TV won't take ESPN down with it. We don't view streaming ESPN as a material growth driver but rather see it as protection against a further decline in sports revenue, as consumers now have an alternative to access ESPN even when they no longer want the pay TV bundle. Sports also contribute a midteens percentage of total operating profit.

Experiences, which includes theme parks and cruises, remains a growth business and has consumed a heightened level of investment in recent years. With three cruise ships launching over about 16 months in fiscal 2025-26, Disney will have eight ships in operation, with another five in the works. A licensing arrangement for a Disney park in Abu Dhabi that should open around the turn of the decade provides further opportunity for incremental growth. This comes as Disney's existing parks and cruises remain popular, and the intellectual property it owns ensures competitors can't fully replicate Disney vacations.

Bulls Say Matthew Dolgin, CFA, Senior Equity Analyst, 21 Nov 2025

- No peer can match the depth of Disney's iconic characters, franchises, or content library, which will keep the firm's streaming services in high demand and give the firm a leg up in creating new movies and television shows.
- Disney's streaming services are moving from profit losers to major generators, while linear TV's impact

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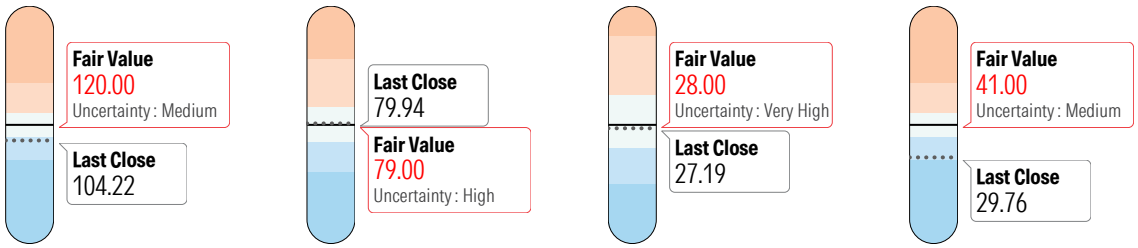
Competitors



	The Walt Disney Co DIS	Netflix Inc NFLX	Warner Bros. D...ares - Class A WBD	Comcast Corp Class A CMCSA
Economic Moat	Wide	Narrow	None	Narrow
Currency	USD	USD	USD	USD
Fair Value	120.00 7 May 2025 21:41, UTC	79.00 21 Jan 2026 04:41, UTC	28.00 8 Dec 2025 23:17, UTC	41.00 29 Jan 2026 18:00, UTC
1-Star Price	162.00	122.45	49.00	55.35
5-Star Price	84.00	47.40	14.00	28.70
Assessment	Undervalued 3 Feb 2026	Fairly Valued 3 Feb 2026	Fairly Valued 3 Feb 2026	Undervalued 3 Feb 2026
Morningstar Rating	★★★★ 3 Feb 2026 22:45, UTC	★★★ 3 Feb 2026 22:41, UTC	★★★ 3 Feb 2026 22:41, UTC	★★★★ 3 Feb 2026 22:42, UTC
Analyst	Matthew Dolgin, Senior Equity Analyst	Matthew Dolgin, Senior Equity Analyst	Matthew Dolgin, Senior Equity Analyst	Michael Hodel, Director
Capital Allocation	Standard	Exemplary	Standard	Standard
Price/Fair Value	0.87	1.01	0.97	0.73
Price/Sales	1.97	7.96	1.81	0.89
Price/Book	1.71	13.13	1.89	1.11
Price/Earning	14.74	32.71	144.84	6.87
Dividend Yield	1.20%	0.00%	0.00%	4.46%
Market Cap	184.63 Bil	337.58 Bil	67.39 Bil	108.48 Bil
52-Week Range	80.10—124.69	79.62—134.12	7.52—30.00	24.12—35.58
Investment Style	Large Value	Large Growth	Mid Value	Large Value

is moving rapidly in the other direction. This mix shift, with expanding streaming margins, will produce a major acceleration in firmwide growth.

- The allure of Disney's experiences business is unmatched and will be a continuing profit engine.

Bears Say Matthew Dolgin, CFA, Senior Equity Analyst, 21 Nov 2025

- Linear television will continue to decline. Even if successful, newer revenue sources like streaming will never equal the profitability Disney once enjoyed.
- Disney now competes with tech companies for major sports rights, who may have incentive to continue driving up prices. Sports remains material to Disney's future, and being forced to pay up for the critical content will depress profits.
- Too many streaming platforms now exist, and it's questionable whether consumers will be willing to pay high prices or stick with individual services month in and month out.

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Economic Moat Matthew Dolgin, CFA, Senior Equity Analyst, 21 Nov 2025

We assign Disney a wide moat based on its intangible assets. Ultimately, we believe the firm's ownership of timeless characters and franchises that attract customers to its unique parks and cruises and enable it to create popular content outweigh near-term challenges it faces related to an evolving media industry. Although we think it's likely that a media industry not built upon the traditional pay-TV bundle will keep Disney's entertainment and sports segments from returning to the level of economic profitability they achieved in the past, we still expect the firm's returns on invested capital to comfortably exceed its cost of capital over the next 20 years.

Depressed returns on invested capital over the past few years are related to a confluence of factors that have now either disappeared or are becoming less consequential. The pandemic depressed Disney's parks and experiences earnings for several years. At the same time, Disney was investing heavily to expand its experiences business—building new cruise ships and expanding parks. The decline of traditional TV muted overall revenue growth and dampened profits. However, linear TV has become a much smaller share of total profits and is moving toward irrelevance, while streaming is finally taking the mantle after those businesses initially produced sizable losses. Disney has shifted from profit declines in a large legacy business (linear TV) and heavy losses in the business of the future (streaming), to rapid profit growth in streaming. Linear has become a small part of the overall pie.

