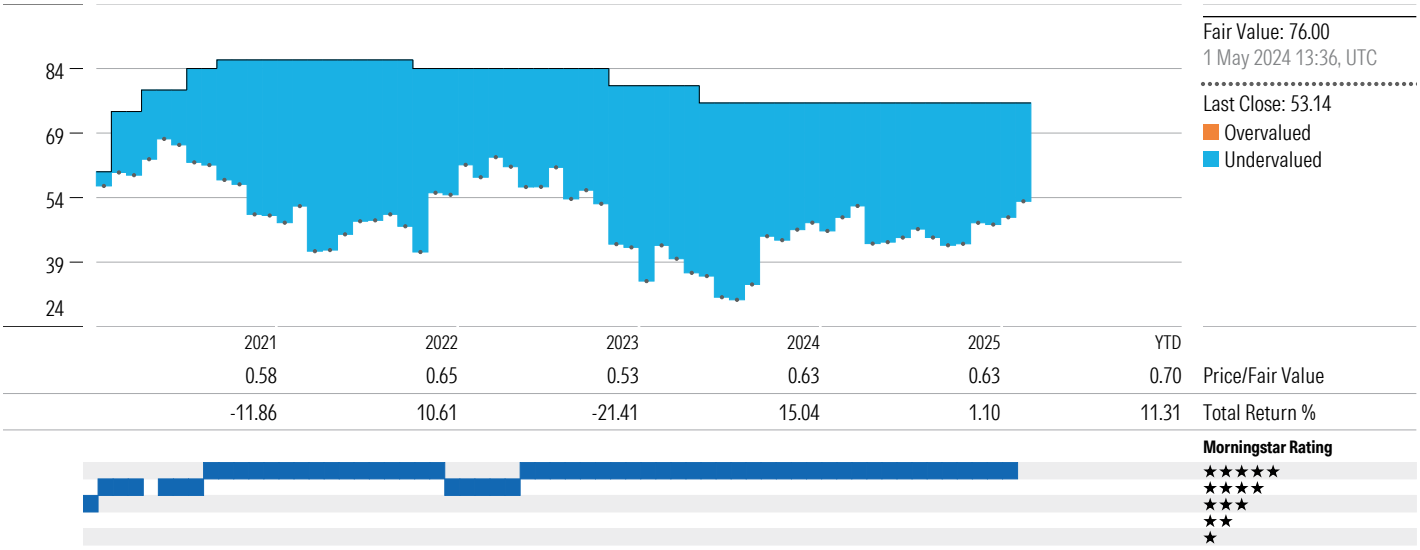
Yum China Holdings Inc YUMC ★★★★★ 4 Feb 2026 22:52, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
53.14 USD 4 Feb 2026	76.00 USD 1 May 2024 13:36, UTC	0.70	18.78 USD Bil 4 Feb 2026	Wide	Large Blend	Medium	Standard	7 Jan 2026 06:00, UTC

Price vs. Fair Value



	2021	2022	2023	2024	2025	YTD
Price/Fair Value	0.58	0.65	0.53	0.63	0.63	0.70
Total Return %	-11.86	10.61	-21.41	15.04	1.10	11.31

Morningstar Rating

★★★★★
★★★★
★★★
★★
★

Total Return % as of 04 Feb 2026. Last Close as of 04 Feb 2026. Fair Value as of 1 May 2024 13:36, UTC.

Contents

Analyst Note (5 Feb 2026)
Business Description
Business Strategy & Outlook (15 Dec 2025)
Bulls Say / Bears Say (15 Jan 2026)
Economic Moat (15 Jan 2026)
Fair Value and Profit Drivers (15 Jan 2026)
Risk and Uncertainty (15 Dec 2025)
Capital Allocation (15 Dec 2025)
Analyst Notes Archive
Financials
ESG Risk
Appendix
Research Methodology for Valuing Companies

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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.

Yum China Earnings: Pricing Power Returns as Consumer Sentiment Improves; Shares Undervalued

Analyst Note Ivan Su, Senior Equity Analyst, 5 Feb 2026

Yum China delivered strong fourth-quarter results, with constant-currency revenue up 7% and operating profit rising 23% year over year, aided by Chinese yuan appreciation. Management's 2026 outlook remains largely consistent with the targets shared at the recent investor day.

Why it matters: Sequentially accelerating same-store sales and continued margin expansion bolster our conviction in our above-consensus view. With KFC recently raising prices amid improving consumer sentiment, we see a clear runway for further outperformance.

- Industry commentary points to a broad recovery in China's restaurant sector. Yum China is well-positioned to capture these tailwinds, with newer store formats expanding into lower-tier cities and driving share gains in underpenetrated markets.
- Operating margin expanded by 80 basis points year over year despite an unfavorable mix shift toward delivery. This is a testament to the higher profitability of Yum China's new store models and the cost efficiencies generated by ongoing technology investments.

The bottom line: We maintain our fair value estimate for wide-moat Yum China at $76. With shares trading at 17 times 2026 earnings and offering a 6% normalized shareholder yield, the stock is deeply undervalued, at a more than 30% discount to our valuation.

- Consensus forecasts are anchored to the 2026-28 guidance outlined at its investor day. However, this

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Sector Consumer Cyclical

Industry Restaurants

Business Description

Yum China is the largest restaurant operator in China, with over 18,000 locations and USD 12 billion in systemwide sales as of 2025. It generates revenue primarily from its own restaurants and franchise fees. While KFC and Pizza Hut are its flagship brands, Yum China's portfolio also includes Little Sheep, Taco Bell, Huang Ji Huang, and Lavazza. As a trademark licensee of Yum Brands, Yum China pays 3% of KFC and Pizza Hut's systemwide sales to its former parent, from which it spun off in 2016. However, even before the separation, Yum China was granted substantial autonomy, giving its Chinese leadership decision-making authority over menu, supply chain, and marketing—an unusual practice for Western chains at the time.

guidance assumes no improvement in China's macroeconomic environment—a conservative premise that contradicts the early signs of recovery now emerging.

Big picture: KFC's recent delivery menu price hike is not driven by cost inflation but by improving consumer willingness to spend. Similar moves by peers like McDonald's and Cotti reinforce this trend, suggesting that pricing power is returning and margins should benefit.

