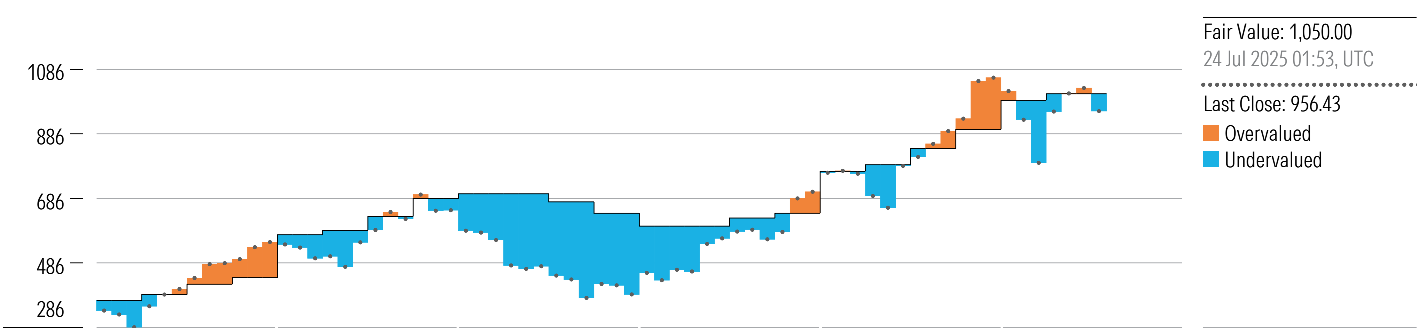
Morningstar Equity Analyst Report | Report as of 24 Jul 2025 01:59, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC.   Page 1 of 24

ServiceNow Inc NOW ★★★ 24 Jul 2025 01:57, UTC

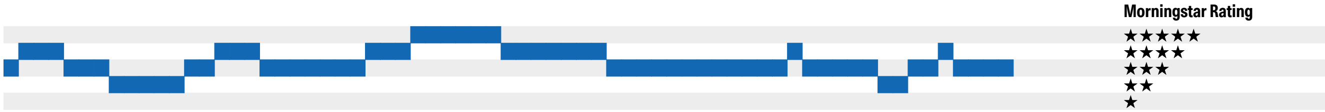
Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
956.43 USD 23 Jul 2025	1,050.00 USD 24 Jul 2025 01:53, UTC	0.91	198.13 USD Bil 23 Jul 2025	Wide	Large Growth	High	Exemplary	4 Jun 2025 05:00, UTC

Price vs. Fair Value



	2020	2021	2022	2023	2024	YTD	
	1.25	0.95	0.61	1.10	1.18	0.91	Price/Fair Value
	94.97	17.93	-40.18	81.96	50.05	-9.78	Total Return %

Morningstar Rating



Total Return % as of 23 Jul 2025. Last Close as of 23 Jul 2025. Fair Value as of 24 Jul 2025 01:53, UTC.

Contents

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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.

ServiceNow Earnings: Operating on a Higher Plane With Another Strong Quarter

Analyst Note Dan Romanoff, CPA, Senior Equity Analyst, 24 Jul 2025

ServiceNow's second-quarter revenue grew by 22% year over year in constant currency to $3.22 billion, driven by solid renewals, generative AI, and customer workflow adoption. Non-GAAP operating margin was 29.7% for the quarter. Results topped the high end of guidance on key measures.

Why it matters: Our initial read early in the reporting cycle is that software is performing well. ServiceNow is no exception, as it is benefiting from strong demand as uncertainty seems less of a headwind than it has been in recent quarters.

- Subscription revenue crushed the high end of guidance and grew 22.5% year over year to $3.11 billion. We see strength across workloads and geographies, with healthy large deals. Demand from US federal accounts was strong and is expected to remain so as modernization efforts continue.
- Generative artificial intelligence remains a key driver, one that should help maintain durable growth over the next five years. Management strength in Pro Plus solutions, with deal count up more than 50% sequentially, while deal size also increased.

The bottom line: We raise our fair value estimate for wide-moat ServiceNow to $1,050 per share from $1,010, based on results and guidance. We view the stock as slightly undervalued and believe it offers the best union of growth and profitability in software.

Coming up: Overall guidance is as impressive as results. ServiceNow raised its full-year revenue guide

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Sector	Industry
Technology	Software - Application

Business Description

ServiceNow Inc provides software solutions to structure and automate various business processes via a SaaS delivery model. The company primarily focuses on the IT function for enterprise customers. ServiceNow began with IT service management, expanded within the IT function, and more recently directed its workflow automation logic to functional areas beyond IT, notably customer service, HR service delivery, and security operations. ServiceNow also offers an application development platform as a service.

by $125 million at the midpoint while holding its margin outlook steady. For third quarter, guidance was better than expected for revenue and shy of what we anticipated for profitability.

- Management believes guidance incorporates some prudent conservatism around the public sector but noted strength in the US federal in the quarter.
- We are impressed by new product traction and think this could support even better revenue growth through 2026. Given margin performance thus far, we see room for margins to come in ahead of our updated model for the rest of the year.

Business Strategy & Outlook Dan Romanoff, CPA, Senior Equity Analyst, 30 Jan 2025

ServiceNow has been successful so far in executing a classic land-and-expand strategy. First, it built a best-of-breed SaaS solution for IT service management, or ITSM, based on being modular and flexible, having a superior familiar user interface, offering a way to automate a wide variety of workflow processes, and becoming a platform to serve as a single system of record for the IT function within the enterprise. Having established itself in ITSM and the IT operations management, or ITOM, market, the firm moved beyond the IT function. The same set of product design features and technologies allowed ServiceNow to bring its process automation approach to HR service delivery, customer service, finance, and operations. The firm then introduced more sophisticated and industry-specific versions of its core solutions. In September 2023, ServiceNow was one of the first software companies to release generative artificial intelligence solutions. Each of these products carries higher pricing to help drive incremental growth and boost margins.

ServiceNow's success has been rapid and organic. The firm already offers high-end enterprise-grade solutions and boasts elite-level customer retention of 98%. ServiceNow focuses on the largest enterprises in the world and these customers continue to renew for larger contracts containing more products. Additionally, customers overall are re-upping for more than one solution, as more than 75% of customers are multiproduct purchasers, which is driving deal sizes higher. Further, the firm has no small business exposure.

We believe that having the IT function within an enterprise as the initial landing pad is fortunate, as it provides a built-in advocate for software (an IT responsibility) for other functional areas of the enterprise. ServiceNow will continue to use its position to land new IT-driven customers and upsell ITOM features on the platform, but we believe the firm will increasingly cross-sell emerging products in HR and customer service. In our view, product strength, market presence, and a strong sales push into areas outside of IT, will continue to drive robust growth.

Bulls Say Dan Romanoff, CPA, Senior Equity Analyst, 24 Jul 2025

- ServiceNow's superior product has led to rapid share gains and exceptional retention in the ITSM market. Now the company is using this strength to expand into other areas of ITOM.

