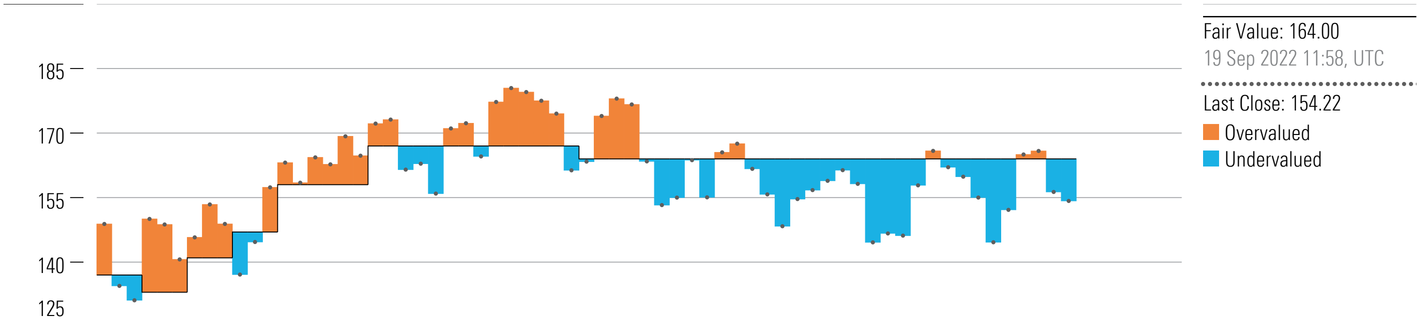
Morningstar Equity Analyst Report | Report as of 12 May 2025 20:56, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC.

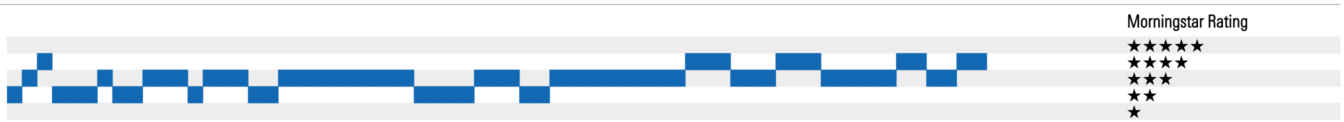
Johnson & Johnson JNJ ★★★★ 9 May 2025 21:20, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
154.22 USD 9 May 2025	164.00 USD 19 Sep 2022 11:58, UTC	0.94	370.87 USD Bil 12 May 2025	Wide	Large Value	Low	Standard	7 May 2025 05:00, UTC

Price vs. Fair Value



	2020	2021	2022	2023	2024	YTD	
	1.07	1.02	1.08	0.96	0.88	0.94	Price/Fair Value
	10.62	11.36	5.86	-8.61	-4.60	7.50	Total Return %



Total Return % as of 09 May 2025. Last Close as of 09 May 2025. Fair Value as of 19 Sep 2022 11:58, UTC.

Contents

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

Biopharma Industry: Latest Executive Order Threatens Broad Cut to US Drug Prices

Analyst Note Karen Andersen, CFA, Director, 12 May 2025

President Trump released an executive order on May 12 calling for a 30-day negotiation period between the Department of Health and Human Services and the biopharma industry, with the threat of a rule from the Centers for Medicare and Medicaid Services to lower US drug prices if no deal is reached.

Why it matters: The president's goal of bringing US drug prices more in line with pricing in other developed countries is among the more feared potential policy changes in the biopharma industry, although we have generally seen sweeping changes as a low-probability scenario.

- While discounts in the US and other markets make it quite difficult to get a clear comparison of net prices in various markets, we've estimated that US prices are on average roughly double those in major international markets.
- We have estimated that bringing US prices in line with European prices across US channels (public and private) would result in a 24% hit to US drug revenue, and with most firms bringing in about half of their revenue from the US, a worst-case scenario would mean a low-double-digit top-line hit.

The bottom line: We're maintaining our fair value estimates in this largely wide-moat industry. While a worst-case scenario would lower our fair value estimates, shares rose on Trump's announcement, as we think investors are encouraged by the vagueness of the order and the significant room for negotiations.

- We think a likely final focus for price cuts could be Medicare drug spending in hospitals, which

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Sector	Industry
Healthcare	Drug Manufacturers - General

Business Description

Johnson & Johnson is the world's largest and most diverse healthcare firm. It has two divisions: pharmaceutical and medical devices. These now represent all of the company's sales following the divestment of the consumer business, Kenvue, in 2023. The drug division focuses on the following therapeutic areas: immunology, oncology, neurology, pulmonary, cardiology, and metabolic diseases. Geographically, just over half of total revenue is generated in the United States.

represents 10% of the US drug market, limiting exposure relative to broader Medicare (30%) or all government programs (closer to 50%).

- Rulemaking is a hard way to make large changes stick. Historically, Congress has been the source of major policy changes in the industry. Efforts to include Medicaid price benchmarking in the emerging reconciliation bill appear to have failed, which likely limit Trump's scope for action.

Business Strategy & Outlook Karen Andersen, CFA, Director, 27 Sep 2024

Johnson & Johnson stands alone as a leader across the major healthcare industries. It maintains a diverse revenue base, a developing research pipeline, and exceptional cash flow generation that together create a wide economic moat.

J&J holds a leadership role in diverse healthcare segments, including medical devices and several pharmaceutical markets. Contributing close to two thirds of total revenue, the pharmaceutical division boasts several industry-leading drugs, including immunology drugs Stelara and Tremfya as well as cancer drugs Darzalex and Imbruvica. The medical device group brings in one third of sales, with the company holding controlling positions in many areas, including orthopedics and Ethicon Endo-Surgery's surgical devices. In 2023, J&J spun off its consumer division into a new stand-alone company, Kenvue, which leaves the remaining company more focused on drugs and devices.

Research and development efforts are resulting in next-generation products. The pharmaceutical segment recently launched several new blockbusters. However, relative to the company's size, J&J needs to increase the number of meaningful drugs in late-stage development to support more robust long-term growth. The company has also created new medical devices, including innovative contact lenses, minimally invasive surgical tools, and robotic instruments.

