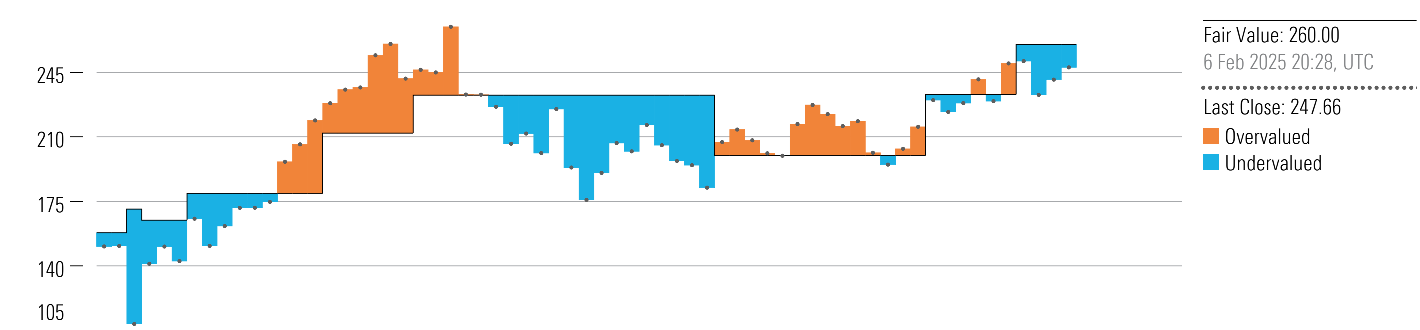
Morningstar Equity Analyst Report | Report as of 3 May 2025 00:06, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC. Page 1 of 20

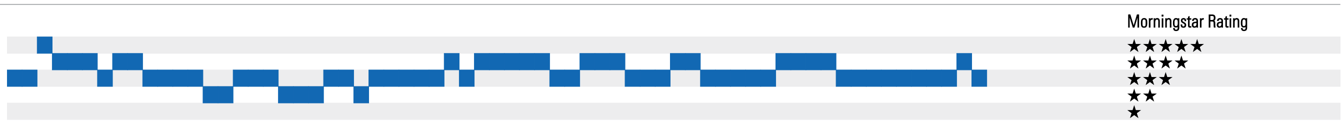
Labcorp Holdings Inc LH ★★★ 2 May 2025 21:24, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
247.66 USD 2 May 2025	260.00 USD 6 Feb 2025 20:28, UTC	0.95	20.73 USD Bil 2 May 2025	Narrow	Mid Blend	Medium	Exemplary	

Price vs. Fair Value



	2020	2021	2022	2023	2024	YTD	
	0.97	1.16	0.87	1.14	0.98	0.95	Price/Fair Value
	20.32	54.37	-24.37	11.51	2.16	8.31	Total Return %



Total Return % as of 02 May 2025. Last Close as of 02 May 2025. Fair Value as of 6 Feb 2025 20:28, 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.

Labcorp Earnings: Unfavorable Weather Damped Profitability in First Quarter

Analyst Note Debbie S. Wang, Senior Equity Analyst, 29 Apr 2025

Labcorp reported solid first-quarter results, including 6% revenue growth in constant currency, aided by acquisitions.

Why it matters: The quarter held few surprises and, similar to rival Quest Diagnostics, Labcorp felt the dampening effects of poor weather that held down volume growth.

- The addition of Invitae and the inclement weather also acted to pull down diagnostic segment operating margin by roughly 60 basis points. Adjusted for these two factors, operating margin would have been up by approximately 60 basis points.
- Price per requisition growth remained robust at 3%, which reassures us that the underlying health of this market remains solid.

The bottom line: Our estimates for full-year 2025 remain bounded by management's outlook, and our slight adjustments to the model were immaterial. We're leaving our fair value estimate at $260 per share.

- We saw little in the quarter to change our view of Labcorp's narrow economic moat. The firm enjoys a durable cost advantage that few competitors have been able to match.
- Though management refrained from quantifying Labcorp's exposure to tariffs, we think Labcorp is relatively insulated thanks to limited sourcing of consumables from China and its concentration of

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Sector	Industry
Healthcare	Diagnostics & Research

Business Description

Labcorp is one of the nation's two largest independent clinical laboratories, with roughly 20% of the independent lab market. The company operates approximately 2,000 patient-service centers, offering a broad range of 5,000 clinical lab tests, ranging from routine blood and urine screens to complex oncology and genomic testing.

business and vendors in the US.

Long view: While the legal decision to completely vacate the US Food and Drug Administration Lab Developed Test rule is very favorable to diagnostic labs, the prospect of PAMA reimbursement cuts in 2026 still hangs over the industry.

- We're not optimistic that legislation will be passed to address the shortcomings of PAMA, but there could be a chance that cuts will be delayed again as we approach 2026.
- Either way, management indicated that PAMA cuts in 2026 would add up to a $100 million headwind, which is considerably lower than what LabCorp has faced in the previous year. We view this as a positive.

Business Strategy & Outlook Debbie S. Wang, Senior Equity Analyst, 6 Feb 2025

As a leading independent diagnostic laboratory, Labcorp participates in a highly attractive duopoly that offers favorable prospects as healthcare moves toward reformed payment models, Medicare headwinds are again delayed, and potentially positive M&A opportunities remain plentiful.

Even though hospitals still dominate the $72 billion diagnostic market, Labcorp has carved out a significant slice of the pie through serial acquisitions. With the firm's spinoff of its contract research organization segment, Labcorp is set to refocus on its historical strength--diagnostics.

