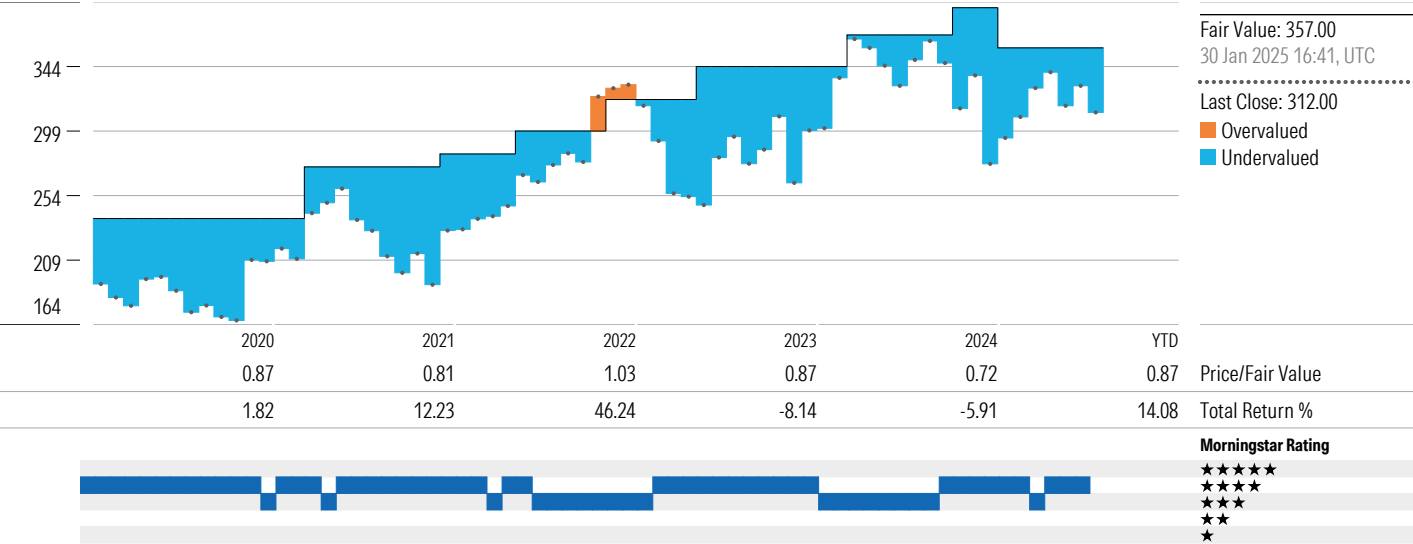


The Cigna Group CI ★★★★★ 9 Jul 2025 21:21, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment¹
312.00 USD 8 Jul 2025	357.00 USD 30 Jan 2025 16:41, UTC	0.87	82.76 USD Bil 9 Jul 2025	Narrow	Large Value	Medium	Standard	4 Jun 2025 05:00, UTC

Price vs. Fair Value



Total Return % as of 08 Jul 2025. Last Close as of 08 Jul 2025. Fair Value as of 30 Jan 2025 16:41, UTC.

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

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

Cigna's Focus on the PBM Business Creates Some Near-Term Regulatory Uncertainty

Business Strategy & Outlook Julie Utterback, CFA, Senior Equity Analyst, 1 Apr 2025

With its roots in health insurance and the late 2018 merger with top-tier pharmacy benefit manager Express Scripts (now called Evernorth), Cigna provides healthcare-related services through customizable programs sold primarily to employers and other insurers. We think its strategy of reducing medical cost growth should resonate well with existing and potential clients. Its position as a leading provider of specialty pharmacy offerings, which is one of the fastest-growing areas of healthcare, puts it at the unique position of being able to both control and benefit from the rise of that end market.

Cigna is pursuing several growth channels. Naturally, Cigna's bulked-up service offerings should allow it to cross-sell traditional PBM and specialty pharmacy services into its managed-care client set and vice versa, opening up new profit streams with existing clientele. The company also continues to expand geographically in its insurance business, and the company should continue benefiting from the expansion of its commercial and individual plans. Cigna is exiting its Medicare Advantage business and does not operate in Medicaid, so it will not directly participate in those government growth channels, although it does serve those end markets through its Evernorth service offerings.

Overall, the strong growth of its specialty pharmacy business, especially, could help Cigna achieve its

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Sector	Industry
 Healthcare	Healthcare Plans

Business Description

Cigna primarily provides pharmacy benefit management and health insurance services. Its PBM and specialty pharmacy services, which were greatly expanded by its 2018 merger with Express Scripts, are mostly sold to health insurance plans and employers. Its largest PBM contract is with the Department of Defense (current contract through 2029), and it recently won a multiyear deal with top-tier insurer Centene. In health insurance and other benefits, Cigna primarily serves employers through self-funding arrangements, and the company operates mostly in the US with 17 million US and 2 million international medical members covered as of December 2024.

recently raised profit growth goals. Specifically, the company aims for 6% to 9% organic profit growth. With capital allocation activities like share repurchases and acquisitions, Cigna aims to expand its overall adjusted EPS growth to 10% to 14% annually, on the strength of its specialty pharmacy business and solid growth from its other service offerings.

Bulls Say Julie Utterback, CFA, Senior Equity Analyst, 1 Apr 2025

- Combining with Express Scripts gave Cigna more tools to help clients control their healthcare costs, and we see significant cross-selling opportunities across their respective books of business.
- Cigna continues to increase its focus on the relatively high-margin commercial segment, keeping it out of some of the problems associated with mismatched rates and utilization in government-sponsored programs.
- Cigna's organic earnings growth prospects look solid both with and without capital-allocation activities, such as share repurchases.

Bears Say Julie Utterback, CFA, Senior Equity Analyst, 1 Apr 2025

- Healthcare reform may remain a recurring political topic until universal, affordable coverage is achieved in the US, and Cigna's stock may experience volatility if scenarios that threaten its prospects gain traction.
- Cigna faces some client concentration risk particularly in its Evernorth PBM business where the Department of Defense is its largest client and Centene recently came on board.
- Democrats and Republicans appear to agree that the PBM industry needs to be reformed, which puts Cigna's top profit generator in the regulatory crosshairs of Congress.