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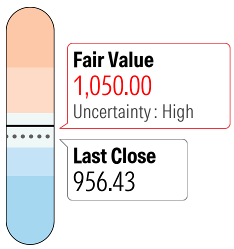
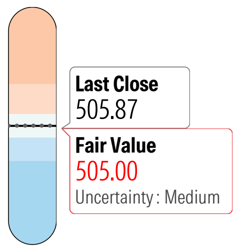
956.43 USD 23 Jul 2025	1,050.00 USD 24 Jul 2025 01:53, UTC	0.91	198.13 USD Bil 23 Jul 2025	Wide	Large Growth	High	Exemplary	4 Jun 2025 05:00, UTC

Competitors

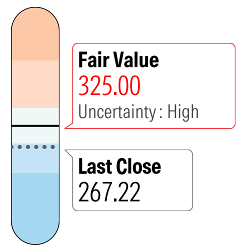
ServiceNow Inc NOW



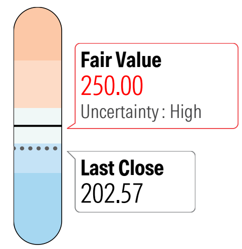
Microsoft Corp MSFT



Salesforce Inc CRM



Atlassian Corp Class A TEAM



	ServiceNow Inc NOW	Microsoft Corp MSFT	Salesforce Inc CRM	Atlassian Corp Class A TEAM
Economic Moat	Wide	Wide	Wide	Narrow
Currency	USD	USD	USD	USD
Fair Value	1,050.00 24 Jul 2025 01:53, UTC	505.00 1 May 2025 01:56, UTC	325.00 29 May 2025 01:49, UTC	250.00 2 May 2025 04:23, UTC
1-Star Price	1,627.50	681.75	503.75	387.50
5-Star Price	630.00	353.50	195.00	150.00
Assessment	Fairly Valued 23 Jul 2025	Fairly Valued 23 Jul 2025	Undervalued 23 Jul 2025	Undervalued 23 Jul 2025
Morningstar Rating	★★★24 Jul 2025 01:57, UTC	★★★23 Jul 2025 21:21, UTC	★★★★23 Jul 2025 21:27, UTC	★★★★23 Jul 2025 21:40, UTC
Analyst	Dan Romanoff, Senior Equity Analyst	Dan Romanoff, Senior Equity Analyst	Dan Romanoff, Senior Equity Analyst	Dan Romanoff, Senior Equity Analyst
Capital Allocation	Exemplary	Exemplary	Standard	Standard
Price/Fair Value	0.91	1.00	0.82	0.81
Price/Sales	17.52	13.98	6.63	10.44
Price/Book	19.65	11.67	4.16	38.15
Price/Earning	130.58	38.87	37.70	59.06
Dividend Yield	0.00%	0.64%	0.62%	0.00%
Market Cap	198.13 Bil	3,759.90 Bil	255.46 Bil	53.18 Bil
52-Week Range	678.66—1,198.09	344.79—514.64	230.00—369.00	135.29—326.00
Investment Style	Large Growth	Large Blend	Large Blend	Mid Growth

- The company has added additional growth drivers, including customer service and HR service delivery, which should help propel robust growth over the next five years.
- GAAP operating margin was breakeven for the first time in 2019, and we see a decadelong runway for expansion.

Bears Say Dan Romanoff, CPA, Senior Equity Analyst, 24 Jul 2025

- As ServiceNow expands deeper into areas outside the core IT function, it will encounter an expanding set of competitors. Some of these will be better equipped to battle.
- The company's market opportunity is difficult to define.
- Rapid growth, especially given the company's scale, will inevitably slow.

Economic Moat Dan Romanoff, CPA, Senior Equity Analyst, 25 Apr 2024

We assign a wide economic moat to ServiceNow derived from high customer switching costs. The company officially reports only two segments, subscriptions and services. While we view the subscription business as having a wide moat, we do not think the company's services segment, which is a small portion of revenue, warrants a moat. We believe ServiceNow's moat will probably allow the company to earn returns in excess of its cost of capital over the next 20 years.

Switching costs for software are often driven by several factors, in our view. The more critical the function and the more touch points across an organization a software vendor has, the higher the switching costs. There is also the direct time and expense of implementing a new software package for the customer while maintaining the existing platform and re-training employees on a new system. Additionally, there is operational risk of changing software vendors, including business process re-engineering, loss of data during the changeover, and overall project execution. A major implementation is likely to involve a system integrator and can take in excess of a year in bad cases. Lastly, lost productivity is likely to be an issue as customers move up a learning curve on the new system along with the distraction of users involved in the function where the change is occurring.

Retention metrics typically help inform investors on both the presence and the durability of a moat. These come in two flavors: gross, which describes what percentage of the customer base remains customers after a given period, and net, which highlights what percentage of the customer spending is retained by the software provider after a given period. ServiceNow's customer retention has been consistently excellent at 98% to 99%, with net retention well in excess of 100%, which places the company among the elite software firms. Software firms regularly see higher retention rates for enterprise customers relative to smaller customers, and ServiceNow tends to serve the largest companies in the world, so strong retention is not unexpected.

We believe the ServiceNow's software business enjoys a wide moat based on switching costs. Subscriptions represent approximately 97% of revenue. The company provides some additional detail on the composition of software revenue. Specifically, IT workflows account for 55% to 60% of net new annual contract value, or ACV, customer and employee workflows account for 25% to 30% of net new ACV, and creator and other workflows account for 15% to 20% of net new ACV. IT workflows have slowly been trending down as a percentage of net new ACV, but we think it accounts for a slightly larger share of revenue given this is the area where the company directed its earliest solutions.

We believe customers value each of ServiceNow's myriad of solutions on a standalone basis, but the product portfolio is highly complementary and is tightly integrated, making the platform more compelling than a point solution. In our opinion, the platform approach coupled with deep and wide add-on offerings is critical as customers are usually looking to consolidate vendors. These factors combine to reinforce our wide moat assertion. As ServiceNow offers a wider set of related and best-in-class solutions, we believe it becomes more deeply entrenched in its customers as they adopt multiple products.

While ServiceNow positions itself as a workflow solution, it is more easily understood as a provider of software for Information Technology Service Management, or ITSM, and Information Technology Operations Management, or ITOM, which represent the first suite of products the company offered. Importantly, the workflow element of ITSM has been crucial in driving adoption for use cases outside of the IT function. The broad appeal of modernizing workflows and automating processes across the enterprise has opened up a larger array of use cases for the company's solutions. These factors have allowed ServiceNow to initially bore deeply into the IT function as a system of record, and then to expand laterally to other non-IT functions. Both of these sales dynamics have helped the company to become entrenched in an organization across a variety of mission-critical functions. Since the software sales process across the enterprise will regularly touch the IT department, ServiceNow adopted a stance early on that it would let the internal IT function sell the platform to other areas of the customer. This process has clearly been successful.

