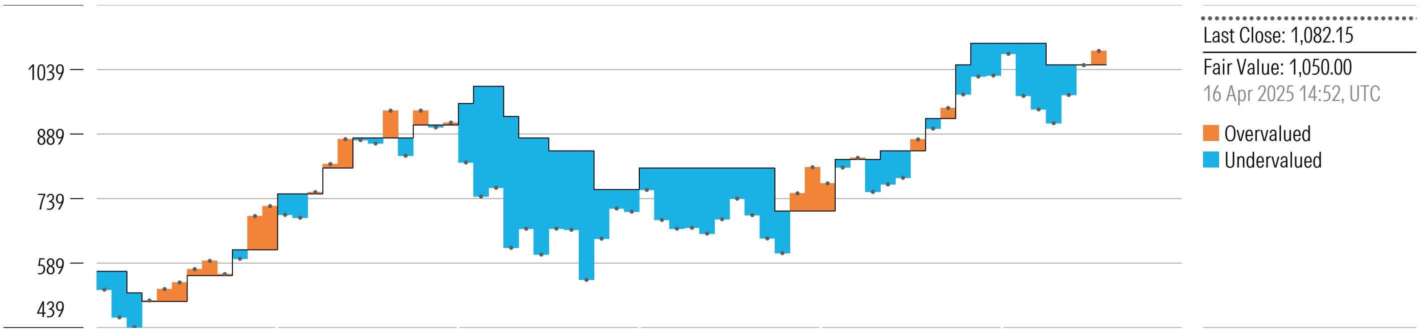
Morningstar Equity Analyst Report | Report as of 7 Jul 2025 16:16, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC.

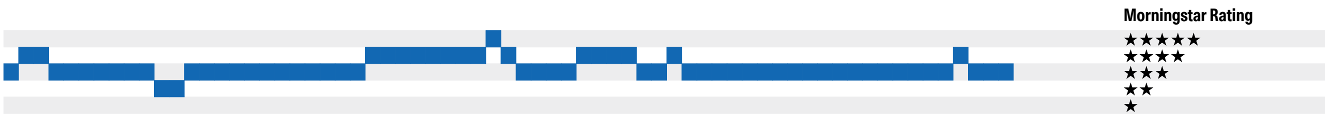
BlackRock Inc BLK ★★★ 4 Jul 2025 20:04, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
1,082.15 USD 3 Jul 2025	1,050.00 USD 16 Apr 2025 14:52, UTC	1.03	167.44 USD Bil 7 Jul 2025	Wide	Large Value	High	Exemplary	4 Jun 2025 05:00, UTC

Price vs. Fair Value



	2020	2021	2022	2023	2024	YTD	
	1.16	1.01	0.93	1.14	0.93	1.03	Price/Fair Value
	46.42	29.18	-20.47	17.38	28.79	6.58	Total Return %



Total Return % as of 03 Jul 2025. Last Close as of 03 Jul 2025. Fair Value as of 16 Apr 2025 14:52, 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.

BlackRock: ElmTree Funds Deal Expands Private Market Capabilities; No Change to Fair Value Estimate

Analyst Note Greggory Warren, CFA, Senior Equity Analyst, 7 Jul 2025

BlackRock announced on July 7 that it will acquire ElmTree Funds, a net-lease real estate investment firm with $7.3 billion in total managed assets at the end of March, with the aim of expanding its footprint in private markets.

Why it matters: BlackRock is betting that growth of its private market platform will not only boost revenue but lift its market value over the next five-plus years, as it positions itself to be a one-stop shop for both public and private assets.

- We have believed for years that if BlackRock were serious about catching up to Blackstone on the private capital side of the market, it would need to buy more than build in the near to medium term, given the gap between it and the market leader.
- During the past year and a half, BlackRock has acquired private credit firms HPS and Global Infrastructure Partners as well as Preqin, a global private market data provider.

The bottom line: While BlackRock is the best operator of the US-based traditional asset managers we cover, the shares already reflect its strength relative to its peers.

- We've left our $1,050 fair value estimate for BlackRock in place, given the relatively small size of the ElmTree deal. Our valuation is built on somewhat more conservative near-term assumptions for the US-based asset managers, given the uncertainties created by US fiscal and tariff policies, and

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BlackRock Inc BLK ★★★ 4 Jul 2025 20:04, 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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Sector	Industry
Financial Services	Asset Management

Business Description

BlackRock is the largest asset manager in the world, with $11.584 trillion in assets under management at the end of March 2025. Its product mix is diverse, with 53% of managed assets in equity strategies, 26% in fixed income, 9% in multi-asset classes, 8% in money market funds, and 4% in alternatives. Passive strategies account for two thirds of long-term AUM, with the company's ETF platform maintaining a leading market share domestically and on a global basis. Product distribution is weighted more toward institutional clients, which by our calculations account for around 80% of AUM. BlackRock is geographically diverse, with clients in more than 100 countries and more than one third of managed assets coming from investors domiciled outside the US and Canada.

slightly better medium-term forecasts for the company's exchange-traded fund, active management, alternatives, and technology services businesses.

- While BlackRock remains our top pick of the nine stand-alone publicly traded traditional US-based asset managers we cover, our High Uncertainty Rating requires a 15% discount to our fair value estimate before we would consider recommending the name to long-term investors.

Business Strategy & Outlook Greggory Warren, CFA, Senior Equity Analyst, 23 Jun 2025

For much of the past two decades, we've bemoaned the fortunes of the US-based traditional asset managers, noting that they would face significant secular headwinds (from aging baby boomers to the growth of passive investing) and cyclical headwinds (leading to more-volatile equity and credit markets) that would pressure their top and bottom lines. Our thesis for the group has expected regulatory changes around the globe aimed at increasing transparency around fees and performance, as well as pushing for a greater degree of fiduciary responsibility in retail-advised relationships, to raise the hurdles for the US-based traditional asset managers we cover. With the gatekeepers for retail intermediary platforms also becoming much more focused on fees and performance when deciding what products to place on their platforms, the industry will face fee and margin compression as active asset managers are expected to not only narrow the spread between the management fees charged for their funds and the fees attached to index-based products but spend more heavily to improve investment performance and enhance product distribution.

Unlike most of its peers, BlackRock, which is at its core a passive investment shop, has been able to offset many of the secular headwinds facing the US-based traditional asset managers with a few tailwinds of its own. Through its iShares exchange-traded fund platform and institutional index fund offerings, the wide-moat firm sources close to two thirds of its managed assets and more than half of its revenue from passive products. In an environment where retail-advised and institutional clients are expected to seek out providers of passive products, as well as active asset managers that have greater scale, established brands, solid long-term performance, and reasonable fees, we believe that BlackRock is well positioned. Looking out over the next five years, we believe that an expanding ETF market, improved active fund operations, increased multi-asset and alternatives exposure (primarily through acquisitions), and ongoing technology efforts should all help drive top- and bottom-line growth for the firm.

