

Sigma Finds a Moat in Chemist Warehouse

A retail giant is now publicly investable, but we think investors should give it a miss

Morningstar Equity Research

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Shane Ponraj, CFA
Equity Analyst – Healthcare
+61-2-9276-4449
shane.ponraj@morningstar.com

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Executive Summary

Sigma Healthcare, after merging with Chemist Warehouse in February 2025, has catapulted into the S&P/ASX 20 and is a growing headache for competitors. It is dominating as the market leader by pharmacy retail spending and continues to steal market share from supermarkets in nonprescription categories. We expect further share growth, and investors are excited for good reason.

We think the firm's competitive position is stronger than we thought and worthy of a narrow moat. It's carved a moat founded on durable cost advantages through buying power and economies of scale. We raise our fair value by 45% to AUD 2.40 accordingly and expect robust earnings growth for longer. Our fiscal 2039 EBI forecast increases by roughly 60% and mainly reflects a longer forecast period of above-average revenue growth, coupled with an expectation for slightly higher margins.

However, shares are expensive as we think Sigma's best days for growth are behind it. Market expectations for the future are too high, with the much-loved Chemist Warehouse brand clouding judgment. The industry is maturing, and future growth is likely to mainly reflect growth in the overall market, which is sedate. Sigma's market cap is just shy of that of wide-moat Woolworths, where we expect more than twice as much profit in fiscal 2029. The market's aggressive implicit growth expectations are reflected in Sigma's fiscal 2027 P/E of over 40 on consensus estimates.

Key Takeaways

- ▶ To justify Sigma's share price requires faster new store openings and same-store sales growth across the Chemist Warehouse Australia network than in the past, but then, the industry was less mature.
- ▶ We expect Australia to dominate earnings. While we think overseas growth will come, and it is 10% of our valuation, we don't expect Chemist Warehouse to replicate its Australian success in large overseas markets. This reflects a lack of scale and fiercer competition given relaxed regulation and established competitors.
- ▶ Earnings are defensive and relatively sheltered from current trade disputes. Trump's April 2 announcement had little bearing on Sigma shares amid wider market turbulence.

Companies Mentioned

Name/Ticker	Economic Moat	Currency	Fair Value Estimate	Current Price	Uncertainty Rating	Morningstar Rating	Market Cap (Bil)
Sigma Healthcare/SIG	Narrow	AUD	2.40	3.15	Medium	★★	36

Chemist Warehouse Is a Good Business, but Investors Are too Optimistic

Narrow-moat Sigma is dominating as the market leader by pharmacy retail spending and stealing market share from supermarkets in nonprescription categories. Investors are excited for good reason, but we think the market expects too much of Sigma. Shares trade at a meaningful premium of roughly 30% to our AUD 2.40 fair value estimate.

Sigma's valuation hinges on more franchise stores, amazing same-store sales growth, and material cost efficiencies from scale. However, Australian pharmacy retailing is regulated, with gross margins capped for roughly half of Sigma's sales. Location rules and a declining number of remaining independent pharmacies in suitable catchments also make it hard for Sigma to source additional valuable sites. We expect the group to make inroads overseas, but doubt a significant earnings contribution.

Exhibit 1 We Forecast Chemist Warehouse's EBIT Margins to Expand More Than Its Peers.

EBIT Margin	FY24	FY29E	FY34E
Chemist Warehouse	17.7%	23.5%	26.0%
Bunnings	11.9%	12.7%	13.2%
Kmart	8.6%	7.1%	7.2%
Officeworks	6.1%	6.5%	6.5%
Dan Murphy's	5.7%	5.8%	6.3%
JB Hi-Fi	6.8%	5.9%	5.9%

Source: Company filings, Morningstar. Data as of May 22, 2025.

We think our valuation reflects reasonable yet appropriately optimistic assumptions given the high quality of Chemist Warehouse's retail franchise. For the next 10 years, we estimate an average 19 net new Australian Chemist Warehouse franchise stores per year, average Australian Chemist Warehouse same-store sales growth of 6%, and group EBIT margins expanding to 15% from 9% on warehousing and distribution optimization, operating leverage, and greater contributions from the higher-margin Chemist Warehouse business. This compares with the firm opening an average of 18 net new Australian Chemist Warehouse franchise stores in each of the last three years, average same-store sales growth of 11%, and group EBIT margins flat at 9%.

