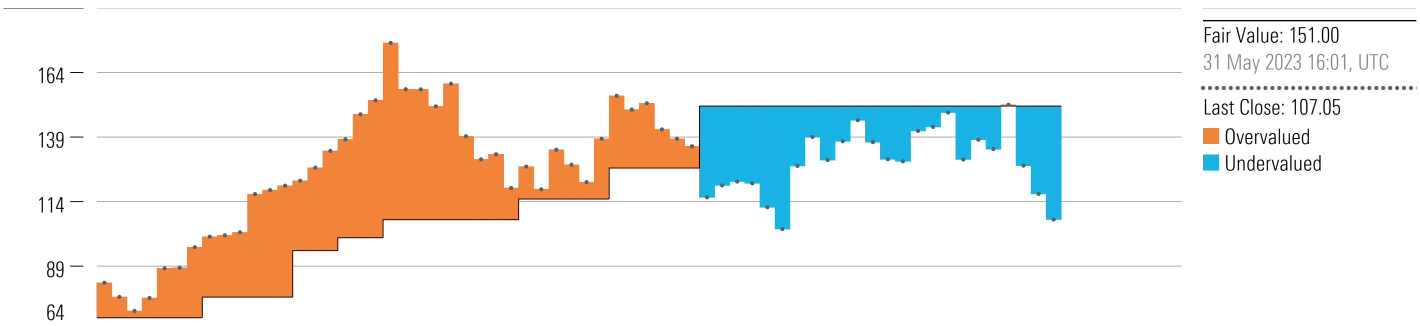
Morningstar Equity Analyst Report | Report as of 10 Apr 2025 17:28, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC.

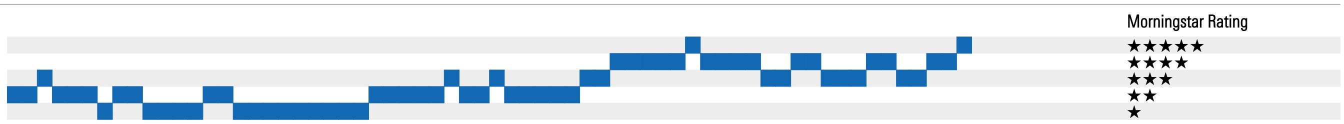
Agilent Technologies Inc A ★★★★★ 9 Apr 2025 21:28, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
107.05 USD 9 Apr 2025	151.00 USD 31 May 2023 16:01, UTC	0.71	27.95 USD Bil 10 Apr 2025	Wide	Mid Blend	Medium	Exemplary	2 Apr 2025 05:00, UTC

Price vs. Fair Value



	2020	2021	2022	2023	2024	YTD	
	1.54	1.49	1.18	0.92	0.89	0.71	Price/Fair Value
	39.53	35.39	-5.60	-6.49	-2.69	-20.13	Total Return %



Total Return % as of 09 Apr 2025. Last Close as of 09 Apr 2025. Fair Value as of 31 May 2023 16:01, UTC.

Contents

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

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

Life Science Industry: Tariffs Remain Concerning, but No Major Change to Our Views Currently

Analyst Note Julie Utterback, CFA, Senior Equity Analyst, 10 Apr 2025

Over the past week, life science shares have experienced significant volatility related to a deepening trade war with China and as broader US tariffs were implemented and then paused for 90 days to allow time for negotiations. A pharmaceutical-specific tariff is also being considered.

Why it matters: Near-term life science demand, margins, and tax rates may be directly affected by tariffs, especially with China. However, the durability of tariffs is highly uncertain, and we wouldn't anticipate many drug manufacturers altering their footprint notably, given the significant costs and time required.

- In our coverage, China sales range from around 19% of sales at Agilent down to 7% at Illumina in 2024, with most of our remaining list typically in the midteens. This creates moderate concerns around profitability in that deepening trade war.
- Although unlikely, one of the major times when a biopharmaceutical manufacturer would consider switching life science tool suppliers is when building a new manufacturing facility, so we will remain on the lookout for major plans on that front.

The bottom line: While short- or intermediate-term pressures may arise, we are not changing our views on the life science firms at this point, as we think the direct impact from tariffs on long-term profits will likely be limited in scope. Life science shares appear largely undervalued to us currently.

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Sector	Industry
Healthcare	Diagnostics & Research

Business Description

Originally spun out of Hewlett-Packard in 1999, Agilent has evolved into a leading life science and diagnostic firm. Today, Agilent's measurement technologies serve a broad base of customers with its three operating segments: life science and applied tools, cross lab consisting of consumables and services related to life science and applied tools, and diagnostics and genomics. Over half of its sales are generated from the biopharmaceutical, chemical, and advanced materials end markets, which we view as the stickiest end markets, but it also supports clinical lab, environmental, forensics, food, academic, and government-related organizations. The company is geographically diverse, with operations in the US and China representing the largest country concentrations.

- On China, most of these firms, including one of the most exposed players, Agilent, have "in China, for China" manufacturing status, which limits tariff risk. European firms may have a leg up on US firms, though, if China takes further retaliatory steps specifically against US firms.
- Life science toolmakers that sell to the drug manufacturers will likely still enjoy very wide moats too. We would only get concerned for the near-term stickiness if significant drug manufacturing looks likely to shift back to the US, which looks unlikely to us.

Business Strategy & Outlook Julie Utterback, CFA, Senior Equity Analyst, 16 May 2024

Agilent focuses on providing tools to analyze the structural properties of various chemicals, molecules, and cells. The company is one of the leading providers of chromatography and mass spectrometry tools, which have applications in a variety of end markets, including the healthcare, chemical, food, and environmental fields. While healthcare-related applications, including clinical diagnostics, remain Agilent’s largest end market, Agilent generates about half of its sales from nonhealthcare fields.

Agilent's strategy revolves around placing analytical instruments and informatics with relevant customers and then providing related services and consumables such as chromatography columns and sample preparation tools, which account for the rest of Agilent's sales. About half of Agilent's sales recur naturally. However, even instrument sales can be relatively sticky at the end of the instrument's life cycle, especially in the highly regulated biopharmaceutical end market (over 35% of Agilent’s sales) and some of its other applications where intensive, time-consuming training is required to master the scientific analysis. Agilent aims to increase its exposure to these sticky customer relationships.

Overall, we think top-tier positions in most end markets, innovation, marketing operations, and ongoing cost controls should help Agilent grow revenue in the midsingle digits compounded annually and boost margins overall during our five-year forecast period. Overall, we expect mid- to high-single-digit earnings growth from Agilent, organically and with some share repurchases. While internal growth opportunities look solid, acquisitions could add to its bottom-line growth prospects, as well.