At a basic level, if an employee's computer has an issue, they call the help desk, which creates a ticket and endeavors to solve the problem. ITOM more broadly involved monitoring and controlling various components of the IT infrastructure. The lines between the two are blurring, as functions have been added to ITSM solutions, and the complexity of IT infrastructure has increased with the rise of bring your own device and cloud and hybrid cloud environments. ServiceNow's ITOM tools integrate smoothly with existing monitoring and operations tools, which is a critical feature in today's complex hybrid cloud IT environments.

We believe ServiceNow has been an agent of change for the entire industry. Most obviously, the platform was built in a modern and flexible way and was intended from its inception to be delivered as a multi-tenant SaaS solution. Beyond that, the company strove to democratize the help desk function, giving the interface an intuitive and consumer-friendly feel. ServiceNow was also early to offer a platform for no-code and low-code application development, which we view as critical in a solution geared for the IT department, but helpful for non-IT professionals for quickly establishing automated workflows. The company has continued to pack the ITSM platform with features that might have previously been considered part of a different ITOM solution. Lastly, its platform allows for ITSM functions and various ITOM tools to be incorporated within the same dashboard. At the core of it all is the workflow automation solution that streamlines operations.

In short, ServiceNow has taken the key IT function, which is a business that might have otherwise warranted only a narrow moat rating, and incorporated an extensive set of features, thus allowing it to become more heavily ingrained within IT more broadly. While switching costs may be more easily overcome for a simple help desk solution, we believe that an ITSM installation has a long sales process and historically has enjoyed a life cycle not unlike an ERP system, with 10-15 years between major changes (usually upgrades on the existing platform) contemplated. Additionally, the incorporation of a variety of other ITOM features, such as IT Asset Management, in IT Business Management has made the company's solution broader and focused on solving business problems rather than just selling applications. Operating and maintaining the hardware and software is absolutely mission critical to the enterprise, and these customers are loath to change. The risk of IT asset failure is simply too high, especially in the exponentially more complex hybrid cloud environments of today.

Recognizing the shifting balance of power, ServiceNow has moved beyond providing the system of record for the IT function to focus on simplifying and automating enterprise workflows more broadly. In doing so, customers are increasingly finding the solution indispensable. A variety of metrics support this notion, including best-in-class retention. Meanwhile, 80% of ACV is derived from existing customers. ITSM and ITOM together have declined steadily from 95% of revenue in 2013 to around half of revenue, underscoring the company's broadening portfolio. Most of the largest companies in the world are ServiceNow customers, with their average annual contract value approximately doubling over the last several years. Approximately 80% of customers use multiple products. Regardless of how we slice the data, the conclusion is the same, customer are adopting multiple solutions, renewing contracts, and adding more products over time. We see this as evidence of a wide moat.

As workflow automation proliferated within the IT function, other areas of the enterprise became increasingly interested in process automation as well as a way to improve productivity and user experience. Several use cases outside of IT, namely employee and customer service, have emerged. We estimate emerging products generated 35% of ACV in 2020. Enterprise customers have seen the benefits that ServiceNow can bring to the IT function in terms of a better user experience, process automation, and self-service, and are looking to apply that internally to the HR function. We were surprised by HR interest when we first heard this from management a decade ago but quickly understood the similarities and the larger opportunity. In HR, for example, a new employee represents a service ticket that initiates a series of automated onboarding processes much in the same way a call to tech support about a PC malfunction does the same. Rather than competing with Human Capital Management, or HCM, software vendors such as Workday, ServiceNow's solutions sit on top of those platforms. NOW interfaces with all the disparate platforms, including (for example) Workday for HCM, Oracle for finance, Salesforce.com for CRM, Adobe for marketing automation, and ADP for payroll, and can automate processes across all functions of an organization. This is powerful as enterprise customers contend with the reality of maintaining legacy systems while bringing modern platforms into the fold.

Fair Value and Profit Drivers Dan Romanoff, CPA, Senior Equity Analyst, 24 Jul 2025

Our fair value estimate for ServiceNow is $1,050 per share, which implies a 2025 enterprise value/sales multiple of 14 times and an adjusted P/E multiple of 61 times.

We model a five-year CAGR for revenue of 18%. We see subscription revenue as driving almost all growth. In our view, top-line growth will be driven by continued new logo wins, and rapid upsell into those clients once landed, with upsell coming from new seats, new features within a given solution, vertical specific solutions, generative AI solutions, and ultimately additional products. Customer service, HR delivery, security operations, and platform should contribute meaningfully to growth over the next five years. We believe the market is large and growing, and can support ServiceNow's expansion in the coming years. We see non-GAAP operating margin expanding from 30% in 2024 (actual) to the mid-30% area over the next five years driven by improving scale and expanding sales of premium SKUs.

Risk and Uncertainty Dan Romanoff, CPA, Senior Equity Analyst, 24 Apr 2025

We assign ServiceNow a Morningstar Uncertainty Rating of High. While valuation is high relative to peers—we would argue deservedly so, given the company's strong market position and superior growth prospects—any execution misstep or issue that arises during quarterly earnings updates is likely to have a magnified impact on the shares.

We believe the most important metric for ServiceNow investors is revenue growth. Therefore, continued deceleration in subscriptions, or growth that does not materialize as expected in PaaS or emerging products would likely have an adverse impact on the stock in our view. Within the software industry, we have seen companies at times struggle to manage rapid growth.

While ServiceNow has rapidly gained share by displacing legacy vendors in the help desk function, as the company continues to expand into areas outside of IT, it will increasingly encounter new competitors. For example, moving more into customer experience will inevitably lead to increasing direct competition with Salesforce.

ServiceNow has made a variety of relatively small acquisitions since its IPO in 2012. We recognize that as the company matures, the likelihood of more meaningful M&A increases. Thus far, the company has executed feature driven deals where the acquired company's technology is added to the platform. It is possible that either these deals become larger or the company makes a more transformative acquisition, which we think would heighten the risk profile of the company.

While we do not see significant environmental, social, and governance risks, we note ServiceNow faces strong competition for software engineers on the hiring front and also faces risks arising from a potential data breach within its data centers.

Capital Allocation Dan Romanoff, CPA, Senior Equity Analyst, 30 Jan 2025

We assign ServiceNow an Exemplary Capital Allocation Rating. The rating reflects our assessments of sound balance sheet, exceptional investment, and appropriate shareholder distributions. We think investments back into the business are most likely to be the key driver of total shareholder returns and are therefore appropriately prioritized over other capital returns such as dividends, which the company does not offer. The company began buying back modest amounts of stock in 2023 and makes occasional relatively small, technology-driven acquisitions. Given the company's strong balance sheet and robust cash flow generation, we do not see any issues with the company's capital allocation strategy.