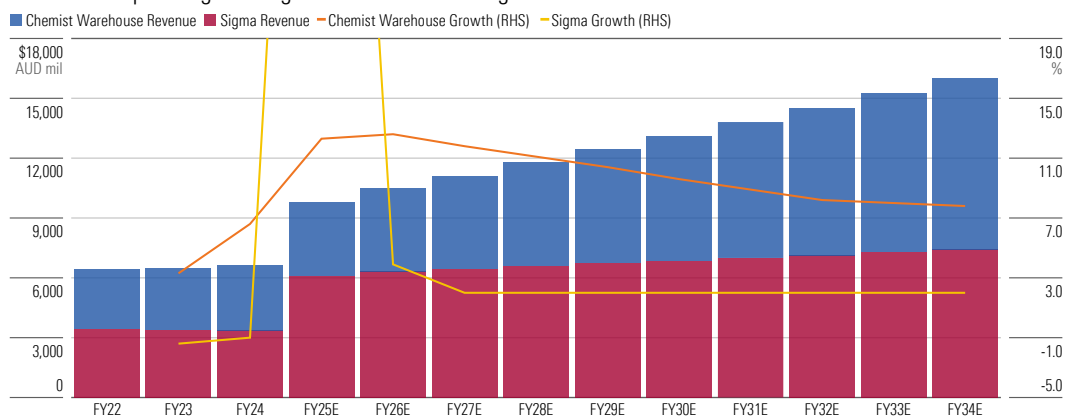
Exhibit 2 Sensitivity Analysis on Our Fair Value Estimate for Key Assumptions.

Chemist Warehouse Australia Average Annual Like-For-Like Network Sales Growth						
Midcycle Group EBIT Margin	Sensitivity Analysis	2%	4%	6%	8%	10%
	11%	1.29	1.55	1.87	2.23	2.66
	13%	1.50	1.79	2.12	2.51	2.97
	15%	1.72	2.02	2.40	2.80	3.29
	17%	1.93	2.26	2.63	3.08	3.60
	19%	2.15	2.49	2.89	3.38	3.91

Source: Morningstar. Data as of May 22, 2025.

We like the business, but the market is overly optimistic. To reach a valuation near the share price, we need to assume 30 net new Australian Chemist Warehouse franchise stores open per year, average Australian Chemist Warehouse same-store sales growth of 8%, and group EBIT margins expanding to 17% in 10 years. We think all are unlikely in isolation and collectively unrealistic.

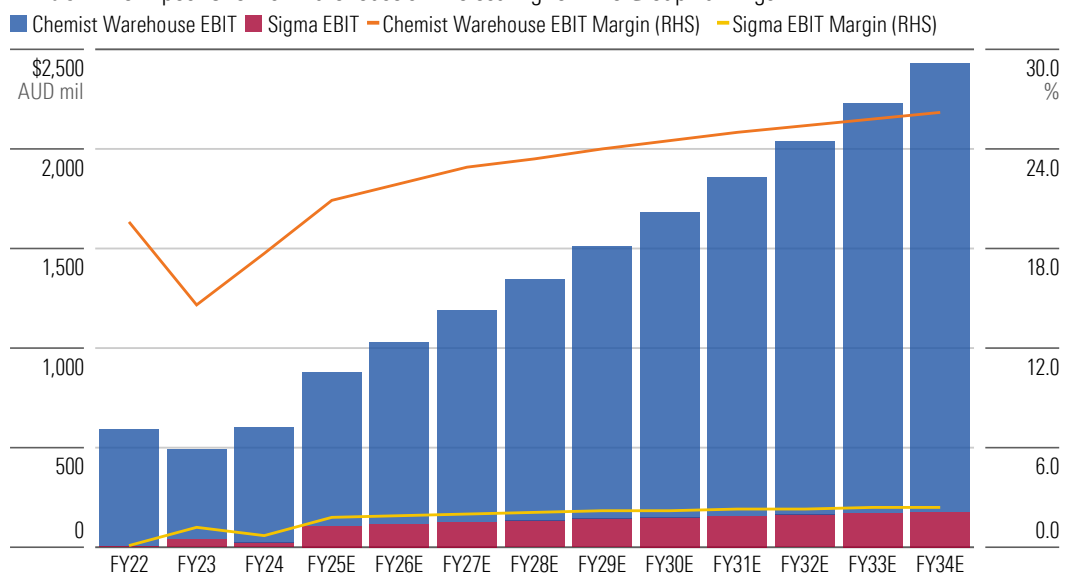
Exhibit 3 Step Change for Sigma Revenue Following Chemist Warehouse Contract Win.



Source: Company filings, Morningstar. Data as of June 30, 2024.

Sigma's legacy wholesale business, which mainly consists of prescription medicines and over-the-counter products, currently contributes the majority of group revenue but is a fraction of group earnings due to regulated margins. The main driver for group earnings is Chemist Warehouse's wholesaling business of front-of-store items to its franchisees. Hence, Chemist Warehouse earnings are largely derived from its store rollout and network sales.

Exhibit 4 We Expect Chemist Warehouse's Wholesaling to Drive Group Earnings.