Labcorp has single-mindedly pursued greater efficiency, which translates to an ability to reduce costs more quickly than reimbursement cuts coming down the pike. The firm has invested in greater automation and systems that can decrease the number of employees involved in sorting and running the tests. Labcorp has also put significant resources behind beefing up its information technology capabilities. As a result, physicians can more easily access test information in a timely manner, and patients can schedule blood draws with increased convenience. We admire how the management team has consistently focused on these strategies over the long term, and we expect Labcorp's investments today will reap rewards in future years.

Labcorp should take advantage of the long-term secular trends that bode well for the diagnostics industry, as the proliferation of new tests grows and new disease markers and genetic mutations with pharmacogenomic implications are discovered. New reimbursement models inspired by healthcare reform should lead more payers to steer patients to lower-cost producers like Labcorp.

PAMA reimbursement pressure from Medicare is set to re-exert itself with the new three-year cycle starting in 2026, but the impact should be more moderate now that hospital-based labs (which are reimbursed at higher levels) are included in the recalculation of Medicare's clinical lab fee schedule. Additionally, there is bipartisan support for the Salsa legislation, which would create a less onerous and more representative method to collect the private-payer reimbursement data to adjust Medicare

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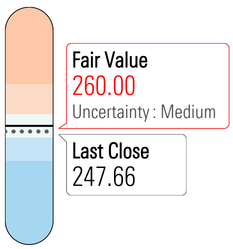
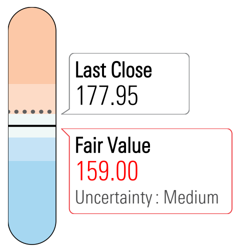
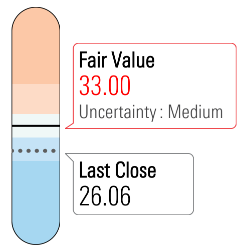
Competitors

	Labcorp Holdings Inc LH	Quest Diagnostics Inc DGX	Sonic Healthcare Ltd SHL
			
Economic Moat	Narrow	Narrow	Narrow
Currency	USD	USD	AUD
Fair Value	260.00 6 Feb 2025 20:28, UTC	159.00 30 Jan 2025 22:49, UTC	33.00 9 Dec 2024 03:54, UTC
1-Star Price	351.00	214.65	44.55
5-Star Price	182.00	111.30	23.10
Assessment	Fairly Valued 2 May 2025	Fairly Valued 2 May 2025	Undervalued 2 May 2025
Morningstar Rating	★★★2 May 2025 21:24, UTC	★★★2 May 2025 21:24, UTC	★★★★2 May 2025 07:24, UTC
Analyst	Debbie S. Wang, Senior Equity Analyst	Debbie S. Wang, Senior Equity Analyst	Shane Ponraj, Equity Analyst
Capital Allocation	Exemplary	Standard	Standard
Price/Fair Value	0.95	1.12	0.79
Price/Sales	1.54	1.98	1.35
Price/Book	2.43	2.87	1.53
Price/Earning	27.13	22.42	22.62
Dividend Yield	1.19%	1.72%	4.11%
Market Cap	20.73 Bil	19.87 Bil	12.52 Bil
52-Week Range	191.97—258.59	135.27—179.32	23.58—29.35
Investment Style	Mid Blend	Mid Blend	Mid Blend

reimbursements.

Bulls Say Debbie S. Wang, Senior Equity Analyst, 6 Feb 2025

- Now that commercial payers have moved away from exclusive contracts with the large independent labs, we think the prospect of cutthroat pricing competition has eased.
- The more complex and labor-intensive esoteric tests are reimbursed at a higher rate and often outsourced by hospitals to independent labs. Labcorp is funneling resources to broaden its menu of complex esoteric tests, which should help maintain its healthy margin.
- Labcorp has been able to keep less profitable capitated managed-care contracts to a minimum, accounting for only 3.9% of 2023 diagnostic revenue.

Bears Say Debbie S. Wang, Senior Equity Analyst, 6 Feb 2025

- If significant numbers of hospital-based labs are ill-equipped to comply with Medicare's payment reporting requirements, then reimbursement pressure could increase even more in 2026-28.

- The expectation for smaller independent and hospital-based labs to fold under increasing reimbursement pressure has taken longer than anticipated to come to fruition.
- If healthcare utilization and test volume soften, Labcorp's profitability could see accelerated declines.

Economic Moat Debbie S. Wang, Senior Equity Analyst, 6 Feb 2025

Labcorp's narrow moat is based on its vast national infrastructure in its core diagnostics business, which translates into a considerable cost advantage over smaller regional labs in the independent reference lab industry, as well as hospital-based labs. With 34 primary and specialty testing labs and roughly 2,000 patient-service centers across the United States, Labcorp is able to run tests on roughly half a million specimens each day at a substantially lower cost than most of the hospitals, doctors' offices, and smaller independent labs that populate the market. Between Labcorp and main rival Quest Diagnostics, the two combined account for approximately 25% of the U.S. reference lab industry. The rest of that market is extremely fragmented with many small independent labs as well as hospital-based labs.

Labcorp's ability to accommodate higher throughput and its extensive use of automation affords the firm a much lower cost structure--significantly lower than that of hospitals and smaller independent labs. This advantage also means Labcorp's model is characterized by substantial operating leverage. This operating leverage has worked against the firm in the wake of the Great Recession when healthcare utilization fell down. However, as we've seen over the covid-19 pandemic, the sharp acceleration in lab utilization also drove up profitability significantly.

Although we had seen more aggressive price competition between Labcorp and Quest Diagnostics in the early 2000s, pricing has remained rational over the last 15 years and is even less likely to become irrational now that payers have shifted to adopt payment reforms. We think this reflects the influence of value-based healthcare reform, in the wake of the Affordable Care Act. It has become more economically attractive for payers to encourage patients to use any low-cost producer (in place of the more expensive hospital-based labs) instead of pitting Labcorp and Quest against each other to eke out savings that also reduce patient access to lower-cost tests.