Overall, we see no governance issues. The company has grown comfortably into a true large cap with annual revenue approaching $10 billion and rapidly expanding margins. We expect strong top line growth to continue with margins scaling. ServiceNow has rapidly consolidated market share in ITSM at the expense of legacy vendors and has expanded its workflow automation solution to other service-oriented processes within the enterprise.

Bill McDermott has been the CEO of ServiceNow since October 2019 after a previous stint as both the co-CEO and CEO of SAP since 2010. Just a few months before the CEO change, CFO Mike Scarpelli left the firm after many years for a much smaller company (non-competitor). In November 2019, ServiceNow brought in Gina Mastantuono as Scarpelli's successor. Mastantuono has served as the CFO of Ingram Micro, a technology product distributor, since 2016 and has improved disclosures, helped streamline operations, and boosted margins. We hold management in high regard based both on the executives' track record at ServiceNow and prior to joining as well.

The company has generally favored internal product development, with only a handful of small acquisitions mixed in since the IPO. We believe growth will remain organically focused, with occasional tuck-in acquisitions continuing. McDermott has said as much as well.

Analyst Notes Archive

ServiceNow: Enthusiastic Investor Day Centered Around Artificial Intelligence Dan Romanoff, CPA,Senior Equity Analyst,6 May 2025

ServiceNow hosted an investor day that showcased its artificial intelligence roadmap and overall product innovation, while providing minor updates to its previously established financial targets through 2027. Why it matters: While ServiceNow did not provide a major update to its financial framework, it did maintain several financial targets. Overall, we see the company's targets as in line with our model. Despite $200 million in incremental currency headwinds since the 2024 investor day, management maintained its greater than $15 billion subscription revenue target for 2026. The firm also maintained its target of 100 basis points of non-GAAP operating margin expansion in both 2026 and 2027. The company continues to target stock-based compensation of less than 15% of revenue in 2026. The bottom line: We maintain our fair value estimate for wide-moat ServiceNow of $1,010 per share. Like many software firms, shares sold off on the tariff news in early April, but more than clawed its way back after strong first-quarter earnings on April 23. We still see modest upside to the stock. Big picture: ServiceNow discussed AI at length, including elements within the recent Yokohama release, notably AI

Control Tower, Agentic Fabric, and AI Agent Studio. We view the company as an AI leader and think its financial performance related to AI underscores that notion. Management disclosed $250 million in current AI-related annual contract value and set a target of $1 billion for 2026. In addition to rapid customer uptake, we see the Pro-Plus pricing uplift and the new consumption element as driving this growth. The pace of innovation is impressive, and is enabled by ServiceNow's platform approach. The single code base allows for rapid and efficient product introduction, and clearly allows for durable growth. We are encouraged to see strong growth outside of core IT areas as well.

ServiceNow Earnings: Excellent Quarter from Any Angle; Shares Are Attractive Dan Romanoff, CPA,Senior Equity Analyst,24 Apr 2025

ServiceNow's first-quarter revenue grew by 20% year over year in constant currency to $3.09 billion, driven by solid renewals, generative AI, and customer workflow adoption. The non-GAAP operating margin was 30.9% for the quarter. Results topped the high end of guidance on key measures. Why it matters: Our read on software results early in this earnings cycle is that macro issues from tariffs and trade are not weighing down demand. ServiceNow is no exception, as it hit all the right notes and addressed overall investor concerns on tariffs and Department of Government Efficiency head on. Subscription revenue was in line with our estimate and grew by 19.1% year over year to $3.01 billion. We see strength across workloads and geographies, with healthy large deals. Demand from the US federal accounts was strong and should remain so as modernization efforts continue with DOGE. Generative AI remains a key theme and we think it should help maintain durable growth over the next five years. Management noted acceleration with the number of Pro Plus deals quadrupling sequentially, while AI-related deal sizes grew 33% over the year-ago period. The bottom line: We raise our fair value estimate for wide-moat ServiceNow to $1,010 per share from $990 based on results and guidance. We view the stock as attractive and highlight it as one of our top picks. ServiceNow offers the best marriage of growth and profitability in software in our view. Coming up: Overall guidance is impressive in this environment. ServiceNow raised its full-year revenue guide by $5 million and kept its margin outlook steady. For the second quarter, guidance was slightly better than expected for revenue and slightly shy of what we anticipated for profitability. Management did a deep dive on the pipeline and repeatedly stressed they viewed the outlook as conservative, while noting no change in customer behavior. We therefore believe the company is set up to perform well throughout the rest of the year.

ServiceNow Earnings: Solid Quarter With AI Galore; Guidance Light Based on Currency Pressure Dan Romanoff, CPA,Senior Equity Analyst,30 Jan 2025

We are raising our fair value estimate for wide-moat ServiceNow to $990 per share from $900 after the company reported fourth-quarter results that were generally in line with or better than our expectations. While headline guidance was shy of our model on revenue, this is explained by worsening currency headwinds. Profitability was slightly better than anticipated. Our fair value estimate moves higher based on slightly higher growth and profitability estimates for 2026 and 2027. Concurrent with earnings, the company made a variety of announcements, including new agentic artificial intelligence features and expanded partnerships with Google and Oracle. The shares had appreciated about 80% from June until recent highs, which we thought was aggressive. Given the pullback after hours and our fair value estimate increase, we now see the shares as approximately fairly valued.After an epic third quarter in terms of revenue, we do not think a more "in-line" fourth quarter suggests any demand or competitive issues. We do think a steady top-line quarter won't help shares that were perhaps incorporating some momentum factor. Total revenue grew 21% year over year in constant currency to $2.96 billion, in line with our expectations, driven by solid renewals, generative AI, and customer workflow adoption, offset by slightly worse currency headwinds. Subscription revenue of $2.87 billion grew 21% year over year. Management called out the manufacturing, public, and transportation and logistics sectors as performing well while reminding investors that macroeconomic conditions are unchanged.ServiceNow's margin performance remains impressive and supports our outlook for continued expansion throughout our long-term forecast. Non-GAAP operating margin was 29.5% for the quarter, compared with 29.4% last year and guidance of 29.0%. Strength was driven by spending discipline, revenue upside, and the timing of some expenses, not unlike other recent quarters.