Economic Moat Julie Utterback, CFA, Senior Equity Analyst, 1 Apr 2025

Cigna earns a narrow moat rating. As a top-tier pharmacy benefit manager and top-tier health insurer in the US, Cigna possesses enough competitive advantages—switching costs and network effects—to generate economic profits for at least the next 10 years, in our opinion. After the 2018 merger with Express Scripts and recent divestitures, Cigna's returns on invested capital took a temporary dip, but its returns already are and look likely to remain moderately above capital costs throughout our explicit 10-year forecast period.

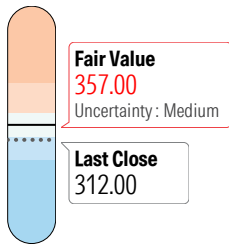
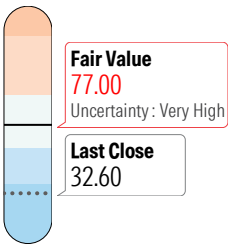
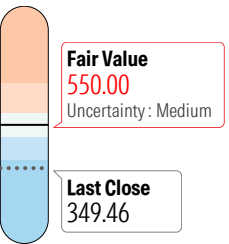
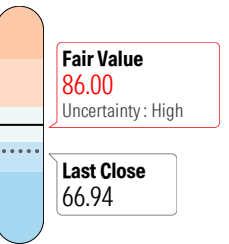
PBM Leadership Supported by Switching Costs and Network Effect

We view Cigna's pharmaceutical benefit management business (bolstered through the 2018 Express Scripts merger and now called Evernorth) as competitively advantaged. With the top three PBMs processing about 80% of US pharmaceutical claims, we think their cost advantages over other, smaller PBMs led to their dominance of this market. However, they do not appear to have significant cost advantages over one another any longer. From a current moat source perspective, we see some evidence of switching costs and network effects at the top-tier PBMs that could prevent a big change in

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Competitors

	The Cigna Group CI	Centene Corp CNC	Elevance Health Inc ELV	CVS Health Corp CVS
				
Economic Moat	Narrow	None	Narrow	None
Currency	USD	USD	USD	USD
Fair Value	357.00 30 Jan 2025 16:41, UTC	77.00 3 Jul 2025 20:41, UTC	550.00 17 Jul 2024 14:37, UTC	86.00 12 Feb 2025 18:02, UTC
1-Star Price	481.95	134.75	742.50	133.30
5-Star Price	249.90	38.50	385.00	51.60
Assessment	Undervalued 9 Jul 2025	Undervalued 9 Jul 2025	Undervalued 9 Jul 2025	Undervalued 9 Jul 2025
Morningstar Rating	★★★★★ 9 Jul 2025 21:21, UTC	★★★★★ 9 Jul 2025 21:23, UTC	★★★★★ 9 Jul 2025 21:27, UTC	★★★★★ 9 Jul 2025 21:23, UTC
Analyst	Julie Utterback, Senior Equity Analyst	Julie Utterback, Senior Equity Analyst	Julie Utterback, Senior Equity Analyst	Julie Utterback, Senior Equity Analyst
Capital Allocation	Standard	Standard	Standard	Standard
Price/Fair Value	0.87	0.43	0.63	0.78
Price/Sales	0.34	0.10	0.44	0.22
Price/Book	2.09	0.58	1.86	1.10
Price/Earning	11.30	4.17	13.96	14.41
Dividend Yield	1.87%	0.00%	1.91%	3.97%
Market Cap	82.76 Bil	16.47 Bil	78.25 Bil	84.33 Bil
52-Week Range	262.03—370.83	31.78—80.59	342.63—567.26	43.56—72.51
Investment Style	Large Value	Mid Value	Large Value	Large Value

the competitive landscape, despite some new PBMs taking aim at this market. For example, PBM contracts provide some switching costs for clients with contracts typically lasting about three years on average and retention rates typically in the high 90s, meaning client relationships can extend well beyond contractual terms due in part to inertia factors.

Also, in recent years, we have seen evidence of network effects in the broad PBM industry and specifically at Cigna. Although the future may not look like the past, the other PBMs in the industry continue to lose market share to the big three PBMs, and Cigna gained share through recent contract wins, like the big Centene deal in 2024.

Overall, we think PBM clients are most attracted to the discounts they can get on drugs through a particular PBM due to its negotiating power with other stakeholders in this market, primarily drug manufacturers and pharmacies. As more users are attracted to a PBM, drug manufacturers and

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pharmacies have incentives to offer even larger discounts to benefit from those volume-based discounts, which can help scale-advantaged PBMs like Cigna attract even more users and create a virtuous cycle or a network effect.

The specialty drug market represents a large and relatively high-margin opportunity for Cigna, too, and already accounts for about half of Cigna's PBM segment profits. In this end market, companies like Cigna provide traditional PBM services like incentivizing appropriate drug use while also directly providing healthcare services, such as infusions to patients. With significant growth expected in branded large molecule and biosimilar drugs, specialty PBMs like Cigna should benefit from a high-single-digit compound annual growth rate expected in the specialty drug market during the next five years. These higher-margin opportunities related to the service component of this business, compared with the small molecule market, could help ROICs rise at Cigna for the foreseeable future.

Medical Insurance: Top-Tier Employer Position Enabled by Cost Advantages and Network Effects

While the PBM's dominance of results makes the medical insurer's moat sources moot on a companywide basis, we continue to see two moat sources in Cigna's medical insurance operations: cost advantage and network effect. An insurer's cost advantage relates primarily to local scale. Cigna claims a top-tier position in the employer-sponsored market, and the company appears to benefit from scale advantages in specific locations, too. Local scale advantages allow for greater negotiating leverage versus service providers than smaller insurers in local markets, which adds to Cigna's cost advantage that it can pass on to clients through lower prices or extra benefits.

Also, when local scale advantages are significant enough, we think Cigna benefits from a network effect. According to the American Medical Association, the share of local insurance markets in the US that were highly concentrated grew to 73% in 2022 from 71% in 2014, with the leaders likely taking share in those markets due to local market dynamics. Cigna appears to enjoy growing market share, and in communities where Cigna already has substantial market share, it can offer lower priced products or more benefits per member to existing and potential clients than its peers. That can attract more employers to Cigna's insurance plans in those communities, and as such, local service providers like hospitals and physician groups will have more incentive to join and then offer lower prices to Cigna's insurance networks to gain access to its growing membership rolls. This dynamic creates a virtuous cycle where Cigna attracts even more clients and more providers to its insurance network, entrenching Cigna in its leading local market positions where applicable.