These multiple businesses generate substantial cash flow. J&J's healthy free cash flow (operating cash flow less capital expenditures) is over 20% of sales. Strong cash generation has enabled the firm to increase its dividend for over the past half century, and we expect this to continue. It also allows J&J to take advantage of acquisition opportunities to augment growth. Diverse operating segments coupled with expected new products insulate J&J more from patent losses relative to other Big Pharma firms.

Bulls Say Karen Andersen, CFA, Director, 14 Jan 2025

- The majority of J&J's near-term patent losses are for products that are hard to manufacture, which should reduce the intensity of generic competition.
- Diverse healthcare segments help insulate J&J from downturns in the overall economy, offering a defensive growth opportunity with a steady and likely growing dividend.
- Several of J&J's key next-generation pipeline drugs are specialty drugs that tend to carry strong pricing power as well as lower regulatory hurdles for approval.

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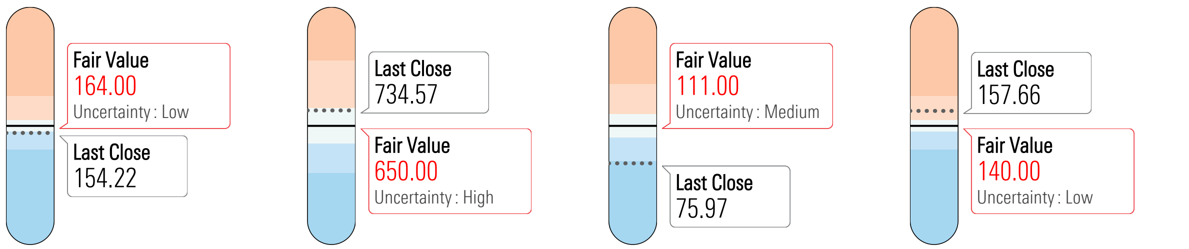
Competitors



	Johnson & Johnson JNJ	Eli Lilly and Co LLY	Merck & Co Inc MRK	Procter & Gamble Co PG
Economic Moat	Wide	Wide	Wide	Wide
Currency	USD	USD	USD	USD
Fair Value	164.00 19 Sep 2022 11:58, UTC	650.00 7 Apr 2025 20:58, UTC	111.00 4 Feb 2025 19:32, UTC	140.00 25 Apr 2025 17:35, UTC
1-Star Price	205.00	1,007.50	149.85	175.00
5-Star Price	131.20	390.00	77.70	112.00
Assessment	Undervalued 12 May 2025	Overvalued 12 May 2025	Undervalued 12 May 2025	Overvalued 12 May 2025
Morningstar Rating	★★★★9 May 2025 21:20, UTC	★★9 May 2025 21:23, UTC	★★★★9 May 2025 21:20, UTC	★★9 May 2025 21:23, UTC
Analyst	Karen Andersen, Director	Karen Andersen, Director	Karen Andersen, Director	Erin Lash, Sector Director
Capital Allocation	Standard	Exemplary	Standard	Exemplary
Price/Fair Value	0.94	1.13	0.68	1.13
Price/Sales	4.19	13.54	3.02	4.62
Price/Book	4.75	41.83	3.95	7.09
Price/Earning	19.09	41.79	9.74	23.36
Dividend Yield	3.22%	0.74%	4.16%	2.59%
Market Cap	370.87 Bil	678.30 Bil	201.96 Bil	377.24 Bil
52-Week Range	140.68—169.99	677.09—972.53	75.82—134.63	156.58—180.43
Investment Style	Large Value	Large Growth	Large Value	Large Value

Bears Say Karen Andersen, CFA, Director, 14 Jan 2025

- J&J's late-stage drug pipeline is relatively weak for the size of the company, which could create long-term headwinds for growth.
- Patent pressures in the drug group are increasing over the next several years, which will likely slow the growth of the firm's larger division.
- Several of J&J's key drugs are facing increasing competition, which could slow the growth rate of the drug group.

Economic Moat Karen Andersen, CFA, Director, 24 May 2024

We believe Johnson & Johnson carries one of the widest moats in the healthcare sector, supported by intellectual property in the drug group and intellectual property and switching costs in the device segment. The company's diverse revenue base, strong pipeline, and robust cash flow generation create

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a very wide economic moat. An extensive salesforce makes J&J a powerful candidate for a smaller biotechnology company looking to partner on a new drug, which strengthens J&J's ability to bring new products to market.

Johnson & Johnson's diverse operations are a major pillar supporting the wide moat. The company holds a leadership role in a number of segments, including medical devices, over-the-counter medicines, and several drug markets. The company is not overly dependent on one particular operating segment; the pharmaceutical business and medical device group represent close to 65% and 35% of total sales, respectively. Additionally, within each segment no one product dominates sales.

Johnson & Johnson's R&D efforts support its robust revenue base. In pharmaceuticals, the firm recently launched several new blockbusters, which should allow it to escape largely unscathed from upcoming patent expirations. Its efforts in medical devices, including robotics and digital data, should help maintain leadership in several medical device areas as well as support strong pricing power. Switching costs remain high with several of the device products. (For example, physicians switching vendors for hip and knee devices could take weeks if not months to learn the new products, which keeps physicians tied to the company's products.)

We think the firm does face environmental, social, and governance risks, particularly related to potential US drug price-related policy reform (close to 36% of total sales are generated by prescription drug sales in the US) to increase access by lowering drug prices. Ongoing product governance issues, including litigation related to side effects and patents, also weigh on the company. While we have factored these threats into our analysis, we don't see them as material to the company's moat rating.

Fair Value and Profit Drivers Karen Andersen, CFA, Director, 14 Jan 2025

We are maintaining our fair value estimate of $164 per share.

In the drug unit, strong innovative new drug launches are helping to offset increasing patent pressures. In immunology, J&J looks well positioned to mitigate the patent loss for an older immunology drug Stelara with recently launched drugs that hold the potential to expand in approved indications and gain traction in new indications. We view Tremfya as well positioned for growth, leading to peak annual sales of over $5 billion by 2028. While the drug was approved in 2017 in moderate to severe psoriasis, we expect follow-up data as well as new indications to drive the robust sales. Head-to-head data versus Novartis' Cosentyx showed superiority for Tremfya, positioning it as potentially one of the best-in-class drugs for psoriasis.