Bulls Say Julie Utterback, CFA, Senior Equity Analyst, 20 Nov 2024

- Agilent's innovation engine and cost control efforts have been on display through strong growth and margin expansion since spinning out its electronic measurement business Keysight in November 2014.
- As a well-established leader in many of its core markets, regulatory concerns and customer familiarity with Agilent’s instrumentation and services can make market share gains for competitors difficult.
- Agilent continues to increase its exposure to the sticky biopharmaceutical end market, including recent acquisitions in the emerging cell analysis field.

Bears Say Julie Utterback, CFA, Senior Equity Analyst, 20 Nov 2024

- Due to its dependence on one-time sales and its exposure to some cyclical end markets, Agilent's financial results may weaken during uncertain times.

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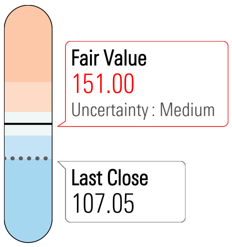
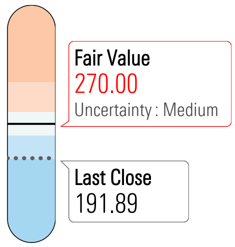
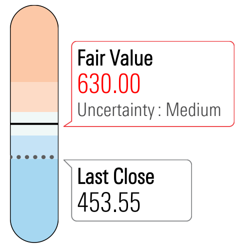
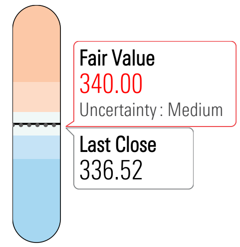
Competitors

	Agilent Technologies Inc A	Danaher Corp DHR	Thermo Fisher Scientific Inc TMO	Waters Corp WAT
				
Economic Moat	Wide	Wide	Wide	Wide
Currency	USD	USD	USD	USD
Fair Value	151.00 31 May 2023 16:01, UTC	270.00 29 Jan 2025 16:46, UTC	630.00 1 May 2024 14:48, UTC	340.00 1 Nov 2024 14:45, UTC
1-Star Price	203.85	364.50	850.50	459.00
5-Star Price	105.70	189.00	441.00	238.00
Assessment	Undervalued 9 Apr 2025	Undervalued 9 Apr 2025	Undervalued 9 Apr 2025	Fairly Valued 9 Apr 2025
Morningstar Rating	★★★★★9 Apr 2025 21:28, UTC	★★★★★9 Apr 2025 21:27, UTC	★★★★★9 Apr 2025 21:30, UTC	★★★9 Apr 2025 21:29, UTC
Analyst	Julie Utterback, Senior Equity Analyst	Julie Utterback, Senior Equity Analyst	Alex Morozov, Regional Director	Julie Utterback, Senior Equity Analyst
Capital Allocation	Exemplary	Exemplary	Exemplary	Exemplary
Price/Fair Value	0.71	0.71	0.72	0.99
Price/Sales	4.74	5.93	4.05	6.77
Price/Book	5.07	2.79	3.48	10.93
Price/Earning	24.55	35.83	20.75	30.95
Dividend Yield	0.90%	0.59%	0.35%	0.00%
Market Cap	30.52 Bil	137.29 Bil	171.21 Bil	19.99 Bil
52-Week Range	96.43—155.35	171.00—281.70	409.85—627.88	279.24—423.56
Investment Style	Mid Blend	Large Blend	Large Value	Mid Growth

- Problems in the Chinese market, which represents about 20% of Agilent's sales, can be more pronounced than for other life science players that typically only generate a midteens percentage of sales in that country.
- Agilent's increasing appetite for acquisitions adds some uncertainty around the magnitude of its economic profitability in the long run.

Economic Moat Julie Utterback, CFA, Senior Equity Analyst, 20 Nov 2024

We believe a wide moat surrounds Agilent's analytical instrument business, consisting primarily of chromatography (gas and liquid), mass spectrometry, and other testing tools. Intellectual property and ongoing innovation create an intangible asset moat source while regulatory and reproducibility factors contribute to switching costs for end users. Both moat sources are crucial to Agilent's ongoing advantages in its target markets, and Agilent enjoys strong returns on invested capital including goodwill of more than double its capital costs, by our calculations. Additionally, from an environmental, social, and governance perspective, Agilent faces limited risks that would not affect our wide-moat view of the firm. In fact, it is one of the few companies in healthcare that could benefit from ESG-related efforts to exercise quality controls on the products humans ingest, such as food, water, and pharmaceuticals.

Intangible Assets

Agilent offers differentiated technology that is protected by various intangible assets, including patents, copyrights, and trademarks. This portfolio of intellectual property and its innovation prowess in chosen fields keep competitors from directly copying its technology. Since even slightly differentiated technical features can cause an end user to prefer one tool over another similar tool in Agilent's precise scientific end markets, we see intangible assets around its differentiated technology as a significant moat source. The differentiated properties of Agilent's tools affect the performance, accuracy, and speed of the various research projects they enable, and differentiated product features create intangible assets that inform decisions to use those tools in specific applications, particularly at the beginning of a project. In order to remain relevant to scientists in early project phases, Agilent must continue to innovate, and we believe its ongoing innovation also contributes to its intangible assets in this business. Agilent has significant incentive to develop new products that contribute to positive mix benefits, although it enjoys some like-for-like pricing power as well.

Switching Costs

Analytical Instruments

After the initial choice of tools based primarily on intangible assets, Agilent benefits from substantial switching costs in most of its end markets. For example, roughly 35% of Agilent's revenue is generated from the development and manufacturing of biopharmaceuticals, which is an extremely sticky business. In this end market, Agilent's analytical tools are critical components of the production methods for various drugs, which are specified directly in each molecule's regulatory approval application. Regulators require the same production method throughout a drug's lifecycle, and any changes to the manufacturing process, including the quality assurance and quality control tests often performed on Agilent's tools, would require time, money, and additional regulatory scrutiny to reopen a drug's application to receive approval from regulators to change that process. Those regulatory requirements, as well as reproducibility concerns such as employee training and learning curves, create highly durable switching costs for biopharmaceutical customers that result in a very long potential benefit period for Agilent in this highly regulated market. For branded small molecules, that period can last up to 20 years from discovery until patent expiration. For large molecules (or biologics), that period can last even longer due to their difficult-to-duplicate manufacturing processes. Also, once a drug's key patents expire, generic and biosimilar manufacturers often seek to mimic the same production methods that were used by the branded manufacturer to reduce product variability, and that adoption by generic and biosimilar manufacturers can create an even longer benefit period for Agilent on a specific molecule.