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

We believe Disney's experiences segment, which consists mostly of theme parks and other vacation-related revenue streams, has the most durable advantage. Disney characters have proven timeless, and we think it would be nearly impossible for new competitors to offer destinations that are as attractive. No firm can replicate exactly what Disney can offer due to the intellectual property and characters on which Disney bases its experiences. Those who at least want to offer a similar concept face several barriers. Securing and building the infrastructure is one challenge, but even competitors that undertake that challenge cannot match the depth of familiar and popular characters to drive similar interest at a national or global level. We see NBC Universal as the competitor that most closely rivals Disney, but not only do we think it's a distant second, we doubt it can significantly close the gap. It has far fewer attractions than Disney does, and the time and investment it has put behind adding Epic Universe to its Universal Orlando Resort highlights the lift that matching Disney's scale entails. Disney's characters and franchises also drive licensing revenue on consumer products, a high-margin source of continuing

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revenue. In short, Disney can provide a type of experience that we expect will drive consistent demand, and its offering for that type of experience is unique and best in class.

Streaming, film, and TV studios all have advantages that probably would not warrant a moat on their own, but they also benefit substantially by Disney's franchises and intellectual property that give them a leg up on competitors. In streaming, Disney continues to hold premier content and has the highest likelihood among all competitors of creating and maintaining a pipeline of the highest-quality programming. Over the long term, the ability to generate or attract the best content makes economic profitability highly likely.

Linear networks no longer support a moat, but we expect the ESPN brand can make the transition to streaming. ESPN is a leader in sports content and reputation, giving it immense bargaining power and near-universal carriage for as long as the pay-TV bundle lasts. It is also therefore a destination for the most high-profile sports rights and peripheral sports content, which will ensure that sports fans will need ESPN whether through pay TV or its streaming app for years to come, even though the exposure ESPN can provide is now less of a differentiator than it once was. The NFL's pending investment for a 10% stake in ESPN highlights ESPN's importance, differentiation, and staying power.

Fair Value and Profit Drivers Matthew Dolgin, CFA, Senior Equity Analyst, 21 Nov 2025

Our fair value estimate for Disney is $120, implying a P/E multiple of 18 and EV/EBITDA multiple of 13 times our fiscal 2026 projections.

We project entertainment linear networks revenue to decline at a high-single-digit compounded annual rate throughout our 10-year forecast, as pay-TV subscriptions and linear television ratings continue to decline, weighing on both subscription and advertising revenue.

We are slightly more optimistic about sports linear networks, and we also believe the ESPN streaming service can offset the headwind that comes from the ongoing decline in pay-TV subscribers that will shrink linear ESPN revenue. We project sports revenue, which includes the family of ESPN networks and streaming services, to grow about 2% annually throughout our forecast.

With its other streaming services, including Disney+, Hulu, and international platforms, we project high-single-digit sales growth annually. We believe there is room to continue adding subscribers—we project about 2 million annually to each of the domestic platforms and 3-4 million annually internationally for the next several years—and we expect average revenue per user to trend up, through periodic price increases and higher advertising revenue. However, we expect a competitive market with multiple streaming services, and we believe Disney will remain sensible with pricing as it focuses on profitability, which is why we don't project even bigger subscriber gains. In the US, we project Disney+ and Hulu to each have around 75 million subscribers by 2030, well below leader Netflix. We believe

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there is room for more upside if these streaming services move into a bundled package with other streaming services or more pay TV subscriptions than they are currently, but that outcome would weigh on average revenue per user. Nonetheless, through reduced churn and the potential to better salvage linear networks, we think the move would be wise.

We believe experiences will remain Disney's dominant source of profits and can maintain at least mid-single-digit growth, on average, over the next decade. With several additional cruise ships and the expansion of parks, we believe there are substantial opportunities for sales growth that can come without having to rely solely on price increases or higher amounts of spending within parks. Our long-term averages are brought down by our more-muted view over the next couple of years, as we still believe potential dampening of tourism to the US and consumer weakness will be a weight.

We also project consolidated margins to expand and free cash flow to rise significantly throughout our forecast. This is based mostly on a continually improving streaming business, both as a result of the cost-cutting measures Disney initiated in 2022 as well as a rationalization in content spending. We project the firm's operating margin to remain in the 15% range though 2027 on cooler environment for experiences but then gradually bounce to reach 18% by 2030. We project content spending to grow to $24 billion in 2026, and we expect further growth each year, as we believe the firm must continue spending to offer attractive programming and retain sports rights. However, cost efficiencies and leverage we expect the firm to get on growth in its streaming platforms result in free cash flow rising from our projected $10 billion in 2026 to $13 billion by 2030.

Risk and Uncertainty Matthew Dolgin, CFA, Senior Equity Analyst, 21 Nov 2025

Our Morningstar Uncertainty Rating for Disney is Medium. Disney has navigated the secular decline in the traditional television industry so that it is no longer so dependent on that dying medium. The diversity of its business and reliance on parks and experiences warrant a lower Uncertainty Rating than traditional media peers.

Television remains the biggest source of uncertainty, in our view. We're resigned to linear entertainment networks eventually going away, but the rapidity with which that happens makes a difference. More consequential is ESPN, from which we don't expect sales to disappear. Rather, we expect ESPN profits to hold up but come from streaming rather than linear television. An inability for consumers to take up the ESPN streaming service as more leave the pay TV bundle would leave room for much more incremental downside.

The biggest risk is a complete disintegration of the traditional pay-TV bundle, which we expect eventually, but not for several years. We'd expect ESPN to survive via streaming but in a much smaller state if pay-TV carriage fees suddenly disappeared. We'd expect Disney's cable networks to become almost worthless in such a scenario, while its ABC broadcast network would generate only a small

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fraction of the sales it does today.

Blackouts associated with carriage disputes with pay-TV distributors that keep networks off the air provide a glimpse of what an absent pay-TV bundle would mean, which is why we don't believe long-term blackouts are a rational threat unless the entire pay-TV model ceases. Major distributors can't reasonably survive without ABC and ESPN, and the bundle's then-inevitable extinction would hurt Disney.

From an environmental, social, and governance perspective, potential social issues carry risk. The entertainment industry has a history of bad behavior regarding issues like sexual assault and harassment and racial and gender discrimination.