Payers prefer to negotiate with the largest reference labs, including Labcorp, that provide the best geographic coverage for the insured base, instead of cobbling together market-by-market coverage through multiple, smaller regional and local labs. In a departure from the exclusive agreements that used to characterize contract with the private payers, the larger managed care organizations have begun shifting to a different model that allows for both of the lowest-cost producers, Labcorp and Quest, to be in-network labs, with the intent of diverting test volume away from the higher-cost hospital-based labs.

Finally, Labcorp's scale and reach make it an attractive partner for researchers who invent various diagnostic tests, but have no distribution channels through which to sell the tests. Labcorp has invested in a dedicated lab focused on companion diagnostics and is also working on developing liquid biopsy technology. We view this as another indication that the firm is thinking more creatively about how to more closely work with other entities in the healthcare arena to stay on top of emerging diagnostic trends.

We think the spinoff of Labcorp's contract research organization segment does not detract from the firm's narrow moat in diagnostics.

We note that intellectual property is not a key contributor to Labcorp's moat. While the firm does hold a basket of patents and applications, many of the routine tests are primarily devised by secret formula, and it is not particularly difficult for another laboratory to develop its own version of those routine tests--searching for biomarkers through public datasets and testing samples for confirmation is not protected from competitors. Labcorp commonly licenses intellectual property from the firms and academic centers that have developed specialized tests, but these are not material contributors to the firm's test menu.

From an environmental, social, and governance perspective, Sustainalytics pegs Labcorp's risk as low, and we concur. ESG risk that could affect the moats for the largest independent diagnostic reference labs is low. Some of the most vulnerable areas of risk would include the high quality standards that labs must follow to ensure results are accurate and valid, as well as the possibility of getting caught up in Medicare fraud through incorrect or overbilling.

As we saw with the Theranos debacle, inaccurate test results can lead to inappropriate medical treatment. Fortunately, Labcorp has robust, well-established processes in place to lower risk in both quality and billing. This stands in contrast with the smaller independent labs, which have been more likely to trip up on these dimensions.

Fair Value and Profit Drivers Debbie S. Wang, Senior Equity Analyst, 6 Feb 2025

We've raised our fair value estimate to $260 per share from $233 after dialing up our estimates for 2025 to reflect strong medical utilization and the impact of recent acquisitions.

We anticipate demand for covid-19 molecular tests will fall to nonmaterial levels in 2025, similar to that of seasonal flu. We have inched up our assumptions for diagnostics growth, as healthcare utilization remains robust. Thanks to legislative action, the PAMA-led cuts to the Medicare clinical lab fee schedule have been granted a reprieve until 2026. Further, we've baked in less steep cuts in the second round of three-year reimbursement resetting, as more hospital-based labs are included in the Medicare calculations. We estimate top-line growth at an average annual rate of 3.4% through 2028. Unshackled from the lower-margin CRO segment, we anticipate Labcorp can improve operating margin by roughly 500 basis points in 2028.

In keeping with the longer-term trend, we anticipate increased growth in genomic and esoteric testing compared with routine testing. Labcorp has done a good job of launching new complex tests, which leads us to believe that annual esoteric test volume should outpace market growth. We also think these specialized tests will carry a higher price tag than routine counterparts, resulting in an average annual price increase of about 1% over the long term. This will be offset by the reimbursement pressure on routine tests, which still make up the bulk of Labcorp's test mix by volume. We think some of Labcorp's investments in self-administered specimen collection and new diagnostic technologies put the firm in a strong position to take advantage of emerging opportunities, over the longer term.

Risk and Uncertainty Debbie S. Wang, Senior Equity Analyst, 6 Feb 2025

Based on the average volatility of cash flows from Labcorp's underlying diagnostics business, we rate the firm's uncertainty as Medium.

Despite the many long-term clinical undercurrents that are favorable for Labcorp, we see potential for bumpiness as revisions to PAMA-related reimbursement take effect in 2026. As with the covid-19 outbreak, large-scale public health challenges could damp typical traffic to patient service centers. We have seen a gradual resumption of growth in patient traffic supported by heightened medical utilization, but if unfavorable macro conditions arise, Labcorp's volume could drop again. Changes in reimbursement, the penetration of high-deductible plans, and more substantial cost-sharing measures have also left patients with a larger out-of-pocket burden, which could become a perennial drag on growth in diagnostics.

Capital Allocation Debbie S. Wang, Senior Equity Analyst, 6 Feb 2025

We assign an Exemplary Capital Allocation Rating to Labcorp, which reflects sound balance sheet management, exceptional marks for investment, and mixed shareholder distributions. In particular, we give Labcorp better-than-average ratings on its operational execution and price.

Adam Schechter became CEO just prior to the onset of the pandemic, taking over from David King, who had held the position since early 2007. We like that Schechter comes with deep healthcare experience from his time at Merck. Moreover, he's already very familiar with Labcorp and the diagnostics industry through his participation on Labcorp's board of directors since 2013.

We remain impressed with Labcorp's level of operational execution in its diagnostics business over time. As a serial acquirer of smaller labs and hospital outreach programs, there's always the risk of losing customers in the transition. However, the firm has maintained the great majority of its contracts with payer and provider customers and has even racked up a few new clients, such as the sizable Empire Blue Cross Blue Shield plan in New York. The firm has also demonstrated a long-standing commitment to investing in information technology that we think has provided Labcorp with a competitive edge. Labcorp demonstrated this advantage during the worst days of the pandemic in 2020 and 2021 when the firm was still able to provide turnaround times on covid-19 PCR tests that led most competitors.

Finally, the firm has exercised financial discipline in its acquisition strategy, from our perspective. Most acquisitions are accretive shortly after closing, and the firm has avoided writing down goodwill. Most recently, Labcorp has broadened its models for working with hospitals to include more lab management contracts, in addition to the purchase of hospital outreach programs. Labcorp has committed to paying a small dividend, though it continues to funnel more returns to shareholders in the form of share buybacks. We applaud the firm for accelerating repurchases when the shares are trading at a discount.