Bulls Say Greggory Warren, CFA, Senior Equity Analyst, 23 Jun 2025

- BlackRock is the largest asset manager in the world, with $11.584 trillion in AUM at the end of March 2025 and clients in more than 100 countries.
- Product diversity and a heavier concentration in the institutional channel have traditionally provided BlackRock with a much more stable set of assets than its peers.
- BlackRock's well-diversified product mix makes it agnostic to shifts among asset classes and

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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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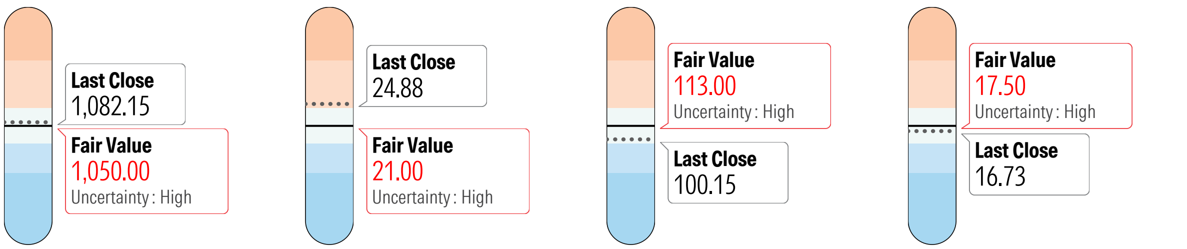
Competitors

	BlackRock Inc BLK	Franklin Resources Inc BEN	T. Rowe Price Group Inc TROW	Invesco Ltd IVZ



	BlackRock Inc BLK	Franklin Resources Inc BEN	T. Rowe Price Group Inc TROW	Invesco Ltd IVZ
Economic Moat	Wide	None	Narrow	None
Currency	USD	USD	USD	USD
Fair Value	1,050.00 16 Apr 2025 14:52, UTC	21.00 25 Mar 2025 18:17, UTC	113.00 20 May 2025 16:39, UTC	17.50 21 May 2025 15:15, UTC
1-Star Price	1,627.50	32.55	175.15	27.13
5-Star Price	630.00	12.60	67.80	10.50
Assessment	Fairly Valued 4 Jul 2025	Overvalued 4 Jul 2025	Fairly Valued 4 Jul 2025	Fairly Valued 4 Jul 2025
Morningstar Rating	★★★4 Jul 2025 20:04, UTC	★★4 Jul 2025 20:03, UTC	★★★4 Jul 2025 20:03, UTC	★★★4 Jul 2025 20:03, UTC
Analyst	Greggory Warren, Senior Equity Analyst	Greggory Warren, Senior Equity Analyst	Greggory Warren, Senior Equity Analyst	Greggory Warren, Senior Equity Analyst
Capital Allocation	Exemplary	Standard	Exemplary	Standard
Price/Fair Value	1.03	1.18	0.89	0.96
Price/Sales	7.91	1.48	3.14	1.25
Price/Book	3.49	1.06	2.13	0.70
Price/Earning	23.99	11.11	10.91	9.19
Dividend Yield	1.91%	5.10%	5.01%	4.93%
Market Cap	167.65 Bil	13.07 Bil	22.06 Bil	7.49 Bil
52-Week Range	773.74—1,084.22	16.25—24.94	77.85—125.81	11.60—19.55
Investment Style	Large Value	Mid Value	Mid Value	Small Value

investment strategies, limiting the impact that market swings or withdrawals from individual asset classes or investment styles can have on its AUM.

Bears Say Greggory Warren, CFA, Senior Equity Analyst, 23 Jun 2025

- The sheer size and scale of BlackRock's operations could end up being the biggest impediment to the firm's long-term growth.
- Despite accounting for 54% of total AUM, direct institutional client arrangements generate only 35% of BlackRock's base management fees, given the lower fee structure attached to these larger investment mandates.
- While actively managed funds account for 25% of total AUM, they generate 46% of base management fees, increasing the pressure on BlackRock to get the performance of its active equity and fixed-income offerings on a more consistent footing.

Economic Moat Greggory Warren, CFA, Senior Equity Analyst, 23 Jun 2025

We believe the asset-management business can be conducive to the creation of economic moats, with switching costs and intangible assets being the most durable sources of competitive advantage. Although the switching costs might not be explicitly large, inertia and the uncertainty of achieving better results by moving from one manager to another, as well as the potential tax consequences of selling a fund with significant gains, tend to keep investors in place. As a result, money that flows into asset-management firms tends to stay there.

For the industry overall, the average narrow retention rate, which does not include exchange redemptions, has been 75% or greater annually the past 5-, 10-, 15-, 20-, 25-, and 30-year periods. Including exchange redemptions, the rate has been greater than 70%. Firms offering niche products with significantly higher switching costs—like retirement accounts, funds with lockup periods, and tax-managed strategies—have tended to hold on to assets longer. Because BlackRock does not break out its net flows (which are gross sales less investor redemptions), we assume that, based on its historical record of positive organic growth, its average annual redemption rate has been at its worst no worse than the industrywide rate, especially given the tailwinds from the secular shift into low-cost passive products the past couple of decades.

During 2020-24 (2015-24), BlackRock's organic AUM growth rate averaged 4.3% (4.4%) with a standard deviation of 1.2% (1.5%), which meant the firm was in most years compensating for investor redemptions with net new flows into its products. We are currently forecasting 4.4% (3.9%) average annual organic AUM growth during 2025-29 (2025-34), with a standard deviation of 1.0% (1.5%). While lower than management's own long-term target for 5% annual organic growth, we prefer to be conservative (targeting 3%-5% growth longer term in our modeling) because ETF flow competition remains stiff (especially with Vanguard), keeping BlackRock's organic growth in this segment below industry rates. That said, we expect the firm's ongoing investments in retail distribution, enhanced product/vehicles, and technology will allow it to retain its better-than-average switching cost profile relative to its traditional asset-management peers.

We believe the traditional asset managers can improve on the switching costs advantage inherent in their business with organizational attributes (such as product mix, distribution channel, and geographic reach) and intangible assets (such as strong and respected brands and manager reputations from a record of generating above-average investment performance relative to peers). While the barriers to entry are not all that significant, the barriers to success are extremely high—as it takes time and skill to not only put together a long enough record of investment performance to gather assets but to build the scale necessary to be competitive. This has meant the larger, more established asset managers in the industry have tended to have an advantage over smaller players, especially when it comes to gaining cost-effective access to distribution platforms. That said, we do not think the cost advantage applies to the traditional asset managers—except in the case of index fund and ETF providers—as scale does not always confer better-than-average operating profitability and the industry tends to behave as an oligopoly when it comes to pricing.

Competition for investor flows can be stiff and has traditionally centered on investment performance. Although institutional investors and retail gatekeepers are exerting pressure on pricing, competition based on price has been rare, aside from what we've seen in the US market for exchange-traded funds. While compensation remains the single-largest expense for most traditional asset managers, supplier power has been manageable as many firms have reduced their reliance on star managers and have tied manager and analyst pay to both portfolio and overall firm performance. Asset managers that demonstrate an ability to gather and retain investor assets during different market cycles have tended to produce more stable levels of profitability, with returns exceeding their cost of capital for longer periods. While the more broadly diversified asset managers are structurally set up to hold on to assets regardless of market conditions, it has been firms with solid product sets across asset classes (built on repeatable investment processes), charging reasonable fees, and with singular corporate cultures dedicated to a common purpose that have done a better job of gathering and retaining assets.

BlackRock, in our view, has a wide economic moat. Unlike most of its peers, BlackRock is at its core a passive investment shop, offsetting many of the secular headwinds facing the US-based traditional asset managers with a few tailwinds of its own. Through its iShares exchange-traded fund platform and institutional index fund offerings, the wide-moat firm sources close to two thirds of its AUM (and more than half its base management fees) from passive products. In an environment where retail-advised and institutional clients are seeking out providers of passive products, as well as active asset managers that have greater scale, established brands, solid long-term performance, and reasonable fees, we believe BlackRock is well positioned, with a wide moat built on cost advantage, switching costs, and intangible assets.