Capital Allocation Matthew Dolgin, CFA, Senior Equity Analyst, 21 Nov 2025

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

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

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

Analyst Notes Archive

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Disney Earnings: No Big Surprises in Solid Results; Areas of Ostensible Weakness Aren't of Concern

Matthew Dolgin, CFA,Senior Equity Analyst,2 Feb 2026

Disney's 5% year-over-year revenue growth and a 9% decline in operating income were driven by strong results in the areas most critical to the firm's future: experiences, streaming, and sports. Entertainment profit outside streaming declined 55%, and negative free cash flow was mostly due to timing. Why it matters: Linear networks and theatrical films account for most other entertainment and have little bearing on our view. Most importantly, experiences growth remains healthy; sports remains stable; and streaming margins continue to expand alongside growing sales. Experiences sales grew 6% year over year, while operating margin held at 33% despite incurring costs for attractions that should accelerate sales growth next quarter and beyond. The segment accounted for 72% of operating profit. Streaming sales grew 11% year over year, as operating margin expanded to 8% from 5% a year ago. Sports sales grew 1%, while the operating margin contracted 1 percentage point to 4% in the seasonally less-profitable fiscal first quarter. The bottom line: We maintain our forecast and $120 fair value estimate. We believe Disney has a wide moat and an outlook for solid long-term growth, but near-term results have downside risk. Management cited international tourism headwinds at domestic parks in guiding to only modest fiscal second-quarter experiences in operating profit. We've built this and other economic risk into our experiences forecast since last year, but we'd expect a continued stock selloff on further weakness. We expect accelerating experiences sales and operating profit growth in the longer term. Disney will launch another cruise ship in March, and it is expanding at all its parks. Between the lines: For the first time, Disney did not disclose the number of streaming subscribers it has or sales and operating profit from linear networks and content licensing, making it difficult to dissect what fueled the decline in entertainment operating profit outside of streaming.

Disney: OpenAI Partnership Validates the Value of Disney's Characters as Technology Evolves

Matthew Dolgin, CFA,Senior Equity Analyst,11 Dec 2025

Disney agreed to license many of its animated characters to OpenAI for that firm's Sora users to create short-form videos using artificial intelligence. Disney can include those videos on Disney+. It is becoming an OpenAI customer, and it is making a $1 billion investment in Open AI. Why it matters: This deal does not alleviate concerns in the media and entertainment industry about disruption from artificial intelligence, but it shows the value in Disney's intellectual property and Disney's ability to adapt to changing technological landscapes. With the videos limited to 30 seconds in length and Disney not licensing voices or actors' likenesses, these videos provide a different type of entertainment content and are not a replacement for traditional video entertainment programming. Whether consumers prefer this type of entertainment in the future at the expense of movies and television shows is an open question, but Disney has given further evidence that it will have a place no matter how video entertainment evolves, even if the demand for traditional entertainment falls. The bottom line: Disney

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The Walt Disney Co DIS ★★★★ 3 Feb 2026 22:45, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
104.22 USD 3 Feb 2026	120.00 USD 7 May 2025 21:41, UTC	0.87	184.63 USD Bil 3 Feb 2026	Wide	Large Value	Medium	Standard	7 Jan 2026 06:00, UTC

did not disclose financial details, but we don't expect this deal to move the needle, so we maintain our $120 fair value estimate. However, this development provides further support to our wide moat rating. The demand from Sora users for Disney characters and Disney's ability to threaten legal action for unauthorized use pushed OpenAI to work with Disney to enhance engagement in video creation in an AI world. Disney gets to monetize—modestly we assume—engagement in videos that it otherwise would not have participated in, without offering access for long-form video entertainment where it does participate. Long view: The licensing deal appears to be exclusive for only the first of the three-year agreement, meaning Disney will have other chances to extract more value from its characters and ability to profit more greatly from AI-enhanced creativity.

Disney Earnings: Overreaction to Spots of Weakness That Have Little Consequence for Future Growth Matthew Dolgin, CFA,Senior Equity Analyst,13 Nov 2025

Disney's stock fell substantially after the firm reported a 0.5% year-over-year decline in fiscal fourth-quarter revenue. The weakness was entirely in linear entertainment networks and theatrical films. Results in parks and experiences, streaming, and sports were encouraging, as is the 2026 outlook.Why it matters: Linear entertainment networks are becoming inconsequential, and theatrical sales depend on film release schedules and success, which last year had Inside Out 2 and Deadpool & Wolverine. Quarterly choppiness is expected and not indicative of business health or prospects.The bottom line: We maintain our $120 fair value estimate and believe the selloff makes Disney's stock attractive. The critical pieces to our valuation are continuing strength in experiences—the most important component underpinning our wide moat rating—and streaming. Results in both areas were good.Coming up: Disney has two new cruise ships launching in fiscal 2026. Cruise demand remains high, and domestic parks bookings for 2026 are up 3%. We believe the experiences assets will drive durable long-term segment growth, which is most critical to Disney's financials. Fourth-quarter experiences sales grew 6% year over year, while operating income grew twice as fast.Key stats: Fourth-quarter streaming entertainment sales (excluding ESPN) were up 8% year over year (10% organically). The 8.5 million Hulu net additions were mostly due to the inclusion of Hulu access for Charter pay-TV subscribers at the end of the quarter. Disney+ organically added 4 million subscribers, including 2.5 million internationally, where management is targeting more content investment. Also encouraging, 80% of ESPN streaming subscribers are taking the bundle with Disney+ and Hulu. Disney's ability to bundle entirely with its own platforms, plus its willingness to bundle with others, contributes to our view that its streaming services will remain winners as the television industry continues to evolve.