Analyst Notes Archive

Labcorp Earnings: Both Underlying Demand and Acquisitions Powered Impressive Fourth Quarter

Debbie S. Wang,Senior Equity Analyst,6 Feb 2025

Labcorp capped off 2024 in fine fashion, with fourth-quarter top-line growth of 10% year over year, and grew adjusted earnings by 4% year over year. Why it matters: Labcorp has recently benefited from two factors—medical utilization growth and acquisitions—that look likely to continue into 2025. First, growth in medical utilization typically creates favorable conditions for the reference labs, and as one of the largest lab providers, Labcorp benefits disproportionately from increased volume. Second, Labcorp's acquisition activity in 2024 also provides a tailwind going into 2025. The bottom line: Labcorp's full-year results ran slightly ahead of our expectations, and we've raised our fair value estimate to $260 per share from $233, making shares largely fairly valued. Roughly half the increase is the result of dialing up our projections for 2025 to reflect growth from the newly acquired assets. The other half is due to cash flow realized since our last update. We've seen little to sway our view of Labcorp's narrow economic moat, and we think organic gains in volume are conducive to gains in operating leverage through 2025. Long view: Similar to rival Quest, Labcorp is assertively moving into the minimal residual disease market, using liquid biopsy technology to monitor remission for cancer patients. The recent acquisition of Invitae boosts Labcorp's liquid biopsy presence. We see this as a longer-term market development opportunity for the large labs. Practitioners are in the early days of learning about these diagnostics to identify stray cancer cells via blood tests. We speculate it will take time for, first, thought leaders and academic medical centers, and later, private practitioners to adopt these MRD tests on a widespread basis. Bears say: While medical utilization appears healthy enough to stay higher than the long-term average in 2025, if inflation hits consumers in their pocketbooks, we could see a pullback in healthcare demand.

Labcorp Earnings: Strong Organic Growth Supported by Robust Healthcare Utilization Debbie S. Wang,Senior Equity Analyst,24 Oct 2024

Labcorp reported third-quarter top-line growth of 7%, supported by strong organic diagnostic base business growth of 6%. Operating margin remains mildly hampered by the integration of Invitae (genetic testing), but this should ease in the second half of 2025. Why it matters: The robust demand in non-covid diagnostics suggests healthcare utilization remains healthy and stronger than normalized long-term levels. Labcorp's performance is consistent with the other indicators that consistently point to strong utilization from the managed care companies, stronger-than-usual growth in cardiovascular devices, and lengthening wait times for clinical appointments. Though demand seems to be solid, we're mindful of potential tightening in provider supply. The earlier labor challenges seen in 2022 and 2023 have stabilized, but hurricane damage to Baxter's intravenous fluids facilities in North Carolina could translate into delays for elective procedures. The bottom line: Though narrow-moat Labcorp's third-quarter revenue growth ran slightly ahead of our full-year expectations, earnings remain on track to meet our 2024 projections, and we're leaving our $233 fair value estimate intact. Importantly, Labcorp's quarterly base business volume rose 5%, exceeding the threshold necessary for operating leverage to kick in, which supports our expectation for margin improvement in 2025. On the whole, Labcorp's organic growth significantly outpaced that of rival Quest. However, with Quest's recent inclusion by Elevance in key states such as Nevada, Georgia, and Virginia, we expect that firm's organic growth to improve. Big picture: With Medicare reimbursement cuts delayed another year yet again, this pushes an $80 million revenue headwind into 2026. With any luck, bipartisan support might get the Saving Access to Laboratory Services legislation over the finish line by then.

Labcorp Earnings: Solid Medical Utilization Contributes to Healthy Volume Gains Debbie S. Wang,Senior Equity Analyst,1 Aug 2024

Labcorp racked up strong quarterly results that slightly exceeded our expectations, but after minor adjustments to our full-year projections, we’re leaving our fair value estimate unchanged. We’ve incrementally boosted our revenue estimate for 2024 to reflect the strong utilization trends and the addition of recent acquisitions, but the effect was generally offset by slightly lower margins, as its new operations are integrated. We remain confident in Labcorp’s narrow economic moat, where strong medical utilization underscores the company’s cost advantage with more test volume running through its established fixed assets.Consolidated quarterly top-line growth of 6% was driven by strong base business volume growth of 6.3%, along with strong price/mix of 2.1%. We like the impending acquisition of genetic specialist Invitae, which should beef up Labcorp’s menu and data around oncology and rare diseases. In some ways, this harkens back to Labcorp’s earlier days when it was regularly scooping up specialty labs providing esoteric tests. Considering Invitae had landed in bankruptcy, Labcorp was able to secure the assets for just $239 million in cash consideration, which we view as a bargain against Invitae’s roughly $500 million in 2022 revenue. We anticipate that Invitae’s tests in the hands of Labcorp should reach more customers and, ultimately, increase the volume of data, especially for rare diseases, that can make these tests more accurate and valuable.Based on recent comments from both Labcorp and Quest management teams, it seems the mergers and acquisitions environment has shifted in a positive direction. After the pandemic provided an acid test for providers, the experience highlighted how hospital-based labs had fallen behind on the technology front and what kind of investment would be needed to bring them up to par. We strongly suspect hospitals would rather spend on an orthopedic robot that would bring in incremental revenue than upgrade diagnostic platforms.