In oncology, J&J continues to report strong data, suggesting increased potential for several of its drugs. Adding to the firm's strong entrenchment in multiple myeloma with Darzalex, we expect CAR-T drug Carvykti to post solid gains. Also, the firm's developing Rybrevant/Lazcluze combination targeting EGFRmutated lung cancer look increasingly well positioned to develop into blockbuster sales.

We expect annual adjusted earnings per-share growth will average close to 4% during the next five years, as strong growth in new pipeline drugs should offset some patent losses in the pharmaceutical division. We expect fairly flat operating margins over the next several years as cost-containment efforts throughout the firm help offset margin pressure due to the loss of patent protection on several high-margin drugs, including immunology drug Stelara.

Risk and Uncertainty Karen Andersen, CFA, Director, 24 May 2024

Johnson & Johnson needs to overcome several legal roadblocks, including remaining litigation surrounding several products, including talcum powder. While we believe several of these legal cases are toward the end of the process, additional hurdles can still arise. The litigation can cause major settlements and could damage its sterling reputation. Over the longer term, the company faces typical healthcare risks such as reduced pricing power from both governments and pharmacy benefit managers, regulatory delays, and nonapprovals as well as increasingly aggressive generic competition for small-molecule drugs and biologics. However, given such a wide portfolio of products, we assign the firm a Morningstar Uncertainty Rating of Low.

Our rating for the company is not materially affected by ESG risks. We see access to basic services (tied to drug pricing) as the biggest ESG risk that the firm needs to manage. J&J generates close to one third of total sales from US prescription drug sales (slightly lower relative to peers), so additional major pricing reforms could weigh on its sales and margins.

We assume a more than 50% probability of J&J seeing future costs related to product governance ESG risks (such as off-label marketing or litigation related to side effects) and model base-case annual legal costs at 3% of non-GAAP net income (on the high end relative to peers as J&J’s product portfolio is more prone to possible litigation).

Capital Allocation Karen Andersen, CFA, Director, 27 Sep 2024

We assign Johnson & Johnson a Standard Morningstar Capital Allocation Rating. The rating reflects our belief that J&J possesses a sound balance sheet, a reasonable record of investments, and largely fair shareholder distributions.

We believe J&J holds a sound balance sheet with low levels of risk regarding the size of the debt carried, the business cyclicality facing the firm, and the debt maturity outlook. While an argument could be made to increase the leverage of the balance sheet to be more active in investing, we believe J&J, along with the majority of firms in the large-cap biopharma industry, should hold ample balance sheet strength to support opportunistic acquisitions as dynamic scientific data emerges that might require relatively quick investment action. Also, a strong balance sheet helps biopharma firms through most product litigation challenges with minimal concern from the market.

Turning to investments, we believe J&J is operating at a reasonable level. The company tends to spend over 20% of sales on R&D for the drug business (above the industry average of high teens) and close to 9% of sales on R&D for the device business (close to the industry average of 8%-9%). The company has shown high productivity with strong execution in drug pipeline development. The strong productivity in creating the next generation of drugs has yielded enough new drugs to help mitigate patent losses. The strong productivity in innovative new drugs (largely targeting areas of unmet medical need, especially in oncology and immunology) also helps fortify the firm's wide moat and expand returns on invested capital. However, the innovation in the device segment appears to have largely lagged peers in the orthopedic space, especially around robotic developments.

On the acquisition side, J&J has executed reasonably well. The acquisition of Actelion for close to $30 billion brought in an important rare-disease franchise where pricing power looks strong. However, we are skeptical that the acquisition will create much value, given the high price paid. The $6 billion acquisition of Momenta Pharmaceuticals also looked fairly expensive but positive on the pipeline development side. On the medical device side, the acquisitions of Abiomed and Shockwave look like reasonable uses of cash that provide J&J with innovative products that it can leverage through its strong distribution channels.

We view J&J's dividends and share repurchases as about right. J&J has a very long history of consistently raising its dividend, giving investors high confidence in the business. Further, the firm is able to fund strong internal investments while supporting the dividend and some moderate and largely well-timed share repurchases over the past several years.

Joaquin Duato took over the CEO spot from Alex Gorsky in early 2022. Given Duato's 30-plus years at J&J, including the recently successful strategy work in the drug and consumer divisions, we believe the new CEO will continue the industry-leading innovative strategy that was pursued under Gorsky. We expect continued steady growth based on the diverse group of product lines. However, we don't expect the extra-long duration typical of a J&J CEO, as Duato was 59 years old when he took on the top spot. With strong leaders supporting Duato, including Jennifer Taubert (head of the drug unit) and Tim Schmid (head of the device unit) at the two largest business segments and Joe Wolk as CFO, Duato has a strong support structure for current business operations as well as leading internal candidates for the eventual next CEO succession.

Analyst Notes Archive

Johnson & Johnson Earnings: Maintaining Valuation on Solid Innovation and Manageable Tariff Headwind Karen Andersen, CFA,Director,15 Apr 2025

J&J reported 2.4% first-quarter sales growth (2.3% in innovative medicine, 2.5% in medtech) and 2.2% adjusted EPS growth in the first quarter. Management raised reported sales growth guidance for 2025

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to 3.1% at the midpoint but maintained adjusted EPS guidance for 6.2% growth at the midpoint. Why it matters: Investors were concerned about how severely the headwinds from Stelara biosimilars and the Medicare Part D redesign would hit Johnson & Johnson's financials, as well as the potential impact of tariffs, but the firm looks on track to grow as expected this year. The acquisition of neuroscience drug Caplyta and foreign exchange fluctuations account for the sales guidance increase, as adjusted operational sales growth was maintained at 2.5% at the midpoint. J&J expects a $400 million impact this year from confirmed tariffs, mostly on its medtech business, with the biggest factor being China retaliatory tariffs for products made in the US and shipped to China. Management noted that existing contracts limit price leverage to mitigate the effects. The bottom line: We're maintaining our $164 fair value estimate, as we have slightly increased our sales forecasts for key blood cancer product Carvykti and immunology drug icotrokinra, but we have also added tariff pressure on medtech and increased our assumed long-term tax rate for J&J. Strong sales for Carvykti, as well as recent promising data for icotrokinra in psoriasis, should help nudge J&J into mid-single-digit top-line growth territory over the next few years. As we discussed in our recent notes on tariffs, we think increased US manufacturing and potential tax policy changes could bring tax rates for biopharma firms closer to the 21% US corporate tax rate level over the next several years, from roughly 15% for the group currently.