ServiceNow Earnings: Another Epic Quarter Complete With a Serving of Generative AI Leadership

Dan Romanoff, CPA,Senior Equity Analyst,24 Oct 2024

We are raising our fair value estimate for ServiceNow to $900 per share from $840 after the wide-moat company delivered outstanding results. The company beat the top end of guidance for all key metrics. Guidance was mixed with upside to revenue but lower margins than reflected in our estimates. Concurrent with earnings, the company also made a variety of announcements, including new product introductions and the hiring of Amit Zavery as president, COO, and chief product officer.Despite higher near-term growth estimates driving our fair value higher, we see shares as fairly valued. While there were many highlights in the form of better-than-expected headline numbers, including revenue and profitability, we were most impressed by the growth in remaining performance obligations, which accelerated once again during the quarter. Generative artificial intelligence within the Pro Plus tier continues to attract new customers to the platform and drive upsells from lower pricing tiers, which think is now clearly placing ServiceNow in the leadership position within enterprise software vendors.We are impressed with ServiceNow's continued revenue strength. Total revenue grew 22.2% year over year to $2.80 billion, which was better than expected and driven by many factors, including robust renewals, generative AI, and customer workflow adoption. Subscription revenue of $2.72 billion grew 22.5% year over year, which was 220 basis points better than the high end of guidance. Strength was spilling out of all facets of the company's business, including segments, products, and geographies. Based on several data points the firm offers, we calculate ServiceNow has nearly $100 million in annual contract value from generative AI. Management called out the technology, media, and telecommunication, healthcare, and US federal sectors, among others, as being stout while reminding investors that macroeconomic conditions are unchanged.

ServiceNow Earnings: Operating on a Higher Plane Within Enterprise Software Dan Romanoff, CPA,Senior Equity Analyst,25 Jul 2024

We are raising our fair value estimate to $840 per share from $790 after wide-moat ServiceNow delivered exceptional results against a stubborn macro backdrop. After raising our estimates in the near term to account for guidance, with strong profitability flowing through the next several years, we see shares as attractive. While there were many highlights in the form of better-than-expected headline numbers, including revenue and profitability, we were most impressed by the growth in remaining performance obligations, which accelerated meaningfully during the quarter. In short, generative artificial intelligence embedded in the firm's Pro Plus tier was a powerful factor in attracting new customers to the platform. After several quarters of ServiceNow seeing this type of traction against the context of hesitation from generative AI offerings from peers, we think ServiceNow is clearly emerging as an AI leader. Beyond that, results reinforce our thesis that ServiceNow is leading the charge in automating and simplifying processes for enterprise customers throughout their businesses.Persistent revenue strength and growth reminiscent of much smaller peers are a testament to technology leadership and excellent sales execution. Total revenue grew 22.2% year over year, as reported, to $2.63 billion. This was ahead of our aggressive model and driven primarily by strong net new annual contract value performance with good early renewals lending an assist. Currency was a modest headwind to overall growth. Subscription revenue of $2.54 billion grew 22.5% year over year as reported, which was 50 basis points better than the high end of guidance. Outperformance was across the board, including segments, products, and geographies. Management called out the public sector, manufacturing, and utilities and energy as notably robust during the quarter while also noting that macroeconomic conditions are unchanged and the entire sales process remains elongated.

ServiceNow: So Many Levers Left to Pull As the Company Doubles Down on Profitable Growth Dan Romanoff, CPA,Senior Equity Analyst,7 May 2024

We came away from wide-moat ServiceNow's investor day incrementally more confident in the company's long-term financial trajectory and competitive position driven by continued product innovation, proliferating use cases, an expanded target customer pool, a growing market, and efficient go-to-market execution. We think investors should be excited about the new sales order management solution, the company's generative artificial intelligence roadmap, and the financial target update for 2026. Based on this event, we are maintaining our fair value estimate of $790 per share. We see the stock as undervalued.While we appreciate the many data points provided by management, the most obviously impactful information was the company's updated financial targets, which are consistent with our model from a revenue perspective but are a bit better than our margin estimates. For 2026,

Morningstar Equity Analyst Report | Report as of 24 Jul 2025 01:59, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC. Page 12 of 24

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
956.43 USD 23 Jul 2025	1,050.00 USD 24 Jul 2025 01:53, UTC	0.91	198.13 USD Bil 23 Jul 2025	Wide	Large Growth	High	Exemplary	4 Jun 2025 05:00, UTC

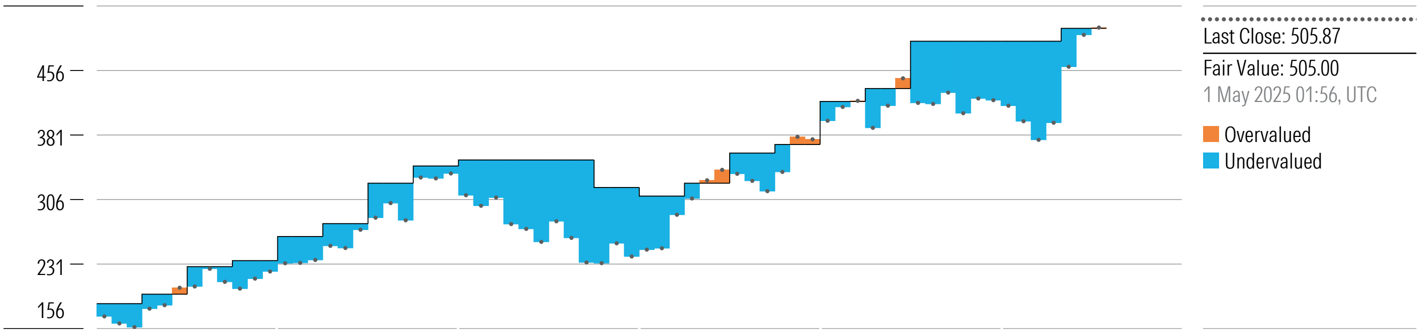
ServiceNow continues to target at least $15 billion in subscription revenue, which is unchanged from last year and compares with our $15.15 billion estimate, and 100 basis points of annual margin expansion, which is approximately a full point higher than we currently model. Also unchanged from last year are the guideposts for stock-based compensation decreasing to less than 15% of revenue in 2026 and less than 10% long-term.We think important new product announcements, the expansion of the portfolio into the front office, and the generative AI discussion highlight the company's competitive lead and portend growth for years to come. ServiceNow announced sales and order management, which is important not only as another new and relevant application, but also because it expands the company's use cases into the front office, that is, dealing directly with a customer during the sales process. The company also previewed announcements surrounding partnerships with both Genesys and Microsoft. We think new products and use cases within a customer will continue to help drive growth over the medium term.