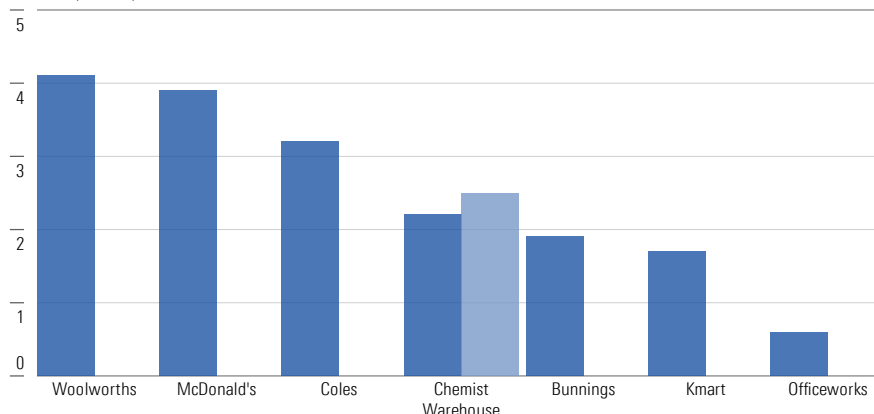
Source: Company filings, Morningstar. Data as of June 30, 2024.

Australian Store Rollout Is Largely Dictated by Remaining Independent Pharmacies

We think the market is too aggressive about new store openings for Chemist Warehouse in Australia. The implicit assumption priced into the shares is for faster new store additions in the future. However, we think the growth runway is shortening. The franchise is approaching maturity, regulated ownership and location rules are unlikely to loosen, and remaining valuable catchments in Australia are limited and declining, making it increasingly hard to source additional valuable sites.

Exhibit 5 Chemist Warehouse Stores Are Comfortably Servicing the Australian Population

■ Stores per every 100 thousand Australians ■ FY34E

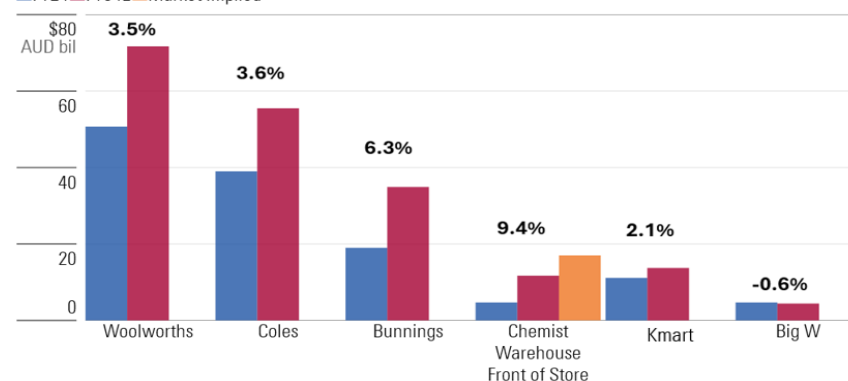


Source: Company filings, ABS. Data as of Dec. 31, 2024.

The implicit assumption priced into shares, assuming fiscal 2024 Chemist Warehouse network sales mix stays constant, is that sales of just front-of-store items will likely surpass Kmart, one of Australia's largest retailers, and similar to Bunnings' current sales. Our forecasts still imply an above-average 10-year network sales compound annual growth rate of 9%. As Chemist Warehouse encroaches on other retailers' sales, like the supermarkets, there could be a competitive response.

Exhibit 6 Market Is Baking in a 10-Year Chemist Warehouse Network Sales CAGR in the Teens

■ FY24 ■ FY34E ■ Market Implied



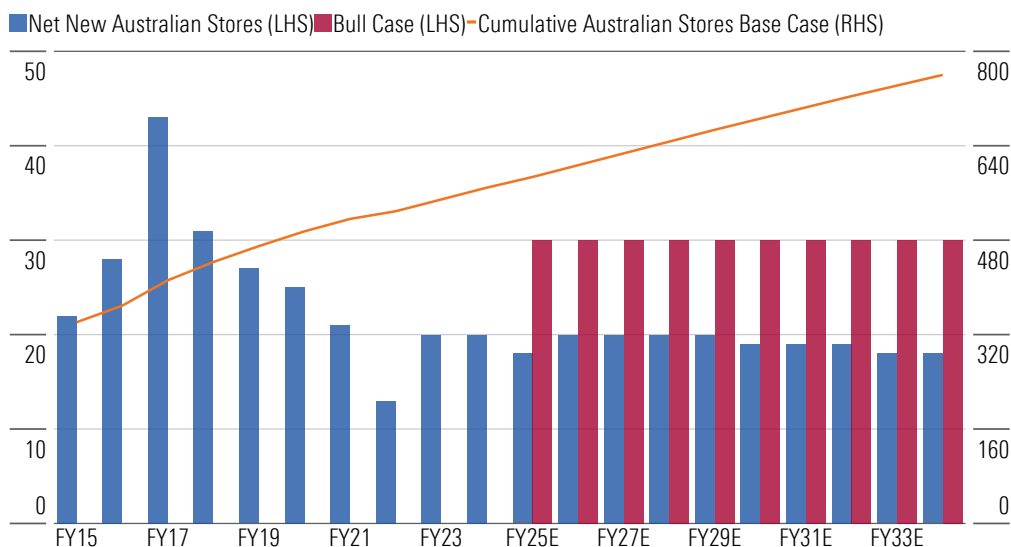
Note: Chemist Warehouse FY34E and Market Implied Sales estimate assumes all other variables are constant, including sales mix. 10-Year CAGRs are based on Morningstar sales growth estimates.