Biopharma Industry: We Anticipate Tariffs to Bring Short-Term Margin Pressure; No Valuation Changes Karen Andersen, CFA,Director,9 Apr 2025

President Trump has announced that "major" pharmaceutical product tariffs are likely to be revealed soon, but at the same time, paused broader tariffs for most trade partners for 90 days to allow time for negotiations. Why it matters: The biopharma industry has largely been exempt from tariffs (except for 20% tariffs on imports to the US from China, implemented in March). The industry continues to brace for a potential pharma-specific announcement, which could have implications for global manufacturing strategies. The rumored 25% tariff could be applied to products manufactured in Europe and imported into the US. While there might be some flexibility to move toward a more domestic manufacturing strategy, avoiding tariffs completely would require new facilities that take several years to build. Both US and Europe-based firms have significant European manufacturing exposure due to tax advantages (US firms), home country manufacturing (Europe firms), and other reasons, including lower production costs and lower exposure to currency fluctuations. The bottom line: We are not changing our biopharma uncertainty ratings or fair value estimates, as we think the direct impact from tariffs on earnings is likely to be limited in scope. Moreover, the indirect impact from a potential recession should also be limited given the noncyclical nature of drug spending. We assume pharmaceutical tariffs are enacted but do not last after 2026 due to political pressure from midterm elections. In this scenario, we think biopharma is unlikely to wholesale rethink its manufacturing footprint, apart from incremental US capacity additions. Using a non-GAAP industry average margin analysis of the short-run tariff impact, a 25% tariff would only amount to a 2-percentage-point operating margin headwind in the worst case, or a 6%

headwind to operating profits, using an industry average 32% operating profit margin.

Biopharma Industry: Exempt From Global 10% Tariff, but We Still See Margin and Tax Rate Risks

Karen Andersen, CFA,Director,3 Apr 2025

On April 2, President Donald Trump announced a 10% tariff on imports from all countries, effective on April 5. However, pharmaceuticals appear to be among the exemptions listed in the full executive order, as part of Annex II. Why it matters: The biopharma industry has been sheltered from tariffs for decades, including during the first Trump administration, but investors had been concerned about potential global tariffs, as the industry has significant manufacturing in European countries like Ireland, Germany, and Switzerland. With roughly $200 billion in pharmaceutical imports in 2024, a 10% tariff could amount to a $20 billion headwind across the industry, with the biggest firms seeing potential annual tariffs as high as $1 billion. Previously implemented tariffs on pharmaceutical imports from China (raised from 10% in February to 20% in March) appear manageable for branded biopharma, due to limited manufacturing in China, and pharmaceuticals are generally exempt from Mexico and Canada tariffs (25%, March 2025). The bottom line: We think a future global pharmaceutical tariff is still a risk and could pressure gross margins and increase long-term tax rates. However, we expect firms to be able to adapt their manufacturing, and nearly all large-cap biopharma firms continue to hold wide economic moats. On margins, we could see near-term pressure from tariffs and long-term pressure from additional investment in US manufacturing facilities, which are not likely to receive approval for several years, even assuming US Food and Drug Administration inspections stay on track following staff reductions. With increased US manufacturing, we expect tax rates could begin to rise closer to the current 21% US corporate tax rate, a level we assume will be maintained as Trump aims to extend his tax cuts via the reconciliation process in the Republican-controlled Congress.

Johnson & Johnson: Maintaining Our $164 Fair Value Estimate Despite New Talc Litigation Strategy

Karen Andersen, CFA,Director,1 Apr 2025

Johnson & Johnson's third effort to settle talc claims through the bankruptcy system has failed, as a federal judge did not approve a $9 billion settlement, and the firm has decided to return to the tort system to litigate claims. Why it matters: J&J had hoped to put talc litigation behind it, as it distracts from its core business and creates uncertainty around the timing and size of legal costs. While the bankruptcy system would have allowed J&J to resolve current and future claims, returning to the courts opens up more tail risk for future claims. The bottom line: We're maintaining our $164 fair value estimate for wide-moat Johnson & Johnson. While the firm expects to reverse about $7 billion set aside for the settlement, we expect smaller expenses could stretch over several years. J&J expects the more than 90,000 claims to be reduced significantly before reaching courts, and the firm has a strong track record of winning individual talc cases in recent years. We think J&J's decision creates more uncertainty on the timing of payouts, but likely also reduces the overall payout amount. Coming up: We

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should know more about the number of cases that are proceeding to trial in the next few months, as judges decide which cases meet a threshold of evidence to go before a jury.

Johnson & Johnson Earnings: Maintaining Our $164 FVE Despite Heavy Stelara Hit in 2025 Karen Andersen, CFA,Director,22 Jan 2025

J&J reported 4.3% top-line growth in 2024, or 7% growth at constant currencies and excluding covid vaccine sales. Assuming the Intra-Cellular acquisition closes in the second quarter, we think J&J's 2025 guidance implies $90.3 billion in revenue (1.7% growth) and $10.30 adjusted EPS (3.6% growth). Why it matters: The market was anchoring on at least 3% revenue growth guidance for 2025, but foreign exchange headwinds are likely to be a drag on growth, and the Intra-Cellular acquisition is also having a dilutive effect on earnings in the near term. Investors are watching for J&J's ability to growth through biosimilar competition to immunology drug Stelara, which extended to the key US market in January. We assume an over $3 billion decline in global Stelara sales in 2025. J&J's 2025 results will be the launching point for its guidance of 5%-7% revenue growth from 2025-2030, which is still well ahead of our assumed 2.5% average annual growth over this time period. The bottom line: We're maintaining our $164 fair value estimate for wide-moat J&J following relatively in-line results for 2024 and an expected slowing of growth in 2025 as Stelara faces biosimilars. We expect a hearing in February to begin to erode the overhang on J&J shares from talc litigation. Long view: We're watching several products across J&J's portfolio as we assess whether its long-term guidance is achievable, which could provide upside to our fair value estimate. In Innovative Medicine, J&J will need to see dominance for its multiple myeloma portfolio, expanded use of Intra-Cellular neurology drug Caplyta, and solid new drug launches, including oncology drug TAR-200 and immunology drug icotrokinra. In MedTech, J&J's pulsed field ablation system Varipulse will need to prove competitive in the high-growth atrial filbrillation market against offerings from Boston Scientific and Medtronic, and J&J will also need to see significant penetration for its Ottava and Velys robotic surgery systems.