Regulatory Concerns: Republicans and Democrats Appear to Agree That PBM Reform Is Needed

Our narrow moat rating is informed by an analysis of potential changes to the US healthcare system, which is the key long-term environmental, social, and governance risk that Cigna faces. During the next 10 years, we view scenarios where Cigna provides medical and pharmaceutical benefits through

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employers or other means as much more likely than not. However, regulators appear to have set their sights on the PBM industry as one that needs reform. Transparency-related changes like removing spread and rebate pricing mechanisms look like the most probable change in this industry, but we remain on the lookout for other major changes, such as international reference pricing or the separation of medical dispensers and insurers, such as the PBMs. On a probability-weighted basis, we think those primarily PBM-related risks for Cigna create a mid-single-digit headwind to operating profits, which we include in our bear-case scenario below. Even with that risk, we assume Cigna can remain economically profitable throughout our 10-year explicit forecast period, which informs our narrow moat rating.

Fair Value and Profit Drivers Julie Utterback, CFA, Senior Equity Analyst, 1 Apr 2025

We are keeping our fair value estimate on Cigna at \$357 per share. While we use a discounted cash flow methodology to determine our valuation, that fair value estimate implies that Cigna is worth around 12 times projected 2025 earnings.

During the next five years, we assume revenue grows 5% compounded annually through 2029. We expect Cigna's Evernorth (pharmacy benefit management and specialty pharmacy services) to lead the way with revenue growth in the midsingle digits compounded annually while its legacy medical insurance revenue should grow in the low single digits, including the effects of the divestiture of its Medicare Advantage business in early 2025. Excluding that, the medical insurance business should grow in the midsingle digits by our estimates. On a weak base in 2024, Cigna's margins should improve a bit, especially after divesting the lower-margin Medicare Advantage business. With some share repurchases, too, we expect Cigna's earnings per share to grow about 10% compounded annually through 2029, which would put Cigna on the low end of its recently raised goal of producing 10%-14% EPS growth annually for the long run.

Risk and Uncertainty Julie Utterback, CFA, Senior Equity Analyst, 1 Apr 2025

Our Uncertainty Rating for Cigna remains Medium, which is in line with most of its key peers and mostly related to potential US policy changes. Healthcare policy risks may plague managed care organizations like Cigna until affordable, universal coverage is achieved in the US, which is the key ESG risk facing this industry. The "Medicare for All" scenario debated in the Democratic primaries of 2020 called for the elimination of the private insurance industry, which would have threatened the company's operations. While that strategy was largely rejected in favor of a more moderate approach and we view the probability of a Medicare for All-like scenario as virtually zero in the foreseeable future, other policy risks may threaten private insurer and PBM economic profit margins in the future, particularly in election years. Specifically, we would look for regulators to focus on reducing healthcare inflation rates, perhaps by cutting into MCO profits eventually. As Republicans take control of the federal electable

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bodies, we see the most risks for Cigna in its pharmacy benefit management operations, where increased transparency or new pricing initiatives appear in focus.

Capital Allocation Julie Utterback, CFA, Senior Equity Analyst, 1 Apr 2025

Our Capital Allocation Rating on Cigna remains Standard, reflecting the company's sound balance sheet, fair investments, and appropriate shareholder distributions.

The key determinant of Cigna's Standard capital allocation rating is its fair investment record. Positively, Cigna's merger with Express Scripts was strategically sound. Taking a more holistic view of a person's health by managing both medical (physician visits, surgeries, and so on) and biopharmaceutical benefits should help the firm control overall healthcare costs more adequately and benefit Cigna's clients by improving the health of patients, in our opinion. From a competitive advantage perspective, we have long viewed the highly concentrated PBM sector as moatworthy, and we think that transaction was supportive of Cigna's moat. However, we must note that Cigna paid a high price for that asset, which substantially cut into returns on invested capital. We think that reduction in economic profitability may be a result of Cigna tending to follow, rather than lead, major business development trends in this sector, too. For example, its merger with Express Scripts was announced several months after CVS' merger plan with Aetna (which combined a health-focused retailer and a top-tier PBM with an insurer) and several years after UnitedHealth's 2015 acquisition of PBM Catamaran, which helped create a large health insurer and top-tier PBM and service provider. Cigna also followed the pack when it wanted to merge with Anthem in 2015, just a few weeks after Aetna announced plans to merge with Humana. While both of those insurance mergers were blocked by regulators on antitrust concerns, we remain somewhat concerned about potential investment valuations if Cigna continues to follow the pack into major deals like those. Also, reports about Cigna pursuing a merger with Humana in late 2023 and late 2024 were concerning to us given the large price and regulatory risks that would be likely in such a combination.

After deleveraging from the Express Scripts acquisition, we view Cigna's balance sheet as sound, and we think it remains financially flexible. In fact, just a couple years after the Express Scripts merger, Cigna's financial flexibility had improved enough to boost its shareholder distributions to appropriate levels. Specifically in early 2021, the firm initiated a moderate dividend for shareholders. Additionally, the firm's share repurchase activity increased substantially in 2020, when its stock was cheap in our opinion, and we expect more repurchases going forward, which look likely to be made at reasonable levels if recent share prices persist. Overall, Cigna's financial flexibility appears to have rebounded substantially since the Express Scripts merger was completed, and the company appears to be appropriately pushing more cash out to shareholders as a result.

Analyst Notes Archive

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Healthcare Services: Medicaid and PBMs Still Under Fire in Updated Regulatory Moves Julie

Utterback, CFA, Senior Equity Analyst, 12 May 2025

On May 11 and 12, Republicans revealed updated regulatory stances that included plans to lower drug prices and pull back on Medicaid spending by about \$715 billion over the next 10 years versus \$880 billion expected previously. Why it matters: In early trading, top-tier Medicaid insurer Elevance and healthcare service providers like HCA and Tenet rose in the low single digits, as the potential Medicaid changes look better than feared. However, PBM-focused firms, like Cigna and CVS, fell on the drug pricing efforts. On May 11, Republican House members revealed a proposed bill that looks likely to cut Medicaid spending less than the initial goal, which may moderately buoy the profits of Medicaid-reliant service providers and managed care organizations. On May 12, President Donald Trump signed an order to lower US drug prices, which could eliminate a key function that PBMs provide to clients, as the government looks likely to undertake drug price negotiations or set prices to lower, most-favored-nation levels. The bottom line: We are keeping our fair value estimates intact for now, as Congress still needs to vote on Medicaid cuts, which are controversial even in Republican districts. Also, few details are known about how drug pricing negotiations would actually work, including how broadly they could reach. If Medicaid legislation passes as the House proposes, we would see the most risk at no-moat Centene, a Medicaid and individual exchange plan provider that faces a high-single-digit fair value cut under this bill plus the potential expiration of individual exchange subsidies. Narrow-moat Cigna faces the most downside risk if the US government starts negotiating drug prices, which is currently a key PBM function. It remains to be seen how broadly this order could reach beyond government programs, though, and service bundling may protect PBMs somewhat.