Business Strategy & Outlook Ivan Su, Senior Equity Analyst, 15 Dec 2025

The Chinese restaurant sector continues to face headwinds from the real estate downturn and a lack of economic stimulus, affecting consumer spending. In this environment, we recommend that investors focus on companies that possess the scale to be more aggressive on pricing, as value-oriented players typically perform better during economic downturns. A healthy balance sheet is also crucial.

Yum China is well-positioned to gain share in the fragmented Chinese restaurant market, where chain restaurants account for only about 20% of China's restaurant spending, versus roughly 35% globally and 60% in the US, underscoring a long runway for consolidation that should disproportionately benefit Yum China.

Despite current economic headwinds, we remain confident in the long-term growth of the quick-service restaurant segment, driven by three secular trends: 1) the increasing number of office-based workers, 2) rising disposable incomes, and 3) shrinking family sizes.

Looking ahead, we expect the company to meet its 2026-28 targets, including: 1) mid- to high-single-digit system sales compound annual growth rates, 2) double-digit CAGR in net new stores, 3) double-digit growth in free cash flow per share, and 4) returning 100% of free cash flow to shareholders.

We believe these goals are achievable by: 1) expanding into thousands of lower-tier towns that currently lack KFC, 2) broadening Pizza Hut's footprint in cities that have KFC but not Pizza Hut, aided by the more budget- and takeout-friendly Pizza Wow format, and 3) accelerating franchise expansion, particularly in protected locations, to speed market entry.

Admittedly, some of Yum China's nascent brands have underperformed, partly due to the macroeconomic slowdown. That said, we continue to view Lavazza as a high-quality brand with differentiated premium coffee positioning—an opportunity made more attractive by Starbucks' recent challenges in China. With the group's in-house supply chain lowering food costs, we expect future Lavazza growth to be profitable; the brand already achieved a 6% restaurant margin in the third quarter of 2025.

Bulls Say Ivan Su, Senior Equity Analyst, 15 Jan 2026

- New KFC units achieve pretax cash payback in roughly two years—about a 50% cash-on-cash

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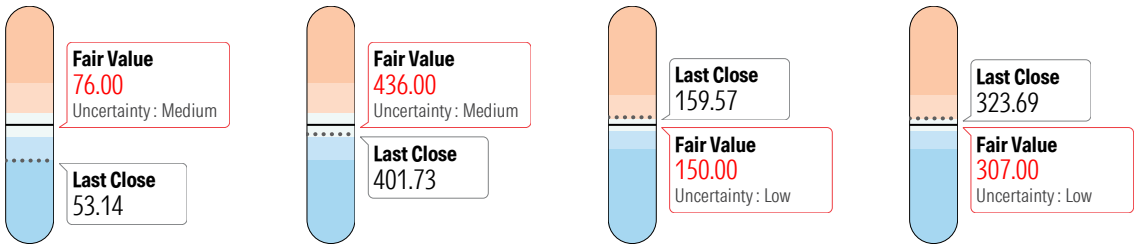
Competitors



	Yum China Holdings Inc YUMC	Domino's Pizza Inc DPZ	Yum Brands Inc YUM	McDonald's Corp MCD
Economic Moat	Wide	Wide	Wide	Wide
Currency	USD	USD	USD	USD
Fair Value	76.00 1 May 2024 13:36, UTC	436.00 12 Jan 2026 18:09, UTC	150.00 12 Jan 2026 19:05, UTC	307.00 28 Nov 2025 10:00, UTC
1-Star Price	102.60	588.60	187.50	383.75
5-Star Price	53.20	305.20	120.00	245.60
Assessment	Undervalued 4 Feb 2026	Fairly Valued 4 Feb 2026	Fairly Valued 4 Feb 2026	Fairly Valued 4 Feb 2026
Morningstar Rating	★★★★★4 Feb 2026 22:52, UTC	★★★4 Feb 2026 22:35, UTC	★★★4 Feb 2026 22:37, UTC	★★★4 Feb 2026 22:33, UTC
Analyst	Ivan Su, Senior Equity Analyst	Ari Felhandler, Equity Analyst	Ari Felhandler, Equity Analyst	Ari Felhandler, Equity Analyst
Capital Allocation	Standard	Exemplary	Standard	Exemplary
Price/Fair Value	0.70	0.92	1.06	1.05
Price/Sales	1.67	2.85	5.46	8.85
Price/Book	3.50	—	—	—
Price/Earning	20.21	23.60	29.45	27.06
Dividend Yield	1.81%	1.73%	1.78%	2.22%
Market Cap	18.78 Bil	13.57 Bil	44.31 Bil	230.52 Bil
52-Week Range	41.00—53.99	382.47—500.55	129.55—163.30	283.47—326.32
Investment Style	Large Blend	Mid Blend	Mid Blend	Large Value

return—outperforming most regional chains. This strengthens the firm's ROI and helps attract high-quality franchisees.

- Early indicators suggest a steadily improving operating environment for China's restaurant industry. As a market leader, Yum China is well-positioned to be a primary beneficiary.
- Rising incomes, ongoing urbanization, and generational shifts continue to propel restaurant spending across China, supporting Yum China's long-term growth.

Bears Say Ivan Su, Senior Equity Analyst, 15 Jan 2026

- Although the zero-covid-19 policy is over, restaurants still contend with cautious consumer spending.
- While having a proven track record in capturing Chinese's appetite for Western food, the group has had limited success in Chinese concepts.
- If economic conditions further deteriorate, chains might increasingly compete with one another, with aggressive promotional activity likely to escalate.

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Economic Moat Ivan Su, Senior Equity Analyst, 15 Jan 2026

The Chinese restaurant industry is intensely competitive, as evidenced by 14 of the top 20 highest-revenue restaurants in 2009 falling off the list by 2024. Despite this, we believe wide-moat Yum China stands out as an outlier, having successfully defended its market share for over two decades. The firm's moat rests on two pillars: a cost advantage rooted in China's largest in-house restaurant supply chain and intangible assets built on strong brand recognition.

Yum China's historical adjusted returns on invested capital (including goodwill) have consistently exceeded our 8.8% weighted average cost of capital estimate, even during the challenging covid-19 years. With a stable business outlook and a strategic shift toward opening more new units through capital-light franchising, we anticipate the company's ROIC to expand and remain above WACC over the next 20 years, supporting our wide-moat rating.