Nexstar, Sinclair, and Disney: Local Stations Have Much More To Lose Than Disney if a Rift Persists Matthew Dolgin, CFA,Senior Equity Analyst,23 Sep 2025

Nexstar and Sinclair have both chosen to preempt Jimmy Kimmel Live indefinitely in response to the show's return on Sept. 23. They will instead air local programming during the show's time slot. Why it

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matters: In isolation, we don't expect the decision to have a material impact on the financials of any firm. All firms should lose a very small amount of advertising revenue—Disney through the loss of some Kimmel viewers and the stations via less popular programming. We suspect Kimmel's ratings are lower in the smaller, typically more Republican-leaning markets where Nexstar and Sinclair have ABC affiliates. Nexstar and Sinclair collectively serve only two of the top 20 US markets, where 45% of US TV households reside, and eight of the top 40 (62%). The bottom line: We maintain our fair value estimates of $120 for wide-moat Disney, $14 for Sinclair, and $190 for Nexstar. Big picture: We suspect Nexstar and Sinclair's desire to build goodwill with the federal government, ideological preferences, and appeasement of some consumers in the markets they serve play a role in the decision, but a healthy partnership with Disney is critical to these no-moat firms. Nexstar and Sinclair's sales are almost completely dependent on broadcast-affiliated linear television programming, so maintaining affiliation is existential. In 2024, ABC affiliates accounted for 27% of Sinclair's Big 4 network-affiliated stations and 27% of total advertising revenue. Nexstar doesn't disclose networks' proportion of sales, but 19% of its Big 4 affiliations are with ABC. We suspect the proportion of retransmission revenue the firms receive from TV distributors (the bulk of remaining revenue) is proportionately similar to the ad revenue makeup. Long view: If relationships with local stations completely fractured, Disney would take a financial hit, but it would face no existential threat. With its streaming services and cable networks, it could still reach the entire nation with its content.

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

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

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attendance and higher spending per guest. The firm has two additional cruise ships due this year. The whirlwind of news included ESPN's deal with the National Football League, the official launch date for the ESPN streaming service, and the consolidation of the Hulu and Disney+ streaming platforms. Each of these items should further enhance streaming prospects.

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

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

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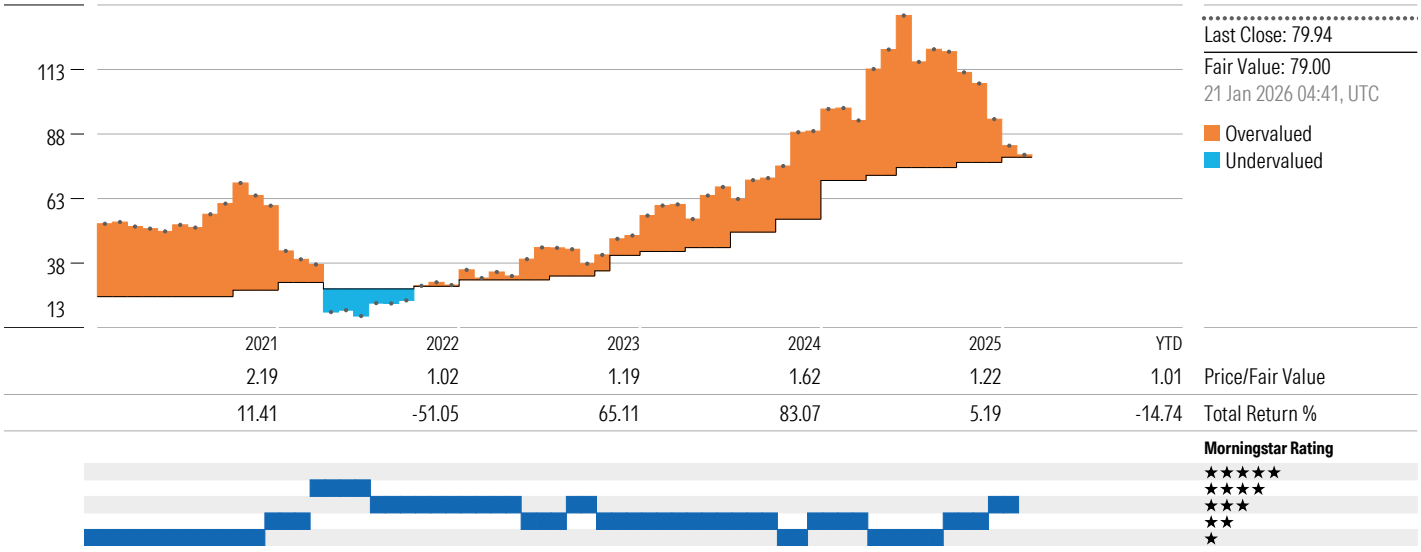
Competitors Price vs. Fair Value