Cigna Earnings: Slight Increase in 2025 Outlook Despite Elevated Medical Utilization Julie Utterback,

CFA, Senior Equity Analyst, 2 May 2025

Cigna delivered 14% revenue growth and 4% adjusted EPS growth in the first quarter, as surging medical utilization in its employer plans hurt its medical cost ratio year over year. However, profit trends were better than management expected, and the company raised its adjusted EPS guidance slightly. Why it matters: While Cigna probably will not be able to fully pass on elevated medical costs to stop-loss employer clients in 2025, the company's medical loss ratio trends appear manageable within its new guidance, which includes adjusted EPS of at least \$29.60, or \$0.10 higher than previous expectations. Our expectations for 2025 remain roughly in line with that view, and we think investors may appreciate that Cigna's short-term challenges related to mismatched rates and utilization may be less intense than peers after the sale of its Medicare business in late March. The bottom line: We are keeping our fair value estimate at \$357 per share and consider shares fairly valued. We also maintain Cigna's moat rating at narrow and continue to think the firm has enough competitive advantages—switching costs and network effects—to generate economic profits for at least the next 10

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years, as a top-tier pharmacy benefit manager and top-tier health insurer. Bears say: Republicans and Democrats appear to agree that pharmacy benefit managers, like Cigna's Evernorth operations, need further regulation, which could cut into that segment's operating profit prospects eventually. The most likely PBM legislation would result in the elimination of rebate and spread-based pricing mechanisms, which would be easily manageable for Cigna, in our opinion. However, other policies, like separating medical dispensing arms from insurance operations and international reference pricing, are possible, too. Of those, we would be most concerned about international reference pricing taking away a key value driver for the PBMs.

Medical Services: MCOs Immune, but Tariffs May Cause Near-Term Stress at Providers and Suppliers Julie Utterback, CFA, Senior Equity Analyst, 10 Apr 2025

Over the past week, tariff-related news has created significant volatility in the US market, including in medical services-related firms like managed care organizations, caregivers, and medical suppliers. Why it matters: Some of these companies look largely tariff-proof, including managed care organizations like UnitedHealth, while others look merely recession-resistant, including caregivers like HCA and medical suppliers like Baxter. As US-based and US-focused firms, MCOs look largely immune to tariffs. The only concern could be in the near term if the US economy falls into recession and causes a mix shift in medical insurance members from employer to lower-margin Medicaid plans. Providers and medical suppliers could feel more direct effects of higher costs in their supply chains due to tariffs. Of these two, medical suppliers face the more significant profit risk due to multiyear contracts with clients and potential delays in large equipment orders from clients. The bottom line: In February, we reduced our fair value estimate for medical supplier Baxter on near-term tariff concerns, and we do not anticipate making further changes to it. We see most of the medical services firms we cover (MCOs, providers, and suppliers) as undervalued currently. In managed care, our moat ratings were all recently updated during our moat staleness review process. UnitedHealth, Humana, Elevance, and Cigna remain at narrow, while CVS and Centene are now at none. In providers and suppliers, most of our moat ratings were also reviewed in late 2024 or early 2025. They remain narrow for Baxter, DaVita, Fresenius Medical Care, HCA, and Tenet and none for ICU Medical. Coming up: We plan to keep a close eye on how hospital capital expenditure budgets develop and how they could affect medical suppliers in a scenario where tariffs create sticker shock on large equipment especially. Also, investors should be aware of other regulatory factors that could affect the MCOs.

MCOs: Strong Final 2026 Rate Notice for Medicare Advantage Boosts Undervalued Shares Julie Utterback, CFA, Senior Equity Analyst, 7 Apr 2025

Late on April 7, the Centers for Medicare and Medicaid Services released its final reimbursement rate notice for Medicare Advantage, highlighting an expected change in per capita revenue of 5.06% in 2026 even after risk-related adjustments. This is up from 2.23% in the January initial rate notice. Why it

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matters: This announcement represents a first look at how Republicans plan to regulate rates in the important Medicare Advantage market. It appears they will be more generous than Democrats have been in recent years, which is a welcome change of pace for the MCOs we cover. In after-hours trading, MA-focused insurer Humana traded up about 12%, MA-leader UnitedHealth rose about 6%, and top-tier MA insurer CVS increased about 7%. Even lower-tier MA players Elevance (up 7%) and Centene (up 4%) rose on the news. Also, Cigna, which has no exposure to Medicare Advantage after selling off that business to Health Care Service Corporation in March, inexplicably rose 1% after hours, generally benefiting from the improving market sentiment in the industry. The bottom line: In our valuation models, we previously suspected that the recent lean years in Medicare Advantage under Democrats would give way to more normalized trends eventually, so this good start under Republican rule merely starts that normalization process for MA insurers. We are not changing any of our fair value estimates in the industry and continue to view most of the MCOs we cover as moderately undervalued, including MA-focused insurer Humana which still trades at a roughly 30% discount to fair value even following the after-hours rally. Our moat ratings were all recently updated during our moat staleness review process and remain narrow for UnitedHealth, Humana, Elevance, and Cigna and none for CVS and Centene.

Cigna Earnings: Elevated Medical Utilization Cuts Into 2024 Results and 2025 Outlook; Lowering FVE

Julie Utterback, CFA, Senior Equity Analyst, 30 Jan 2025

Surging utilization cut into Cigna's medical insurance segment profits and pushed its 2024 EPS growth (9%) and 2025 EPS growth outlook (at least 8%) below management's previous guidance of at least 13% and 10% growth, respectively. Shares fell around 10% in early trading. Why it matters: These results and guidance were lower than we anticipated and suggest that Cigna has finally succumbed to the surging medical utilization trend that started constraining managed care profits in late 2023. Previously, surging utilization primarily affected government-sponsored programs, which started in Medicare first in late 2023 and spread to Medicaid in mid-2024. Now, this trend appears to have spread across all parts of the US health system, including Cigna's employer-sponsored stronghold. While Cigna aims to push these higher costs onto clients eventually, Cigna has not fully priced its plans for these elevated costs yet, which has cut into its 2024 results and 2025 outlook. Both came in lower than what we expected and what management guided for in October. The bottom line: We are lowering our near-term expectations on narrow-moat Cigna, which cut our fair value estimate to \$357 per share from \$385 previously. Shares remain moderately undervalued, in our opinion. Bears say: Republicans and Democrats appear to agree that pharmacy benefit managers, like Cigna's Evernorth operations, need further regulation, which could cut into that segment's operating profit prospects eventually. The most likely PBM legislation would result in the elimination of rebate and spread-based pricing mechanisms, which would be easily manageable for Cigna, in our opinion. However, other policies like separating medical dispensing arms from insurance operations and such as international reference pricing are

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possible, too. Of those, we would be most concerned about international reference pricing taking away a key value driver for the PBMs.