Source: Company filings, Morningstar. Data as of June 30, 2024.

Chemist Warehouse, on average, has opened 23 net new Australian stores annually in the last 25 years to reach about 580 now. The rate has slowed in the last five years, and Sigma expects to open

new stores in the short to medium term at a similar rate. We think this is reasonable given ownership and location rules, and the declining suitability of remaining catchments, making it increasingly hard to source additional valuable sites. We forecast an average of 20 net new Australian Chemist Warehouse stores over the next five years, but expect this to slow in the longer term as the market matures.

Exhibit 7 Sourcing Additional Chemist Warehouse Sites Likely More Challenging

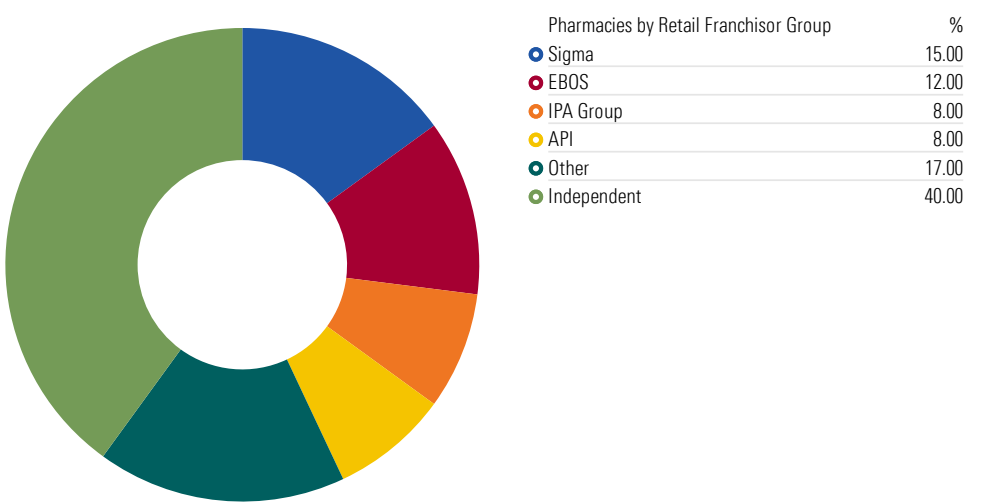


Source: Company filings, Morningstar. Data as of June 30, 2024.

The Australian pharmacy industry is mature. The number of Australian community pharmacies barely grows year to year and currently totals just under 6,000 pharmacies. Opening a brand-new pharmacy in Australia is complicated, lengthy, and requires multiple approvals on a state and national level that aren't generally given unless the proposed location is in a population growth area. As such, Chemist Warehouse's new franchise stores are largely sourced from the roughly 40% of pharmacies that remain in the hands of independent pharmacists who are looking to sell or retire.

Theoretically, the roughly 2,500 remaining independent pharmacies represent potential Chemist Warehouse store conversions, but the proportion in suitable catchments is declining, and Chemist Warehouse has likely picked the low-hanging fruit in the last 25 years. We think the runway for growth is mostly done. We estimate that independent pharmacies account for less than 20% of total pharmacy consumer spending, including front-of-store items, reflecting smaller footprints and less productive catchments. This compares with Sigma having roughly 15% of total registered pharmacies in Australia, which we estimate generates roughly 50% of total pharmacy retail spending.

Exhibit 8 40% of Pharmacies Are Independent but Capture Less Than 20% of Pharmacy Retail Spending



Source: Company filings. Data as of June 13, 2024.

Regulated Pharmacy Location and Ownership Rules Constrain Store Rollout

New Chemist Warehouse store openings are unlikely to accelerate as potential new locations are harder to come by. Even after acquiring an independent pharmacy, the process to convert it to a Chemist Warehouse banner is usually a multiyear process and limits new store openings. According to Sigma, the typical independent pharmacy has a footprint of roughly 200 square meters, less than half the size of the average Chemist Warehouse retail footprint of 522 square meters.