Morningstar Equity Analyst Report | Report as of 24 Jul 2025 01:59, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC. Page 13 of 24

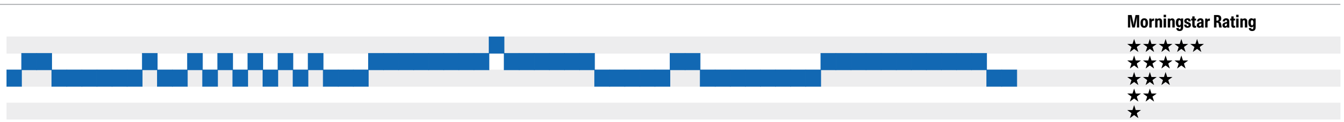
ServiceNow Inc NOW ★★★ 24 Jul 2025 01:57, UTC

Competitors Price vs. Fair Value

Microsoft Corp MSFT

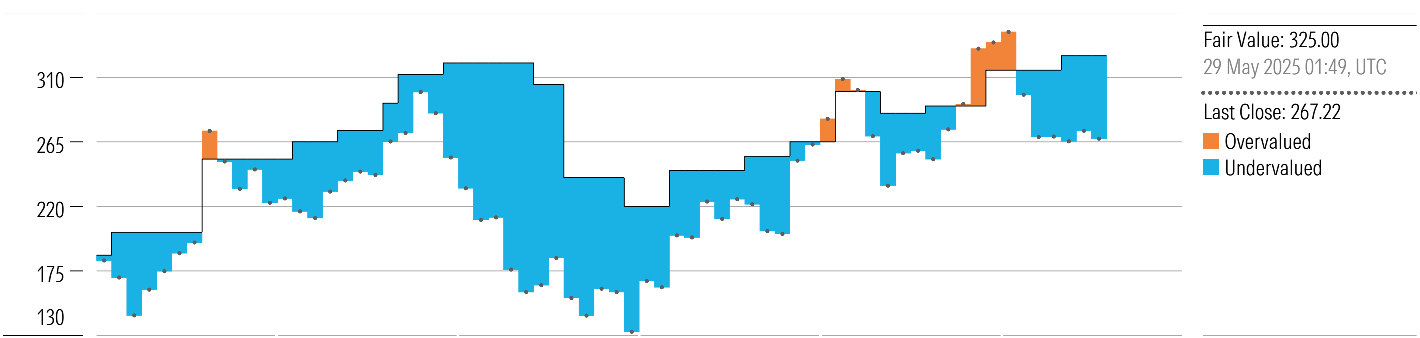


	2020	2021	2022	2023	2024	YTD
Price/Fair Value	0.95	0.97	0.75	1.02	0.86	1.00
Total Return %	42.37	52.24	-27.94	57.96	12.91	20.41

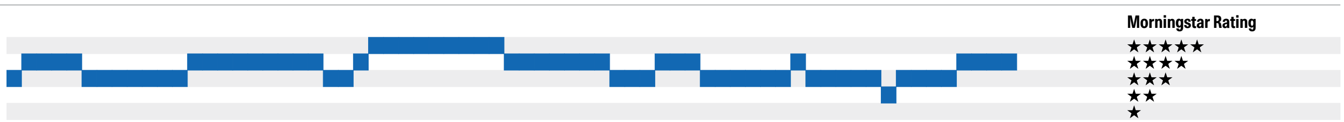


Total Return % as of 23 Jul 2025. Last Close as of 23 Jul 2025. Fair Value as of 1 May 2025 01:56, UTC.

Salesforce Inc CRM



	2020	2021	2022	2023	2024	YTD
Price/Fair Value	0.88	0.79	0.60	0.99	1.06	0.82
Total Return %	36.82	14.20	-47.83	98.46	27.66	-19.82



Total Return % as of 23 Jul 2025. Last Close as of 23 Jul 2025. Fair Value as of 29 May 2025 01:49, UTC.

Morningstar Equity Analyst Report | Report as of 24 Jul 2025 01:59, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC. Page 14 of 24

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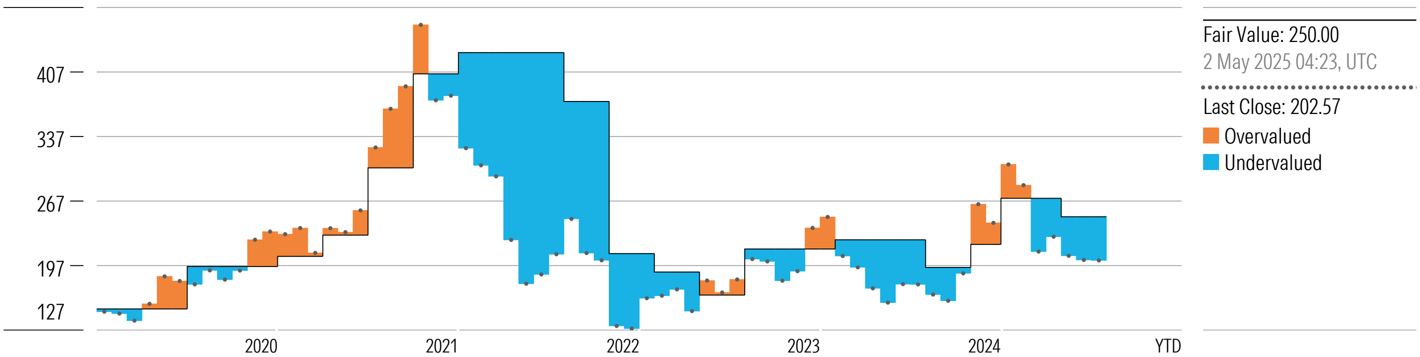
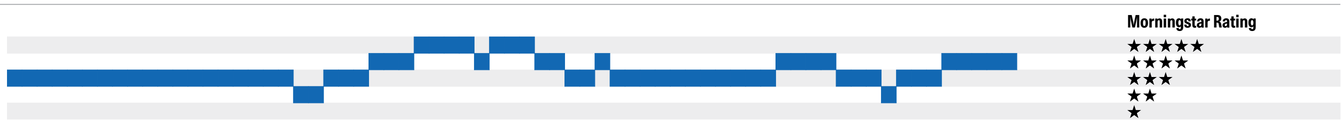
Competitors Price vs. Fair Value

Atlassian Corp Class A TEAM



	2020	2021	2022	2023	2024	YTD	
	1.19	0.94	0.61	1.11	1.11	0.81	Price/Fair Value
	94.34	63.04	-66.25	84.85	2.32	-16.77	Total Return %



Total Return % as of 23 Jul 2025. Last Close as of 23 Jul 2025. Fair Value as of 2 May 2025 04:23, UTC.

Morningstar Equity Analyst Report | Report as of 24 Jul 2025 01:59, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC. Page 15 of 24

ServiceNow Inc NOW ★★★ 24 Jul 2025 01:57, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
956.43 USD 23 Jul 2025	1,050.00 USD 24 Jul 2025 01:53, UTC	0.91	198.13 USD Bil 23 Jul 2025	Wide	Large Growth	High	Exemplary	4 Jun 2025 05:00, UTC