PBM Transparency Initiatives Included in New US Spending Bill

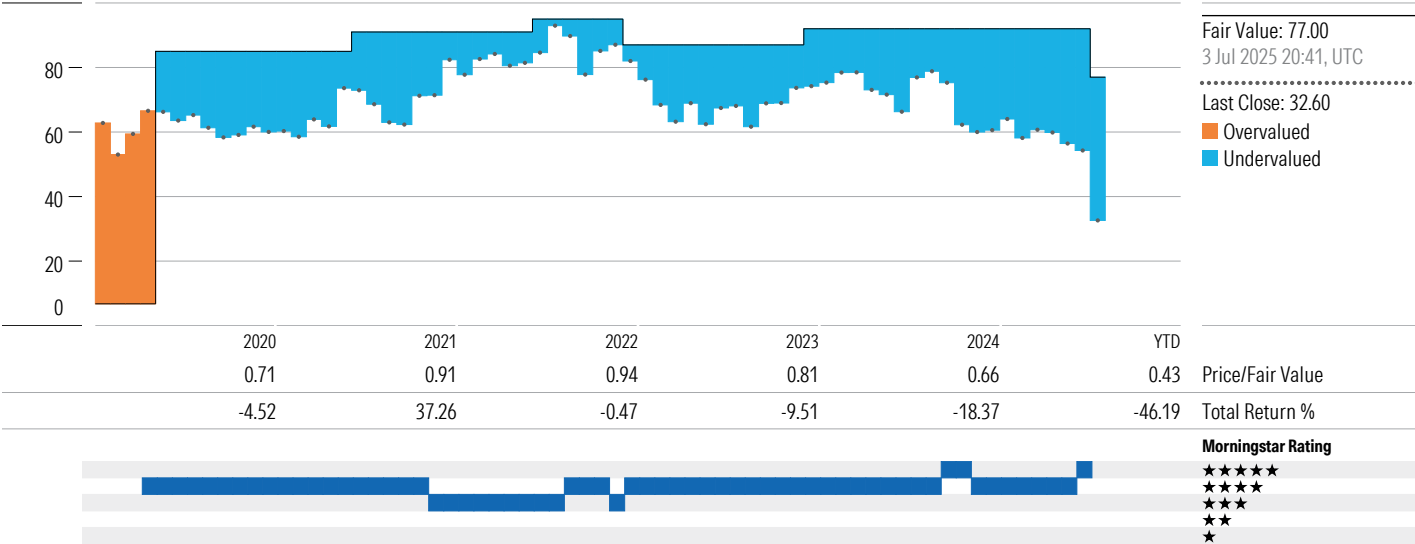
Julie Utterback, CFA, Senior Equity Analyst, 18 Dec 2024

The US federal spending bill expected to pass this week includes pharmacy benefit manager transparency efforts that eliminate rebate- and spread-based pricing benefits for PBMs. Why it matters: Managed care organizations, which own the PBMs, face a mild headwind to their profits from this new regulatory action. PBM clients currently use rebates and spread-based pricing mechanisms to incentivize PBMs to negotiate bigger discounts in biopharmaceutical prices, but this new legislation looks likely to force PBMs to pass those rebates and spreads on to clients. However, we expect PBMs to replace those variable pricing mechanisms with fees to resolve most of that risk to profits. This should result in the potential for a low-single-digit profit headwind for even the most exposed MCO—Cigna—based on our estimates. The bottom line: We maintain our fair value estimates for covered MCOs despite this legislation, because the potential profit headwinds are not enough to materially affect our valuations. Our narrow moat ratings also remain intact, despite the increased risk of regulation by Republicans in recent weeks that have caused shares to decline significantly. We think shares are trading at moderate (Cigna, Centene, and UnitedHealth) to significant (CVS, Elevance, and Humana) discounts to fair value. Coming up: Recent commentary from incoming Republican officials and negative sentiment from the public in the wake of a UnitedHealth executive's killing suggest that the MCOs should brace themselves for more potential policy changes. Republicans appear focused on reducing federal spending on Medicaid expansion and the individual exchanges, while bipartisan support of further PBM regulations or wasteful spending in Medicare Advantage would create more profit risks. Mild positive offsets to those potential risks appear possible, though, in the form of increased outsourcing of government programs to private insurers. ■■■