Labcorp Earnings: Solid Underlying Demand and New M&A Set Path for Strong 2024 Debbie S. Wang,Senior Equity Analyst,25 Apr 2024

Labcorp delivered a solid first-quarter performance that tracked closely with our full-year expectations for the top and bottom lines. We've made minimal adjustments to our assumptions and are leaving our fair value estimate unchanged. The strength in medical utilization seen in recent quarters seems to have continued through the first quarter, leading management to raise its outlook for the diagnostic lab business (along with the incorporation of recent acquisition activity). Our projections for 2024 are bounded by management's revised outlook, and we remain confident of the firm's narrow economic moat supported by a cost advantage.Quarterly revenue was up 5% year over year. Labcorp saw strong 7% growth from its base business, while covid revenue continued its decline, down 70%. Now that covid revenue has dwindled to immaterial levels, the key factors driving the firm's prospects have returned to its usual nonpandemic lab business. Underlying demand for testing and recent M&A decisions should keep the lab segment in the pink into next year. In particular, we like how Labcorp has refocused on its earlier strategy to bulk up its esoteric test menu through the impending purchase of some BioReference Health assets (women's health tests) and Invitae assets (oncology and rare disease). These specialty tests tend to be more complex and less commodified compared with routine tests such as those to check on cholesterol levels and kidney function.We're also intrigued by Labcorp's recent launch of new liquid biopsy platforms to monitor minimal residual disease among colon cancer patients. While we anticipate the MRD market will be significantly smaller than the screening application, MRD is a lower-hanging fruit right now with fewer hurdles to adoption by physicians and a greater likelihood of payers establishing reimbursement.

Labcorp Earnings: Non-COVID Business Solid, and Conditions Align for Improved Profits in 2024 Debbie S. Wang,Senior Equity Analyst,15 Feb 2024

Narrow-moat Labcorp posted solid fourth-quarter results, and full-year performance largely fell in line with our expectations. Though cost of goods sold came in slightly higher than expected, this was offset by lower sales and marketing expense; as a result, we're leaving our fair value estimate unchanged. Fourth-quarter COVID-19 PCR revenue was down 73%, but base business sales more than compensated with 7% growth. As the largest COVID declines are now behind Labcorp, we anticipate 2024 should see generally normalized growth. In keeping with its historical diagnostic focus, the firm continues to prioritize the faster-growing esoteric test areas, including oncology and neurology.Though Labcorp has mainly moved on from the COVID disruption, the last remnant has been in margins inflated by COVID PCR tests in 2023. For 2024, management expects profitability to rise, which we think is doable. Healthy volume trends should help here, and we anticipate increased medical utilization should support those trends this year. Additionally, Labcorp's ongoing cost-efficiency program delivered roughly $125 million in savings last year. We think plans for further automation and information technology investments should keep this going. Another year of delay in the next round of Protecting Access to Medicare Act rate-setting also offers conditions conducive to margin expansion.We were pleased to see central labs up 12% in the fourth quarter, but early development displayed weakness with a 2% decline. Central labs seem to play into Labcorp's volume and logistics advantages, but we're lukewarm about early development. We've long viewed this business as a commodity and think it is limited in its ability to leverage Labcorp's long-standing strengths. Further, the firm has taken over $600 million in impairments related to early development. It is not clear to us how early development adds to or enhances the rest of Labcorp's enterprises.

LabCorp Earnings: Solid Underlying Nonpandemic Test Demand Offsets Declines in COVID Tests

Debbie S. Wang,Senior Equity Analyst,26 Oct 2023

LabCorp delivered third-quarter results that closely track with our full-year topline expectations. Gross margin year-to-date has run slightly behind our projections, but that was partially offset by operational costs, which have run lower than we'd expected. These slight adjustments to our model weren't enough to materially move our $233 fair value estimate. Narrow-moat LabCorp continues to put the COVID-19 disruption in the rearview mirror, and the quarterly decline in pandemic test revenue was comparable to that seen at rival Quest. Perhaps more importantly, LabCorp's non-COVID quarterly test volume and price/mix were up 7% and 9%, respectively, year over year. While some of this strength relied on the new Ascension lab management deal, base business on these measures remained decent on an organic basis. We think this growth suggests solid underlying dynamics for reference labs heading into 2024.Now that LabCorp has divested its later-stage contract research organization, the firm has returned more focus to the diagnostic lab area, which has shown up in a string of hospital outreach and lab management deals with Tufts Medicine and Legacy Health, among others. We view this as a favorable sign that LabCorp is going to more aggressively pursue the types of arrangements that Quest has made a priority over the last five years. While lab management deals aren't as economically attractive as the outreach deals, we've seen that the former can still be appealing and accretive for the reference labs. With hospitals under financial pressure and looking to enhance efficiency, working with LabCorp or Quest to manage lab assets and leverage both the buying power and reference labs of these giants should improve cost-per-test for the hospital labs.

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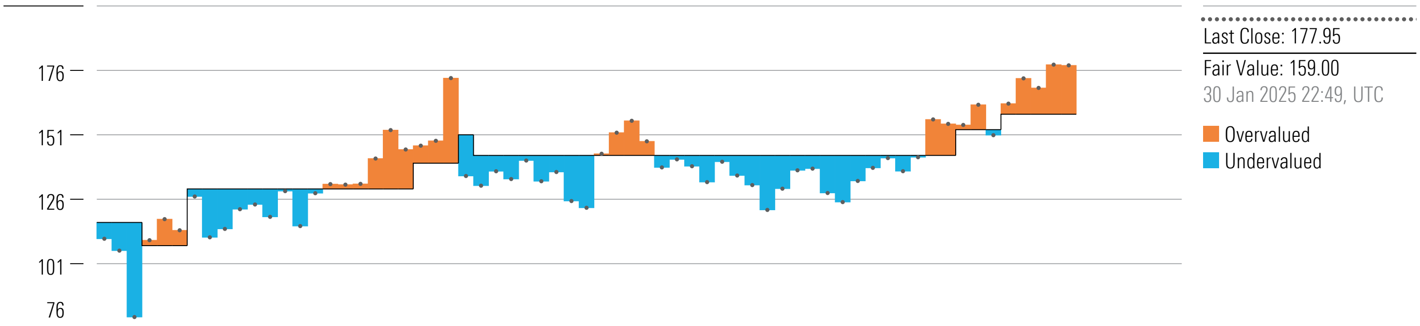
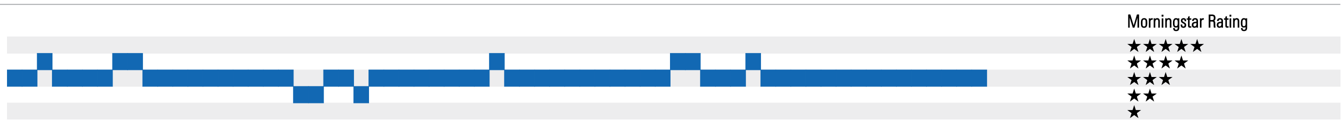
Competitors Price vs. Fair Value