BlackRock's size and scale, the strength of its brands, and the diversity of its AUM by investment strategy, asset class, distribution channel, and geographic reach provide it with a leg up over peers. The company is the largest asset manager in the world, overseeing $11.584 trillion in AUM at the end of March 2025, with 53% of AUM (47% of base management fees) in equity strategies, 26% (21%) in fixed-income offerings, 9% (7%) in balanced funds, 8% (7%) in money market funds, and 4% (18%) in alternatives. Passive strategies make up two thirds of long-term AUM, with the company's ETF platform, which accounted for 37% of managed assets (and 41% of base management fees), maintaining a leading market share both domestically (31%) and globally (32%) at the end of the first quarter of 2025.

Product distribution is weighted more heavily toward institutional clients, which account for around 80% of AUM. BlackRock remains geographically diverse as well, with clients in more than 100 countries and more than a third of its AUM coming from investors domiciled outside of the US and Canada. While the firm does not release redemption/retention data for its AUM, we feel that these attributes and the company's other intangible assets have allowed BlackRock to generate above-average levels of organic AUM growth (which is derived from products sales and investor redemptions) on a more consistent basis.

Benefiting from a steady stream of investor inflows, driven by its ability to offer insights and expertise across multiple asset classes, a specialized distribution and client engagement model, low-cost fund offerings with repeatable investment strategies, and its existing relationships with large institutional clients (as well as its positioning as the largest defined contribution investment only provider in the US), BlackRock has recorded net long-term outflows in only 14 calendar quarters during the past two decades. Furthermore, the firm's cost-conscious culture and stable AUM and revenue levels have allowed it to consistently generate GAAP operating margins in excess of 35% (and adjusted operating margins exceeding 40%), which is one of the highest levels among the more traditional US-based traditional asset managers we cover—and unique for a firm of its size and scale.

Another key differentiator for BlackRock has been its commitment to risk management, product innovation, and advice-driven solutions. Having been principally focused on institutional investors for much of its existence, BlackRock has been concerned not only with investment performance but with the risks taken to generate those results, as most of its institutional clients come to the table with required levels of performance and volatility in their investment mandates. As such, the company has developed tools—embedded in its Aladdin enterprise system—to assess both security- and portfolio-level risks, which it not only uses internally but also offers to external clients for a fee. This commitment to technology has also enhanced the firm's ability to roll out new products and to combine existing products to create outcome-based investment offerings.

While these structural attributes have been big pluses for the firm, we believe BlackRock's insistence on one common culture, focused on one common vision, operating on one common platform has also provided the firm with a leg up over its peers. Although it is easy to dismiss culture as something that cannot be measured, we believe that over the long run asset managers with a single corporate culture dedicated to a common purpose (which is ultimately reflected in the consistency of their investment performance, their rate of organic growth, the focus and importance that is placed on risk management, and the amount of employee turnover they experience) tend to perform better than companies that are operating with less cohesive and/or inconsistent organizations.

Add all of this to BlackRock's diversification by asset class, investment style, and geography, along with a heavier presence in the institutional channel, and it becomes fairly evident why the firm has had far less volatility in its AUM, revenue, and profitability, and experienced far less execution risk, than its publicly traded peers. We believe the company's ability to offer alpha and beta, fundamental and quantitative, and traditional and alternative investment strategies to its clients provides BlackRock with the platform it will need to be a sought-after solutions provider in a period when investors are looking for those attributes in an investment manager. In addition, with much more stable cash flows than most of the other asset managers in our coverage universe, we expect BlackRock to continually invest capital back into its business at a rate that far exceeds the capabilities of its peers.

When looking at environmental, social, and governance risks, business ethics, product governance, and data privacy and security are some of the larger issues for asset managers. BlackRock, in our view, is at a lower risk of experiencing material financial impacts from ESG factors, due to its medium exposure to risks that are inherent to the industry, as well as its own operations, offset by the firm's strong management of its material ESG issues (with the company having experienced only a moderate level of controversies over the years).

From a business ethics and product governance perspective, failure to provide reliable and trustworthy services can impact both reputation and financial performance, so asset managers like BlackRock tend to be more careful with how they manage the pricing, performance, and positioning of their products. They also spend a lot of time and capital to safeguard against data breaches, which can cause service disruptions, trigger lawsuits and forensic investigations, incur expenses related to repairing or removing threats from data systems, damage reputations, and shake customer confidence.

From an asset-management perspective, BlackRock is committed to be an industry leader when it comes to integrating ESG across all asset classes and investment strategies, which is expected to help the firm meet rapid and evolving demand for the integration of ESG factors into investment decisions on the part of both institutional and individual investors.

Fair Value and Profit Drivers Greggory Warren, CFA, Senior Equity Analyst, 23 Jun 2025

Our fair value estimate for BlackRock is $1,050 per share, which implies a price/earnings multiple of 23.1 times our 2025 adjusted earnings estimate and 20.5 times our 2026 adjusted earnings estimate. For some perspective, during the past five (10) years, BlackRock has traded at an average trading multiple of 20.3 (19.6) times trailing earnings on an adjusted basis, with the highest (lowest) multiple being 24.8 (14.1) times. We use a 21% US statutory corporate tax rate and a 9% cost of equity in our valuation.

BlackRock closed out March 2025 with a record $11.584 trillion in AUM, up 0.3% sequentially and 10.6% year over year. The first quarter marked the seventh time that BlackRock has closed out a calendar quarter with more than $10 trillion in managed assets (the past six calendar quarters and the fourth quarter of 2021). We expect the firm to close out the June quarter with just over $12 trillion in AUM. Net long-term inflows of $83 billion during the March quarter were reflective of an annualized organic AUM growth rate of 3.1%. While this was at the lower end of our annual target of 3%-5%, it is still significantly better than what we are expecting from most of the company's peers.

With the flow momentum likely to continue to be constrained this year (given the market environment), we expect BlackRock to generate an annual organic AUM growth rate of 3.1% in 2024, at the lower end of our annual long-term target range of 3%-5% annually. Our five-year outlook for BlackRock has organic AUM growth expanding 4.4% on average annually during 2025-29, based on expectations for a recovery in equity flows, as well as an uptick in bond fund flows and alternatives fundraising, over the next several years. As part of our modeling of the US-based asset managers, we tend to build in equity market corrections midway through the first five years, as well as midway through the second five years of what is a 10-year forecast for each firm but have moved the first correction forward to this year.

With fee compression expected to be on par with what we've seen the past five to 10 years, the firm continuing to expand its higher fee-generating alternatives platform, and BlackRock also seeing continued growth from its technology and risk management operations, we are projecting 8.4% top-line growth on average annually during 2025-29. We also project more growth and stability in BlackRock's operating profitability than we expect from its peers the next five years, owing primarily to the scalability of its passively managed ETF operations. We envision the firm generating adjusted operating margins in a 43%-47% range during 2025-29, compared with 44.5% last year and 44.1% on average annually during 2020-24.

We project a bull-case fair value estimate of $1,630 per share and a bear-case valuation of $630 per share. The key factors affecting our scenario analysis include the firm's ability to keep expanding its ETF franchise, as well as the expected change in its overall realization rate as a result of this growth and changes in BlackRock's overall product mix.