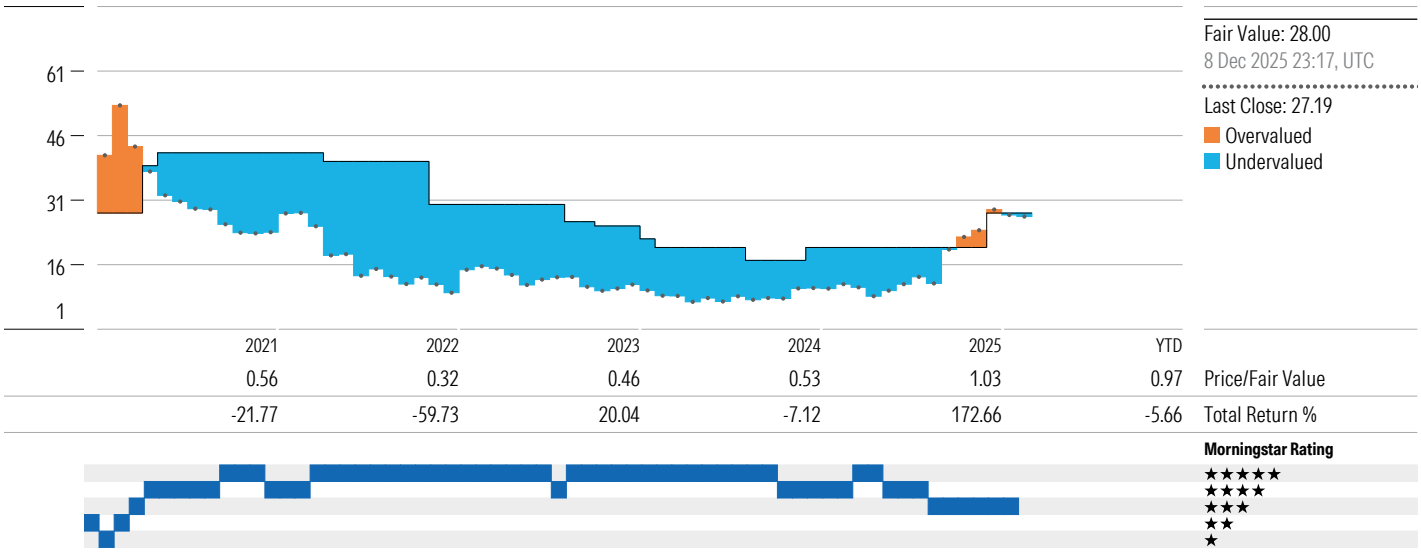
Netflix Inc NFLX



	2021	2022	2023	2024	2025	YTD	
	2.19	1.02	1.19	1.62	1.22	1.01	Price/Fair Value
	11.41	-51.05	65.11	83.07	5.19	-14.74	Total Return %

Total Return % as of 03 Feb 2026. Last Close as of 03 Feb 2026. Fair Value as of 21 Jan 2026 04:41, UTC.

Warner Bros. Discovery Inc Ordinary Shares - Class A WBD



	2021	2022	2023	2024	2025	YTD	
	0.56	0.32	0.46	0.53	1.03	0.97	Price/Fair Value
	-21.77	-59.73	20.04	-7.12	172.66	-5.66	Total Return %

Total Return % as of 03 Feb 2026. Last Close as of 03 Feb 2026. Fair Value as of 8 Dec 2025 23:17, UTC.

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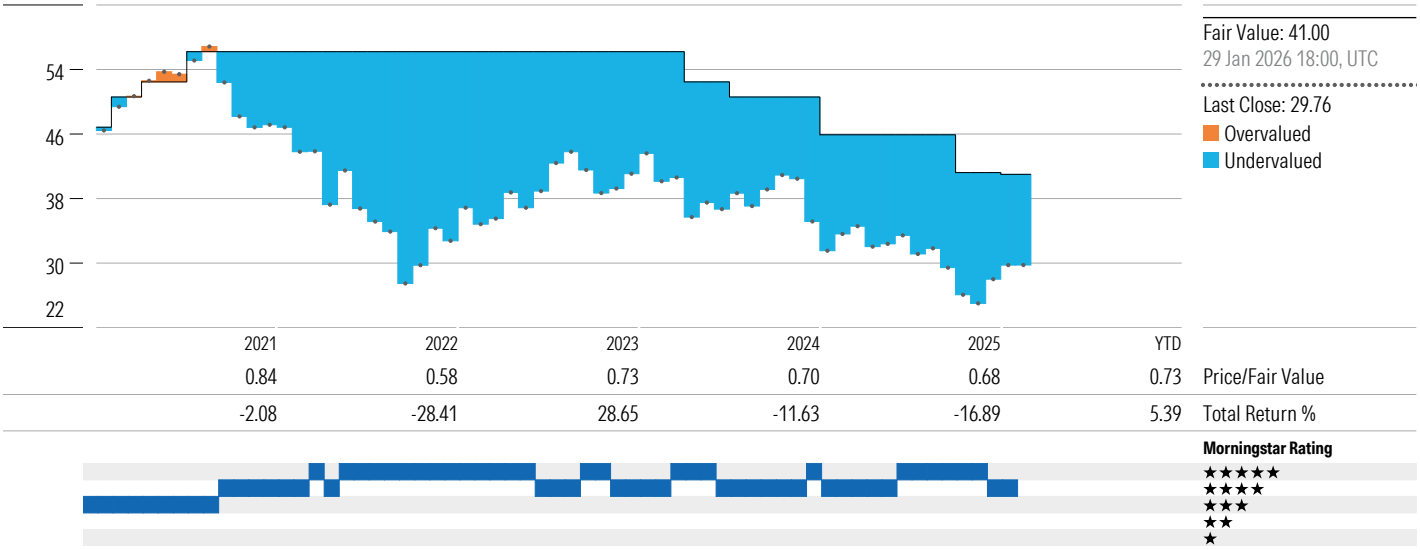
Competitors Price vs. Fair Value

Comcast Corp Class A CMCSA



	2021	2022	2023	2024	2025	YTD	
	0.84	0.58	0.73	0.70	0.68	0.73	Price/Fair Value
	-2.08	-28.41	28.65	-11.63	-16.89	5.39	Total Return %

Total Return % as of 03 Feb 2026. Last Close as of 03 Feb 2026. Fair Value as of 29 Jan 2026 18:00, UTC.

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Morningstar Valuation Model Summary

Financials as of 14 Nov 2025

Fiscal Year, ends 30 Sep	Actual 2023	2024	2025	Forecast 2026	2027	2028	2029	2030
Revenue (USD Mil)	88,898	91,361	94,425	97,772	102,508	105,533	110,645	114,088
Operating Income (USD Mil)	8,992	11,914	13,832	14,419	16,344	17,247	19,119	20,455
EBITDA (USD Mil)	11,347	13,819	18,634	19,927	21,916	22,848	24,840	26,046
Adjusted EBITDA (USD Mil)	20,099	22,241	21,553	19,257	21,273	22,274	24,278	25,522
Net Income (USD Mil)	2,354	4,972	12,404	10,458	11,262	11,600	12,834	13,794
Adjusted Net Income (USD Mil)	6,923	9,195	10,312	11,272	12,015	12,290	13,426	14,155
Free Cash Flow To The Firm (USD Mil)	4,958	8,772	12,022	8,545	8,807	9,089	11,021	11,857
Weighted Average Diluted Shares Outstanding (Mil)	1,830	1,831	1,811	1,763	1,763	1,748	1,733	1,718
Earnings Per Share (Diluted) (USD)	1.28	2.71	6.86	5.93	6.39	6.64	7.41	8.03
Adjusted Earnings Per Share (Diluted) (USD)	3.77	4.96	5.93	6.39	6.82	7.03	7.75	8.24
Dividends Per Share (USD)	0.00	0.75	1.00	1.50	1.60	1.80	2.00	2.20