Quest Diagnostics Inc DGX

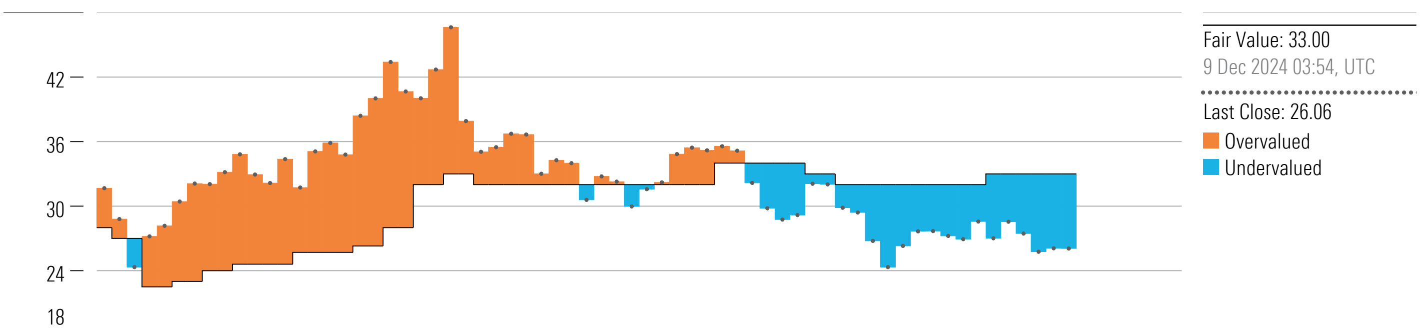


	2020	2021	2022	2023	2024	YTD	
	0.92	1.24	1.09	0.96	0.99	1.12	Price/Fair Value
	13.66	47.21	-8.07	-10.08	11.56	18.98	Total Return %

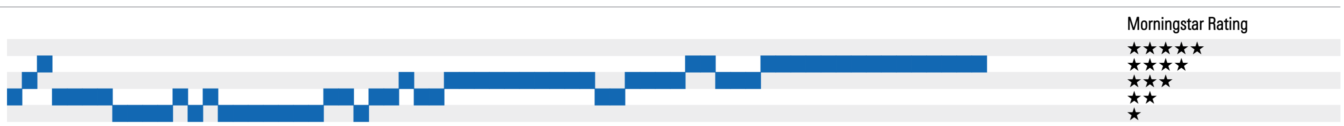


Total Return % as of 02 May 2025. Last Close as of 02 May 2025. Fair Value as of 30 Jan 2025 22:49, UTC.

Sonic Healthcare Ltd SHL



	2020	2021	2022	2023	2024	YTD	
	1.31	1.41	0.94	0.97	0.82	0.79	Price/Fair Value
	14.78	47.87	-33.58	10.51	-12.50	-1.89	Total Return %



Total Return % as of 02 May 2025. Last Close as of 02 May 2025. Fair Value as of 9 Dec 2024 03:54, UTC.

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Labcorp Holdings Inc LH ★★★ 2 May 2025 21:24, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
247.66 USD 2 May 2025	260.00 USD 6 Feb 2025 20:28, UTC	0.95	20.73 USD Bil 2 May 2025	Narrow	Mid Blend	Medium	Exemplary	

Morningstar Valuation Model Summary

Financials as of 29 Apr 2025	Actual			Forecast				
Fiscal Year, ends 31 Dec	2022	2023	2024	2025	2026	2027	2028	2029
Revenue (USD Mil)	14,877	12,162	13,009	13,852	14,406	14,894	15,341	15,742
Operating Income (USD Mil)	2,129	1,124	1,138	1,389	1,550	1,799	2,053	2,235
EBITDA (USD Mil)	2,408	1,307	1,733	2,028	2,197	2,452	2,711	2,894
Adjusted EBITDA (USD Mil)	2,408	1,307	1,733	2,028	2,197	2,452	2,711	2,894
Net Income (USD Mil)	1,279	418	746	898	1,018	1,232	1,438	1,575
Adjusted Net Income (USD Mil)	1,894	650	1,268	1,323	1,463	1,550	1,671	1,798
Free Cash Flow To The Firm (USD Mil)	1,254	231	846	1,418	1,130	1,488	1,664	1,779
Weighted Average Diluted Shares Outstanding (Mil)	92	88	84	83	83	83	83	83
Earnings Per Share (Diluted) (USD)	13.96	4.77	8.84	10.87	12.31	14.87	17.34	18.96
Adjusted Earnings Per Share (Diluted) (USD)	20.67	7.42	15.03	16.03	17.69	18.71	20.14	21.65
Dividends Per Share (USD)	0.00	0.00	2.35	2.45	2.55	2.55	2.55	2.55