Following covid-19 and the real estate downturn, Chinese consumers have become more value-conscious and price-comparative. This shift raises the bar for restaurants to deliver compelling price-for-value offerings. In this context, we view Yum China's competitive strength as anchored in a cost advantage that provides bargaining power over suppliers and generates scale benefits. A core driver of this advantage is the in-house supply chain the company began building shortly after entering China, which it scaled through the past 30 years. This advantage is further amplified by Yum China's position as the country's largest restaurant operator.

Unlike developed markets in North America and Europe, where restaurant chains rely on third-party food distributors like Sysco and U.S. Foods to manage food handling from suppliers to restaurant locations, China lacked reputable food distributors when Yum China entered the country. This forced the company to build its own vertically integrated supply chain, which has since become one of the largest in China. Today, Yum China operates 33 logistics centers, covering more than 5,000 cities and towns, and pools commodity purchases from over 1,000 suppliers across China and the rest of the world.

This scale and operational control far surpass competitors. For instance, McDonald's, the second-largest restaurant operator in China, relies on third-party logistics providers like HAVI for storage and transportation, and has not established its own nationwide logistics network. Similarly, local brands like Haidilao and Mixue have central kitchens and logistics centers, but their warehouse networks, geographic coverage, and digital investments remain far behind Yum China. The long tail—roughly 80% of the industry—consists of independents that buy with little scale from local wholesalers and markets.

The direct result of Yum China's in-house supply chain is lower sourcing costs, achieved by eliminating intermediary margins, and stronger economies of scale as the business expands. Combined with scale-

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driven volume discounts and procurement efficiencies, these advantages have translated into 50% lower food costs for Yum China versus the industry and an ability to keep inflation in key categories, such as chicken, significantly below the broader market.

Beyond cost, the in-house supply chain enables greater menu flexibility and variability, which supports brand equity. With end-to-end control, Yum China can quickly source, test, and launch hundreds of new menu items each year, tailoring offerings to local tastes and seasonal preferences. This constant stream of innovation also supports timely collaborations with pop culture IP—through co-branded food and packaging—keeping KFC and Pizza Hut culturally relevant while reinforcing perceptions of freshness and value among consumers.

Turning to intangible assets, Yum China's brand equity is anchored by KFC's strong brand recognition in China. Introduced in 1987 as China's first modern quick-service restaurant, KFC evolved from novelty to a locally resonant brand with a well-located footprint across 2,500 cities, making it the default choice for quick meals for many consumers. That reach is matched by consistency and operational excellence, as KFC delivers predictable core menu items reliably and quickly, no matter where customers go across the country. At the same time, the brand remains relevant through localized flavors and seasonal offerings, keeping the menu fresh without compromising quality or standards. This combination has built significant consumer trust in the KFC brand, making it unmatched by any other restaurant brand in China.

Today, KFC operates 13,000 restaurants and is synonymous with speed, convenience, and value. As the largest player in China's fragmented restaurant industry, KFC holds a 1.5% overall market share—almost double that of second-place McDonald's. Within the quick-service chicken category, KFC commands an impressive 60% market share, according to Euromonitor. Furthermore, KFC's ability to deliver strong unit economics underscores the strength of its brand. Despite its massive scale, KFC's new units achieve payback periods of roughly two years, representing a 50% cash-on-cash return, outperforming most regional peers.

We also view Pizza Hut China as moat-worthy. It is the largest Western casual dining brand in the country and holds roughly 40% share in pizza, well ahead of Domino's at around 14%. After a period of consumer fatigue in the mid-2010s, management revitalized the concept by broadening the menu (steak, pasta, wings, single-portion meals) and rolling out smaller, more efficient formats to penetrate lower-tier cities. The brand has become far more delivery-capable than its counterparts outside China, which have struggled against delivery-focused competitors. These efforts have driven Pizza Hut's highest operating margin since 2017 and a return to positive same-store sales growth.

Fair Value and Profit Drivers Ivan Su, Senior Equity Analyst, 15 Jan 2026

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Our fair value estimate for Yum China is USD 76 per share. We assume a steady growth of same-store sales in 2026 and the years onward.

Over the next five years, we forecast a 7% compound annual revenue growth rate. This is underpinned by roughly 12% growth in restaurant units, with expansion focused on lower-tier cities and a greater mix of franchised stores, given the low penetration of chains in these markets. We also assume average same-store sales growth of 1.7%. The headline revenue CAGR is only 7% due to the higher share of franchising and the rollout of smaller-format units with lower average sales per store.

On profitability, we forecast operating margins to rise from 10.3% in 2024 to 12.8% by 2029. This improvement is driven by the opening of higher-return small store formats, increased monetization of commodity sourcing agreements with franchisees, and general and administrative expenses leverage. Consequently, we project operating profit to grow at a 12% CAGR, while EPS is expected to grow at a 16% CAGR over the next five years. The higher EPS growth reflects share repurchases, which reduce the overall share count.

Risk and Uncertainty Ivan Su, Senior Equity Analyst, 15 Dec 2025

Our Morningstar Uncertainty Rating for Yum China is Medium.

While delivery subsidies in China have weighed on the broader restaurant industry, the impact on Yum China has been negligible. Its large scale provides strong bargaining power with delivery platforms, enabling favorable subsidy-sharing arrangements. In addition, Yum China's flexible supply chain allows it to selectively lower prices on non-signature items during promotional periods to defend market share, while maintaining price integrity on signature products to preserve brand equity. As a result, the company has been relatively insulated from the "delivery wars."

As China's restaurant industry remains in a relatively early stage of development, operators often compete aggressively on price. The large nature of the industry also invites entry. In addition to rising competition, Yum China must contend with slowing GDP growth and consumer spending volatility, state-mandated wage rate increases, and uneven commodity cost, each of which could hurt top-line growth and profitability. Restaurants, in general, are also susceptible to negative publicity tied to food quality concerns, which can lead to declines in foot traffic. Like most restaurant operators, Yum China is prone to reputational risks resulting from limited employee benefits and low wages.

The shift toward healthier diets poses limited risk to Yum China. The company offers a broad product mix beyond fried chicken—including breakfast items, localized Chinese menu options, K-Coffee, and KPro, giving customers lighter choices. Moreover, while so-called green preferences are growing among higher-income consumers in top-tier cities, many consumers, especially in lower-tier markets, are still trading up from carbohydrate-heavy meals to more animal protein—an upgrade that continues to benefit Yum China's core offerings.