Morningstar Valuation Model Summary

Financials as of 12 Jun 2025	Actual			Forecast				
Fiscal Year, ends 31 Dec	2022	2023	2024	2025	2026	2027	2028	2029
Revenue (USD Mil)	7,245	8,971	10,984	13,032	15,473	18,265	21,427	24,981
Operating Income (USD Mil)	355	762	1,364	1,833	2,454	3,248	4,133	5,191
EBITDA (USD Mil)	697	1,219	1,854	2,506	3,287	4,274	5,279	6,476
Adjusted EBITDA (USD Mil)	697	1,219	1,854	2,506	3,287	4,274	5,279	6,476
Net Income (USD Mil)	325	1,731	1,425	1,820	2,359	2,657	3,375	4,233
Adjusted Net Income (USD Mil)	1,543	2,215	2,902	3,514	4,278	4,816	5,807	6,954
Free Cash Flow To The Firm (USD Mil)	1,038	2,083	1,661	1,399	3,218	4,014	4,921	5,992
Weighted Average Diluted Shares Outstanding (Mil)	203	206	208	209	209	209	209	209
Earnings Per Share (Diluted) (USD)	1.60	8.42	6.84	8.71	11.29	12.71	16.15	20.25
Adjusted Earnings Per Share (Diluted) (USD)	7.59	10.78	13.93	16.81	20.47	23.04	27.78	33.28
Dividends Per Share (USD)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Margins & Returns as of 12 Jun 2025		Actual			Forecast					
	3 Year Avg	2022	2023	2024	2025	2026	2027	2028	2029	5 Year Avg
Operating Margin %	8.6	4.9	8.5	12.4	14.1	15.9	17.8	19.3	20.8	17.6
EBITDA Margin %	—	9.6	13.6	16.9	19.2	21.3	23.4	24.6	25.9	—
Adjusted EBITDA Margin %	—	9.6	13.6	16.9	19.2	21.3	23.4	24.6	25.9	22.9
Net Margin %	12.3	4.5	19.3	13.0	14.0	15.3	14.5	15.8	16.9	15.3
Adjusted Net Margin %	24.1	21.3	24.7	26.4	27.0	27.7	26.4	27.1	27.8	27.2
Free Cash Flow To The Firm Margin %	17.6	14.3	23.2	15.1	10.7	20.8	22.0	23.0	24.0	20.1

Growth & Ratios as of 12 Jun 2025		Actual			Forecast					
	3 Year CAGR	2022	2023	2024	2025	2026	2027	2028	2029	5 Year CAGR
Revenue Growth %	23.1	22.9	23.8	22.4	18.6	18.7	18.1	17.3	16.6	17.9
Operating Income Growth %	74.4	38.1	114.7	79.0	34.4	33.9	32.4	27.3	25.6	30.6
EBITDA Growth %	45.0	8.1	74.9	52.1	35.2	31.2	30.0	23.5	22.7	28.5
Adjusted EBITDA Growth %	42.2	8.1	74.9	52.1	35.2	31.2	30.0	23.5	22.7	28.4
Earnings Per Share Growth %	82.0	41.0	426.5	-18.8	27.3	29.6	12.6	27.0	25.4	24.2
Adjusted Earnings Per Share Growth %	82.0	28.2	41.9	29.3	20.7	21.7	12.6	20.6	19.8	24.2

Valuation as of 12 Jun 2025	Actual			Forecast				
	2022	2023	2024	2025	2026	2027	2028	2029
Price/Earning	51.2	65.5	76.1	56.9	46.7	41.5	34.4	28.7
Price/Sales	10.8	16.1	19.9	15.2	12.8	10.8	9.2	7.9
Price/Book	15.7	19.0	23.0	17.5	14.5	12.2	10.1	8.3
Price/Cash Flow	—	—	—	—	—	—	—	—
EV/EBITDA	109.9	117.4	116.4	77.4	59.0	45.4	36.7	29.9
EV/EBIT	215.8	187.7	158.2	105.8	79.0	59.7	46.9	37.4
Dividend Yield %	—	—	—	—	—	—	—	—
Dividend Payout %	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Free Cash Flow Yield %	—	—	—	—	—	—	—	—

Operating Performance / Profitability as of 12 Jun 2025	Actual			Forecast				
Fiscal Year, ends 31 Dec	2022	2023	2024	2025	2026	2027	2028	2029
ROA %	2.4	10.0	7.0	12.9	14.1	13.6	14.5	15.2
ROE %	6.5	22.7	14.8	15.9	17.1	16.2	17.0	17.6
ROIC %	24.6	25.1	26.3	25.7	25.8	27.4	29.0	30.6

Morningstar Equity Analyst Report | Report as of 24 Jul 2025 01:59, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC. Page 16 of 24

ServiceNow Inc NOW ★★★ 24 Jul 2025 01:57, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
956.43 USD 23 Jul 2025	1,050.00 USD 24 Jul 2025 01:53, UTC	0.91	198.13 USD Bil 23 Jul 2025	Wide	Large Growth	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 %	2.8	1.6	1.0	0.7	0.6	0.6	0.5	0.5
Assets/Equity	2.6	2.3	2.1	1.2	1.2	1.2	1.2	1.2
Net Debt/EBITDA	-2.9	-2.1	-1.9	-0.4	-0.7	-0.9	-1.2	-1.5
Total Debt/EBITDA	3.2	1.9	1.2	0.6	0.5	0.3	0.3	0.2
EBITDA/ Net Interest Expense	-15.8	-5.0	-5.0	-5.9	-6.6	-58.5	-61.6	-64.8

Forecast Revisions as of 12 Jun 2025	2025		2026		2027	
Prior data as of 5 May 2025	**Current**	**Prior**	**Current**	**Prior**	**Current**	**Prior**
Fair Value Estimate Change (Trading Currency)	1,050.00	1,010.19	—	—	—	—
Revenue (USD Mil)	13,032	13,032	15,473	15,473	18,265	18,265
Operating Income (USD Mil)	1,833	1,843	2,454	2,454	3,248	3,248
EBITDA (USD Mil)	2,506	2,516	3,287	3,287	4,274	4,274
Net Income (USD Mil)	3,514	3,513	4,278	4,278	4,816	4,816
Earnings Per Share (Diluted) (USD)	8.71	8.75	11.29	11.29	12.71	12.71
Adjusted Earnings Per Share (Diluted) (USD)	16.81	16.81	20.47	20.47	23.04	23.04
Dividends Per Share (USD)	0.00	0.00	0.00	0.00	0.00	0.00

Key Valuation Drivers as of 12 Jun 2025	
Cost of Equity %	9.0
Pre-Tax Cost of Debt %	5.3
Weighted Average Cost of Capital %	8.8
Long-Run Tax Rate %	20.0
Stage II EBI Growth Rate %	14.4
Stage II Investment Rate %	35.2
Perpetuity Year	20

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

Discounted Cash Flow Valuation as of 12 Jun 2025	**USD Mil**
Present Value Stage I	40,019
Present Value Stage II	45,334
Present Value Stage III	113,502
Total Firm Value	**198,855**
Cash and Equivalents	5,762
Debt	1,489
Other Adjustments	0
Equity Value	**203,128**
Projected Diluted Shares	209
Fair Value per Share (USD)	**1,050.00**

Morningstar Equity Analyst Report | Report as of 24 Jul 2025 01:59, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC. Page 17 of 24