Margins & Returns as of 14 Nov 2025

	3 Year Avg	Actual 2023	2024	2025	Forecast 2026	2027	2028	2029	2030	5 Year Avg
Operating Margin %	10.2	10.1	13.0	14.6	14.8	15.9	16.3	17.3	17.9	16.9
EBITDA Margin %	15.9	12.8	15.1	19.7	20.4	21.4	21.7	22.5	22.8	21.8
Adjusted EBITDA Margin %	—	22.6	24.3	22.8	19.7	20.8	21.1	21.9	22.4	21.2
Net Margin %	7.1	2.7	5.4	13.1	10.7	11.0	11.0	11.6	12.1	11.3
Adjusted Net Margin %	9.6	7.8	10.1	10.9	11.5	11.7	11.7	12.1	12.4	11.9
Free Cash Flow To The Firm Margin %	9.3	5.6	9.6	12.7	8.7	8.6	8.6	10.0	10.4	9.3

Growth & Ratios as of 14 Nov 2025

	3 Year CAGR	Actual 2023	2024	2025	Forecast 2026	2027	2028	2029	2030	5 Year CAGR
Revenue Growth %	4.5	7.5	2.8	3.4	3.5	4.8	2.9	4.8	3.1	3.9
Operating Income Growth %	26.9	32.8	32.5	16.1	4.2	13.4	5.5	10.9	7.0	8.1
EBITDA Growth %	16.0	-4.2	21.8	34.8	6.9	10.0	4.3	8.7	4.9	12.9
Adjusted EBITDA Growth %	10.0	24.0	10.7	-3.1	-10.7	10.5	4.7	9.0	5.1	3.4
Earnings Per Share Growth %	58.6	-25.6	111.7	153.1	-13.5	7.7	3.9	11.6	8.4	3.2
Adjusted Earnings Per Share Growth %	58.6	6.8	31.6	19.6	7.8	6.6	3.2	10.2	—	3.2

Valuation as of 14 Nov 2025

	Actual 2023	2024	2025	Forecast 2026	2027	2028	2029	2030
Price/Earning	25.5	23.1	17.6	16.3	15.3	14.8	13.4	—
Price/Sales	2.0	2.2	2.0	1.9	1.8	1.7	1.7	—
Price/Book	1.8	2.1	1.7	1.7	1.6	1.5	1.4	—
Price/Cash Flow	—	—	—	—	—	—	—	—
EV/EBITDA	10.7	10.9	10.5	11.7	10.6	10.1	9.3	—
EV/EBIT	24.0	20.3	163.1	15.6	13.8	13.1	11.8	—
Dividend Yield %	—	0.7	1.0	1.4	1.5	1.7	1.9	—
Dividend Payout %	0.0	15.1	16.9	23.5	23.5	25.6	25.8	26.7
Free Cash Flow Yield %	—	—	—	—	—	—	—	—

Operating Performance / Profitability as of 14 Nov 2025

Fiscal Year, ends 30 Sep	Actual 2023	2024	2025	Forecast 2026	2027	2028	2029	2030
ROA %	1.5	1.2	2.5	6.3	5.3	5.5	5.5	5.7
ROE %	3.2	2.3	4.7	10.8	9.1	9.5	9.3	9.8
ROIC %	3.6	3.2	4.7	7.0	7.8	8.6	8.8	9.6

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Financial Leverage (Reporting Currency)	Actual			Forecast				
Fiscal Year, ends 30 Sep	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**
Debt/Capital %	25.2	21.8	—	15.2	14.4	14.2	14.5	14.5
Assets/Equity	2.0	1.9	1.7	1.7	1.7	1.7	1.7	1.7
Net Debt/EBITDA	3.1	3.1	—	1.9	1.7	1.6	1.3	1.1
Total Debt/EBITDA	2.5	2.2	—	2.1	1.9	1.9	2.0	2.0
EBITDA/ Net Interest Expense	16.6	17.7	16.5	16.1	14.0	14.1	15.4	17.2

Forecast Revisions as of 21 Nov 2025	2026		2027		2028	
Prior data as of 13 Nov 2025	**Current**	**Prior**	**Current**	**Prior**	**Current**	**Prior**
Fair Value Estimate Change (Trading Currency)	120.00	120.24	—	—	—	—
Revenue (USD Mil)	97,772	97,731	102,508	101,753	105,533	104,865
Operating Income (USD Mil)	14,419	14,399	16,344	15,897	17,247	16,834
EBITDA (USD Mil)	19,257	19,328	21,273	20,878	22,274	21,833
Net Income (USD Mil)	11,272	11,348	12,015	11,745	12,290	12,242
Earnings Per Share (Diluted) (USD)	5.93	5.77	6.39	6.06	6.64	6.39
Adjusted Earnings Per Share (Diluted) (USD)	6.39	6.27	6.82	6.49	7.03	6.76
Dividends Per Share (USD)	1.50	1.50	1.60	1.50	1.80	1.60

Key Valuation Drivers as of 14 Nov 2025

Cost of Equity %	9.0
Pre-Tax Cost of Debt %	5.8
Weighted Average Cost of Capital %	8.3
Long-Run Tax Rate %	24.0
Stage II EBI Growth Rate %	5.0
Stage II Investment Rate %	12.0
Perpetuity Year	20

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

Discounted Cash Flow Valuation as of 14 Nov 2025

	USD Mil
Present Value Stage I	73,966
Present Value Stage II	71,816
Present Value Stage III	89,302
Total Firm Value	**235,084**
Cash and Equivalents	5,695
Debt	42,026
Other Adjustments	8,097
Equity Value	**206,850**
Projected Diluted Shares	1,734
Fair Value per Share (USD)	**120.00**