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Capital Allocation Ivan Su, Senior Equity Analyst, 15 Dec 2025

We assign Yum China a Standard Morningstar Capital Allocation Rating. The rating reflects our assessments of a sound balance sheet, fair investment, and appropriate shareholder distributions. We believe that future investments will be the key driver of total shareholder returns.

Yum China has invested capital efficiently across its core operations—supply chain, brands, and stores. New, smaller-format KFC and Pizza Hut units have delivered strong returns, and supply chain investments have enabled expansion into lower-tier cities. That said, this solid internal track record is offset by a weaker mergers and acquisitions record. In 2020, the company acquired a controlling stake in Huang Ji Huang, a 640-unit Chinese-style casual chain. Despite expectations that Yum China could scale the brand using its real estate expertise, lift margins via its supply chain, and enhance the menu through research and development, Huang Ji Huang failed to gain traction and has been shrinking its footprint. Overall, we assess capital allocation as fair at this stage.

The company's balance sheet is sound, with minimal debt, and we expect it to remain so as the company aims to maintain a conservative balance sheet. Over the next few years, we believe the company will utilize some of its excess cash to acquire other restaurant concepts and drive shareholder returns through an accelerated unit expansion pace.

After several years of returning more than 100% of net profit to shareholders—funded by excess balance-sheet cash—Yum China now targets returning 100% of free cash flow to shareholders from 2027 onward via dividends and share buybacks. This plan assumes a net cash position of approximately $1.3 billion at year-end 2026. With repurchases occurring at a significant discount to our fair value estimate, we view Yum China's capital return policy favorably.

Analyst Notes Archive

Yum China Earnings: Solid Profitability Amid Weak Macro Conditions; Shares Look Very Cheap Ivan Su,Senior Equity Analyst,4 Nov 2025

Yum China delivered solid third-quarter earnings, with revenue rising 4% and operating profit up 8% year over year. Management noted that October sales were in line with expectations and reaffirmed its full-year outlook. Why it matters: With earnings in line with our estimates, the results alleviated investor concerns about the impact of China's delivery wars on Yum China's profitability. Yum China's margins improved year-over-year, even as other restaurants reported declines due to self-funded delivery promotions. This underscores the company's ability to secure favorable terms from delivery platforms, thanks to its scale and bargaining power. Additionally, the 4% revenue growth supports our thesis that quick-service restaurants are relatively insulated from the anti-extravagance crackdown on government officials, which limited overall restaurant sales growth in China to just 1.4% in the third quarter. The bottom line: We maintain our $76 fair value estimate for wide-moat Yum China. With shares trading at

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just 16 times 2026 earnings, the stock remains undervalued, trading at a 40% discount to our valuation. Yum China also offers an attractive shareholder yield—combining dividends and buybacks—projected at 9% in 2026 and 7% thereafter, making it appealing from both a growth and capital return perspective. Coming up: Anticipation is building around Yum China's Investor Day on November 17, with early signals suggesting that management's new guidance could exceed market expectations and align with ours, potentially serving as a positive catalyst for the stock.

Yum China Earnings: Margin Expansion and Pizza Growth Outshine Subsidy Risks; Shares Undervalued Ivan Su,Senior Equity Analyst,6 Aug 2025

Yum China reported solid second-quarter earnings, with revenue up 4% and operating profit rising 14% year over year. Management slightly raised its margin outlook for the remainder of the year and maintained its new stores target, but reduced capital expenditure guidance due to lower buildout costs.Why it matters: Earnings were in line with our estimates. Profitability improved as the firm effectively controlled food and paper costs despite elevated promotions. This again highlights the business' operational excellence and strong supply chain, which reinforces its cost advantage moat source. The fact that margin improvement is happening without much store-level operating leverage or same-store sales growth gives us greater confidence in our forecast for 420 basis points of operating margin expansion over the next decade, from 10.8% to 15%, once same-store sales recover. The bottom line: We maintain our $76 fair value estimate for wide-moat Yum China and continue to view shares as very undervalued, currently trading at a 40% discount to our valuation. With an attractive shareholder yield (dividends and buybacks) of 9% projected for 2025 and 2026, and 7% thereafter, we believe the stock is appealing from both a growth and capital return perspective. Bulls say: Pizza Hut Wow, a more compact and budget-friendly version of the chain, is gaining traction in lower-tier cities where traditional formats are less viable due to income levels. There are 1,500 cities in China that host a KFC but not a Pizza Hut. The Wow model enables quicker market entry, shorter payback periods, and higher profitability. Plans to expand this model through franchising further boost growth prospects. Coming up: In the near term, despite concerns that restaurants may need to partially fund promotional subsidies on delivery platforms, Yum China believes it secures some of the best deals from these platforms due to its size and bargaining power.Correction:

Maintaining Outlook for China's Restaurant Sector; Yum China Remains Top Pick Ivan Su,Senior Equity Analyst,5 Aug 2025

Macroeconomic indicators remain weak for restaurant operators in China, though conditions are no longer worsening. In response to government efforts to curb excessive competition, food delivery platforms have scaled back their promotional activities.Why it matters: Quick-service restaurants and beverage concepts have benefited from platform subsidies, which should support near-term earnings. However, since these promotions are likely temporary, they are unlikely to have a lasting impact on

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Yum China Holdings Inc YUMC ★★★★★ 4 Feb 2026 22:52, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
53.14 USD 4 Feb 2026	76.00 USD 1 May 2024 13:36, UTC	0.70	18.78 USD Bil 4 Feb 2026	Wide	Large Blend	Medium	Standard	7 Jan 2026 06:00, UTC

consumer behavior. In addition, some restaurants may need to partly fund the promotions themselves, which could offset the benefits of stronger sales. We maintain our forecasts for all restaurant operators under coverage and continue to expect mid-single-digit industry growth in the near term. For restaurant sales growth to accelerate meaningfully, we would need to see improvement in key macroeconomic drivers such as inflation, youth employment, and wage growth. The bottom line: Our fair value estimates remain unchanged for all restaurant operators under coverage. They currently trade at a 25% market-cap-weighted discount to our valuation. Our top pick in the space remains wide-moat Yum China. Yum China stands out for its strong brand portfolio, well-established franchising model, and superior supply chain capabilities, which support rapid expansion and market share gains. Most importantly, it is led by a proven management team with a solid track record of returning excess capital to shareholders. Long view: The restaurant industry in China is highly fragmented, with chain restaurants accounting for only 20% of the market versus 50%–60% in developed countries. This gap presents significant growth potential for chains to gain share through expansion.