ServiceNow Inc NOW ★★★ 24 Jul 2025 01:57, 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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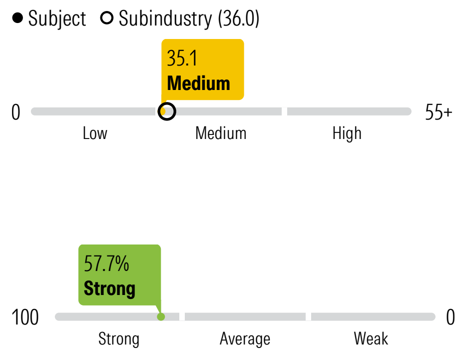
ESG Risk Rating Breakdown

Exposure	
Company Exposure[1]	35.1
– Manageable Risk	32.5
Unmanageable Risk[2]	**2.6**
Management	
Manageable Risk	32.5
– Managed Risk[3]	18.8
Management Gap[4]	**13.8**
Overall Unmanaged Risk	**16.3**



- 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 57.7% 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 Jul 08, 2025. Sustainalytics Subindustry: Enterprise and Infrastructure Software. 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		
ServiceNow Inc	35.1 | Medium	0	55+	57.7 | Strong	100	0	16.3 | Low	0	40+
Microsoft Corp	34.9 | Low	0	55+	54.0 | Strong	100	0	17.4 | Low	0	40+
Salesforce Inc	35.6 | Medium	0	55+	51.8 | Strong	100	0	18.5 | Low	0	40+
Qualys Inc	30.3 | Low	0	55+	40.4 | Average	100	0	19.0 | Low	0	40+
Atlassian Corp	31.5 | Low	0	55+	47.0 | Average	100	0	17.7 | Low	0	40+

Morningstar Equity Analyst Report | Report as of 24 Jul 2025 01:59, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC. Page 18 of 24

Appendix
Historical Morningstar Rating

ServiceNow Inc NOW 23 Jul 2025 21:39, 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
★★	★★	★★	★★	★★	★★★	★★★	★★★	★★★★	★★★★	★★★★	★★★

Microsoft Corp MSFT 23 Jul 2025 21:21, 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
★★★	★★★	★★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★★	★★★★	★★★

Salesforce Inc CRM 23 Jul 2025 21:27, 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
★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★★	★★★★	★★★★	★★★★	★★★

Morningstar Equity Analyst Report | Report as of 24 Jul 2025 01:59, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC.

Dec 2025 —	Nov 2025 —	Oct 2025 —	Sep 2025 —	Aug 2025 —	Jul 2025 ★★★★	Jun 2025 ★★★★	May 2025 ★★★★	Apr 2025 ★★★★	Mar 2025 ★★★★	Feb 2025 ★★★	Jan 2025 ★★★
Dec 2024 ★★★	Nov 2024 ★★	Oct 2024 ★★★	Sep 2024 ★★★	Aug 2024 ★★★	Jul 2024 ★★★★	Jun 2024 ★★★★	May 2024 ★★★★	Apr 2024 ★★★★	Mar 2024 ★★★	Feb 2024 ★★★	Jan 2024 ★★★
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Dec 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.

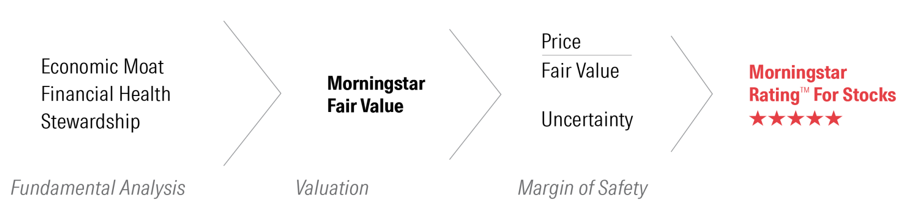
Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total present value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return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

Morningstar Equity Research Star Rating Methodology



Morningstar Equity Analyst Report | Report as of 24 Jul 2025 01:59, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC. Page 21 of 24

Research Methodology for Valuing Companies

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

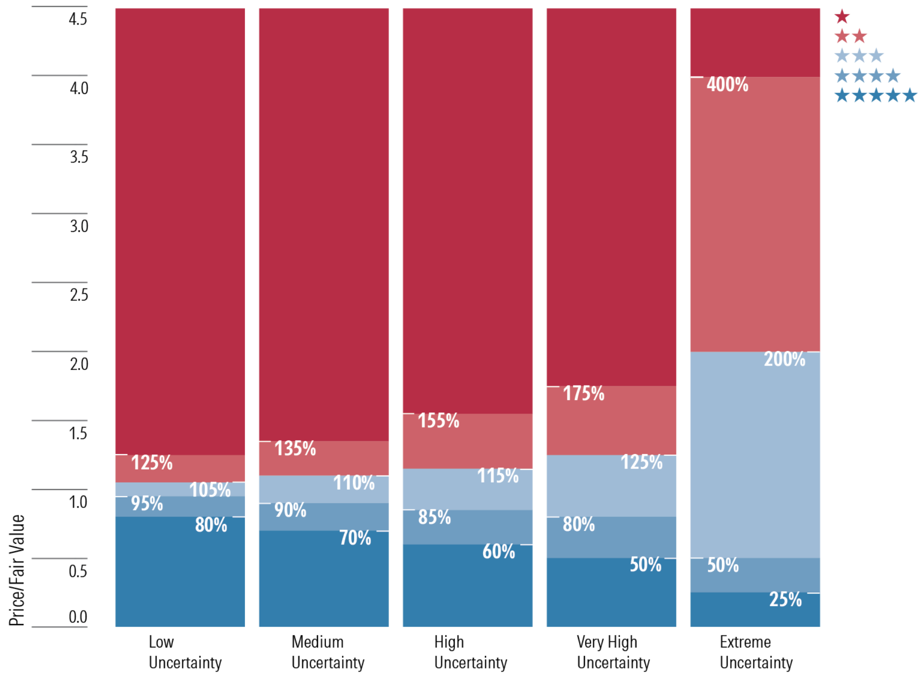
Our uncertainty rating is based on the interquartile range, or the middle 50% of potential outcomes, covering the 25th percentile–75th percentile. This means that when a stock hits 5 stars, we expect there is a 75% chance that the intrinsic value of that stock lies above the current market price. Similarly,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

Research Methodology for Valuing Companies

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

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

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

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Sustainalytics ESG Risk Rating Assessment: The ESG Risk Rating Assessment is provided by Sustainalytics; a Morningstar company.

Sustainalytics' ESG Risk Ratings measure the degree to which company's economic value at risk is driven by environment, social and governance (ESG) factors.

Sustainalytics analyzes over 1,300 data points to assess a company's exposure to and management of ESG risks. In other words, ESG Risk Ratings measures a company's unmanaged ESG Risks represented as a quantitative score. Unmanaged Risk is measured on an open-ended scale starting at zero (no risk) with lower scores representing less unmanaged risk and, for 95% of cases, the unmanaged ESG Risk score is below 50.

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

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

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

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