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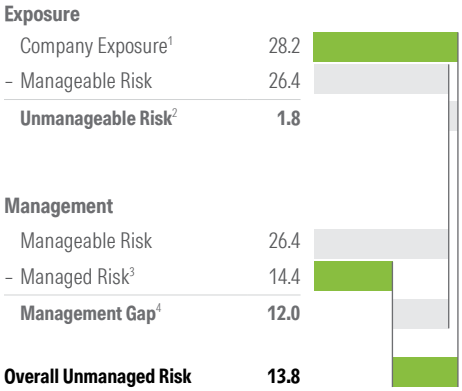
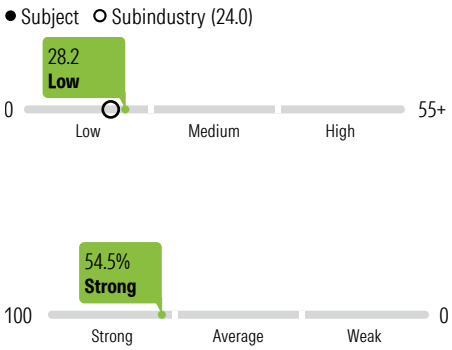
The Walt Disney Co DIS ★★★★ 3 Feb 2026 22:45, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
104.22 USD 3 Feb 2026	120.00 USD 7 May 2025 21:41, UTC	0.87	184.63 USD Bil 3 Feb 2026	Wide	Large Value	Medium	Standard	 7 Jan 2026 06:00, UTC

ESG Risk Rating Breakdown





- 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 54.5% 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: Movies and Entertainment. 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		
The Walt Disney Co	28.2 | Low	0	55+	54.5 | Strong	100	0	13.8 | Low	0	40+
Paramount Skydance Corp	25.8 | Low	0	55+	56.1 | Strong	100	0	11.8 | Low	0	40+
Comcast Corp	42.7 | Medium	0	55+	57.3 | Strong	100	0	20.9 | Medium	0	40+
Warner Bros. Discovery Inc	26.9 | Low	0	55+	56.8 | Strong	100	0	12.3 | Low	0	40+
Netflix Inc	22.2 | Low	0	55+	47.7 | Average	100	0	12.1 | Low	0	40+

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Appendix

Historical Morningstar Rating

The Walt Disney Co DIS 3 Feb 2026 22:45, 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
★★★	★★★	★★★	★★★	★★★	★★	★★★	★★★	★★	★★	★★	★★

Netflix Inc NFLX 3 Feb 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
★★	★★	★★	★	★	★	★	★	★★	★★	★★	★★
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Dec 2023	Nov 2023	Oct 2023	Sep 2023	Aug 2023	Jul 2023	Jun 2023	May 2023	Apr 2023	Mar 2023	Feb 2023	Jan 2023
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Dec 2022	Nov 2022	Oct 2022	Sep 2022	Aug 2022	Jul 2022	Jun 2022	May 2022	Apr 2022	Mar 2022	Feb 2022	Jan 2022
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Dec 2021	Nov 2021	Oct 2021	Sep 2021	Aug 2021	Jul 2021	Jun 2021	May 2021	Apr 2021	Mar 2021	Feb 2021	Jan 2021
★	★	★	★	★	★	★	★	★	★	★	★

Warner Bros. Discovery Inc Ordinary Shares - Class A WBD 3 Feb 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
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Dec 2025	Nov 2025	Oct 2025	Sep 2025	Aug 2025	Jul 2025	Jun 2025	May 2025	Apr 2025	Mar 2025	Feb 2025	Jan 2025
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Dec 2024	Nov 2024	Oct 2024	Sep 2024	Aug 2024	Jul 2024	Jun 2024	May 2024	Apr 2024	Mar 2024	Feb 2024	Jan 2024
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Dec 2023	Nov 2023	Oct 2023	Sep 2023	Aug 2023	Jul 2023	Jun 2023	May 2023	Apr 2023	Mar 2023	Feb 2023	Jan 2023
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Dec 2022	Nov 2022	Oct 2022	Sep 2022	Aug 2022	Jul 2022	Jun 2022	May 2022	Apr 2022	Mar 2022	Feb 2022	Jan 2022
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Dec 2021	Nov 2021	Oct 2021	Sep 2021	Aug 2021	Jul 2021	Jun 2021	May 2021	Apr 2021	Mar 2021	Feb 2021	Jan 2021
★★★★★	★★★★★	★★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★	★★	★	★★

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Comcast Corp Class A CMCSA 3 Feb 2026 22:42, 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
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Dec 2023	Nov 2023	Oct 2023	Sep 2023	Aug 2023	Jul 2023	Jun 2023	May 2023	Apr 2023	Mar 2023	Feb 2023	Jan 2023
★★★★	★★★★★	★★★★★	★★★★	★★★★	★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★
Dec 2022	Nov 2022	Oct 2022	Sep 2022	Aug 2022	Jul 2022	Jun 2022	May 2022	Apr 2022	Mar 2022	Feb 2022	Jan 2022
★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★	★★★★★	★★★★	★★★★	★★★★
Dec 2021	Nov 2021	Oct 2021	Sep 2021	Aug 2021	Jul 2021	Jun 2021	May 2021	Apr 2021	Mar 2021	Feb 2021	Jan 2021
★★★★	★★★★	★★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★

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Research Methodology for Valuing Companies

Overview

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

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

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

1. Economic Moat

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

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

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

2. Estimated Fair Value

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

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

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

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

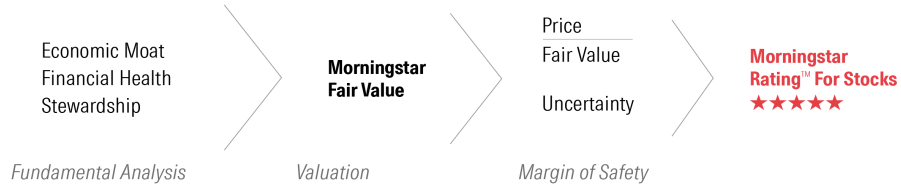
Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total present value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty Around That Fair Value Estimate

Morningstar's Uncertainty Rating is designed to capture the range of potential outcomes for a company's intrinsic value. This rating is used to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating is aimed at identifying the confidence we should have in assigning a fair value estimate for a given stock.