Yum China Earnings: Solid Results, Guidance Reaffirmed Amid Tariff Uncertainty Ivan Su,Senior Equity Analyst,2 May 2025

Yum China posted 2% constant-currency revenue and 8% core operating profit year-on-year growth in the first quarter of 2025. Despite uncertainties surrounding US-China tariffs, the company reiterated its full-year guidance. Why it matters: Yum China's earnings were in line with our estimates. Management noted that performance in April is tracking as expected, with no material negative impact observed following the recent US tariff hikes on China. Same-store sales were flat in the first quarter, an improvement from the 1% decline in the previous quarter. However, management remains cautious about same-store sales trends due to macroeconomic uncertainties. Management maintained restaurant margin guidance for both its major brands, expecting stable margins for KFC and slightly improved margins for Pizza Hut in 2025. The bottom line: With solid earnings and an unchanged outlook, we keep our $76 per share fair value estimate for wide-moat Yum China. While prolonged US tariffs could potentially dampen consumer spending at restaurants, we are pleased that Yum China's operations have remained stable year to date. We continue to view Yum China's shares as significantly undervalued, trading at a 40% discount to our valuation, 17 times 2025 earnings, and offering a 10% shareholder yield through dividends and buybacks.

More Signs of Recovery Emerge in China's Restaurant Industry Despite Limited Stimulus Ivan Su,Senior Equity Analyst,17 Feb 2025

Additional signs indicate that China's restaurant industryhas been stabilizing over recent months, even in the absence of meaningful government stimulus. Why it matters: The restaurant industry struggled with lower average tickets, that is, the amount of money per transaction, through most of 2024. However, this trend has largely stabilized since the fourth quarter of 2024 and, in some cases, is even

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reversing, setting the stage for a sectorwide recovery. Leading operators, such as KFC and Luckin Coffee, recently raised menu prices. KFC management noted that the price hikes have not negatively affected order volumes, while McDonald's also reported signs of stabilization in the fourth quarter of 2024. The bottom line: We expect 2025 to be a better year for the restaurant industry, maintaining our fair value estimates for all four operators under coverage—wide-moat Yum China, and no-moat Haidilao, Jiumaojiu, and Xiabuxiabu. Restaurant operators are trading at depressed earnings multiples due to lingering concerns about further consumer spending cutbacks. However, we believe these fears are overblown, as pricing appears to have reached an inflection point. We anticipate revenue acceleration across the board, with Yum China remaining our top pick. Coming up: Details on tourism stimulus could be unveiled soon. Additional consumption-supportive measures may also be announced during the upcoming Two Sessions meetings in March.

Yum China Earnings: Strong Results and a Clear Path to Margin Expansion Ivan Su,Senior Equity Analyst,7 Feb 2025

Yum China's shares jumped 9% during US trading on Feb. 9 after reporting earnings that exceeded consensus estimates. Revenue increased by 4% year over year, while core operating profit grew by 35%. Why it matters: Yum China's earnings call struck an optimistic tone. Management pointed to signs of rationalization in industrywide promotions and achieved its first price hike in two years, reflecting improved consumer sentiment. Same-store sales appear to have reached an inflection point, with Lunar New Year comps showing a slight year-over-year increase. This alleviates concerns about a prolonged downturn in comparable store sales. In our view, even modest same-store sales growth could drive operating leverage in 2025, leading to higher profitability. The bottom line: We keep our $76 fair value estimate for wide-moat Yum China, as our long-term forecasts already anticipated above-consensus results. Despite the postearnings rally, we still view Yum China shares as significantly undervalued, currently trading at a 35% discount to our valuation. Shares are trading at 19 times 2025 earnings and offer an 8% shareholder yield. We believe the market is overlooking Yum China's ability to grow its current 1.5% market share in China's restaurant industry while benefitting from operating leverage as same-store sales recover. Between the lines: Management's guidance of 5% revenue growth and stable-to-modestly improving margins for 2025 assumes no improvement in China's macroeconomic conditions. We believe these are conservative assumptions. We expect 2025 revenue to grow by 7%, as the Chinese government's ongoing efforts to stimulate the economy and revive consumption should provide a modest tailwind. Due to the high fixed-cost structure of the restaurant industry, our revenue growth assumptions translate into a 60-basis-point year-over-year improvement in operating margin, reaching 10.9% in 2025.

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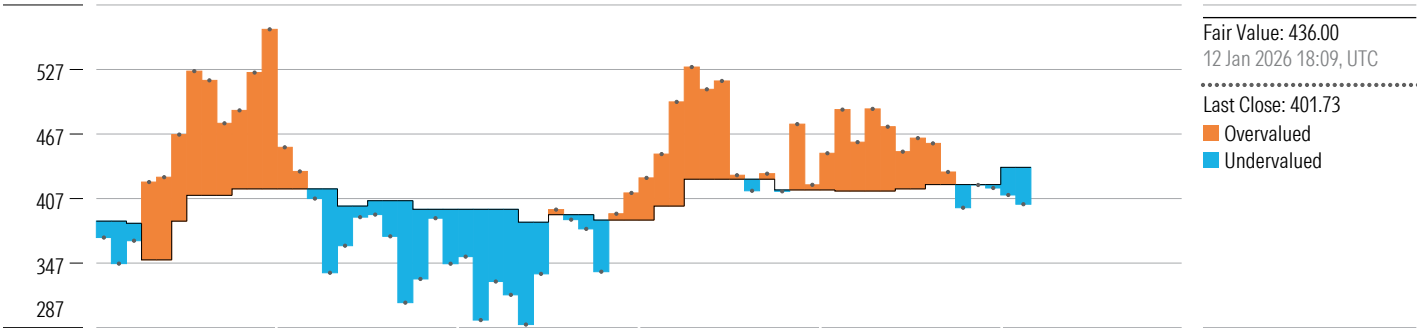
Competitors Price vs. Fair Value