We see narrower, but still strong, moats around Agilent's analytical instruments that are used in other less regulated end markets, and we think intangible assets and switching costs, primarily around the long useful life of equipment, support Agilent's moat in most of those end markets, as well. For example, Agilent leads the market in gas chromatography tools that are often used in the chemicals and advanced materials end markets. Agilent generates about triple the revenue of its closest peer in gas chromatography products, and we believe its differentiated technology, strong reputation, and innovative capabilities create an intangible asset advantage in gas chromatography in particular. Also, Agilent's gas chromatography instruments have very long useful lives around 10 years, and those long lives contribute to the durability of Agilent's economic profits even outside the highly regulated biopharmaceutical end market. Specifically, while a customer uses these instruments, Agilent should generate recurring consumable and service revenue, and we believe other switching costs persist due to training and workflow productivity concerns for end users in these highly specialized applications, which has led to very stable market shares in gas chromatography, especially.

Diagnostics

Agilent's remaining diagnostics business also has advantages with intangible assets associated with its differentiated testing platforms along with some switching costs. In this division, Agilent's tools primarily help clinicians diagnose and then develop therapeutic plans for patients with a concentration in oncology indications. Through its 2012 acquisition of Dako, Agilent enjoys a top-tier position in the anatomical pathology market for tissue-based cancer diagnostics. Relative to the broader diagnostics market, the company's installed instrument base in this business and related consumable sales make this a decent specialty segment where pathologists perform sophisticated and time-consuming tests. Overall, we think this division's solid prospects combined with intangible assets and the switching costs associated with its large installed base contribute to Agilent's competitive advantages.

Fair Value and Profit Drivers Julie Utterback, CFA, Senior Equity Analyst, 20 Nov 2024

We are keeping our fair value estimate at $151 per share. For reference only, our discounted cash-flow-based fair value estimate implies a multiple of approximately 28 times fiscal 2024 expected earnings.

After strong growth during the pandemic years and a reset in fiscal 2023-24, we expect Agilent's growth trajectory to return to more normalized levels going forward. Specifically through fiscal 2028, we expect 5% compound annual revenue growth, or within management's 5% to 7% core revenue growth target. By end market in the long run, we expect the biopharmaceutical end market to lead the way on Agilent's growth based on strong expected biologic trends in particular and solid small molecule growth.

Also, we expect solid low- to mid-single-digit growth rates in Agilent's other applied markets.

On the bottom line, we expect adjusted EPS will rise around 7% compounded annually through fiscal 2028, or above sales growth primarily on margin expansion and share repurchases. We expect cost-control efforts to continue with the potential to improve margins primarily through expanding gross margins and controlling the SG&A line. However, we expect share repurchases to generate the bulk of the 200-basis-point difference between expected sales and adjusted EPS growth during the next five years.

Risk and Uncertainty Julie Utterback, CFA, Senior Equity Analyst, 20 Nov 2024

Agilent's uncertainty rating remains Medium, thanks to its sticky end markets that should result in relatively steady demand trends in the long run, despite its dependence on one-time instrument sales that can be delayed during weak times in both the general economy or in specific end markets.

Only a bit over half of Agilent's business is recurring in nature, which means the other half in particular can experience volatility due to macroeconomic conditions and budget constraints. For example, Agilent's chemical and advanced materials end market suffered after oil and gas prices plummeted from 2014-16. In those weak conditions, Agilent's clients delayed capital spending, which cut into Agilent's results in that end market. The risk of instrument purchase delays has even been evident in the recession-resistent biopharmaceutical end market during the postpandemic reset period. However, we expect demand trends to return to more normalized levels in the near future.

Additionally, Agilent remains a technology company that must innovate to remain relevant to end users. If established competitors or new entrants introduce better products or develop stronger relationships with customers, Agilent may lose market share as well as its ability to extract price increases in the future. Those factors could cut into its growth and margins.

Capital Allocation Julie Utterback, CFA, Senior Equity Analyst, 20 Nov 2024

Our Capital Allocation Rating for Agilent remains Exemplary. This assessment includes its sound balance sheet management, its exceptional investment strategy, and its appropriate shareholder distributions. All in, these practices should help Agilent generate economic profits for the long run and allow shareholders to participate in that performance.

On the balance sheet front, we appreciate that the company maintains a strong balance sheet with very low leverage, limited debt maturities in the near term, and low debt relative to its overall enterprise value. We do not expect the company's balance sheet to weaken materially in the near future, either, although investors should know that management's acquisition appetite has increased somewhat, which could boost leverage temporarily. Overall, though, we expect Agilent to remain relatively conservative with its balance sheet in the long run, given historical precedence and some cyclicality in its end markets.

From a strategic investment standpoint, we think the company has invested well, especially on an organic basis. In fact, Agilent's R&D investments in its core technology platforms and significant investments in its service operations (the CrossLab Group) allowed it to steal some market share in recent years, which is a significant feat in the very sticky biopharmaceutical end market. Also, the company continues to invest in higher-growth components of the building blocks of innovation in pharmaceuticals and biotechnology, such as its ongoing expansion in oligonucleotides (NASD) and its cell analysis acquisitions. We appreciate its focus on liquid biopsy technology (primarily therapy selection), too, through internal and external means, which should help offset some of this risks associated with its tissue biopsy business, as new liquid biopsy (early cancer detection) entrants emerge. Overall, though, unlike some of the more aggressive consolidators in the industry, we appreciate that Agilent only selectively uses acquisitions and divestitures to improve asset productivity and build capabilities in new markets. Although one could argue that valuations paid have been somewhat rich in the highly valued life science/diagnostics industry, management's selectivity relative to some of its more aggressive peers has helped Agilent consistently deliver attractive returns on invested capital while also maintaining a healthy balance sheet.

Additionally, the company returns value to shareholders through a modest dividend and opportunistic share repurchase program, and we generally view these activities as appropriate given its strong organic growth prospects and the potential cyclicality in some of its end markets.