Increasing the size of an acquired store is challenging, given pharmacy location rules generally only allow relocation within 1.5 kilometers of the existing site, and only once every five years. This is also against proximity rules to existing pharmacies, which vary depending on location characteristics, such as proximity to doctors and whether it is in a shopping center. These location rules are government-mandated and unlikely to change, and limit the acceleration of new store openings. As of the 2024 year-end, Chemist Warehouse has 23 Australian pipeline stores acquired by a pharmacist but awaiting a suitable site to become a Chemist Warehouse store. This typically takes a few years and suggests the rate of new store openings is unlikely to materially improve. Store openings can be volatile, but are largely dependent on availability, and expediting store openings will result in reaching market saturation faster.

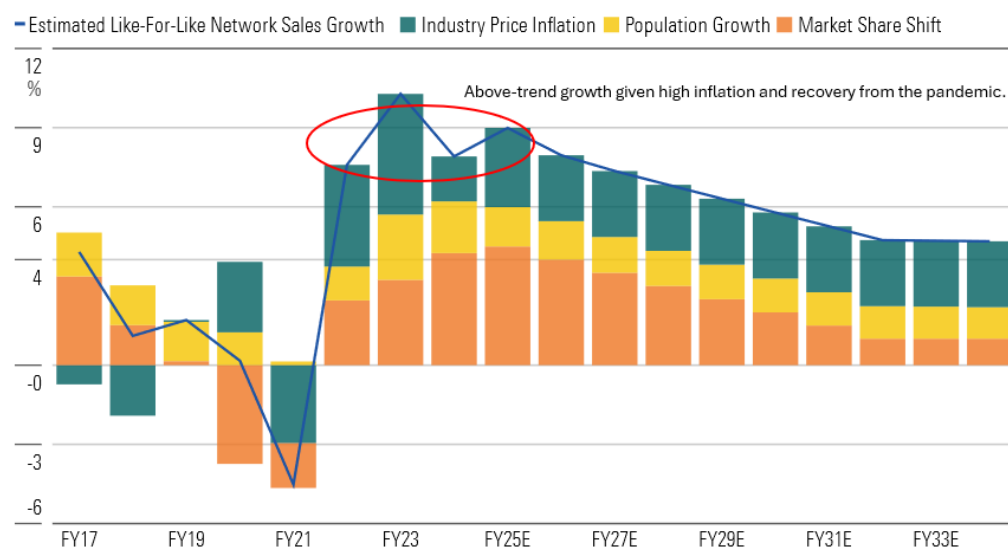
Due to ownership of Australian pharmacies being restricted to registered pharmacists, Chemist Warehouse also needs to find a pharmacist willing to own, manage, and often have greater responsibility over a Chemist Warehouse store. Chemist Warehouse stores are open for significantly longer, with some stores open between 8 am and 11 pm, seven days a week. In contrast, independent pharmacies often operate between 9 am and 5 pm, five days a week. Also, Chemist Warehouse stores on average derive 60% of store sales from front-of-store items, compared with less than 20% for traditional pharmacies. This means a pharmacist who predominantly handles prescription medicines and over-the-counter products must then manage significant additional front-of-store volume.

While it means Chemist Warehouse can drive store sales productivity and serve its customers at scale, many chemists resist the move from a focus on pharmaceuticals to general merchandise. The retail focus and management complexities can be a barrier to pharmacists changing to the Chemist Warehouse banner. These factors also limit the viability of Sigma converting other banners it owns, such as Amcal and Discount Drug Stores, into Chemist Warehouse stores. The vast majority of its franchise stores under other banners are not in a suitable space for a Chemist Warehouse store, and we think convincing existing owners to change their pharmacy can be difficult. Sigma affirmed its strategy to have a few different banners to offer pharmacists and customers variety.

We Expect Same-Store Sales Growth to Moderate

We suspect the market is extrapolating recent abnormal growth rates shown in Exhibit 9 and is overly optimistic versus our forecast 10-year average Australian Chemist Warehouse same-store sales growth rate of 6%. We estimate Chemist Warehouse's Australian same-store sales growth to have averaged 3.6% over the last eight years, but were significantly boosted in the last three years by inflation and the pandemic recovery. Pharmacies sell mature product categories, and pricing for roughly a third of Chemist Warehouse store sales is regulated. Our forecast 10-year average Australian Chemist Warehouse same-store sales growth rate of 6% is made up roughly by 2.5% industry price growth, 1.5% industry volume growth, and 2% outperformance in market share gains, which is broadly in line with our estimate of its 10-year historical average outperformance. We expect outperformance to moderate as new stores are likely to be in less profitable catchments.

Exhibit 9 Recent Like-For-Like Chemist Warehouse Network Sales Growth Boosted by Abnormal Inflation



Source: ABS, Company filings, Morningstar. Data as of June 30, 2024.