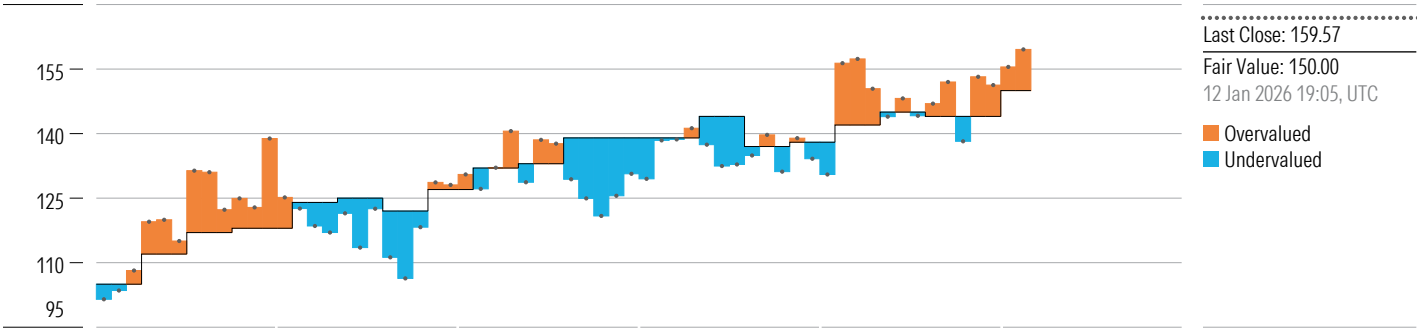
Domino's Pizza Inc DPZ



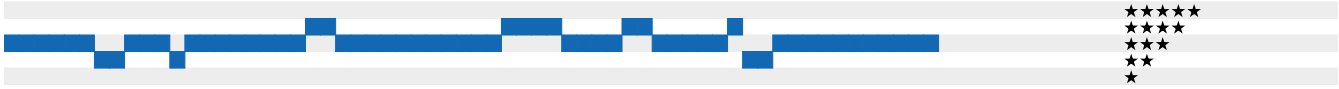
	2021	2022	2023	2024	2025	YTD	
	1.36	0.87	1.07	1.01	0.99	0.92	Price/Fair Value
	48.15	-37.84	20.40	3.29	0.96	-3.62	Total Return %

Total Return % as of 04 Feb 2026. Last Close as of 04 Feb 2026. Fair Value as of 12 Jan 2026 18:09, UTC.

Yum Brands Inc YUM



	2021	2022	2023	2024	2025	YTD	
	1.18	1.01	0.94	0.97	1.05	1.06	Price/Fair Value
	29.75	-6.12	3.90	4.73	14.88	5.48	Total Return %



Total Return % as of 04 Feb 2026. Last Close as of 04 Feb 2026. Fair Value as of 12 Jan 2026 19:05, UTC.

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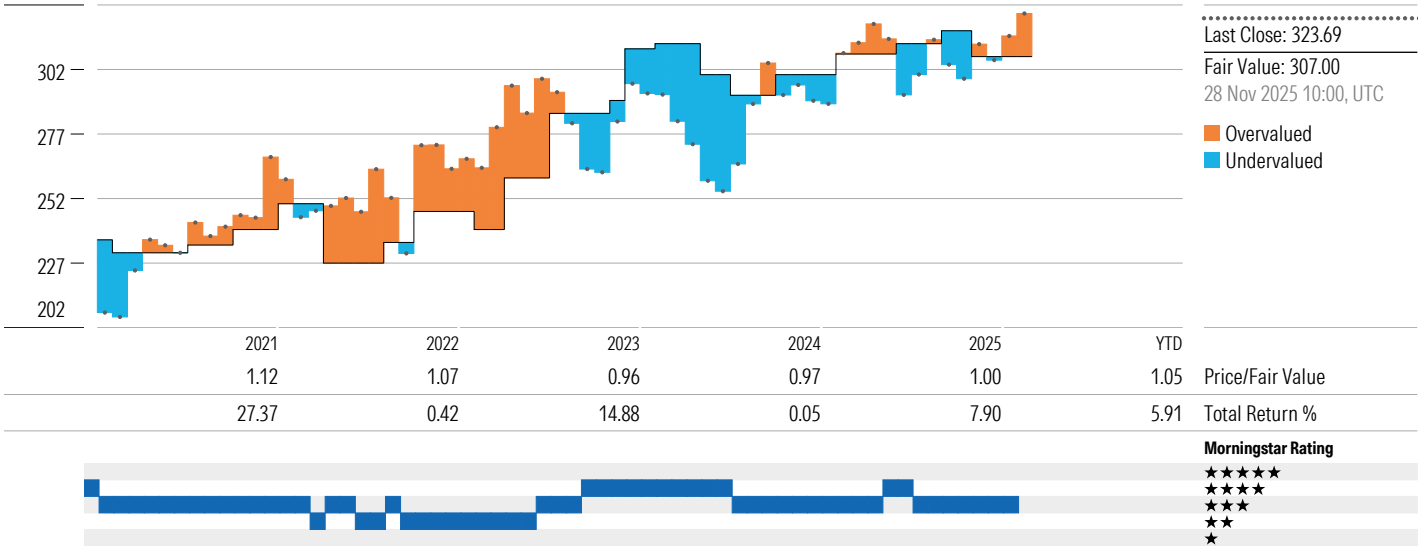
Competitors Price vs. Fair Value

McDonald's Corp MCD



	2021	2022	2023	2024	2025	YTD	
	1.12	1.07	0.96	0.97	1.00	1.05	Price/Fair Value
	27.37	0.42	14.88	0.05	7.90	5.91	Total Return %

Total Return % as of 04 Feb 2026. Last Close as of 04 Feb 2026. Fair Value as of 28 Nov 2025 10:00, UTC.