Our Uncertainty Rating is meant to take into account anything that can increase the potential dispersion of future

Morningstar Equity Research Star Rating Methodology



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outcomes for the intrinsic value of a company, and anything that can affect our ability to accurately predict these outcomes. The rating begins with a suggested rating produced by a quantitative process based on the trailing 12-month standard deviation of daily stock returns. An analyst overlay is then applied, with analysts using the suggested rating, historical rating data, and their own knowledge of the company to inform them as they make the final Uncertainty Rating decision. Ultimately, the rating decision rests with the analyst. Analysts take into account many characteristics when making their final decision, including cyclical factors, operational and financial factors such as leverage, company-specific events, ESG risks, and anything else that might increase the potential dispersion of future outcomes and our ability to estimate those outcomes.

Our recommended margin of safety—the discount to fair value demanded before we'd recommend buying or selling the stock—widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the potential dispersion of outcomes, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the Uncertainty Rating provides guidance in portfolio construction based on risk tolerance.

Our Uncertainty Ratings are: Low, Medium, High, Very High, and Extreme.

	Margin of Safety	
Qualitative Analysis Uncertainty Ratings	★★★★★Rating	★Rating
Low	20% Discount	25% Premium
Medium	30% Discount	35% Premium
High	40% Discount	55% Premium
Very High	50% Discount	75% Premium
Extreme	75% Discount	300% Premium

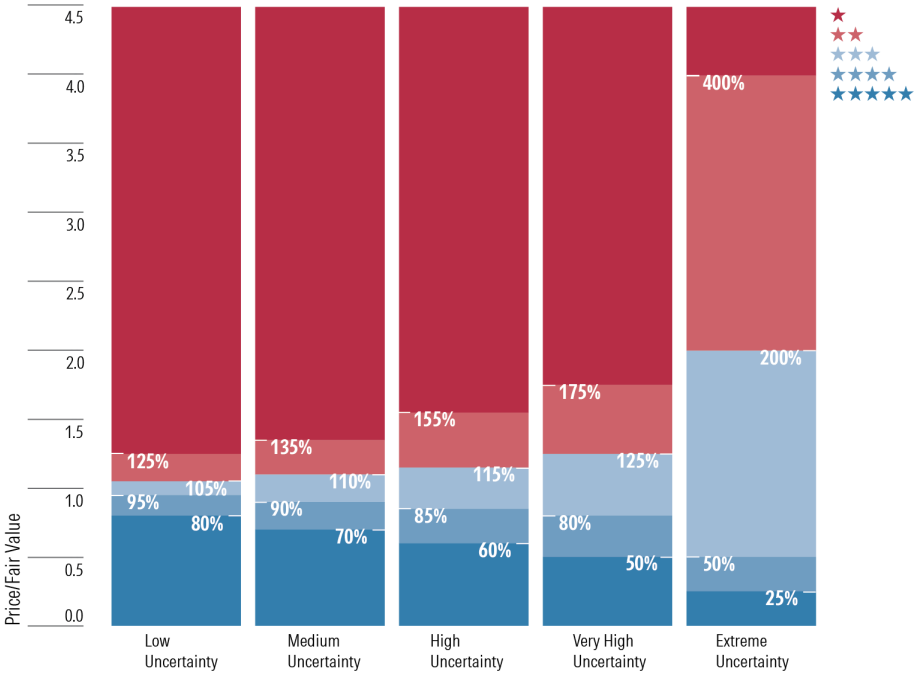
Our uncertainty rating is based on the interquartile range, or the middle 50% of potential outcomes, covering the 25th percentile–75th percentile. This means that when a stock hits 5 stars, we expect there is a 75% chance that the intrinsic value of that stock lies above the current market price. Similarly, when a stock hits 1 star, we expect there is a 75% chance that the intrinsic value of that stock lies below the current market price.

4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more details about our methodology, please go to https://shareholders.morningstar.com

Morningstar Equity Research Star Rating Methodology



Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

★★★★★ We believe appreciation beyond a fair risk adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

★★★★ We believe appreciation beyond a fair risk-adjusted return is likely.

★★★ Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

★★ We believe investors are likely to receive a less than fair risk-adjusted return.

★ Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Capital Allocation Rating: Our Capital Allocation (or Stewardship) Rating represents our assessment of the quality of management's capital allocation, with particular emphasis on the firm's balance sheet, investments,

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and shareholder distributions. Analysts consider companies' investment strategy and valuation, balance sheet management, and dividend and share buyback policies. Corporate governance factors are only considered if they are likely to materially impact shareholder value, though either the balance sheet, investment, or shareholder distributions. Analysts assign one of three ratings: "Exemplary", "Standard", or "Poor". Analysts judge Capital Allocation from an equity holder's perspective. Ratings are determined on a forward looking and absolute basis. The Standard rating is most common as most managers will exhibit neither exceptionally strong nor poor capital allocation.

Capital Allocation (or Stewardship) analysis published prior to Dec. 9, 2020, was determined using a different process. Beyond investment strategy, financial leverage, and dividend and share buyback policies, analysts also considered execution, compensation, related party transactions, and accounting practices in the rating.

Capital Allocation Rating: Our Capital Allocation (or Stewardship) Rating represents our assessment of the quality of management's capital allocation, with particular emphasis on the firm's balance sheet, investments, and shareholder distributions. Analysts consider companies' investment strategy and valuation, balance sheet management, and dividend and share buyback policies. Corporate governance factors are only considered if they are likely to materially impact shareholder value, though either the balance sheet, investment, or shareholder distributions. Analysts assign one of three ratings: "Exemplary", "Standard", or "Poor". Analysts judge Capital Allocation from an equity holder's perspective. Ratings are determined on a forward looking and absolute basis. The Standard rating is most common as most managers will exhibit neither exceptionally strong nor poor capital allocation.

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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/

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