Our upside-case fair value estimate of $1,630 per share implies a P/E multiple of 25.2 times our 2025 adjusted earnings estimate and 22.8 times our 2026 adjusted earnings estimate. This scenario assumes that efforts to drive growth pay off more than in our base case, with revenue expanding at a double-digit rate annually in most years during our five-year forecast. The net result is an 12.3% compound annual growth rate for revenue during 2025-29. This scenario also assumes that the company's ETF platform, which is significantly more scalable than BlackRock's core asset-management business, and its higher fee-generating alternative business become even larger parts of the company's product mix than we project in our base case, with adjusted operating margins exceeding 50% by the end of our five-year projection period.

Our downside-case fair value estimate of $630 per share implies a P/E multiple of 19.8 times our 2025 adjusted earnings estimate and 17.6 times our 2026 adjusted earnings estimate. This scenario assumes BlackRock struggles to generate organic AUM growth with both its active and passive offerings and sees less of a contribution for its other growth efforts, with revenue growth affected by less robust AUM levels and declining fees for most of its product offerings. With the firm more dependent on market gains for AUM growth, the net result is a 6.1% CAGR for revenue during 2025-29. We also assume BlackRock's adjusted operating margins drop below 40% before the end of our five-year forecast period, despite the increased size and scale of the firm's operations.

Risk and Uncertainty Greggory Warren, CFA, Senior Equity Analyst, 16 Oct 2024

Our Morningstar Uncertainty Rating for BlackRock is High. Currently, we do not believe that any of the firm's environmental, social, or governance issues are material enough to affect our uncertainty rating or fair value estimate for the firm. BlackRock has staked its future on its ability to manage and sell passive and active investment strategies. With more than 80% of annual revenue derived from management fees levied on its AUM, dramatic market movements or changes in fund flows can have a significant impact on operating income and cash flows.

BlackRock's investment advisory and administration fees consist primarily of fees that are based on a percentage of the value of managed assets, and, in some cases, performance fees expressed as a percentage of the returns realized on AUM. Movements in equity market prices, interest rates/credit spreads, foreign exchange rates or all three could cause the value of the firm's managed assets to decline, which would result in lower investment advisory and administration fees, impacting operating income and cash flows.

Shifts among asset classes can be problematic, with fees for actively managed fixed-income and money market funds lower than those for equity and balanced strategies and shifts from active to passive strategies can have an impact as well, with management fees much lower for index funds and ETFs. That said, we believe that the company is at a lower risk of experiencing material financial impacts from ESG factors, due to its medium exposure to risks that are inherent to the industry, as well as its own operations, offset by the firm's solid management of its material ESG issues.

Capital Allocation Greggory Warren, CFA, Senior Equity Analyst, 23 Jun 2025

Larry Fink has been chair and CEO of BlackRock since the firm went public in 1999, having run the entities that would eventually become BlackRock since 1988. Much of the company's success can be attributed to Fink's conviction that for the firm to succeed it must first act as a responsible, high-performing fiduciary and commit itself to using BlackRock's ever-increasing scale and technological capabilities to deliver value to investors by providing appropriate investments at reasonable prices. As a result, the firm has not only expanded its internal operations but successfully augmented existing product offerings and services through acquisitions. From a succession planning perspective, Fink, who is 72 years old, has noted that he does not plan on retiring anytime soon, with the board even updating his compensation to include carried interest in his annual pay to reflect the company's ongoing expansion into private markets.

Our Morningstar Capital Allocation Rating for BlackRock is Exemplary. This rating assesses management efficacy in three key areas: balance sheet health, investment efficacy, and shareholder distributions. Given that a firm's financial health directly affects its ability to invest in future growth opportunities, return cash to shareholders, or even remain a going concern, it is important to pay attention to its balance sheet strength. Asset managers have a high degree of revenue cyclicality and operating leverage (with results tending to be impacted by the vagaries of the equity and credit markets) and are generally asset-light. As such, they should not maintain more than low to moderate levels of financial leverage.

BlackRock has traditionally maintained a sound balance sheet, highlighted by $7.5 billion in unencumbered cash and equivalents, $5.0 billion in unencumbered investments, and $12.4 billion in long-dated debt (on a principal basis) at the end of March 2025, with extremely low debt/total capital and debt/EBITDA levels historically. We expect net debt/adjusted EBITDA (as well as net debt/enterprise value) to remain low going forward and note that just 18% of the firm's total debt outstanding at the end of 2024 was due during the next three years.

BlackRock's long-term strategy has been focused on investing in viable growth initiatives, maintaining financial strength and flexibility, returning a substantial portion of earnings to shareholders as share repurchases and dividends, and (when it makes sense) acquiring businesses that fill product or distribution holes. In our view, better cultures and internal investment processes tend to lead to better and more consistent investment performance and organic growth as well as relatively little employee turnover.

When growth is harder to come by, which has become the case for most of the US-based traditional asset managers, we expect firms like BlackRock to take a variety of actions, including overhauling their leadership or investment processes, buying a competitor with better performance or greater product, channel, or geographic diversity, or branching out into less-exposed strategies. We look positively on asset managers whose actions enhance their economic moats and have the capital and wherewithal to maintain their leadership positions. We are more skeptical about firms that are continuously repairing deficiencies in their structures or lack the capital and wherewithal to defend their businesses longer term.

In BlackRock's case, we think the company has done an exceptional job of not only defending its economic moat but in investing for the future. In an industry where acquisitions have not always worked, the firm has overseen two major deals and a spattering of bolt-on acquisitions, which not only added to BlackRock's product lineup but expanded its footprint into other channels and markets. A major reason BlackRock has had success with acquisitions where so many others have failed is that Fink has always insisted on one culture for the firm, which has been reflected in the level and consistency of the company's investment performance, its rate of organic growth, its focus on risk management, and level of employee turnover.

BlackRock has tended to return capital to shareholders as share repurchases and dividends. During the past 10 calendar years, the firm repurchased (net of share issuances) $16.9 billion of its stock and paid out $22.7 billion as dividends. We have the company generating $9.0 billion in free cash flow on average annually during 2025-29, much of which we expect to be returned to shareholders as dividends (40%) and share repurchases (20%), with some set aside for acquisitions (11%). BlackRock has committed to repurchase $375 million of its common stock per quarter during 2025 but would increase its allocation if the firm's shares were trading at a significant discount to intrinsic value. We also have the firm's dividend payout (based on our forward earnings estimates) in a 35%-45% range the next five years.

Analyst Notes Archive

BlackRock: 2030 Revenue and Operating Income Goals Are Achievable; No Change to Fair Value Estimate Greggory Warren, CFA,Senior Equity Analyst,23 Jun 2025

BlackRock laid out targets for 2030 at its 2025 investor day, including $35 billion in revenue and $15 billion in operating income. Management believes this should translate into a doubling of the firm's market capitalization to $280 billion.Why it matters: BlackRock is betting that the growth of its private market platform will not only boost revenue but lift its market value over the next five-plus years, as it positions itself to be a one-stop shop for both public and private assets. BlackRock aims to expand its annual revenue to $35 billion in 2030 from $20.4 billion last year, reflective of a 9.4% compound annual growth rate for 2025-30.The bottom line: BlackRock is the best operator of the US-based traditional asset managers that we cover, and these goals are likely achievable, as they are not too far from our own projections. However, the shares already reflect the firm's strength relative to the weaknesses of its peers. We've left our $1,050 fair value estimate for BlackRock in place. Our valuation is built on somewhat more conservative near-term assumptions for the US-based asset managers, given the uncertainties created by US fiscal and tariff policies, and slightly better medium-term forecasts for the company's exchange-traded fun, active management, alternatives, and technology services businesses.