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Morningstar Valuation Model Summary

Financials as of 05 Feb 2026

Fiscal Year, ends 31 Dec	Actual 2023	2024	2025	Forecast 2026	2027	2028	2029	2030
Revenue (USD Mil)	10,978	11,303	11,797	12,968	13,997	14,972	15,910	16,705
Operating Income (USD Mil)	1,218	1,283	1,421	1,597	1,793	1,967	2,156	2,335
EBITDA (USD Mil)	1,510	1,678	1,792	2,083	2,154	2,341	2,541	2,729
Adjusted EBITDA (USD Mil)	1,510	1,678	1,792	2,083	2,154	2,341	2,541	2,729
Net Income (USD Mil)	827	911	929	1,023	1,194	1,314	1,444	1,565
Adjusted Net Income (USD Mil)	842	911	929	1,023	1,194	1,314	1,444	1,565
Free Cash Flow To The Firm (USD Mil)	763	714	840	1,445	1,125	1,228	1,340	1,413
Weighted Average Diluted Shares Outstanding (Mil)	420	390	370	346	331	316	300	284
Earnings Per Share (Diluted) (USD)	1.97	2.34	2.51	2.96	3.61	4.16	4.81	5.52
Adjusted Earnings Per Share (Diluted) (USD)	2.00	2.34	2.51	2.96	3.61	4.16	4.81	5.52
Dividends Per Share (USD)	0.55	0.72	1.01	0.96	1.19	1.37	1.59	1.82

Margins & Returns as of 05 Feb 2026

	3 Year Avg	Actual 2023	2024	2025	Forecast 2026	2027	2028	2029	2030	5 Year Avg
Operating Margin %	10.3	11.1	11.4	12.0	12.3	12.8	13.1	13.6	14.0	11.8
EBITDA Margin %	—	13.8	14.9	15.2	16.1	15.4	15.6	16.0	16.3	—
Adjusted EBITDA Margin %	—	13.8	14.9	15.2	16.1	15.4	15.6	16.0	16.3	15.9
Net Margin %	7.8	7.5	8.1	7.9	7.9	8.5	8.8	9.1	9.4	8.7
Adjusted Net Margin %	7.9	7.7	8.1	7.9	7.9	8.5	8.8	9.1	9.4	8.7
Free Cash Flow To The Firm Margin %	6.8	7.0	6.3	7.1	11.1	8.0	8.2	8.4	8.5	8.9

Growth & Ratios as of 05 Feb 2026

	3 Year CAGR	Actual 2023	2024	2025	Forecast 2026	2027	2028	2029	2030	5 Year CAGR
Revenue Growth %	7.2	14.7	3.0	4.4	9.9	7.9	7.0	6.3	5.0	7.2
Operating Income Growth %	21.1	52.0	5.4	10.8	12.4	12.3	9.7	9.6	8.3	10.4
EBITDA Growth %	14.5	25.5	11.1	6.8	16.2	3.4	8.6	8.6	7.4	8.8
Adjusted EBITDA Growth %	14.2	25.5	11.1	6.8	16.2	3.4	8.6	8.6	7.4	8.8
Earnings Per Share Growth %	34.1	89.0	18.7	7.4	17.8	22.0	15.3	15.7	14.7	17.1
Adjusted Earnings Per Share Growth %	34.1	90.7	16.6	7.4	17.8	22.0	15.3	15.7	14.7	17.1

Valuation as of 05 Feb 2026

	Actual 2023	2024	2025	Forecast 2026	2027	2028	2029	2030
Price/Earning	21.2	20.6	19.0	18.0	14.7	12.8	11.0	9.6
Price/Sales	2.1	1.5	1.5	1.4	1.3	1.3	1.2	1.1
Price/Book	2.8	3.3	3.3	3.8	3.6	3.4	3.3	3.1
Price/Cash Flow	—	—	—	—	—	—	—	—
EV/EBITDA	14.0	9.9	10.2	9.3	9.0	8.2	7.6	7.1
EV/EBIT	17.4	12.9	12.9	12.1	10.8	9.8	8.9	8.3
Dividend Yield %	1.3	1.5	2.1	1.8	2.2	2.6	3.0	3.4
Dividend Payout %	27.4	30.8	40.2	32.5	33.0	33.0	33.0	33.0
Free Cash Flow Yield %	—	—	—	—	—	—	—	—

Operating Performance / Profitability as of 05 Feb 2026

Fiscal Year, ends 31 Dec	Actual 2023	2024	2025	Forecast 2026	2027	2028	2029	2030
ROA %	6.9	8.4	8.9	9.3	10.5	11.2	11.9	12.6
ROE %	11.6	14.2	15.2	18.3	21.4	23.4	25.7	28.1
ROIC %	15.4	16.0	17.3	19.2	21.6	22.9	24.3	25.3

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Financial Leverage (Reporting Currency)	Actual			Forecast				
Fiscal Year, ends 31 Dec	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**
Debt/Capital %	12.8	11.7	—	0.1	0.1	0.1	0.1	0.1
Assets/Equity	1.7	1.7	1.7	2.0	2.0	2.1	2.2	2.2
Net Debt/EBITDA	0.0	0.3	—	-1.1	-1.0	-0.9	-0.8	-0.7
Total Debt/EBITDA	1.7	1.4	—	0.0	0.0	0.0	0.0	0.0
EBITDA/ Net Interest Expense	-8.9	-13.0	-19.5	-21.9	-21.6	-22.3	-23.1	-23.6

Forecast Revisions as of 4 Feb 2026	2026		2027		2028	
Prior data as of 10 Dec 2025	**Current**	**Prior**	**Current**	**Prior**	**Current**	**Prior**
Fair Value Estimate Change (Trading Currency)	76.00	76.00	—	—	—	—
Revenue (USD Mil)	12,968	11,750	13,997	12,398	14,972	13,358
Operating Income (USD Mil)	1,597	1,411	1,793	1,565	1,967	1,742
EBITDA (USD Mil)	2,083	1,772	2,154	1,957	2,341	2,149
Net Income (USD Mil)	1,023	929	1,194	1,038	1,314	1,159
Earnings Per Share (Diluted) (USD)	2.96	2.51	3.61	2.99	4.16	3.49
Adjusted Earnings Per Share (Diluted) (USD)	2.96	2.51	3.61	2.99	4.16	3.49
Dividends Per Share (USD)	0.96	0.72	1.19	0.99	1.37	1.15

Key Valuation Drivers as of 05 Feb 2026

Cost of Equity %	9.0
Pre-Tax Cost of Debt %	5.3
Weighted Average Cost of Capital %	8.8
Long-Run Tax Rate %	25.0
Stage II EBI Growth Rate %	3.6
Stage II Investment Rate %	15.9
Perpetuity Year	20