The Cigna Group CI ★★★★★ 9 Jul 2025 21:21, UTC

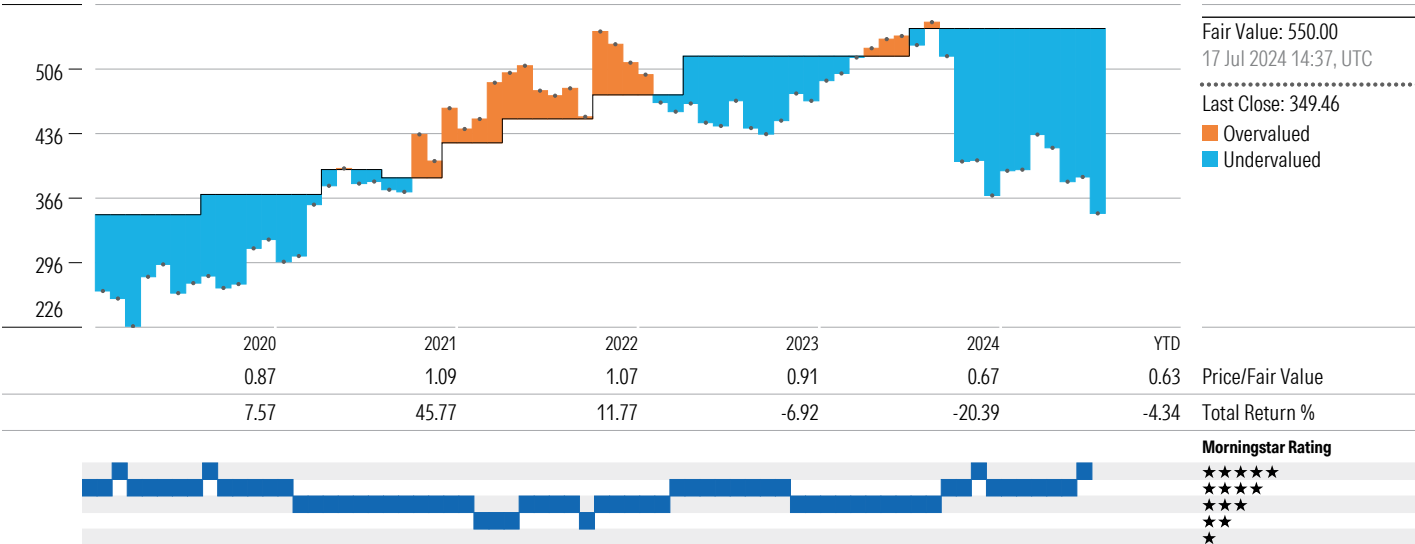
Competitors Price vs. Fair Value

Centene Corp CNC



Total Return % as of 08 Jul 2025. Last Close as of 08 Jul 2025. Fair Value as of 3 Jul 2025 20:41, UTC.

Elevance Health Inc ELV



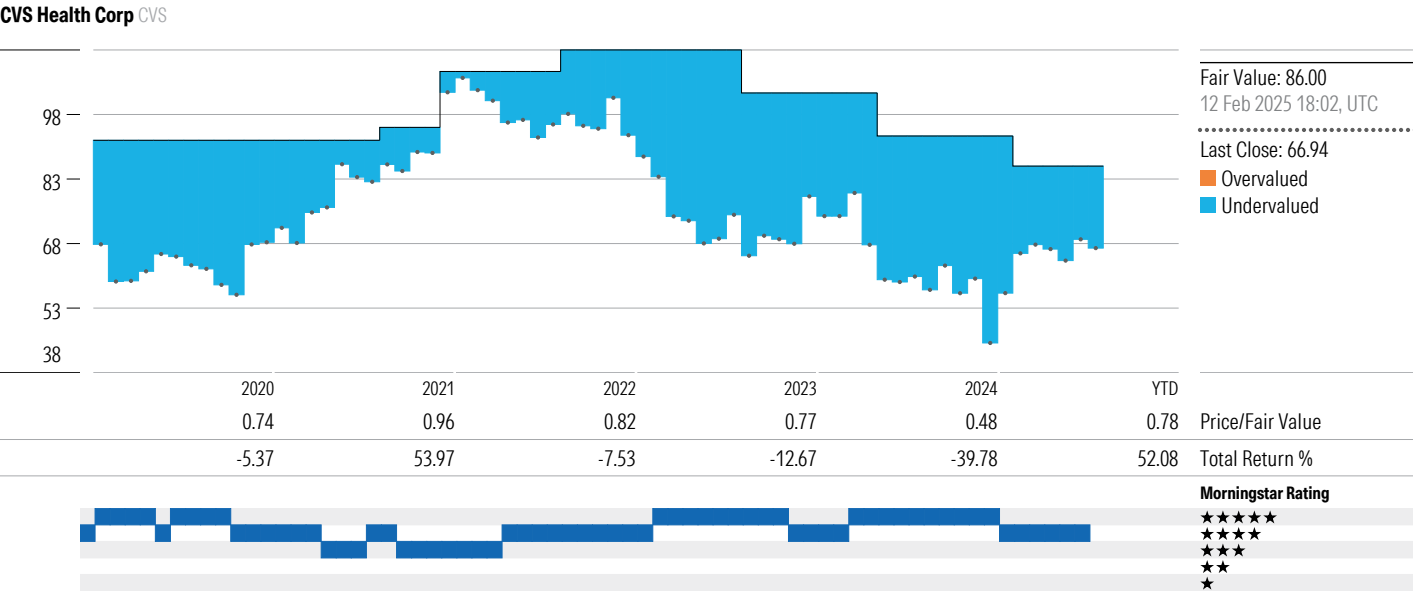
Total Return % as of 08 Jul 2025. Last Close as of 08 Jul 2025. Fair Value as of 17 Jul 2024 14:37, UTC.

The Cigna Group

CI★★★★




9 Jul 2025 21:21, UTC

Competitors Price vs. Fair Value



Total Return % as of 08 Jul 2025. Last Close as of 08 Jul 2025. Fair Value as of 12 Feb 2025 18:02, UTC.

The Cigna Group ★★★★★ 9 Jul 2025 21:21, UTC

Last Price 312.00 USD 8 Jul 2025	Fair Value Estimate 357.00 USD 30 Jan 2025 16:41, UTC	Price/FVE 0.87	Market Cap 82.76 USD Bil 9 Jul 2025	Economic Moat™  Narrow	Equity Style Box  Large Value	Uncertainty Medium	Capital Allocation Standard	ESG Risk Rating Assessment¹  4 Jun 2025 05:00, UTC
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Morningstar Valuation Model Summary

Financials as of 02 May 2025

	Actual			Forecast				
	2022	2023	2024	2025	2026	2027	2028	2029
Fiscal Year , ends 31 Dec								
Revenue (USD Mil)	180,516	195,265	247,121	253,067	264,892	288,363	303,857	319,702
Operating Income (USD Mil)	8,543	9,034	9,417	7,667	8,752	9,258	9,853	10,783
EBITDA (USD Mil)	12,518	9,849	9,594	10,557	11,597	12,067	12,626	13,520
Adjusted EBITDA (USD Mil)	13,282	12,193	15,601	14,687	14,882	15,295	15,739	16,014
Net Income (USD Mil)	6,668	5,164	3,434	4,562	5,361	5,726	6,089	6,895
Adjusted Net Income (USD Mil)	7,285	7,448	7,741	7,824	7,956	8,277	8,548	8,865
Free Cash Flow To The Firm (USD Mil)	7,453	9,921	8,506	12,086	8,955	9,323	9,515	10,127
Weighted Average Diluted Shares Outstanding (Mil)	313	297	283	262	245	229	215	201
Earnings Per Share (Diluted) (USD)	21.30	17.39	12.12	17.39	21.85	24.95	28.35	34.30
Adjusted Earnings Per Share (Diluted) (USD)	23.27	25.09	27.33	29.83	32.43	36.07	39.81	44.10
Dividends Per Share (USD)	4.47	4.92	4.92	5.26	6.49	7.21	7.96	8.82