Chemist Warehouse derives roughly a third of store sales from prescription medicines, about 60% from front-of-store items like fragrances, skincare, cosmetics, and dietary supplements, and the remainder from over-the-counter products. These don't require a prescription but are evaluated by the Therapeutic Goods Administration, such as aspirin and paracetamol. Over-the-counter products are largely commoditized, with typically very low price inflation. According to the Australian Bureau of Statistics' consumer price index for personal care products, which we use as a proxy for Chemist

Warehouse's front-of-store items, price inflation has averaged 0.6% a year for the last eight years. Similarly, for pharmaceutical products, including generics and patented drugs, which we are using as a proxy for 40% of Chemist Warehouse's sales, price inflation has averaged 1.3% for the last eight years. On a blended estimate, industry price inflation for Chemist Warehouse's products has averaged 0.9%.

We assume pharmacy sales volume growth is closely tied to population growth, which we estimate has, in effect, averaged 1.7% for Chemist Warehouse's customer demographic over the last eight years. This accounts for the growing proportion of over-65s and their propensity to consume more drugs. We estimate that a further average of 0.9% of growth per year for the last eight years has come from volume per person growth, market share gains from new stores, and foot traffic gained from grocers in the front-of-store category.

Noting the increasing difficulty in sourcing additional sites given a declining number of remaining independent pharmacies and location rules, new sites are likely to be in less profitable catchments or cannibalize existing store sales, making it harder for Sigma to maintain sales growth rates. While Sigma has roughly 15% of total registered pharmacies in Australia, we estimate its network, partially served by its wholesale distribution business, generates roughly 50% of pharmacy retail spending. This is boosted by more exposure to over-the-counter and front-of-store products.

Sigma estimated its pharmacy banners had roughly 20% market share of pharmacy consumer spending in 2019, second only to Chemist Warehouse at the time. As such, the remaining 40% of independent pharmacies account for a disproportionately low share of pharmacy consumer spending — we estimate less than 20%. This reflects smaller footprints and less profitable catchments, which are limitations for future sales.

Sigma's International Expansion Likely to Be Modest

While we think overseas growth will come, we don't expect Chemist Warehouse to replicate the magnitude of its Australian success due to its scale disadvantage overseas, and fiercer competition given relaxed regulation and established players. The international segment is 10% of our valuation.

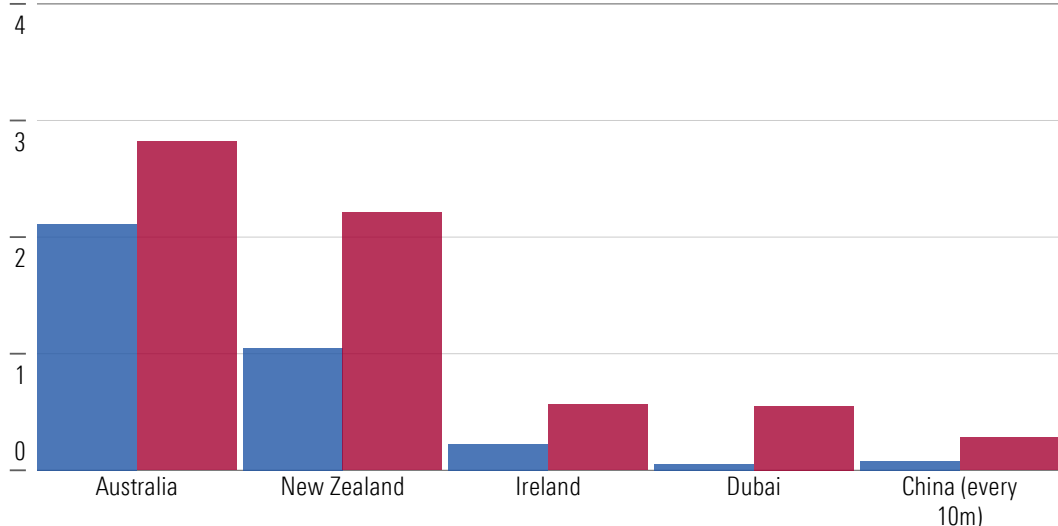
We view Sigma's stated intention to take a measured approach to expansion outside Australia as appropriate and expect a similar cadence in the future, forecasting an annual average of 14 new international store openings over our 10-year forecast period. Chemist Warehouse's international presence is nascent, starting in New Zealand in fiscal 2018, China in fiscal 2020, Ireland in fiscal 2021, and Dubai in fiscal 2025. It now has roughly 80 international stores, 56 of which are in New Zealand, contributing just 3% of group EBIT.