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

Discounted Cash Flow Valuation as of 05 Feb 2026

	USD Mil
Present Value Stage I	9,101
Present Value Stage II	6,962
Present Value Stage III	7,734
Total Firm Value	**23,796**
Cash and Equivalents	2,062
Debt	30
Other Adjustments	283
Equity Value	**26,131**
Projected Diluted Shares	346
Fair Value per Share (USD)	**76.00**

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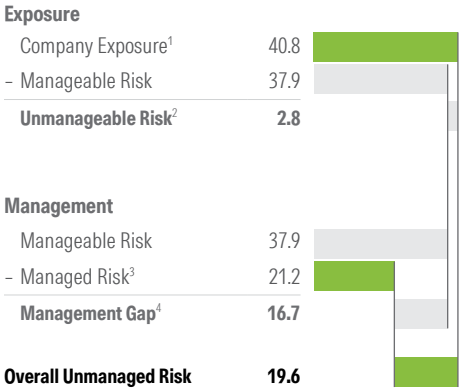
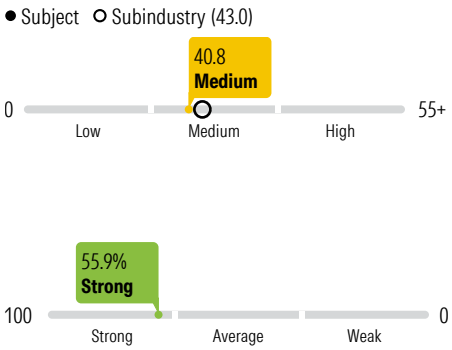
ESG Risk Rating Breakdown





- 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.

ESG Risk Rating Assessment[5]

ESG Risk Rating is of Jan 07, 2026. Highest Controversy Level is as of Jan 08, 2026. Sustainalytics Subindustry: Restaurants. 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/.

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 55.9% 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

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		
Yum China Holdings Inc	40.8 | Medium	0	55+	55.9 | Strong	100	0	19.6 | Low	0	40+
McDonald's Corp	42.1 | Medium	0	55+	51.3 | Strong	100	0	21.9 | Medium	0	40+
Yum Brands Inc	41.2 | Medium	0	55+	53.3 | Strong	100	0	20.7 | Medium	0	40+
Domino's Pizza Inc	42.3 | Medium	0	55+	32.3 | Average	100	0	29.5 | Medium	0	40+
The Wendy's Co	42.6 | Medium	0	55+	54.6 | Strong	100	0	20.8 | Medium	0	40+

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Appendix

Historical Morningstar Rating

Yum China Holdings Inc YUMC 4 Feb 2026 22:52, 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 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
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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
★★★★★	★★★★★	★★★★★	★★★★★	★★★★	★★★★	★★★★	—	★★★★	★★★★	★★★★	★★★

Domino's Pizza Inc DPZ 4 Feb 2026 22:35, 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 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
★★	★★	★★	★★	★★	★★	★★	★★	★★	★★★	★★★	★★★

Yum Brands Inc YUM 4 Feb 2026 22:37, 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 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
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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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McDonald's Corp MCD 4 Feb 2026 22:33, 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
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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
★★	★★	★★	★★★	★★	★★	★★★	★★★	★★	★★★	★★★	★★★
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.

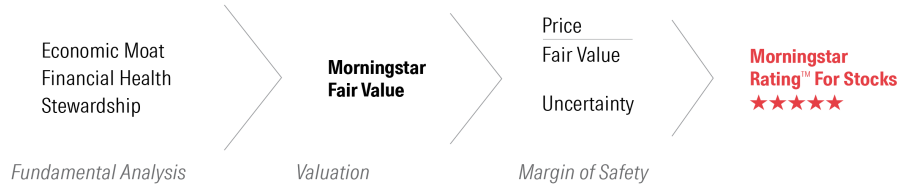
Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total present value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return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

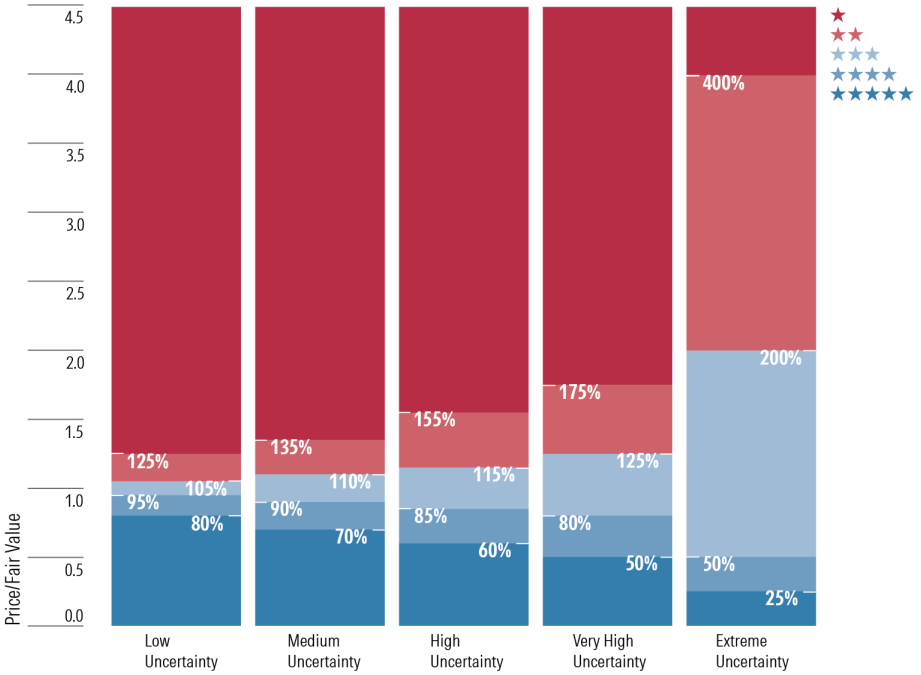
Our uncertainty rating is based on the interquartile range, or the middle 50% of potential outcomes, covering the 25th percentile–75th percentile. This means that when a stock hits 5 stars, we expect there is a 75% chance that the intrinsic value of that stock lies above the current market price. Similarly,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

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.

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/

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