BlackRock Earnings: Solid Flows and Currency Gains Offset Somewhat by Market Losses Greggory Warren, CFA,Senior Equity Analyst,11 Apr 2025

BlackRock ended March 2025 with a record $11.584 trillion in assets under management, or AUM, up 0.3% sequentially and 10.6% year over year. First-quarter revenue increased 11.6% year over year on higher average AUM and fee rates, with adjusted operating margins improving from 42.2% to 43.2%.Why it matters: BlackRock continues to outstrip its peers from an organic AUM growth perspective, as its mix of passive products—index funds and ETFs—continue to appeal more to investors than most active product offerings. This allows the firm to better navigate market headwinds when they emerge, as they did during the first quarter. Net long-term inflows of $83 billion represented an annualized organic AUM growth rate of 3.1% for the first quarter, at the lower end of our annual target of 3%-5% but still better than what we are expecting from peers. The bottom line: While BlackRock's level of managed assets remains well above end of 2021 levels (just before the Federal Reserve started raising rates and the equity and credit markets tanked), in contrast with most of its peers, we expect the market selloff since the start of April to impact full-year results. There was little in wide-moat-rated BlackRock's first-quarter results that would alter our long-term view of the firm. The company continues to trade at a hefty premium relative to the price/earnings multiples of the other US-based traditional asset managers (which we think is warranted).

US-Based Traditional Asset Managers: Tariff-Induced Market Uncertainty Drives Shares Lower

Greggory Warren, CFA,Senior Equity Analyst,3 Apr 2025

Share prices of US-based traditional asset managers like BlackRock and T. Rowe Price are down more than 6% on average on April 3 as the markets react negatively to the Trump administration's global tariffs. While this has made some of the names we cover more approachable, we remain cautious.Why it matters: With short-term rate cuts likely on pause in the near term and the equity markets baking in an economic slowdown—if not recession—due to tariffs as well as cuts to US government spending and jobs, the US equity markets are already down more than 6% year to date. The US-based traditional asset managers we cover not only are tethered to the performance of the equity markets but also have an average beta of 1.3 times. The group is down 13% on average since the start of the year, similar to the 15% decline for the Dow Jones U.S. Asset Managers index. The bottom line: At midday April 3, the traditional asset managers we cover were trading at an average price/fair value multiple of 0.84, making them modestly undervalued. But we'd still prefer to see a slightly wider margin of safety before recommending some of the higher-quality names. Wide-moat BlackRock remains our top pick for long-term investors, given its higher concentration in passive products. Currently trading 18% below our fair value estimate, it is more approachable than it has been in a while, although we'd prefer to see that discount exceed 20%.

Increased Market Uncertainty Drives US-Based Asset Managers' Shares Lower Greggory Warren, CFA,Senior Equity Analyst,5 Mar 2025

The share prices of traditional and alternative US-based asset managers have retreated year to date due to rising uncertainty about the equity and credit markets tied to fiscal, tariff, and monetary policies, as well as economic growth. This has made some of the names we cover more approachable, but we remain cautious. As of the Feb. 28 market close, the traditional US-based asset managers we cover were trading at an average price/fair value multiple of 0.93, making them slightly undervalued, while the alternative asset managers were trading at an average price/fair value of 1.08, making them slightly overvalued. But trading so far this week has dropped the two groups down to 0.90 and 1.00, respectively. While we had anticipated raising our fair value estimates for a few firms after fourth-quarter earnings reports, we took a step back after seeing how the equity and credit markets were responding to the whirlwind of fiscal, tariff, and monetary policy projections coming out of Washington, D.C. With the pace and magnitude of projected short-term interest-rate cuts during 2025 already coming down, and some corners of the market expecting an economic slowdown, driven by the effects that tariffs and cuts to US government spending and jobs could have on the economy, there has been rising uncertainty about where the equity and credit markets might be six months to a year from now. Adjusted revenue and operating margins for most of the traditional asset managers were still below 2021 levels at the end of 2024, so a downturn in the US economy and equity markets in the near term would be a setback. The alternative managers, meanwhile, had seen some improvement in their fundraising, deployment, and harvesting activity as the Federal Reserve started cutting rates. But continued improvement in these areas would be waylaid in the near term by the same economic and market concerns facing the traditional asset managers.

US-Based Asset Managers: Vanguard Fee Cuts Trump Impact of Tariffs on Traditional Asset Managers Greggory Warren, CFA,Senior Equity Analyst,4 Feb 2025

While the threat of tariffs on Canadian, Mexican, and Chinese imports has roiled the equity markets this week, it has not been the only news to impact the traditional asset managers in our US-based asset manager coverage, as Vanguard's decision to cut fees on around one quarter of its mutual funds, ETFs, and money market funds (which collectively held $9.2 trillion in assets under management, or AUM) at the end of 2024 has only added to their woes.With the traditional names in our coverage more dependent on market returns (than organic AUM growth) to grow their levels of managed assets, the imposition of tariffs (which will likely impact both market returns and short-term rates) will affect their AUM in the near term (which for us is the next one to two years). Where an asset manager's managed assets are today has a big impact on where they will be five to 10 years from now, so any downturn in the markets is going to put some downward pressure on our fair value estimates.That said, when forecasting future AUM levels for the traditional asset managers, we tend to look to the 10-year forward forecasts for a multitude of categories generated by a handful of capital market prognosticators, such that any downturn in the near term will likely be recovered in future periods; assuming, of course, that our 10-year forecast asset-class returns don't change. This means that any near-term market volatility will have only a limited impact on our fair value estimates—and will generally follow the direction of the markets.The price cuts from Vanguard, however, pose a different problem, as they are likely to continue the trend of fee compression we've seen for the traditional asset managers the past decade or so. Although the median fee reduction at Vanguard was only about 1 basis point, the firm is taking anywhere from 1 basis point to 6 basis points off the expense ratio of 87 funds, which will pressure some of the managers in our coverage to follow suit.

BlackRock Earnings: Improved Flows Offset by Market Losses and Adverse Currency Greggory Warren, CFA,Senior Equity Analyst,15 Jan 2025

We do not expect to alter our $1,100 fair value estimate for wide-moat-rated BlackRock following the asset manager's release of fourth-quarter and full-year results that were more or less in line with our expectations. While the company continues to trade at a hefty premium relative to the price/earnings multiples of the other US-based traditional asset managers (which we think is warranted), its shares (much like those of most of its peers) are not offering enough of a margin of safety relative to our fair value estimate to recommend them now.BlackRock closed December 2024 with a record $11.551 trillion in assets under management, up 0.7% sequentially and 15.4% year over year. This was slightly below our forecast for $11.791 trillion in managed assets as better-than-expected flows during the quarter were offset by higher market losses and more-adverse currency exchange than we had expected. Net long-term inflows of $201 billion were $44 billion higher than we forecast, as retail, institutional, and exchange-traded fund flows were all slightly higher than our expectations. BlackRock's annualized organic AUM growth rate was 7.6% for the fourth quarter, outside the upper end of our annual target of 3%-5% and better than our 5.9% forecast for the period.While average long-term AUM rose 23.1% year over year during the fourth quarter, BlackRock reported a 22.5% increase in base fee revenue growth as its realization rate improved due to a product mix shift during the period. Total revenue was up 22.6% for the fourth quarter and 14.3% for the full year, in line with our expectations. BlackRock posted a 200-basis-point year-over-year increase in full-year GAAP operating margin to 37.1%, in line with our forecast for the year. On an adjusted basis, operating margin was 44.5% during 2024, compared with 41.7% in 2023.