Johnson & Johnson: Intra-Cellular Boosts Growth in Neuroscience and Fits With Industry Trend Karen Andersen, CFA,Director,14 Jan 2025

On Jan.13, Johnson & Johnson announced that it plans to acquire Intra-Cellular and its schizophrenia and depression drug Caplyta for $14.6 billion. Why it matters: J&J's growth in its innovative medicine business is poised to dip in 2025 as key immunology drug Stelara (12% of company sales) is facing biosimilar competition in the US, and the firm is looking for ways to boost growth. The neuroscience field has been a popular area for acquisitions among big biopharmaceutical firms in recent history, including 2024 acquisitions by peers AbbVie (Cerevel) and Bristol (Karuna). The bottom line: We're maintaining our $164 per share fair value estimate for wide-moat J&J after adding the cost of the acquisition and the potential revenue from Intra-Cellular's Caplyta to our valuation model, and shares look slightly undervalued at recent prices. We assume the acquisition could close in the second half of

2025 and that J&J will recognize annual sales for Caplyta of nearly $5 billion by the end of our 10-year explicit forecast period. Additional upside to our sales estimates is possible as the drug's approval expands into new indications like major depressive disorder—Intra-Cellular filed with the US Food and Drug Administration in this new indication in late 2024. Long view: With bolt-on acquisitions in both its innovative medicine and medtech segments, J&J looks capable of countering pressure from patent erosion on older drugs. If J&J sees commercial success with pipeline candidates like TAR-200 (bladder cancer) and icotrokinra (immunology) and looks capable of meeting its 5%-7% sales compound annual growth rate target for the second half of the decade, we see additional upside to our valuation.

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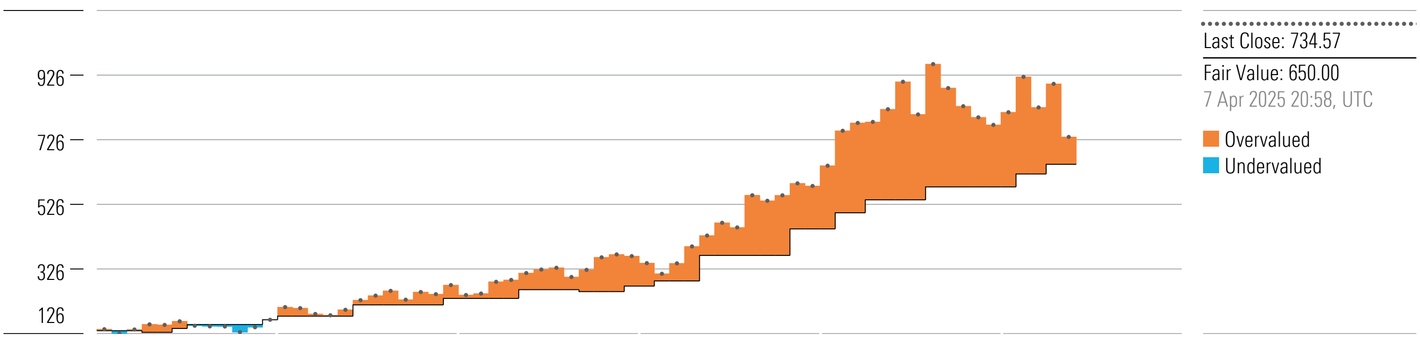
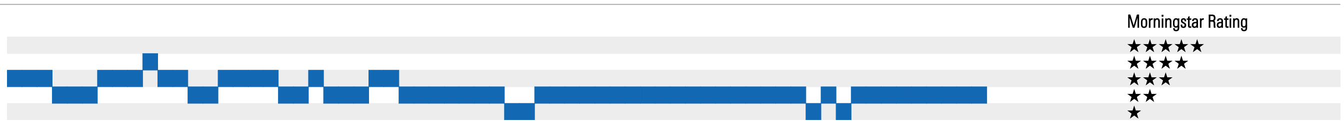
Competitors Price vs. Fair Value

Eli Lilly and Co LLY



2020	2021	2022	2023	2024	YTD	
1.00	1.18	1.34	1.30	1.33	1.13	Price/Fair Value
30.72	65.61	33.86	60.57	33.33	-4.65	Total Return %



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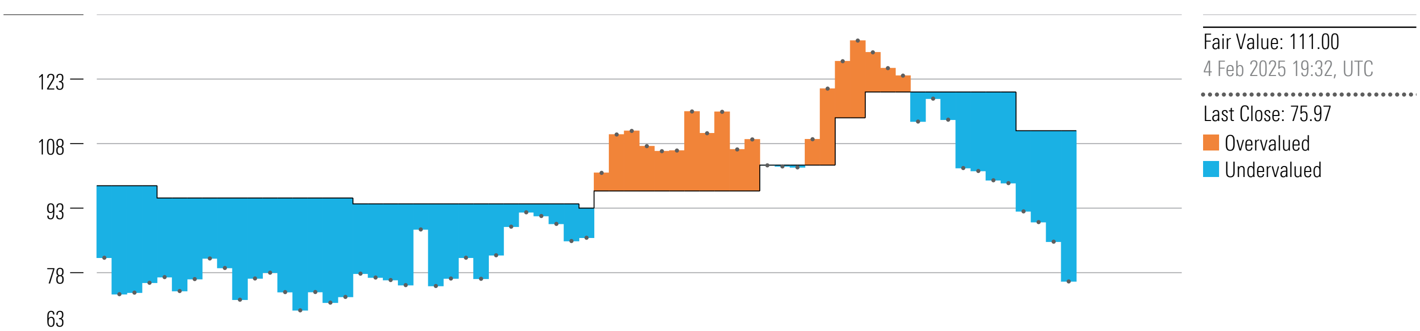
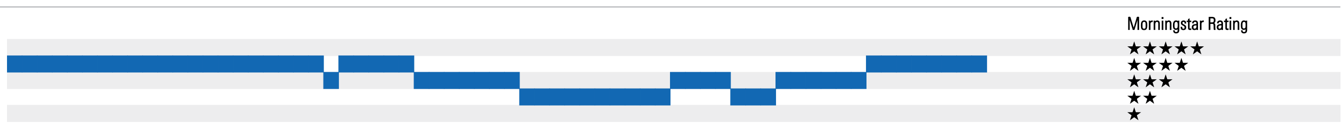
Merck & Co Inc MRK