Analyst Notes Archive

Agilent Earnings: Exceeded Our 2024 Expectations but Guided Conservatively for 2025 Julie Utterback, CFA,Senior Equity Analyst,26 Nov 2024

Wide-moat Agilent delivered fiscal fourth-quarter results that helped it exceed our 2024 expectations. However, when considering the conservative outlook that management gave for fiscal 2025, we are keeping our $151 fair value estimate intact at first glance.In the quarter, Agilent mildly exceeded guidance on the top and bottom lines, helping it exceed our expectations for 2024. Agilent's fourth-quarter sales of $1.70 billion were about flat on a core basis and slightly exceeded the top end of management's previous guidance range of $1.64 billion to $1.69 billion. The important pharma end market only declined 1% year over year, and management noted that instrument sales are improving slightly. The book/bill ratio on instruments remains above 1 time, suggesting that a potential relief may be on the horizon after over a year of weak demand on delayable instrument sales. Also, Agilent's diagnostics and clinical business led its segments in the quarter with 7% growth. With the help of share repurchases, Agilent's adjusted EPS rose 6% year over year to $1.46, or mildly better than the $1.38-$1.42 previously expected.Looking beyond fiscal 2024, two areas of recent weakness—instruments and China—could turn into moderate tailwinds from headwinds previously, but the company remained conservative with its guidance for 2025. Specifically, Agilent only expects core sales growth of 2.5% to

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3.5%. Also, for next year, Agilent only expects 5% to 6% adjusted EPS growth to a range of $5.54 to $5.61, which was below FactSet consensus and our previous expectation. Investors should note, though, that Agilent's management team is notorious for being conservative with guidance, and management admitted its conservatism on the call related primarily to uncertainty around how the industry will rebound off the tough 2023-24 reset period, despite the government stimulus expected in China and the aging fleet of instruments at its biopharma clients that should be updated soon.

Agilent Earnings: Slightly Exceeded Outlook, but No Fair Value Change on Tightened Guidance Range Julie Utterback, CFA,Senior Equity Analyst,22 Aug 2024

Wide-moat Agilent delivered fiscal third-quarter results that were slightly better than management's target. The firm increased the bottom end of its outlook range for fiscal 2024. Our $151 fair value estimate remains intact near recent trades.In the quarter, Agilent mildly exceeded guidance on the top and bottom lines, helping boost the bottom end of Agilent's target ranges for fiscal 2024. Management noted that general lab activity appeared solid with mid-single-digit growth in consumables and services that helped Agilent's sales of $1.578 billion only decline 4% and mildly exceed the top end of management's previous guidance range of $1.535 billion to $1.575 billion, despite ongoing delays in instrument sales. Operating margins contracted less than expected, too, causing adjusted earnings per share to decline by 8% year over year to $1.32, or better than the $1.25 to $1.28 previously expected. Considering those results, management has increased the bottom end of its guidance ranges for fiscal 2024. Specifically, Agilent now expects a 4%-5% core revenue decline to $6.45 billion-$6.50 billion, up from $6.42 billion-$6.50 billion. It now expects adjusted EPS to decline 3% to 4% to $5.21 to $5.25 in fiscal 2024, up from $5.15-$5.25 previously. Our expectations remain within those new outlook ranges.Looking beyond fiscal 2024, two areas of weakness—instruments and China—could turn into moderate tailwinds from big headwinds, currently. Specifically, in the quarter, life science and applied market instrument sales declined in the low-double digits, with particular weakness in pharmaceuticals, and China sales declined 11%, constraining several segments. Looking forward, though, the book/bill ratio on instruments remains above 1 time, suggesting that a potential relief may be on the horizon after more than a year of weak demand on delayable instrument sales. Also, government stimulus in China may start boosting Agilent's results in fiscal 2025.

Agilent Earnings: Solid, but Management Pushes Down Fiscal 2024 Guidance on Slower Recovery Timeline Julie Utterback, CFA,Senior Equity Analyst,30 May 2024

Wide-moat Agilent delivered fiscal second-quarter profits that were slightly better than management's target. However, management cut its outlook for fiscal 2024, including a core revenue decline of 4%-5% (down from a 1% decline-1% growth previously) and adjusted EPS to $5.15-$5.25, or a 3%-5% decline (down from $5.44-$5.55 or 0%-2% growth, previously.) While we have reduced our near-term assumptions for Agilent, our long-term expectations have not changed materially, and our $151 fair value estimate remains intact. Shares are diving on this guidance cut, though, which may give investors an opportunity to grab shares in this high-quality firm at a discount to fair value.In the quarter, sales declined 7% on a core basis adjusted for currency changes and acquisitions and divestitures, which was in line with management's previous outlook, and adjusted earnings per share declined 4% to $1.22, allowing the firm to exceed its previous outlook of $1.17-$1.20, as it benefited from a lower-than-expected tax rate and higher interest income. However, in the quarter, its largest segment—pharmaceuticals—remained one of its weakest, with an 11% revenue decline. This came as customers delayed capital equipment purchases and management cut its 2024 outlook in this market to a low-double-digit decline from a previously flat outlook on those delays and short-term weakness in its Nucleic Acid Solutions Division, or NASD, opportunity that enables cell and gene therapy production. Weakness in China remains an ongoing theme as well, and management cut its outlook in that country for fiscal 2024, although there is some hope that a new multiyear stimulus program should buoy those results in fiscal 2025.Overall, management's reduced fiscal 2024 outlook considers that the turnaround may take longer than anticipated. We have reduced our 2024 expectations, but we remain comfortable with our longer-term expectations, which are the key drivers of our fair value estimate.

Agilent Earnings: Maintaining Our $151 Fair Value Estimate After Results Exceed Expectations Julie Utterback, CFA,Senior Equity Analyst,28 Feb 2024

Wide-moat Agilent Technologies delivered fiscal first-quarter results that were better than management's targets. However, it merely maintained its outlook for fiscal 2024. Our view for 2024 remains slightly more optimistic on the top line and at the high end of the bottom line compared with management's target ranges. At first glance, we do not anticipate changing our $151 fair value estimate. The shares appear to be rising closer to our fair value estimate in after-hours trading on these strong quarterly results.In the quarter, sales declined 6% on a core basis (adjusted for currency changes and acquisitions and divestitures), and adjusted earnings per share declined 6% to $1.29, allowing the firm to exceed its previous outlook of $1.20-$1.23. The weakest segment remains biopharmaceuticals, which declined 12% even as that end market grew 2% outside China primarily on consumable strength, as lab activity increased in other countries. Even in China, though, Agilent delivered better-than-expected results with some instrument sales being pulled forward before the Lunar New Year, although that pull-forward did not fully explain the quarter's outperformance.Despite these better-than-anticipated trends, management merely maintained its fiscal 2024 outlook, which probably reflects its typical conservatism early in the year. Management may remain especially conservative with expectations this year, given the planned leadership transition from longtime CEO Mike McMullen to internal executive Padraig McDonnell, although we do not expect the latter to make big changes to the organization. While our expectations for fiscal 2024 remain a bit more optimistic than management's view on the top line (1% decline to a 1% increase) and on the high end of its bottom-line target range (flat to up 2%), we remain comfortable with our near- and long-term expectations, and our $151 fair value estimate remains mildly above recent trades.