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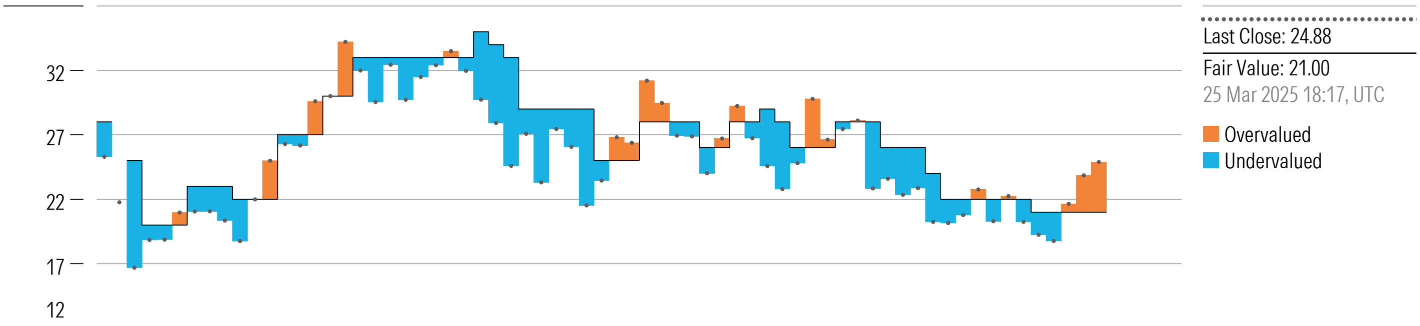
BlackRock Inc BLK ★★★ 4 Jul 2025 20:04, UTC

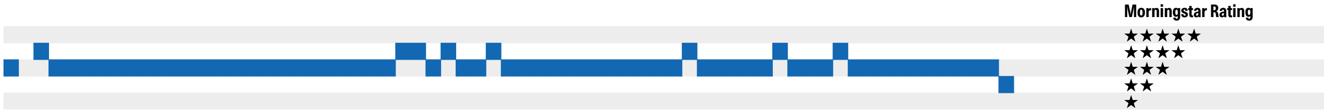
Competitors Price vs. Fair Value

Franklin Resources Inc BEN



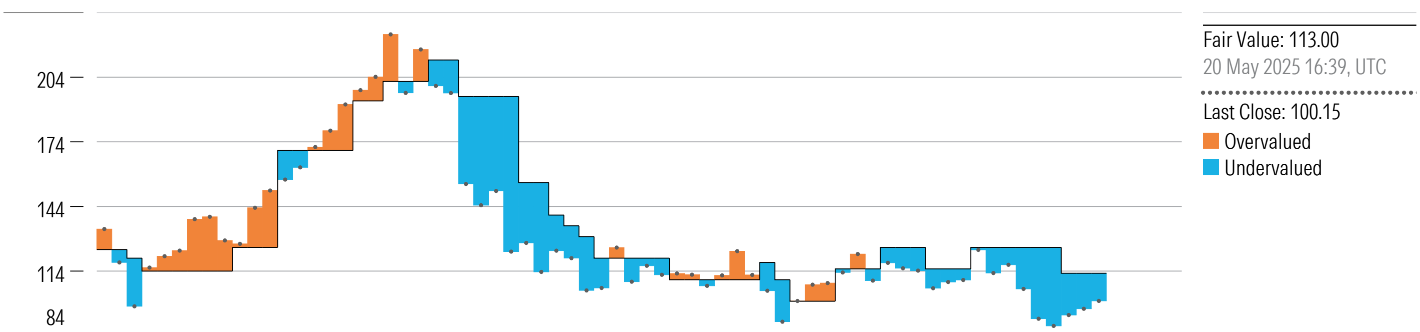
	2020	2021	2022	2023	2024	YTD
Price/Fair Value	1.14	1.01	1.06	1.15	0.92	1.18
Total Return %	0.38	38.54	-17.74	16.34	-26.65	25.78

Morningstar Rating



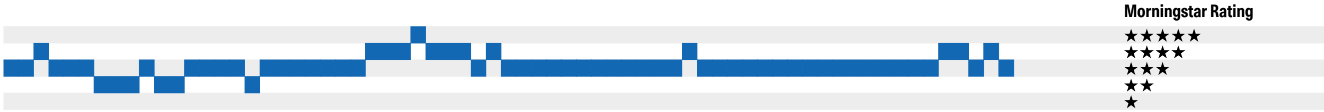
Total Return % as of 03 Jul 2025. Last Close as of 03 Jul 2025. Fair Value as of 25 Mar 2025 18:17, UTC.

T. Rowe Price Group Inc TROW



	2020	2021	2022	2023	2024	YTD
Price/Fair Value	1.21	0.93	0.91	1.08	0.90	0.89
Total Return %	27.21	34.72	-42.10	3.22	9.62	-9.20

Morningstar Rating



Total Return % as of 03 Jul 2025. Last Close as of 03 Jul 2025. Fair Value as of 20 May 2025 16:39, UTC.

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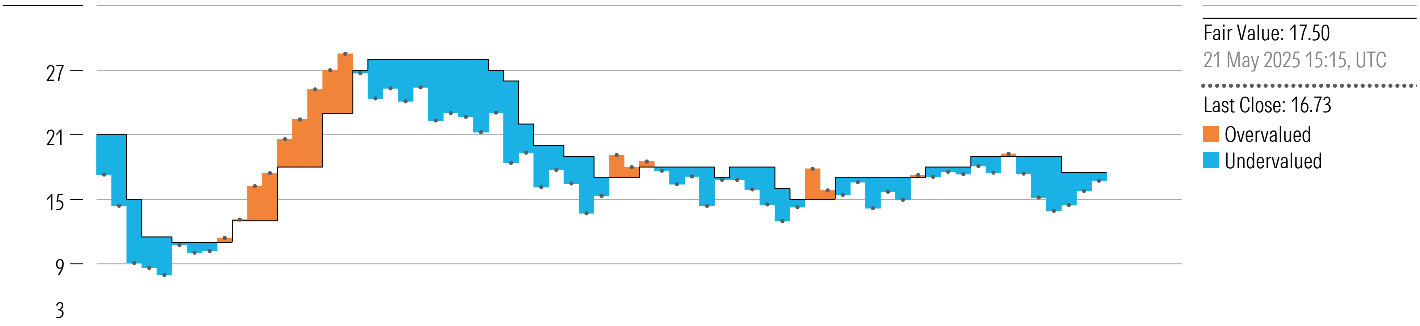
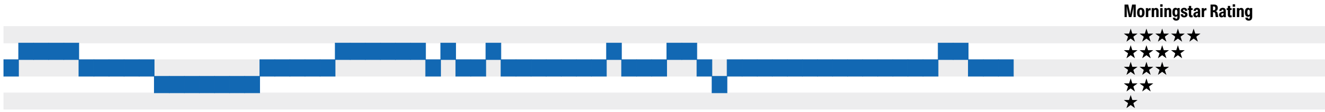
Competitors Price vs. Fair Value

Invesco Ltd IVZ



	2020	2021	2022	2023	2024	YTD
Price/Fair Value	1.34	0.82	1.06	1.19	0.92	0.96
Total Return %	1.25	35.89	-18.67	3.54	2.55	-1.92

Morningstar Rating



Total Return % as of 03 Jul 2025. Last Close as of 03 Jul 2025. Fair Value as of 21 May 2025 15:15, UTC.