Expansion has been measured, with Chemist Warehouse opening nine stores on average per year in New Zealand and four stores on average per year elsewhere in the last five years. It is targeting roughly 110 stores in New Zealand in the long term, versus our forecast of 118 stores by fiscal 2034. This is roughly 10% of the number of New Zealand pharmacies, similar to its current Australian presence of 9%. We forecast the firm opening seven New Zealand stores on average per year, compared with 19 per year in Australia. We think the transportability of the Chemist Warehouse brand to New Zealand reflects a similar pharmacy retailing and regulatory environment to Australia's.

Sigma's international expansion leverages relaxed ownership and location rules versus Australia. But it is a double-edged sword as lower entry barriers increase competition and allow pharmacies to proliferate. Twenty-five years after Chemist Warehouse opened its first store in Australia, discount pharmacies offering front-of-store items and vertically integrated competitors are firmly established overseas, such as Boots in Ireland and Walgreens in the US. The success of Chemist Warehouse in Australia hinges on providing a wider product range at better prices and at more accessible hours versus competing pharmacies. But the limited overseas presence, with 14 distribution centers in Australia but just one in New Zealand and none in its other international markets, places it at a scale disadvantage. In addition, we don't expect Chemist Warehouse to replicate the magnitude of its Australian success in Ireland, China, and Dubai, given established competitors. We forecast a gradual new store rollout.

Exhibit 10 New Zealand Closest to Saturation Based on Stores Per Every 100,000 People.

■ FY24 ■ FY34E



Source: Company filings, Morningstar. Data as of June 30, 2024.

We forecast Chemist Warehouse to open seven stores on average per year, across the three regions of Ireland, China, and Dubai, to reach 91 aggregate stores by fiscal 2034 from 20 in fiscal 2024. We think Sigma's measured approach to new markets is sensible, given expansion risks, including expanding too quickly.

While we expect a growing offshore presence, we are wary of the offshore expansion risks. The path to international retail expansion success is littered with examples where ambition exceeded reality despite brand strength. After targeting 200 stores by 2019 when first opening in the United Kingdom in 2014, Smiggle has recently been closing more stores in the UK than it's been opening, with roughly 110 stores in the region at present. Popular brands like Starbucks have struggled to find success in Australia. The company was also a victim of expanding too quickly and accumulating considerable losses before being forced to close most stores. Starbucks has roughly 70 stores in Australia after first opening in 2000. Big-box retailers like Harvey Norman opened their first store in Ireland in 2003 and currently has just 18 stores. Woolworths' disastrous Masters hardware joint

venture with the US' Lowe's, and Bunnings' similar failure with Homebase in the UK, are examples of a big-box format with strong brand power losing to established competition. Domino's has found success overseas, particularly in Europe, but largely through acquiring established pizza chains and gaining instant scale.

We Forecast Strong Earnings Growth, but Shares in Sigma Are Expensive


We forecast a 10-year organic group revenue CAGR of 5%. This is largely driven by our forecast 10-year CAGR of 9% for Australian Chemist Warehouse network sales. We forecast like-for-like Australian Chemist Warehouse sales growth averaging 6% per year for the next decade, supplemented by an average of 19 net new stores per year. Our 2% typical revenue growth rate for Sigma's legacy wholesale business is driven by continued volume growth in the Australian market in line with population growth, and some benefit from higher average pricing. Sigma's wholesaling business is lower-growth and operates in a regulated and mature industry.

On the profitability front, we expect group midcycle operating margins to settle at around 15% by fiscal 2034 versus 9% in fiscal 2024, largely driven by an increasing contribution from higher-margin franchise fees and the overall Chemist Warehouse business, and cost-cutting following the merger with Chemist Warehouse. We forecast gross profit from the Chemist Warehouse business to contribute 86% of the fiscal 2034 group gross profit from an estimated 77% in fiscal 2025. We estimate EPS growth of 10% at midcycle down from our fiscal 2026 EPS growth forecast of 17%. We forecast annual capital expenditure averaging about AUD 35 million over the next 10 years to maintain the business, or less than 1% of group sales. ■■

Appendix

Exhibit 11 Sigma Healthcare Valuation Model

Sigma Healthcare (ASX:SIG)

Star Rating	Fair Value	Last Price	Uncertainty	Capital Allocation	Economic Moat
★★	2.38 AUD	3.13 AUD	Medium	Standard	 Narrow
Shane Ponraj, CFA +61 2 9276 4449 shane.ponraj@morningstar.com		Five-Star Price	1.67	Estimated COE	7.5%
Healthcare		Fair Value Estimate	2.38	Pre-Tax Cost of Debt	5.5%
Healthcare Services		One-Star Price	3.21	Estimated WACC	6.8%
		Market Price	3.13	ROIC *	25.0%
		P / FVE	1.31	Adjusted ROIC *	12.7%
* 5-Yr Projected Average					