Agilent Earnings: Cash Flows Soar Even as China Weakness Constrains 2024 Outlook Julie Utterback, CFA,Senior Equity Analyst,21 Nov 2023

Wide-moat Agilent delivered fourth-quarter results that were better than management's targets but reflected weakness in the typically robust biopharma end market in China. Management expects those challenges to continue but not deteriorate further in fiscal 2024, and its initial outlook for revenue and adjusted EPS looks moderately below our previous view. At first glance, we do not anticipate changing our $151 fair value estimate, though, considering much higher than expected cash flows recently. Also, Agilent's long-term prospects remain intact, and Agilent shares continue to look moderately undervalued to us.In the quarter, sales declined 10% on a core basis (adjusted for currency changes and acquisitions/divestitures), and adjusted EPS declined 10%, allowing the firm to exceed its previous fiscal 2023 outlook by a penny, up 4% to $5.44. However, Agilent's largest end market, biopharmaceuticals, declined 14% with particular weakness in China, even as that end market grew 7% outside China. Positively, the firm's book/bill ratio now exceeds 1.0 for the company, suggesting that demand prospects are at least stabilizing. Also, free cash flow of just under $1.5 billion in fiscal 2023 significantly exceeded its previous expectation of $1.2 billion, reflecting strong working capital and capital expenditure controls.With ongoing macro-challenges in China, management gave a lackluster view for fiscal 2024 that included roughly flat results year over year. Specifically, on a core basis, revenue is expected between a 1% decline and a 1% increase, and adjusted EPS is expected to be flat to up 2% year over year. Our previous 2024 estimates look a bit stronger than management's outlook, which may reflect management's typical conservativism and uncertainty in China. However, even if we trim our near-term assumptions to reflect uncertainty in China, our fair value estimate does not look likely to change materially, especially considering Agilent's recent cash flow strength.

Agilent Earnings: China Challenges Cut Into Results and Guidance Julie Utterback, CFA,Senior Equity Analyst,16 Aug 2023

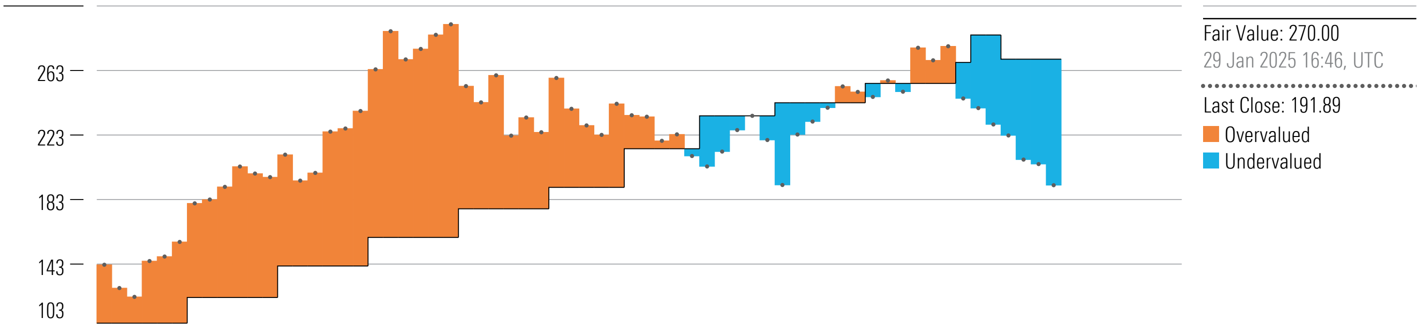
Wide-moat Agilent delivered third-quarter results that were slightly better than expected, but they reflected weakness in the typically robust biopharma end market, which looks likely to continue especially in China and caused management to reduce its 2023 guidance for sales and adjusted EPS. While we have tinkered with our near-term assumptions slightly after this announcement, those changes did not change our $151 fair value estimate, especially considering that management also raised the key driver of our valuation—free cash flow—materially for 2023. Overall, we think Agilent's long-term prospects remain intact, and Agilent shares continue to represent a growth at a reasonable price opportunity.In the quarter, sales declined 2% on a core basis (adjusted for currency changes and acquisitions/divestitures), and adjusted EPS grew 7% to $1.43, which looked stronger than management was expecting ($1.36-$1.38), including margin expansion and share repurchases. However, Agilent's largest end market, biopharmaceuticals, declined 8% with particular weakness in China (down 30%), similar to Agilent's life science peers in recent months.With these ongoing macrochallenges in China, management trimmed its fiscal 2023 guidance and now expects core revenue growth of just 0.8% to 1.5% (down from 3.0% to 4.5% previously) which looks lower than our previous expectation. Agilent also reduced its adjusted EPS guidance to $5.40-$5.43 (down from $5.60-$5.65,) which was also lower than our previous estimate. However, we use a discounted cash flow model, and Agilent actually increased its free cash flow guidance for 2023 by $250 million to $1.2 billion, which is higher than we anticipated primarily on more controlled capital expenditures and working capital management than previously expected. Overall, these near-term adjustments did not materially affect our fair value estimate for Agilent, which is more affected by our longer-term expectations that remain roughly intact.

Morningstar Equity Analyst Report | Report as of 10 Apr 2025 17:28, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC.

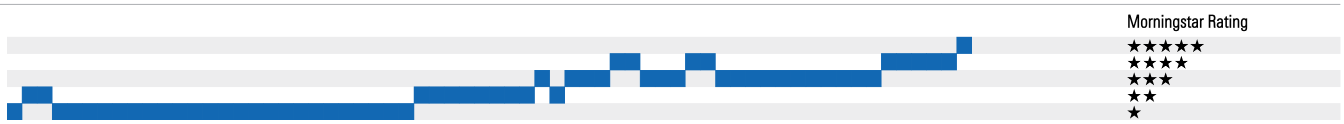
Agilent Technologies Inc A ★★★★★ 9 Apr 2025 21:28, UTC