2020	2021	2022	2023	2024	YTD	
0.82	0.82	1.14	1.06	0.83	0.68	Price/Fair Value
-7.33	-0.68	48.42	0.93	-5.89	-22.82	Total Return %



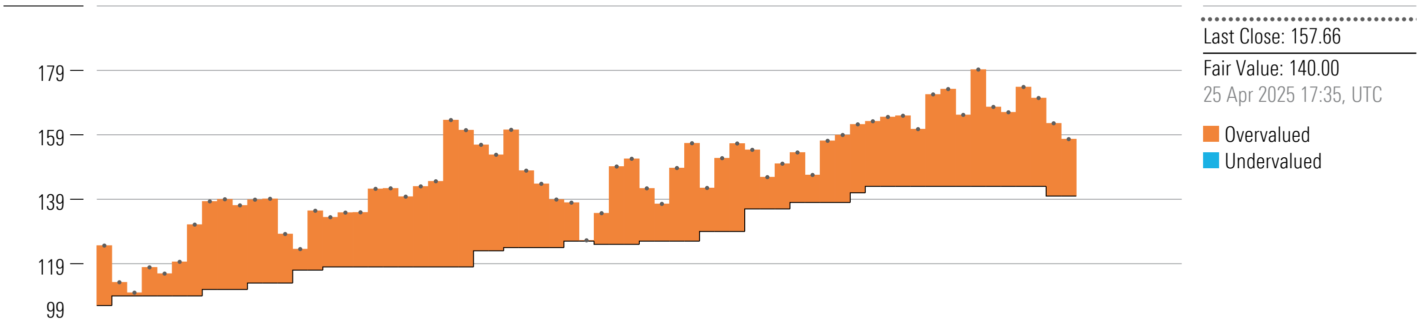
Total Return % as of 09 May 2025. Last Close as of 09 May 2025. Fair Value as of 4 Feb 2025 19:32, UTC.

Morningstar Equity Analyst Report | Report as of 12 May 2025 20:56, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC.

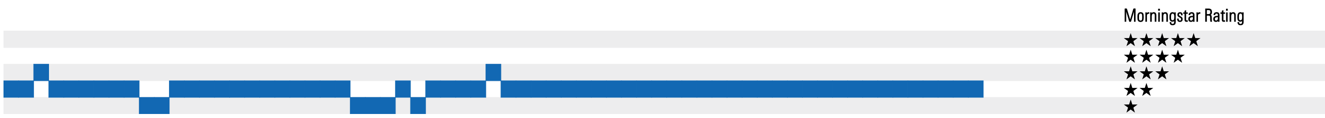
Johnson & Johnson JNJ ★★★★ 9 May 2025 21:20, UTC

Competitors Price vs. Fair Value

Procter & Gamble Co PG



2020	2021	2022	2023	2024	YTD	
1.23	1.39	1.21	1.06	1.17	1.13	Price/Fair Value
13.90	20.01	-5.14	-0.85	17.11	-4.73	Total Return %



Total Return % as of 09 May 2025. Last Close as of 09 May 2025. Fair Value as of 25 Apr 2025 17:35, UTC.

Morningstar Equity Analyst Report | Report as of 12 May 2025 20:56, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC. Page 13 of 22

Johnson & Johnson JNJ ★★★★ 9 May 2025 21:20, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
154.22 USD 9 May 2025	164.00 USD 19 Sep 2022 11:58, UTC	0.94	370.87 USD Bil 12 May 2025	Wide	Large Value	Low	Standard	7 May 2025 05:00, UTC

Morningstar Valuation Model Summary

Financials as of 15 Apr 2025	Actual			Forecast				
Fiscal Year, ends 31 Dec	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**
Revenue (USD Mil)	79,990	85,159	88,821	91,029	94,362	96,030	98,714	102,742
Operating Income (USD Mil)	21,013	23,409	22,149	24,756	26,300	26,740	28,121	29,895
EBITDA (USD Mil)	26,115	22,083	23,409	40,390	35,773	35,759	36,772	38,271
Adjusted EBITDA (USD Mil)	26,115	22,083	23,409	40,390	35,773	35,759	36,772	38,271
Net Income (USD Mil)	16,370	13,350	14,026	26,006	21,965	22,279	23,343	24,707
Adjusted Net Income (USD Mil)	27,037	25,410	24,240	25,522	26,530	26,363	26,996	27,975
Free Cash Flow To The Firm (USD Mil)	-3,854	-1,158	1,196	16,088	26,276	26,285	26,256	28,001
Weighted Average Diluted Shares Outstanding (Mil)	2,664	2,560	2,429	2,405	2,357	2,310	2,264	2,218
Earnings Per Share (Diluted) (USD)	6.15	5.21	5.77	10.81	9.32	9.65	10.31	11.14
Adjusted Earnings Per Share (Diluted) (USD)	10.15	9.92	9.98	10.61	11.26	11.41	11.93	12.61
Dividends Per Share (USD)	4.45	4.70	4.91	4.96	5.21	5.47	5.74	6.03

Margins & Returns as of 15 Apr 2025		Actual			Forecast					
	3 Year Avg	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**5 Year Avg**
Operating Margin %	19.7	26.3	27.5	24.9	27.2	27.9	27.9	28.5	29.1	30.8
EBITDA Margin %	—	32.7	25.9	26.4	44.4	37.9	37.2	37.3	37.3	—
Adjusted EBITDA Margin %	—	32.7	25.9	26.4	44.4	37.9	37.2	37.3	37.3	38.8
Net Margin %	17.3	20.5	15.7	15.8	28.6	23.3	23.2	23.7	24.1	24.6
Adjusted Net Margin %	30.3	33.8	29.8	27.3	28.0	28.1	27.5	27.4	27.2	27.6
Free Cash Flow To The Firm Margin %	-1.6	-4.8	-1.4	1.4	17.7	27.9	27.4	26.6	27.3	25.4