Margins & Returns as of 29 Apr 2025		Actual			Forecast					
	3 Year Avg	2022	2023	2024	2025	2026	2027	2028	2029	5 Year Avg
Operating Margin %	8.8	14.3	9.2	8.8	10.0	10.8	12.1	13.4	14.2	11.8
EBITDA Margin %	—	16.2	10.7	13.3	14.6	15.3	16.5	17.7	18.4	—
Adjusted EBITDA Margin %	—	16.2	10.7	13.3	14.6	15.3	16.5	17.7	18.4	16.5
Net Margin %	5.9	8.6	3.4	5.7	6.5	7.1	8.3	9.4	10.0	8.3
Adjusted Net Margin %	9.3	12.7	5.4	9.8	9.6	10.2	10.4	10.9	11.4	10.5
Free Cash Flow To The Firm Margin %	5.6	8.4	1.9	6.5	10.2	7.9	10.0	10.9	11.3	10.0

Growth & Ratios as of 29 Apr 2025		Actual			Forecast					
	3 Year CAGR	2022	2023	2024	2025	2026	2027	2028	2029	5 Year CAGR
Revenue Growth %	-6.9	-7.7	-18.3	7.0	6.5	4.0	3.4	3.0	2.6	3.9
Operating Income Growth %	-29.9	-35.5	-47.2	1.3	22.1	11.6	16.1	14.1	8.9	14.5
EBITDA Growth %	-17.6	-39.9	-45.7	32.7	17.0	8.4	11.6	10.6	6.7	10.9
Adjusted EBITDA Growth %	-24.4	-39.9	-45.7	32.7	17.0	8.4	11.6	10.6	6.7	10.8
Earnings Per Share Growth %	-28.7	-42.7	-65.8	85.2	23.0	13.2	20.8	16.6	9.4	16.5
Adjusted Earnings Per Share Growth %	-28.7	-26.6	-64.1	102.4	6.6	10.4	5.8	7.6	7.5	16.5

Valuation as of 29 Apr 2025	Actual			Forecast				
	2022	2023	2024	2025	2026	2027	2028	2029
Price/Earning	9.8	30.6	15.3	15.4	14.0	13.2	12.3	11.4
Price/Sales	1.4	1.6	1.5	1.5	1.4	1.4	1.4	1.3
Price/Book	1.8	2.5	2.4	2.5	2.4	2.3	2.1	1.9
Price/Cash Flow	—	—	—	—	—	—	—	—
EV/EBITDA	11.1	19.1	14.6	13.3	12.2	11.0	9.9	9.3
EV/EBIT	12.6	22.2	22.3	19.3	17.3	14.9	13.1	12.0
Dividend Yield %	—	—	1.0	1.0	1.0	1.0	1.0	1.0
Dividend Payout %	0.0	0.0	15.6	15.3	14.4	13.6	12.7	11.8
Free Cash Flow Yield %	—	—	—	—	—	—	—	—

Operating Performance / Profitability as of 29 Apr 2025	Actual			Forecast				
Fiscal Year, ends 31 Dec	2022	2023	2024	2025	2026	2027	2028	2029
ROA %	6.4	2.5	4.1	5.0	5.9	7.1	8.1	8.6
ROE %	12.6	5.3	9.3	10.9	11.9	13.6	14.6	14.8
ROIC %	72.4	42.0	38.9	20.6	14.8	17.1	19.7	21.7

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Labcorp Holdings Inc LH ★★★ 2 May 2025 21:24, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
247.66 USD 2 May 2025	260.00 USD 6 Feb 2025 20:28, UTC	0.95	20.73 USD Bil 2 May 2025	Narrow	Mid Blend	Medium	Exemplary	

Financial Leverage (Reporting Currency)	Actual			Forecast				
Fiscal Year, ends 31 Dec	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**
Debt/Capital %	23.0	23.6	27.5	19.1	15.1	12.7	10.4	8.4
Assets/Equity	2.0	2.1	2.3	2.2	2.0	1.9	1.8	1.7
Net Debt/EBITDA	2.5	4.1	3.3	2.0	1.6	1.2	0.7	0.3
Total Debt/EBITDA	2.6	4.6	4.2	2.6	2.0	1.6	1.2	1.0
EBITDA/ Net Interest Expense	12.6	8.3	13.6	14.4	15.6	23.3	32.4	34.6

Forecast Revisions as of 29 Apr 2025	2025		2026		2027	
Prior data as of 17 Mar 2025	**Current**	**Prior**	**Current**	**Prior**	**Current**	**Prior**
Fair Value Estimate Change (Trading Currency)	260.00	264.99	—	—	—	—
Revenue (USD Mil)	13,852	13,822	14,406	14,267	14,894	14,750
Operating Income (USD Mil)	1,389	1,455	1,550	1,678	1,799	1,929
EBITDA (USD Mil)	2,028	2,092	2,197	2,318	2,452	2,576
Net Income (USD Mil)	1,323	1,322	1,463	1,447	1,550	1,646
Earnings Per Share (Diluted) (USD)	10.87	11.46	12.31	13.46	14.87	16.04
Adjusted Earnings Per Share (Diluted) (USD)	16.03	16.00	17.69	17.48	18.71	19.86
Dividends Per Share (USD)	2.45	2.45	2.55	2.55	2.55	2.55

Key Valuation Drivers as of 29 Apr 2025	
Cost of Equity %	9.0
Pre-Tax Cost of Debt %	5.8
Weighted Average Cost of Capital %	8.0
Long-Run Tax Rate %	24.0
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	7.5
Perpetuity Year	20

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

Discounted Cash Flow Valuation as of 29 Apr 2025	**USD Mil**
Present Value Stage I	5,393
Present Value Stage II	12,900
Present Value Stage III	8,369
Total Firm Value	**26,662**
Cash and Equivalents	1,519
Debt	6,332
Other Adjustments	-1,000
Equity Value	**20,849**
Projected Diluted Shares	83
Fair Value per Share (USD)	**260.00**