Competitors Price vs. Fair Value

Danaher Corp DHR

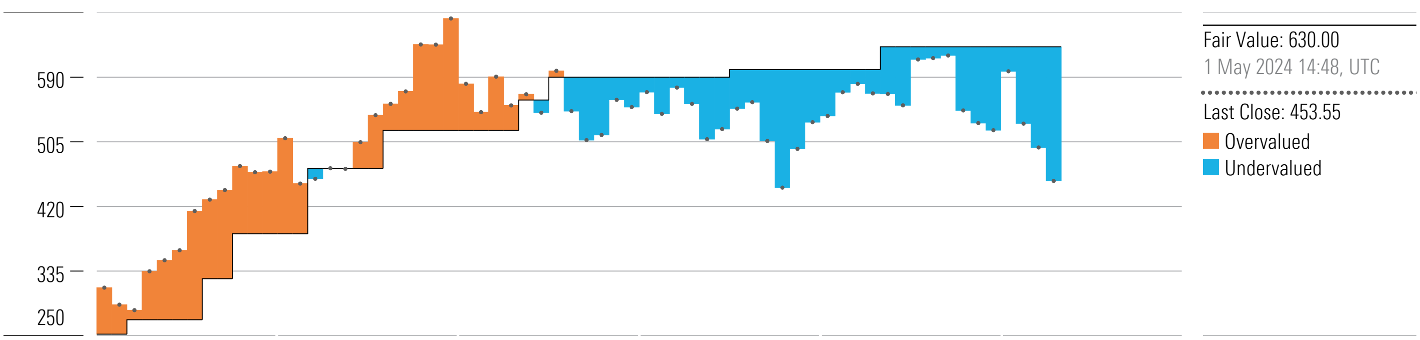


	2020	2021	2022	2023	2024	YTD
Price/Fair Value	1.61	1.83	1.10	0.95	0.81	0.71
Total Return %	45.20	48.49	-19.02	0.50	-0.31	-16.27

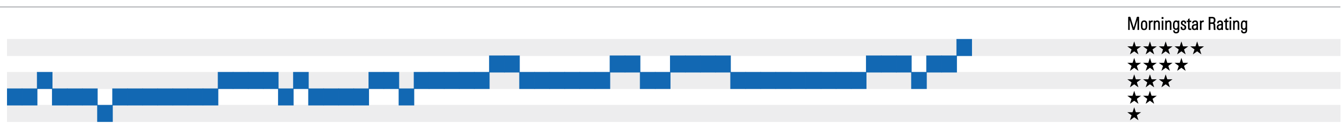


Total Return % as of 09 Apr 2025. Last Close as of 09 Apr 2025. Fair Value as of 29 Jan 2025 16:46, UTC.

Thermo Fisher Scientific Inc TMO



	2020	2021	2022	2023	2024	YTD
Price/Fair Value	1.21	1.28	0.93	0.88	0.83	0.72
Total Return %	43.65	43.48	-17.29	-3.36	-1.70	-12.73



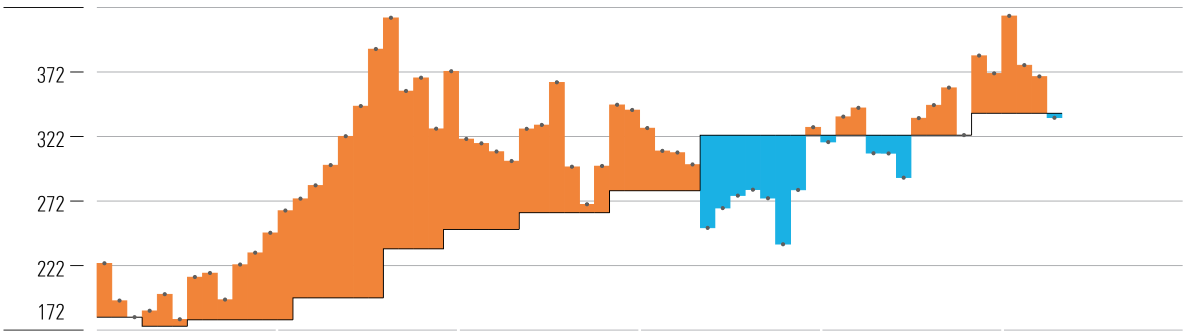
Total Return % as of 09 Apr 2025. Last Close as of 09 Apr 2025. Fair Value as of 1 May 2024 14:48, UTC.

Morningstar Equity Analyst Report | Report as of 10 Apr 2025 17:28, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC. Page 13 of 23

Agilent Technologies Inc A ★★★★★ 9 Apr 2025 21:28, UTC

Competitors Price vs. Fair Value

Waters Corp WAT

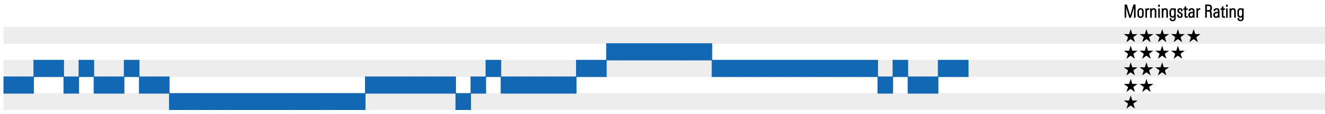


Fair Value: 340.00
1 Nov 2024 14:45, UTC

Last Close: 336.52
Overvalued
Undervalued

	2020	2021	2022	2023	2024	YTD
Price/Fair Value	1.37	1.49	1.22	1.02	1.09	0.99
Total Return %	5.89	50.59	-8.06	-3.90	12.68	-9.29

Morningstar Rating



Total Return % as of 09 Apr 2025. Last Close as of 09 Apr 2025. Fair Value as of 1 Nov 2024 14:45, UTC.

Morningstar Equity Analyst Report | Report as of 10 Apr 2025 17:28, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC. Page 14 of 23

Agilent Technologies Inc A ★★★★★ 9 Apr 2025 21:28, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
107.05 USD 9 Apr 2025	151.00 USD 31 May 2023 16:01, UTC	0.71	27.95 USD Bil 10 Apr 2025	Wide	Mid Blend	Medium	Exemplary	2 Apr 2025 05:00, UTC

Morningstar Valuation Model Summary

Financials as of 26 Feb 2025	Actual			Forecast				
Fiscal Year, ends 31 Oct	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**
Revenue (USD Mil)	6,319	6,833	6,510	6,756	7,170	7,614	8,068	8,553
Operating Income (USD Mil)	1,347	1,350	1,488	1,625	1,779	1,946	2,123	2,314
EBITDA (USD Mil)	1,759	1,631	1,745	1,860	1,997	2,151	2,318	2,502
Adjusted EBITDA (USD Mil)	2,109	2,030	2,042	2,141	2,263	2,404	2,558	2,731
Net Income (USD Mil)	1,210	1,207	1,240	1,357	1,499	1,637	1,791	1,963
Adjusted Net Income (USD Mil)	1,521	1,576	1,490	1,595	1,724	1,852	1,995	2,157
Free Cash Flow To The Firm (USD Mil)	800	1,123	322	1,224	1,388	1,495	1,618	1,750
Weighted Average Diluted Shares Outstanding (Mil)	307	296	291	285	279	273	268	263
Earnings Per Share (Diluted) (USD)	3.94	4.19	4.43	4.77	5.38	5.99	6.68	7.46
Adjusted Earnings Per Share (Diluted) (USD)	4.95	5.44	5.29	5.60	6.19	6.78	7.44	8.19
Dividends Per Share (USD)	0.81	0.94	0.99	1.01	1.11	1.22	1.34	1.47