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BlackRock Inc BLK ★★★ 4 Jul 2025 20:04, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
1,082.15 USD 3 Jul 2025	1,050.00 USD 16 Apr 2025 14:52, UTC	1.03	167.44 USD Bil 7 Jul 2025	Wide	Large Value	High	Exemplary	4 Jun 2025 05:00, UTC

Morningstar Valuation Model Summary

Financials as of 20 Jun 2025	Actual			Forecast				
Fiscal Year, ends 31 Dec	2022	2023	2024	2025	2026	2027	2028	2029
Revenue (USD Mil)	17,873	17,859	20,407	22,519	24,253	26,572	28,844	30,510
Operating Income (USD Mil)	6,476	6,336	7,624	8,288	9,638	10,816	11,959	12,337
EBITDA (USD Mil)	6,688	6,538	7,934	8,884	10,234	11,412	12,555	12,919
Adjusted EBITDA (USD Mil)	7,111	6,917	8,520	9,520	10,851	12,023	13,160	13,418
Net Income (USD Mil)	5,178	5,502	6,369	6,689	7,748	8,750	9,517	9,990
Adjusted Net Income (USD Mil)	5,390	5,692	6,611	7,005	7,806	8,814	9,867	10,790
Free Cash Flow To The Firm (USD Mil)	4,257	4,508	7,571	4,736	7,110	7,305	9,892	5,819
Weighted Average Diluted Shares Outstanding (Mil)	152	151	152	154	153	151	149	148
Earnings Per Share (Diluted) (USD)	33.97	36.51	42.01	43.39	50.77	57.95	63.72	67.57
Adjusted Earnings Per Share (Diluted) (USD)	35.36	37.77	43.61	45.44	51.15	58.37	66.07	72.98
Dividends Per Share (USD)	19.52	20.00	20.40	20.84	21.88	22.43	24.11	25.32

Margins & Returns as of 20 Jun 2025		Actual			Forecast					
	3 Year Avg	2022	2023	2024	2025	2026	2027	2028	2029	5 Year Avg
Operating Margin %	36.0	36.2	35.5	37.4	36.8	39.7	40.7	41.5	40.4	39.8
EBITDA Margin %	—	37.4	36.6	38.9	39.5	42.2	43.0	43.5	42.3	—
Adjusted EBITDA Margin %	—	39.8	38.7	41.8	42.3	44.7	45.3	45.6	44.0	44.4
Net Margin %	30.3	29.0	30.8	31.2	29.7	32.0	32.9	33.0	32.8	32.1
Adjusted Net Margin %	31.5	30.2	31.9	32.4	31.1	32.2	33.2	34.2	35.4	33.2
Free Cash Flow To The Firm Margin %	28.7	23.8	25.2	37.1	21.0	29.3	27.5	34.3	19.1	26.2

Growth & Ratios as of 20 Jun 2025		Actual			Forecast					
	3 Year CAGR	2022	2023	2024	2025	2026	2027	2028	2029	5 Year CAGR
Revenue Growth %	1.8	-7.8	-0.1	14.3	10.4	7.7	9.6	8.6	5.8	8.4
Operating Income Growth %	0.7	-13.2	-2.2	20.3	8.7	16.3	12.2	10.6	3.2	10.1
EBITDA Growth %	1.8	-13.8	-2.2	21.3	12.0	15.2	11.5	10.0	2.9	10.3
Adjusted EBITDA Growth %	0.7	-14.8	-2.7	23.2	11.7	14.0	10.8	9.5	2.0	9.5
Earnings Per Share Growth %	3.2	-11.1	7.5	15.1	3.3	17.0	14.1	10.0	6.0	10.0
Adjusted Earnings Per Share Growth %	3.2	-12.7	6.8	15.5	4.2	12.6	14.1	13.2	10.5	10.0

Valuation as of 20 Jun 2025	Actual			Forecast				
	2022	2023	2024	2025	2026	2027	2028	2029
Price/Earning	20.0	21.5	23.5	23.8	21.2	18.5	16.4	14.8
Price/Sales	6.0	6.8	7.8	7.4	6.9	6.3	5.8	5.5
Price/Book	2.9	3.1	3.3	3.4	3.2	2.9	2.7	2.5
Price/Cash Flow	—	—	—	—	—	—	—	—
EV/EBITDA	15.2	17.8	18.4	18.1	15.9	14.3	13.1	12.8
EV/EBIT	16.7	19.4	20.6	20.8	17.9	15.9	14.4	14.0
Dividend Yield %	2.8	2.5	2.0	1.9	2.0	2.1	2.2	2.3
Dividend Payout %	55.2	52.9	46.8	45.9	42.8	38.4	36.5	34.7
Free Cash Flow Yield %	—	—	—	—	—	—	—	—

Operating Performance / Profitability as of 20 Jun 2025	Actual			Forecast				
Fiscal Year, ends 31 Dec	2022	2023	2024	2025	2026	2027	2028	2029
ROA %	4.4	4.5	4.6	4.5	4.9	5.1	5.2	5.1
ROE %	13.4	13.3	12.9	13.0	14.3	15.0	15.3	15.0
ROIC %	17.8	15.8	16.5	17.0	18.7	20.8	21.5	22.1

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BlackRock Inc BLK ★★★ 4 Jul 2025 20:04, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
1,082.15 USD 3 Jul 2025	1,050.00 USD 16 Apr 2025 14:52, UTC	1.03	167.44 USD Bil 7 Jul 2025	Wide	Large Value	High	Exemplary	4 Jun 2025 05:00, UTC

Financial Leverage (Reporting Currency)	Actual			Forecast				
Fiscal Year, ends 31 Dec	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**
Debt/Capital %	7.4	7.4	8.2	7.0	6.6	6.3	5.9	5.6
Assets/Equity	3.0	3.0	2.8	2.9	2.9	2.9	2.9	2.9
Net Debt/EBITDA	0.0	-0.1	0.0	-0.1	-0.1	-0.3	-0.4	-0.4
Total Debt/EBITDA	1.2	1.4	1.7	1.3	1.2	1.0	1.0	0.9
EBITDA/ Net Interest Expense	74.9	-7.9	-11.8	-27.8	-21.7	-21.8	-32.9	-28.6

Forecast Revisions as of 23 Jun 2025	2025		2026		2027	
Prior data as of 16 Apr 2025	**Current**	**Prior**	**Current**	**Prior**	**Current**	**Prior**
Fair Value Estimate Change (Trading Currency)	1,050.00	1,050.00	—	—	—	—
Revenue (USD Mil)	22,519	22,293	24,253	23,637	26,572	26,587
Operating Income (USD Mil)	8,288	8,062	9,638	9,022	10,816	10,831
EBITDA (USD Mil)	9,520	9,294	10,851	10,235	12,023	12,038
Net Income (USD Mil)	7,005	7,151	7,806	7,952	8,814	8,913
Earnings Per Share (Diluted) (USD)	43.39	44.54	50.77	50.34	57.95	60.47
Adjusted Earnings Per Share (Diluted) (USD)	45.44	46.39	51.15	52.11	58.37	59.03
Dividends Per Share (USD)	20.84	20.84	21.88	21.88	22.43	22.43

Key Valuation Drivers as of 20 Jun 2025	
Cost of Equity %	9.0
Pre-Tax Cost of Debt %	5.8
Weighted Average Cost of Capital %	8.8
Long-Run Tax Rate %	21.7
Stage II EBI Growth Rate %	6.0
Stage II Investment Rate %	24.0
Perpetuity Year	20