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Labcorp Holdings Inc LH ★★★ 2 May 2025 21:24, UTC

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

Exposure

Company Exposure[1]	—
– Manageable Risk	—
Unmanageable Risk[2]	—

No Data

● Subject ○ Subindustry (—)

0 Low Medium High 55+

- 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

Manageable Risk	—
– Managed Risk[3]	—
Management Gap[4]	—

No Data

100 Strong Average Weak 0

- 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

Overall Unmanaged Risk —

ESG Risk Rating

Negligible Low Medium High Severe

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

1. A company's Exposure to material ESG issues 2. Unmanageable Risk refers to risks that are inherent to a particular business model that cannot be managed by programs or initiatives 3. Managed Risk = Manageable Risk multiplied by a Management score of — 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 —. Highest Controversy Level is as of Apr 08, 2025. Sustainalytics Subindustry: Medical Services. Sustainalytics provides Morningstar with company ESG ratings and metrics on a monthly basis and as such, the ratings in Morningstar may not necessarily reflect current Sustainalytics' scores for the company. For the most up to date rating and more information, please visit: sustainalytics.com/esg-ratings/.

Peer Analysis —

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	
Labcorp Holdings Inc	— | —	0 – 55+	— | —	100 – 0	— | —	0 – 40+
Myriad Genetics Inc	38.8 | Medium	0 – 55+	39.2 | Average	100 – 0	24.2 | Medium	0 – 40+
Quest Diagnostics Inc	34.0 | Low	0 – 55+	40.8 | Average	100 – 0	21.0 | Medium	0 – 40+
Sonic Healthcare Ltd	35.6 | Medium	0 – 55+	50.8 | Strong	100 – 0	18.7 | Low	0 – 40+
—	— | —	0 – 55+	— | —	100 – 0	— | —	0 – 40+

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Appendix
Historical Morningstar Rating

Labcorp Holdings Inc LH 2 May 2025 21:24, UTC

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

Quest Diagnostics Inc DGX 2 May 2025 21:24, UTC

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

Sonic Healthcare Ltd SHL 2 May 2025 07:24, UTC

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

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.

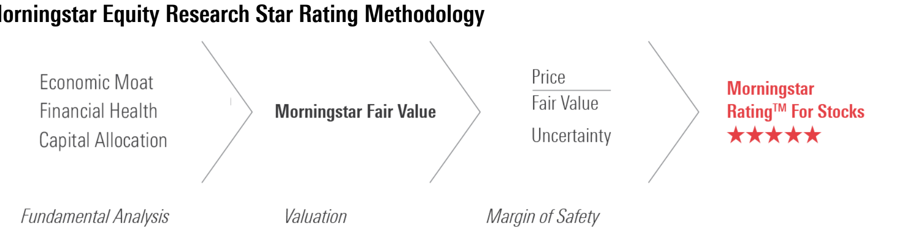
Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total present value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return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

Morningstar Equity Research Star Rating Methodology



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Research Methodology for Valuing Companies

thing 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.

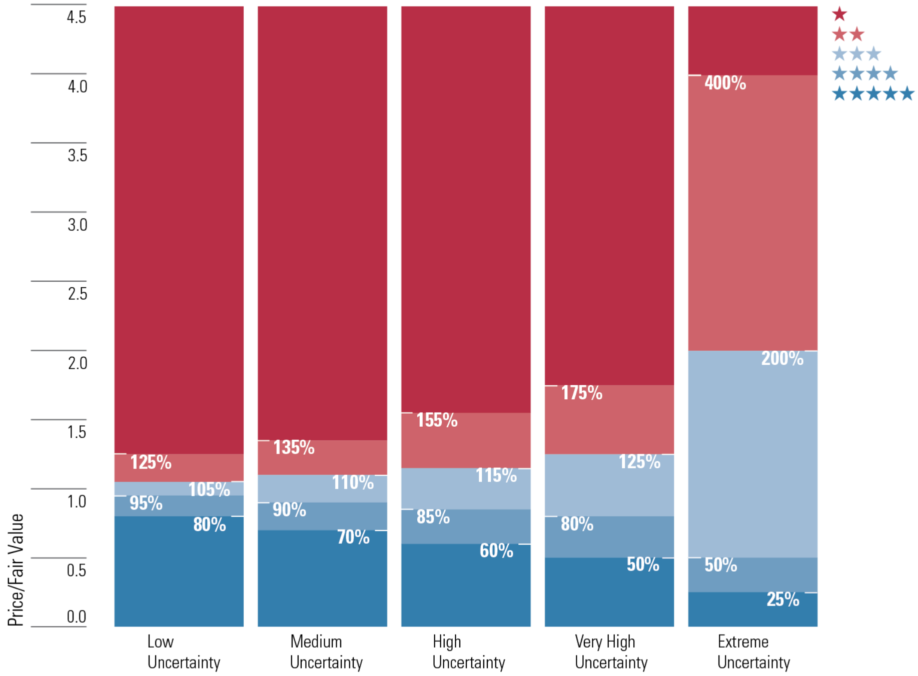
4. Market Price

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 Star Rating for Stocks

Morningstar Equity Research Star Rating Methodology



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.

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ies' 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.

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Based on their quantitative scores, companies are grouped into one of five Risk Categories (negligible, low, medium, high, severe). These risk categories are absolute, meaning that a 'high risk' assessment reflects a comparable degree of unmanaged ESG risk across all subindustries covered.

The ESG Risk Rating Assessment is a visual representation of Sustainalytics ESG Risk Categories on a 1 to 5 scale. Companies with Negligible Risk = 5 Globes, Low Risk = 4, Medium Risk = 3 Globes, High Risk = 2 Globes, Severe Risk = 1 Globe. For more information, please visit sustainalytics.com/esg-ratings/

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