Growth & Ratios as of 15 Apr 2025		Actual			Forecast					
	3 Year CAGR	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**5 Year CAGR**
Revenue Growth %	4.1	1.6	6.5	4.3	2.5	3.7	1.8	2.8	4.1	2.9
Operating Income Growth %	1.9	0.3	11.4	-5.4	11.8	6.2	1.7	5.2	6.3	6.2
EBITDA Growth %	-3.9	-2.2	-15.4	6.0	72.5	-11.4	0.0	2.8	4.1	13.6
Adjusted EBITDA Growth %	-4.3	-2.2	-15.4	6.0	72.5	-11.4	0.0	2.8	4.1	10.3
Earnings Per Share Growth %	-4.6	-7.7	-15.2	10.7	87.3	-13.8	3.5	6.9	8.0	14.0
Adjusted Earnings Per Share Growth %	-4.6	3.6	-2.2	0.5	6.4	6.1	1.4	4.5	5.7	14.0

Valuation as of 15 Apr 2025	Actual			Forecast				
	2022	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**
Price/Earning	17.4	15.8	14.5	14.5	13.7	13.5	12.9	12.2
Price/Sales	5.8	4.4	3.9	4.1	3.9	3.9	3.8	3.6
Price/Book	6.1	5.8	4.9	4.6	4.4	4.3	4.1	4.0
Price/Cash Flow	—	—	—	—	—	—	—	—
EV/EBITDA	17.6	17.4	15.5	9.5	10.7	10.8	10.5	10.0
EV/EBIT	21.9	16.4	16.4	15.5	14.6	14.4	13.7	12.9
Dividend Yield %	2.5	3.0	3.4	3.2	3.4	3.6	3.7	3.9
Dividend Payout %	43.8	47.4	49.2	46.7	46.3	47.9	48.2	47.8
Free Cash Flow Yield %	—	—	—	—	—	—	—	—

Operating Performance / Profitability as of 15 Apr 2025	Actual			Forecast				
Fiscal Year, ends 31 Dec	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**
ROA %	9.9	8.0	7.8	13.0	11.0	11.2	11.8	12.4
ROE %	21.3	19.4	19.6	32.0	26.7	26.8	27.7	28.6
ROIC %	15.1	17.1	16.3	15.1	15.7	16.1	17.1	18.5

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Johnson & Johnson JNJ ★★★★ 9 May 2025 21:20, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
154.22 USD 9 May 2025	164.00 USD 19 Sep 2022 11:58, UTC	0.94	370.87 USD Bil 12 May 2025	Wide	Large Value	Low	Standard	7 May 2025 05:00, UTC

Financial Leverage (Reporting Currency)	Actual			Forecast				
Fiscal Year, ends 31 Dec	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**
Debt/Capital %	7.9	7.2	9.5	10.2	9.7	9.2	8.8	8.3
Assets/Equity	2.2	2.4	2.5	2.5	2.4	2.4	2.4	2.3
Net Debt/EBITDA	0.7	0.3	0.5	0.3	0.2	0.1	0.0	-0.2
Total Debt/EBITDA	1.5	1.3	1.6	1.2	1.3	1.2	1.1	1.1
EBITDA/ Net Interest Expense	-122.0	-45.2	-40.6	234.8	119.2	143.0	183.9	255.1

Forecast Revisions as of 15 Apr 2025	2025		2026		2027	
Prior data as of 25 Feb 2025	**Current**	**Prior**	**Current**	**Prior**	**Current**	**Prior**
Fair Value Estimate Change (Trading Currency)	164.00	166.01	—	—	—	—
Revenue (USD Mil)	91,029	90,501	94,362	94,211	96,030	95,493
Operating Income (USD Mil)	24,756	24,779	26,300	26,249	26,740	26,563
EBITDA (USD Mil)	40,390	33,694	35,773	35,823	35,759	35,675
Net Income (USD Mil)	25,522	25,757	26,530	26,575	26,363	26,464
Earnings Per Share (Diluted) (USD)	10.81	8.68	9.32	9.34	9.65	9.68
Adjusted Earnings Per Share (Diluted) (USD)	10.61	10.71	11.26	11.28	11.41	11.46
Dividends Per Share (USD)	4.96	4.96	5.21	5.21	5.47	5.47

Key Valuation Drivers as of 15 Apr 2025	
Cost of Equity %	7.5
Pre-Tax Cost of Debt %	5.3
Weighted Average Cost of Capital %	7.2
Long-Run Tax Rate %	19.0
Stage II EBI Growth Rate %	3.5
Stage II Investment Rate %	20.0
Perpetuity Year	20

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

Discounted Cash Flow Valuation as of 15 Apr 2025	**USD Mil**
Present Value Stage I	174,871
Present Value Stage II	92,781
Present Value Stage III	142,265
Total Firm Value	**409,917**
Cash and Equivalents	24,522
Debt	36,634
Other Adjustments	-945
Equity Value	**392,542**
Projected Diluted Shares	2,407
Fair Value per Share (USD)	**164.00**

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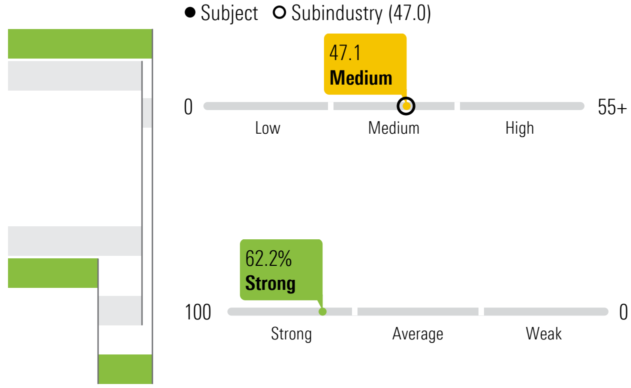
Johnson & Johnson JNJ ★★★★ 9 May 2025 21:20, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
154.22 USD 9 May 2025	164.00 USD 19 Sep 2022 11:58, UTC	0.94	370.87 USD Bil 12 May 2025	Wide	Large Value	Low	Standard	7 May 2025 05:00, UTC