Margins & Returns as of 02 May 2025

	3 Year Avg	Actual			Forecast					5 Year Avg
		2022	2023	2024	2025	2026	2027	2028	2029	
Operating Margin %	3.9	4.7	4.6	3.8	3.0	3.2	3.2	3.2	3.4	3.2
EBITDA Margin %	—	6.9	5.0	3.9	4.2	4.3	4.2	4.2	4.2	—
Adjusted EBITDA Margin %	—	7.4	6.2	6.3	5.8	5.5	5.3	5.2	5.0	5.4
Net Margin %	2.6	3.7	2.6	1.4	1.8	2.0	2.0	2.0	2.2	2.0
Adjusted Net Margin %	3.7	4.0	3.8	3.1	3.1	2.9	2.9	2.8	2.8	2.9
Free Cash Flow To The Firm Margin %	4.2	4.1	5.1	3.4	4.8	3.3	3.2	3.1	3.2	3.5

Growth & Ratios as of 02 May 2025

	3 Year CAGR	Actual			Forecast					5 Year CAGR
		2022	2023	2024	2025	2026	2027	2028	2029	
Revenue Growth %	12.4	3.7	8.2	26.6	2.4	4.7	6.4	5.4	5.2	5.3
Operating Income Growth %	5.9	7.7	5.8	4.2	-18.6	14.1	5.8	6.4	9.4	2.8
EBITDA Growth %	-2.2	17.4	-21.3	-2.6	10.0	9.9	4.1	4.6	7.1	7.1
Adjusted EBITDA Growth %	7.1	4.7	-8.2	28.0	-5.9	1.3	2.8	2.9	1.8	0.5
Earnings Per Share Growth %	-8.3	35.4	-18.3	-30.3	43.4	25.7	14.2	13.6	21.0	23.1
Adjusted Earnings Per Share Growth %	-8.3	13.7	7.8	9.0	9.1	8.7	11.2	10.4	10.8	23.1

Valuation as of 02 May 2025

	Actual			Forecast				
	2022	2023	2024	2025	2026	2027	2028	2029
Price/Earning	14.2	11.9	10.1	10.4	9.6	8.6	7.8	7.0
Price/Sales	0.6	0.4	0.3	0.3	0.3	0.3	0.3	0.3
Price/Book	2.3	1.9	1.9	2.2	2.2	2.3	2.3	2.3
Price/Cash Flow	—	—	—	—	—	—	—	—
EV/EBITDA	9.5	9.0	6.6	7.1	7.0	6.9	6.7	6.5
EV/EBIT	14.7	12.2	10.9	13.7	12.0	11.3	10.6	9.7
Dividend Yield %	1.4	1.6	1.8	1.7	2.1	2.3	2.6	2.9
Dividend Payout %	19.2	19.6	18.0	17.6	20.0	20.0	20.0	20.0
Free Cash Flow Yield %	—	—	—	—	—	—	—	—

Operating Performance / Profitability as of 02 May 2025

	Actual			Forecast				
	2022	2023	2024	2025	2026	2027	2028	2029
Fiscal Year , ends 31 Dec								
ROA %	4.6	3.4	2.2	2.9	3.4	3.3	3.4	3.8
ROE %	14.8	11.1	8.3	12.3	15.8	18.4	21.4	26.0
ROIC %	7.8	8.9	9.7	8.1	9.8	10.7	11.6	12.9

The Cigna Group ★★★★★ 9 Jul 2025 21:21, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment¹
312.00 USD 8 Jul 2025	357.00 USD 30 Jan 2025 16:41, UTC	0.87	82.76 USD Bil 9 Jul 2025	 Narrow	 Large Value	Medium	Standard	     4 Jun 2025 05:00, UTC

Financial Leverage (Reporting Currency)

Fiscal Year, ends 31 Dec	Actual			Forecast				
	2022	2023	2024	2025	2026	2027	2028	2029
Debt/Capital %	27.3	30.0	33.3	23.8	23.7	23.7	23.7	23.7
Assets/Equity	3.2	3.3	3.8	4.2	4.6	5.6	6.3	6.9
Net Debt/EBITDA	2.6	3.0	3.2	0.9	0.8	-0.4	-0.5	-0.5
Total Debt/EBITDA	2.9	3.1	2.5	2.2	2.1	2.1	2.0	2.0
EBITDA/ Net Interest Expense	10.8	8.4	10.9	10.2	10.0	10.2	9.7	10.7

Forecast Revisions as of 2 May 2025

Prior data as of 1 Apr 2025	2025		2026		2027	
	Current	Prior	Current	Prior	Current	Prior
Fair Value Estimate Change (Trading Currency)	357.00	367.16	—	—	—	—
Revenue (USD Mil)	253,067	253,067	264,892	264,892	288,363	288,363
Operating Income (USD Mil)	7,667	7,667	8,752	8,752	9,258	9,258
EBITDA (USD Mil)	14,687	14,687	14,882	14,882	15,295	15,295
Net Income (USD Mil)	7,824	7,824	7,956	7,956	8,277	8,277
Earnings Per Share (Diluted) (USD)	17.39	17.39	21.85	21.85	24.95	24.95
Adjusted Earnings Per Share (Diluted) (USD)	29.83	29.83	32.43	32.43	36.07	36.07
Dividends Per Share (USD)	5.26	5.26	6.49	6.49	7.21	7.21

Key Valuation Drivers as of 02 May 2025

Cost of Equity %	9.0
Pre-Tax Cost of Debt %	6.5
Weighted Average Cost of Capital %	8.1
Long-Run Tax Rate %	21.5
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	30.0
Perpetuity Year	15

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

Discounted Cash Flow Valuation as of 02 May 2025

	USD Mil
Present Value Stage I	54,658
Present Value Stage II	16,757
Present Value Stage III	55,114
Total Firm Value	126,529
Cash and Equivalents	500
Debt	31,972
Other Adjustments	0
Equity Value	95,057
Projected Diluted Shares	262
Fair Value per Share (USD)	357.00