Margins & Returns as of 26 Feb 2025		Actual			Forecast					
	3 Year Avg	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**5 Year Avg**
Operating Margin %	21.8	21.3	19.8	22.9	24.1	24.8	25.6	26.3	27.1	25.6
EBITDA Margin %	—	27.8	23.9	26.8	27.5	27.9	28.2	28.7	29.3	—
Adjusted EBITDA Margin %	—	33.4	29.7	31.4	31.7	31.6	31.6	31.7	31.9	31.7
Net Margin %	18.7	19.2	17.7	19.1	20.1	20.9	21.5	22.2	23.0	21.5
Adjusted Net Margin %	23.3	24.1	23.1	22.9	23.6	24.1	24.3	24.7	25.2	24.4
Free Cash Flow To The Firm Margin %	11.4	12.7	16.4	4.9	18.1	19.4	19.6	20.1	20.5	19.5

Growth & Ratios as of 26 Feb 2025		Actual			Forecast					
	3 Year CAGR	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**5 Year CAGR**
Revenue Growth %	6.8	18.4	8.1	-4.7	3.8	6.1	6.2	6.0	6.0	5.6
Operating Income Growth %	20.7	59.2	0.2	10.2	9.2	9.4	9.4	9.1	9.0	9.2
EBITDA Growth %	14.5	43.7	-7.3	7.0	6.6	7.4	7.7	7.8	8.0	7.5
Adjusted EBITDA Growth %	14.3	54.3	-3.7	0.6	4.8	5.7	6.2	6.4	6.7	6.0
Earnings Per Share Growth %	24.3	71.0	6.3	5.7	7.7	12.8	11.4	11.5	11.6	11.0
Adjusted Earnings Per Share Growth %	24.3	83.8	9.7	-2.7	6.0	10.4	9.5	9.8	10.1	11.0

Valuation as of 26 Feb 2025	Actual			Forecast				
	2022	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**
Price/Earning	27.9	19.0	24.6	19.1	17.3	15.8	14.4	13.1
Price/Sales	6.5	4.4	5.7	4.5	4.3	4.0	3.8	3.6
Price/Book	7.9	5.2	6.4	5.1	4.8	4.5	4.2	3.8
Price/Cash Flow	—	—	—	—	—	—	—	—
EV/EBITDA	20.2	15.6	18.8	15.1	14.3	13.5	12.7	11.9
EV/EBIT	31.7	23.4	25.8	19.9	18.2	16.7	15.3	14.0
Dividend Yield %	0.6	0.9	0.8	0.9	1.0	1.1	1.3	1.4
Dividend Payout %	16.4	17.3	18.7	18.0	18.0	18.0	18.0	18.0
Free Cash Flow Yield %	—	—	—	—	—	—	—	—

Operating Performance / Profitability as of 26 Feb 2025	Actual			Forecast				
Fiscal Year, ends 31 Oct	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**
ROA %	11.5	11.1	10.6	11.4	11.8	12.5	13.1	13.6
ROE %	22.5	20.7	21.0	22.7	24.3	25.3	26.0	26.3
ROIC %	16.5	14.4	14.9	16.6	18.1	19.3	20.0	20.9

Morningstar Equity Analyst Report | Report as of 10 Apr 2025 17:28, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC. Page 15 of 23

Agilent Technologies Inc A ★★★★★ 9 Apr 2025 21:28, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
107.05 USD 9 Apr 2025	151.00 USD 31 May 2023 16:01, UTC	0.71	27.95 USD Bil 10 Apr 2025	Wide	Mid Blend	Medium	Exemplary	2 Apr 2025 05:00, UTC

Financial Leverage (Reporting Currency)	Actual			Forecast				
Fiscal Year, ends 31 Oct	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**
Debt/Capital %	6.3	8.3	8.3	5.9	6.5	6.2	6.0	5.7
Assets/Equity	2.0	1.9	2.0	2.0	2.1	2.0	2.0	1.9
Net Debt/EBITDA	1.0	0.7	1.2	0.8	0.8	0.8	0.7	0.6
Total Debt/EBITDA	1.3	1.3	1.7	1.4	1.5	1.4	1.3	1.2
EBITDA/ Net Interest Expense	26.7	46.1	127.6	90.3	222.4	175.6	282.4	-1,019.8

Forecast Revisions as of 26 Feb 2025	2025		2026		2027	
Prior data as of 26 Nov 2024	**Current**	**Prior**	**Current**	**Prior**	**Current**	**Prior**
Fair Value Estimate Change (Trading Currency)	151.00	151.63	—	—	—	—
Revenue (USD Mil)	6,756	6,510	7,170	6,903	7,614	7,284
Operating Income (USD Mil)	1,625	1,488	1,779	1,630	1,946	1,774
EBITDA (USD Mil)	2,141	2,042	2,263	2,147	2,404	2,260
Net Income (USD Mil)	1,595	1,490	1,724	1,598	1,852	1,721
Earnings Per Share (Diluted) (USD)	4.77	4.43	5.38	4.78	5.99	5.36
Adjusted Earnings Per Share (Diluted) (USD)	5.60	5.29	6.19	5.62	6.78	6.17
Dividends Per Share (USD)	1.01	0.99	1.11	1.01	1.22	1.11

Key Valuation Drivers as of 26 Feb 2025	
Cost of Equity %	7.5
Pre-Tax Cost of Debt %	5.8
Weighted Average Cost of Capital %	7.2
Long-Run Tax Rate %	14.1
Stage II EBI Growth Rate %	7.0
Stage II Investment Rate %	30.0
Perpetuity Year	20

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

Discounted Cash Flow Valuation as of 26 Feb 2025	**USD Mil**
Present Value Stage I	5,017
Present Value Stage II	16,795
Present Value Stage III	23,233
Total Firm Value	**45,044**
Cash and Equivalents	1,329
Debt	3,345
Other Adjustments	0
Equity Value	**43,028**
Projected Diluted Shares	281
Fair Value per Share (USD)	**151.00**

Morningstar Equity Analyst Report | Report as of 10 Apr 2025 17:28, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC. Page 16 of 23