	Forecast							
Income Statement	2022	2023	2024	2025E	2026E	2027E	2028E	2029E
Revenue	6,436	6,486	6,656	9,799	10,501	11,120	11,766	12,435
Gross Profit	1,376	1,215	1,312	1,657	1,856	2,063	2,269	2,483
Operating Income	591	509	606	845	1,002	1,165	1,323	1,513
Net Income	371	303	522	549	655	772	888	1,028
Adjusted Income	371	289	522	573	672	790	905	1,028
Adjusted EPS	0.03	0.03	0.05	0.05	0.06	0.07	0.08	0.09
Adjusted EBITDA	764	622	675	952	1,100	1,264	1,422	1,588
Growth (% YoY)								
Revenue		0.8%	2.6%	47.2%	7.2%	5.9%	5.8%	5.7%
Gross Profit	0.0%	-11.7%	8.0%	26.3%	12.0%	11.1%	9.9%	9.5%
Operating Income	#DIV/0!	-13.9%	19.0%	39.5%	18.7%	16.3%	13.5%	14.4%
Net Income	#DIV/0!	-18.3%	72.6%	5.1%	19.3%	18.0%	14.9%	15.8%
Adjusted EPS	#DIV/0!	-21.9%	80.6%	9.8%	17.2%	17.5%	14.6%	13.5%
Adjusted EBITDA	#DIV/0!	-18.6%	8.5%	41.0%	15.6%	14.9%	12.5%	11.7%
Profitability (%)								
Gross Margin	21.4%	18.7%	19.7%	16.9%	17.7%	18.6%	19.3%	20.0%
Operating Margin	9.2%	7.8%	9.1%	8.6%	9.5%	10.5%	11.2%	12.2%
Net Margin	5.8%	4.7%	7.8%	5.6%	6.2%	6.9%	7.5%	8.3%
Adjusted EBITDA Margin	11.9%	9.6%	10.1%	9.7%	10.5%	11.4%	12.1%	12.8%
Return on Equity	9.1%	7.4%	12.8%	13.1%	14.8%	16.4%	17.6%	19.0%
Adjusted ROIC	6.6%	3.4%	4.4%	9.8%	11.1%	12.7%	14.2%	15.8%
Leverage								
Debt / Capital	0.2x	0.2x	0.2x	0.2x	0.2x	0.2x	0.2x	0.2x
Debt / EBITDA	1.8x	2.0x	1.7x	1.2x	1.1x	0.9x	0.8x	0.7x
EBITDA / Interest Expense	9.7x	6.5x	11.1x	14.6x	15.5x	19.5x	25.2x	35.0x
Cash Flow								
Dividends per Share	-	-	-	0.03	0.04	0.04	0.05	0.06
Free Cash Flow to the Firm	192	443	184	203	606	729	835	965
Dividend Franking	-	-	-	-	-	-	-	-
Dividend Payout Ratio	0.0%	0.0%	0.0%	60.4%	60.2%	58.5%	57.4%	61.8%

Source: Morningstar. Data as of May 27, 2025.

Research Methodology for Valuing Companies

Overview

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

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

Four key components drive the Morningstar rating:

- ▶ our assessment of the firm's economic moat.
- ▶ our estimate of the stock's fair value.
- ▶ our uncertainty around that fair value estimate.
- ▶ the current market price.

This process ultimately culminates in our single-point star rating.

Economic Moat

The Morningstar Economic Moat Rating is a structural feature that Morningstar believes positions a firm to earn durable excess profits over a long period of time, with excess profits defined as returns on invested capital above our estimate of a firm's cost of capital. The economic moat rating is not an indicator of the investment performance of the investment highlighted in this report. Narrow-moat companies are those that Morningstar believes are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those that Morningstar believes will earn excess returns for 10 years, with excess returns more likely than not to remain for at least 20 years. Firms without a moat, including those that have a substantial threat of value destruction-related risks related to environmental, social, and governance; industry disruption; financial health; or other idiosyncratic issues, are more susceptible to competition. Morningstar has identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Fair Value Estimate

Each stock's fair value is estimated by using a proprietary discounted cash flow model, which assumes that the stock's value is equal to the total of the free cash flows of the company is expected to generate in the future, discounted back to the present at the rate commensurate with the riskiness of the cash flows. As with any DCF model, the ending value is highly sensitive to Morningstar's projections of future growth.

Fair Value Uncertainty

The Morningstar Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the fair value estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, exposure to material ESG risks, and other company-specific factors. Based on these factors, analysts classify the stock into one of several uncertainty levels: Low, Medium, High, Very High, or Extreme. 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.

Market Price

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

Morningstar Rating for Stocks

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Risk Warning

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+1 312 696-6869

equitysupport@morningstar.com



22 West Washington Street
Chicago, IL 60602 USA

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