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

Discounted Cash Flow Valuation as of 20 Jun 2025	**USD Mil**
Present Value Stage I	54,125
Present Value Stage II	39,254
Present Value Stage III	55,606
Total Firm Value	**148,985**
Cash and Equivalents	19,650
Debt	12,589
Other Adjustments	0
Equity Value	**156,046**
Projected Diluted Shares	153
Fair Value per Share (USD)	**1,050.00**

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BlackRock Inc BLK ★★★ 4 Jul 2025 20:04, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
1,082.15 USD 3 Jul 2025	1,050.00 USD 16 Apr 2025 14:52, UTC	1.03	167.44 USD Bil 7 Jul 2025	Wide	Large Value	High	Exemplary	4 Jun 2025 05:00, UTC

ESG Risk Rating Breakdown

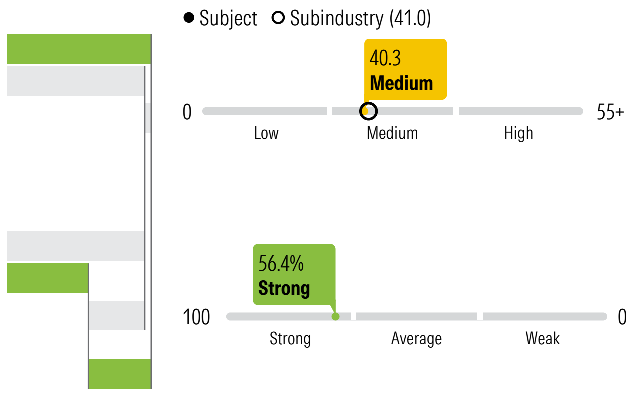
Exposure

Company Exposure[1]	40.3
– Manageable Risk	38.5
Unmanageable Risk[2]	**1.8**

Management

Manageable Risk	38.5
– Managed Risk[3]	21.7
Management Gap[4]	**16.8**

Overall Unmanaged Risk **18.6**



- Exposure represents a company's vulnerability to ESG risks driven by their business model
- Exposure is assessed at the Subindustry level and then specified at the company level
- Scoring ranges from 0-55+ with categories of low, medium, and high-risk exposure

- Management measures a company's ability to manage ESG risks through its commitments and actions
- Management assesses a company's efficiency on ESG programs, practices, and policies
- Management score ranges from 0-100% showing how much manageable risk a company is managing

ESG Risk Rating

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

1. A company's Exposure to material ESG issues 2. Unmanageable Risk refers to risks that are inherent to a particular business model that cannot be managed by programs or initiatives 3. Managed Risk = Manageable Risk multiplied by a Management score of 56.4% 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 Jun 04, 2025. Highest Controversy Level is as of Jun 08, 2025. Sustainalytics Subindustry: Asset Management and Custody 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 04 Jun 2025

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		
BlackRock Inc	40.3 | Medium	0	55+	56.4 | Strong	100	0	18.6 | Low	0	40+
Franklin Resources Inc	43.9 | Medium	0	55+	58.2 | Strong	100	0	19.5 | Low	0	40+
Invesco Ltd	43.6 | Medium	0	55+	52.8 | Strong	100	0	21.6 | Medium	0	40+
T. Rowe Price Group Inc	38.4 | Medium	0	55+	57.1 | Strong	100	0	17.4 | Low	0	40+
—	— | —	0	55+	— | —	100	0	— | —	0	40+

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Appendix
Historical Morningstar Rating

BlackRock Inc BLK 4 Jul 2025 20:04, 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
★★	★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★★	★★★★	★★★

Franklin Resources Inc BEN 4 Jul 2025 20:03, UTC

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Dec 2025 —	Nov 2025 —	Oct 2025 —	Sep 2025 —	Aug 2025 —	Jul 2025 ★★★	Jun 2025 ★★★	May 2025 ★★★	Apr 2025 ★★★★	Mar 2025 ★★★★	Feb 2025 ★★★	Jan 2025 ★★★
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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.

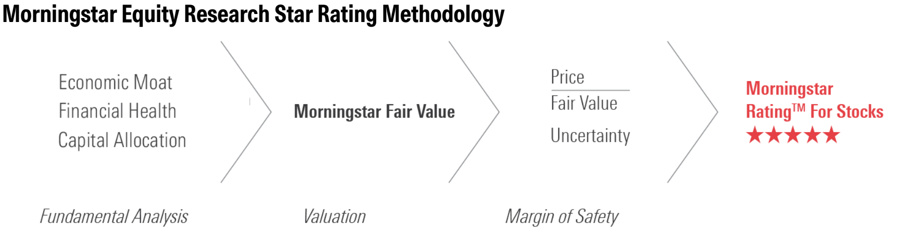
Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total present value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return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

Qualitative Analysis Uncertainty Ratings	Margin of Safety ★★★★★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

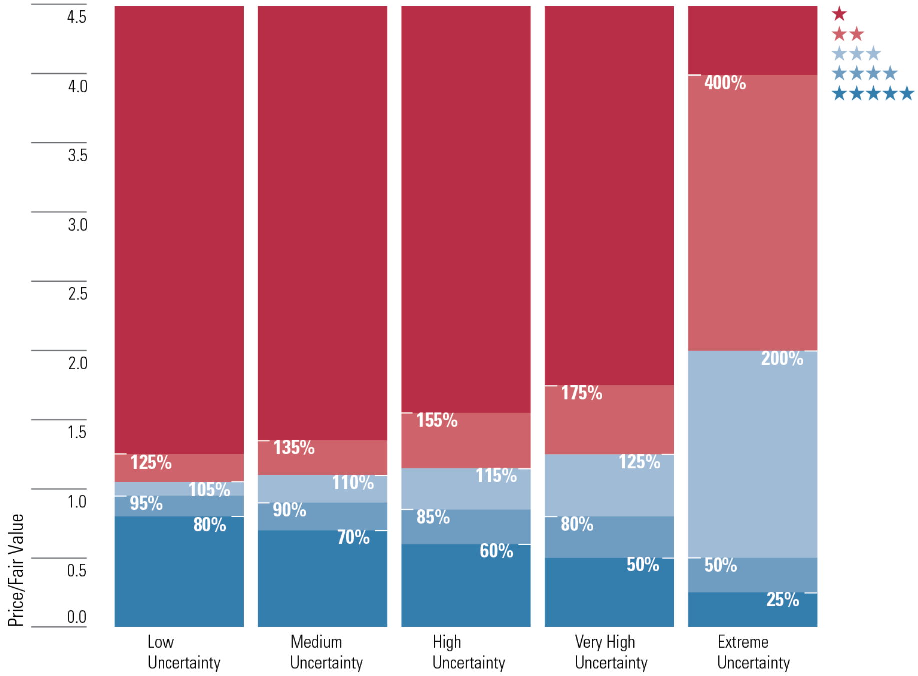
Our uncertainty rating is based on the interquartile range, or the middle 50% of potential outcomes, covering the 25th percentile–75th percentile. This means that when a stock hits 5 stars, we expect there is a 75% chance that the intrinsic value of that stock lies above the current market price. Similarly,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

Ratings should not be used as the sole basis in evaluating a company or security. Ratings involve unknown risks and uncertainties which may cause our expectations not to occur or to differ significantly from what was expected and should not be considered an offer or solicitation to buy or sell a security.

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