ESG Risk Rating Breakdown

Exposure		
Company Exposure[1]	47.1	
– Manageable Risk	43.7	
Unmanageable Risk[2]	**3.4**	
Management		
Manageable Risk	43.7	
– Managed Risk[3]	27.2	
Management Gap[4]	**16.5**	
Overall Unmanaged Risk	**19.9**	



- 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 62.2% 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 May 07, 2025. Highest Controversy Level is as of May 08, 2025. Sustainalytics Subindustry: Pharmaceuticals. 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 07 May 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		
Johnson & Johnson	47.1 | Medium	0	55+	62.2 | Strong	100	0	19.9 | Low	0	40+
Eli Lilly and Co	45.8 | Medium	0	55+	51.8 | Strong	100	0	23.6 | Medium	0	40+
Merck & Co Inc	47.2 | Medium	0	55+	62.6 | Strong	100	0	19.7 | Low	0	40+
Procter & Gamble Co	45.2 | Medium	0	55+	48.1 | Average	100	0	25.9 | Medium	0	40+
Novartis AG	44.2 | Medium	0	55+	69.8 | Strong	100	0	15.6 | Low	0	40+

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Appendix
Historical Morningstar Rating

Johnson & Johnson JNJ 9 May 2025 21:20, 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
★★★	★★★	★★★	★★	★★	★★★	★★	★★	★★	★★★★	★★★	★★

Eli Lilly and Co LLY 9 May 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
★★★	★★★	★★★★	★★★	★★★	★★★	★★	★★	★★	★★★	★★★	★★★

Merck & Co Inc MRK 9 May 2025 21:20, 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
★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★

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Procter & Gamble Co PG 9 May 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, 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

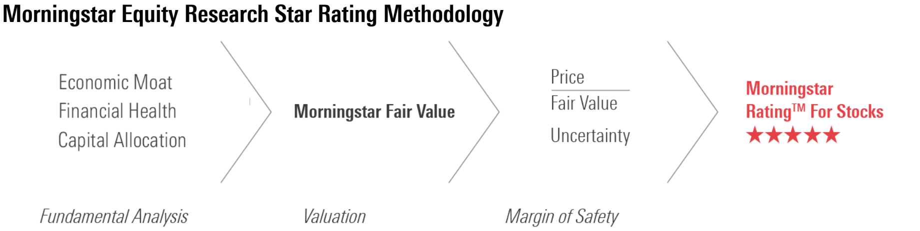
Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than 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.

Morningstar Equity Research Star Rating Methodology



Stage II: Fade

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

Stage III: Perpetuity

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

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

3. Uncertainty Around That Fair Value Estimate

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

Our Uncertainty Rating is meant to take into account anything that can increase the potential dispersion of future outcomes for the intrinsic value of a company, and any-

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

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

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

	Margin of Safety	
Qualitative Analysis Uncertainty Ratings	★★★★★Rating	★Rating
Low	20% Discount	25% Premium
Medium	30% Discount	35% Premium
High	40% Discount	55% Premium
Very High	50% Discount	75% Premium
Extreme	75% Discount	300% Premium

Our uncertainty rating is based on the interquartile range, or the middle 50% of potential outcomes, covering the 25th percentile–75th percentile. This means that when a stock hits 5 stars, we expect there is a 75% chance that the intrinsic value of that stock lies above the current market price. Similarly, when a stock hits 1 star, we expect there is a 75% chance that the intrinsic value of that stock lies below the current market price.

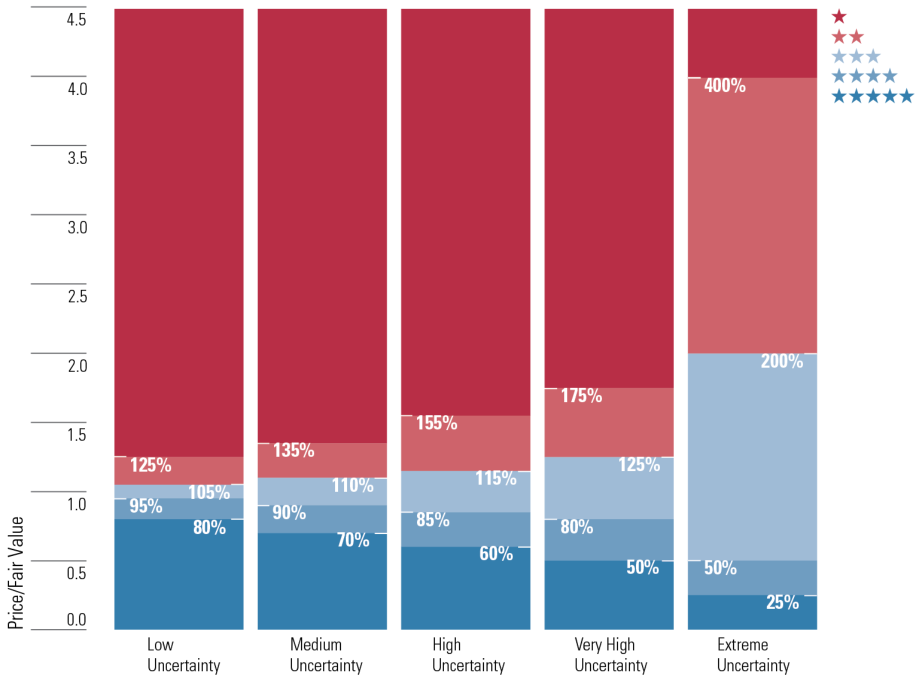
4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more details about our methodology, please go to https://shareholders.morningstar.com

Morningstar Star Rating for Stocks

Morningstar Equity Research Star Rating Methodology



Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

★★★★★ We believe appreciation beyond a fair risk adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

★★★★ We believe appreciation beyond a fair risk-adjusted return is likely.

★★★ Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

★★ We believe investors are likely to receive a less than fair risk-adjusted return.

★ Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions

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

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 compan-

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

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

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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