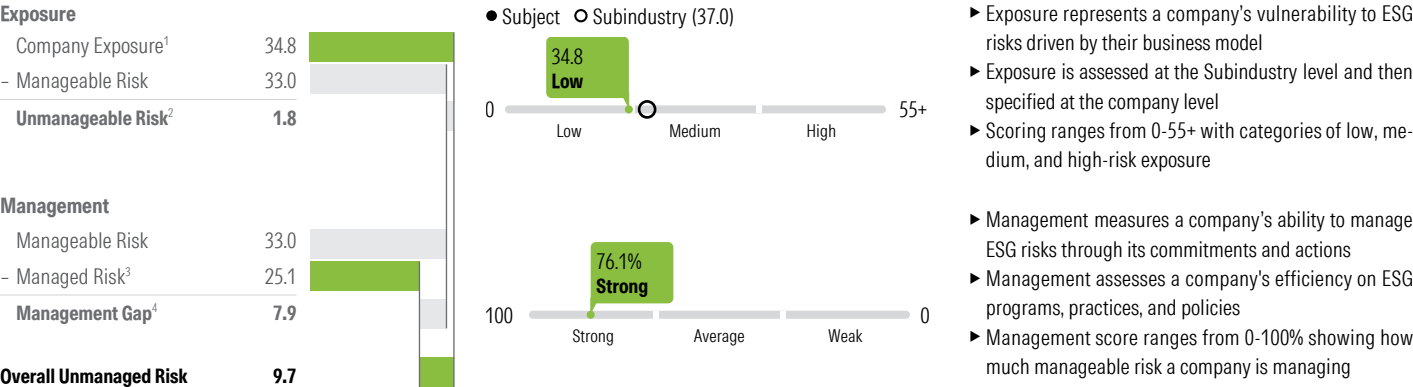
The Cigna Group

CI★★★★

9 Jul 2025 21:21, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment¹
312.00 USD 8 Jul 2025	357.00 USD 30 Jan 2025 16:41, UTC	0.87	82.76 USD Bil 9 Jul 2025	Narrow	Large Value	Medium	Standard	4 Jun 2025 05:00, UTC

ESG Risk Rating Breakdown



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 76.1% 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 Assessment⁵



ESG Risk Rating is of Jun 04, 2025. Highest Controversy Level is as of Jul 08, 2025. Sustainability Subindustry: Managed Health Care. Sustainability provides Morningstar with company ESG ratings and metrics on a monthly basis and as such, the ratings in Morningstar may not necessarily reflect current Sustainability's 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 Sustainability-defined Subindustry and are displayed based on the closest market cap values							
Company Name	Exposure			Management			ESG Risk Rating	
The Cigna Group	34.8 Low	0	55+	76.1 Strong	100	0	9.7 Negligible	40+
Centene Corp	36.5 Medium	0	55+	60.5 Strong	100	0	15.4 Low	40+
Elevance Health Inc	35.5 Medium	0	55+	77.9 Strong	100	0	9.3 Negligible	40+
CVS Health Corp	38.6 Medium	0	55+	58.9 Strong	100	0	17.1 Low	40+
Humana Inc	37.2 Medium	0	55+	60.7 Strong	100	0	15.8 Low	40+

Appendix

Historical Morningstar Rating

The Cigna Group CI 9 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
★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★

Centene Corp CNC 9 Jul 2025 21:23, 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
★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	—	—	—	—

Elevance Health Inc ELV 9 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
★★★★	★★★★	★★★★	★★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★★	★★★★	★★★★

CVS Health Corp CVS 9 Jul 2025 21:23, UTC

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

Research Methodology for Valuing Companies

Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth 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 short-term market-price movements), but we believe these negatives are mitigated by deep analysis and our long-term 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 single-point 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 working capital accounts, and capital spending. Based on these projections, we calculate earnings before interest,

after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

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

Stage III: Perpetuity

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

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

3. Uncertainty Around That Fair Value Estimate

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

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

Morningstar Equity Research Star Rating Methodology



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

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

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

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

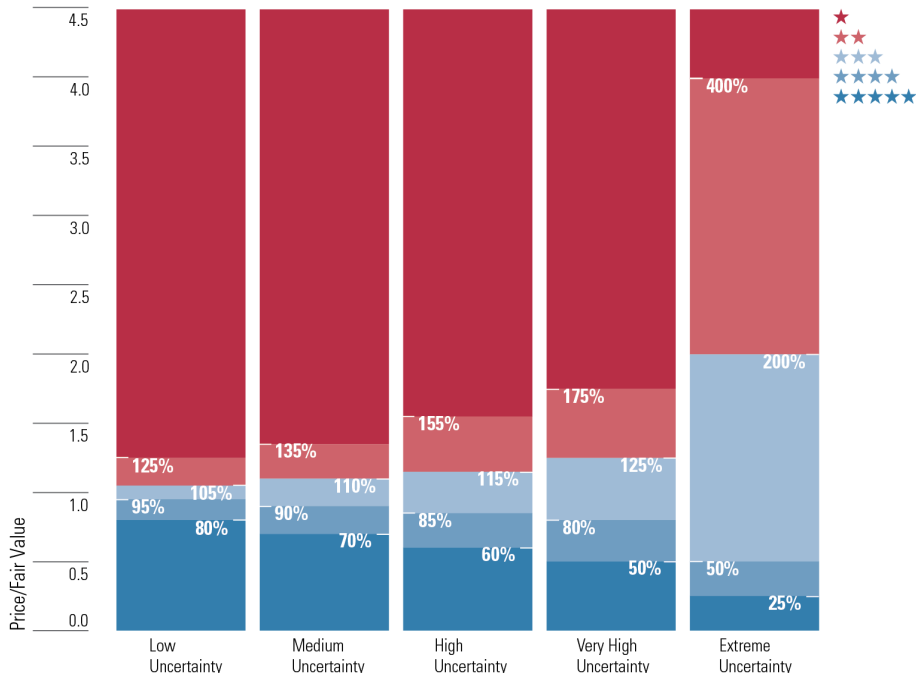
Our uncertainty rating is based on the interquartile range, or the middle 50% of potential outcomes, covering the 25th percentile–75th percentile. This means that when a stock hits 5 stars, we expect there is a 75% chance that the intrinsic value of that stock lies above the current market price. Similarly, 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 multi-year time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions

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

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

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

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

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

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

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

Sustainalytics analyzes over 1,300 data points to assess a company's exposure to and management of ESG risks. In other words, ESG Risk Ratings measures a company's unmanaged ESG Risks represented as a quantitative score.

Unmanaged Risk is measured on an open-ended scale starting at zero (no risk) with lower scores representing less unmanaged risk and, for 95% of cases, the unmanaged ESG Risk score is below 50.

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

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

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