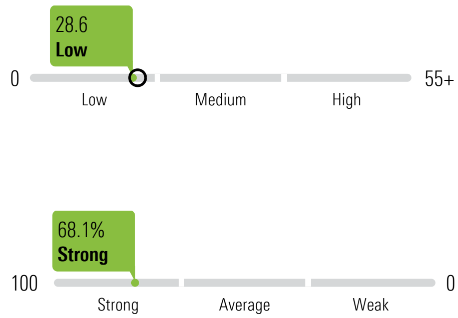
Agilent Technologies Inc A ★★★★★ 9 Apr 2025 21:28, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
107.05 USD 9 Apr 2025	151.00 USD 31 May 2023 16:01, UTC	0.71	27.95 USD Bil 10 Apr 2025	Wide	Mid Blend	Medium	Exemplary	2 Apr 2025 05:00, UTC

ESG Risk Rating Breakdown

Exposure	
Company Exposure[1]	28.6
– Manageable Risk	27.2
Unmanageable Risk[2]	**1.4**

Management	
Manageable Risk	27.2
– Managed Risk[3]	18.5
Management Gap[4]	**8.7**
Overall Unmanaged Risk	**10.1**



- 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 68.1% 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 Assessment[5]

ESG Risk Rating is of Apr 02, 2025. Highest Controversy Level is as of Apr 08, 2025. Sustainalytics Subindustry: Laboratory Equipment and Services. Sustainalytics provides Morningstar with company ESG ratings and metrics on a monthly basis and as such, the ratings in Morningstar may not necessarily reflect current Sustainalytics' scores for the company. For the most up to date rating and more information, please visit: sustainalytics.com/esg-ratings/.

Peer Analysis 02 Apr 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		
Agilent Technologies Inc	28.6 | Low	0	55+	68.1 | Strong	100	0	10.1 | Low	0	40+
Waters Corp	28.6 | Low	0	55+	70.1 | Strong	100	0	9.6 | Negligible	0	40+
Danaher Corp	28.6 | Low	0	55+	73.9 | Strong	100	0	8.5 | Negligible	0	40+
Illumina Inc	44.7 | Medium	0	55+	62.2 | Strong	100	0	18.4 | Low	0	40+
Thermo Fisher Scientific Inc	29.7 | Low	0	55+	63.3 | Strong	100	0	11.9 | Low	0	40+

Morningstar Equity Analyst Report | Report as of 10 Apr 2025 17:28, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC.

Appendix
Historical Morningstar Rating

Agilent Technologies Inc A 9 Apr 2025 21:28, 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
★	★	★	★★	★★	★	★★	★★	★★	★★★	★★	★★

Danaher Corp DHR 9 Apr 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
★	★	★	★	★	★	★	★	★	★★	★★	★

Thermo Fisher Scientific Inc TMO 9 Apr 2025 21:30, UTC

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

Morningstar Equity Analyst Report | Report as of 10 Apr 2025 17:28, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC. Page 18 of 23

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

Research Methodology for Valuing Companies

Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, indepth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss shortterm market-price movements), but we believe these negatives are mitigated by deep analysis and our longterm approach.

Morningstar's equity research group ("we," "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our singlepoint star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

When considering a company's moat, we also assess whether there is a substantial threat of value destruction, stemming from risks related to ESG, industry disruption, financial health, or other idiosyncratic issues. In this context, a risk is considered potentially value destructive if its occurrence would eliminate a firm's economic profit on a cumulative or midcycle basis. If we deem the probability of occurrence sufficiently high, we would not characterize the company as possessing an economic moat.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in workingcapital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

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

Stage III: Perpetuity

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

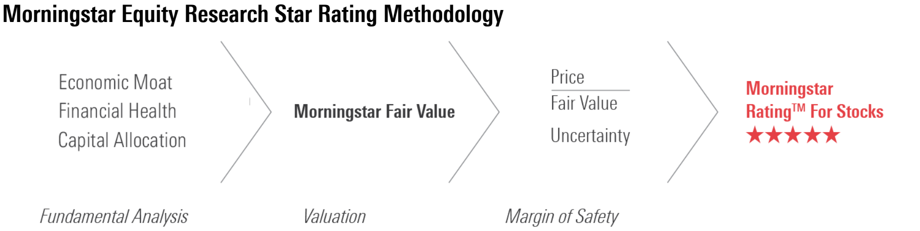
Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total present value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return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

3. Uncertainty Around That Fair Value Estimate

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

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

Morningstar Equity Research Star Rating Methodology



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Research Methodology for Valuing Companies

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

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

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

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

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

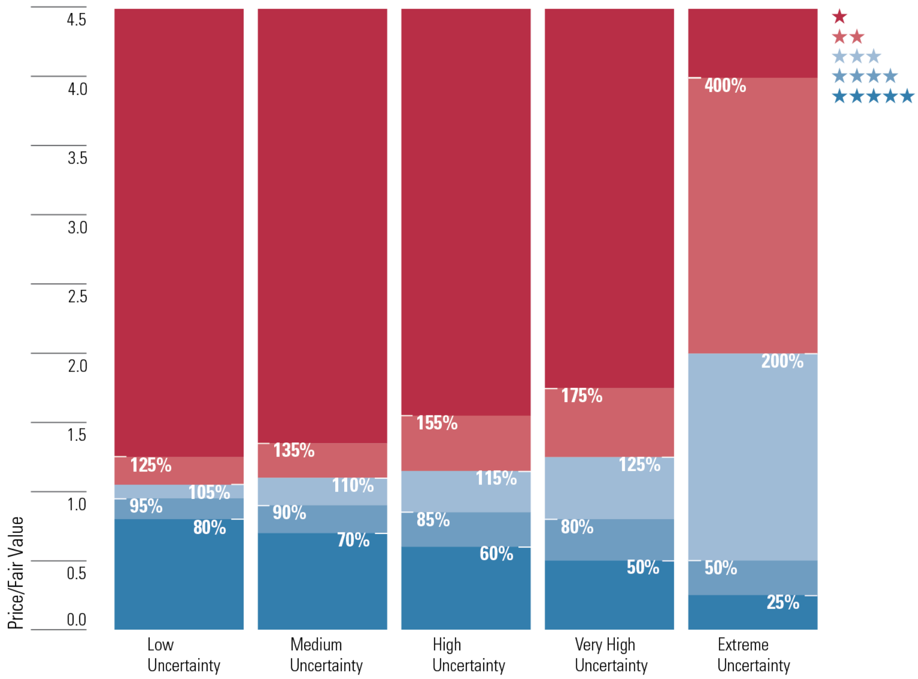
4. Market Price

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

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

Morningstar Star Rating for Stocks

Morningstar Equity Research Star Rating Methodology



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

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

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

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

The Morningstar Star Ratings for stocks are defined below:

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

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

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

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

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

Other Definitions

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

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-

Research Methodology for Valuing Companies

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/

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

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