

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation
37.14 USD	52.50 USD	0.71	55.15 USD Bil	Narrow	Mid Value	High	Standard
15 Oct 2026	16 Oct 2026 23:10 UTC		16 Oct 2026				

Fair Value: 52.50
16 Oct 2026 23:10, UTC

Last Close: 37.14

Overvalued
Undervalued

YTD	Price/Fair Value	Total Return %
1.30	18.61	
0.87	-29.04	
0.80	-6.03	
0.65	-28.91	
0.62	-13.68	
0.71	-39.77	

Morningstar Rating

★★★★★
★★★★
★★★
★★
★

MORNINGSTAR

Nike Inc Class B NKE ★★★★★

16 Oct 2026 23:13, UTC

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Sector	Industry
 Consumer Cyclical	Footwear & Accessories

Business Description

Nike is the largest athletic footwear and apparel brand in the world. Footwear generates about two-thirds of its sales. Key performance footwear categories include basketball, running, and football (soccer). Its brands include Nike, Jordan (premium athletic footwear and clothing), NikeSkims (women's athleisure), and Converse (casual footwear). Nike sells products worldwide through company-owned stores, franchised stores (including about 5,500 in China), and third-party retailers. The firm also operates e-commerce platforms in more than 40 countries. Nearly all its production is outsourced to contract manufacturers in more than 30 countries. Nike was founded in 1964 and is based in Beaverton, Oregon.

expected market growth.

- Over the next decade, we forecast Nike's operating margin will recover to nearly 14%. It is investing in its brand by accelerating the pace of technical innovation, operating a faster supply chain, selling more through company-owned channels, and investing in sports sponsorships.

Between the lines: While we still forecast returns on invested capital above weighted average cost of capital (9%), investment returns weakened and share buybacks are on hold, so we lower our Capital Allocation Rating. We believe the dividend (yield over 4%) will continue to be paid.

Business Strategy & Outlook David Swartz, Senior Equity Analyst, 16 Oct 2026

We view Nike as the leader in the athletic apparel market and believe it will recover from recent problems, including lackluster product development, soft sportswear demand, and strained relationships with wholesale accounts. However, we downgraded our Morningstar Economic Moat Rating to narrow from wide due to rising competition in sportswear. We base our narrow moat rating on its intangible brand asset, as we believe it will maintain premium pricing and generate economic profits for at least 10 years.

Under CEO Elliott Hill, Nike has renewed its focus on key retail partners, products, and connections to international athletics. In recent years, the firm invested in its direct-to-consumer network while cutting many wholesale accounts. With this strategy, the firm reduced its exposure to undifferentiated retailers while strengthening connections with partners that bring the Nike brand closer to consumers, carry a full range of products, and let Nike control the brand message. Unfortunately, it also lost momentum with its core customers through this process, leading to share loss. For example, Nike's share of the US sports footwear market dropped to 30% from 40% between 2016 and 2025 (Euromonitor). To win back share, Nike is investing in new marketing and products while rebuilding relationships with retailers and the global sports community. The firm has also implemented a new plan called Pace to unlock \$2.5 billion in cost savings (including layoffs) while investing some of the proceeds into technology and supply chain flexibility and speed. We think this cost savings goal is realistic, and should ultimately help Nike to operate more efficiently and faster as unnecessary bureaucracy is eliminated.

Meanwhile, Nike has struggled in China, but we still believe it has an opportunity for revenue growth as the market expands through wealth creation and government investment in athletics. Nike is working to regain its leading market position and pricing power by clearing old inventory and investing in marketing and local product development.

Bulls Say David Swartz, Senior Equity Analyst, 16 Oct 2026

- The global sportswear market continues to expand, especially in Asia and other developing markets. As the market share leader with premium offerings, Nike is positioned to benefit.
- Nike generates significant free cash flow and is committed to maintaining its quarterly dividend

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Competitors

	Nike Inc Class B NKE	adidas AG ADS	Li Ning Co Ltd 02331	Puma SE PUM
Economic Moat	Narrow	Narrow	Narrow	None
Currency	USD	EUR	HKD	EUR
Fair Value	52.50 16 Oct 2026 23:10, UTC	185.00 15 Oct 2026 20:29, UTC	22.00 16 Oct 2026 11:26, UTC	40.50 15 Oct 2026 20:29, UTC
1-Star Price	81.38	249.75	34.10	70.88
5-Star Price	31.50	129.50	13.20	20.25
Assessment	Undervalued 16 Oct 2026	Undervalued 30 Jan 2026	Undervalued 7 Aug 2026	Undervalued 1 May 2026
Morningstar Rating	★★★★★ 16 Oct 2026 23:13, UTC	★★★★★ 15 Oct 2026 05:00, UTC	★★★★★ 16 Oct 2026 05:00, UTC	★★★★★ 15 Oct 2026 05:00, UTC
Analyst	David Swartz, Senior Equity Analyst	David Swartz, Senior Equity Analyst	Ivan Su, Director	David Swartz, Senior Equity Analyst
Capital Allocation	Standard	Standard	Standard	Standard
Price/Fair Value	0.71	0.85	0.60	0.60
Price/Sales	1.14	1.04	0.98	0.50
Price/Book	3.44	4.50	0.99	1.89
Price/Earning	16.99	19.65	9.76	—
Dividend Yield	4.42%	1.78%	5.08%	0.00%
Market Cap	55.15 Bil	27.75 Bil	34.33 Bil	3.57 Bil
52-Week Range	31.97—70.44	129.95—196.40	12.04—23.42	15.30—30.31
Investment Style	Mid Value	Large Blend	Mid Value	Mid Blend

payments.

- Nike's strategy aims to improve efficiency while developing innovative products to drive sales and improve pricing. The firm is also investing in technology and cutting costs. Through these efforts, we anticipate EBIT margins will return to double-digit levels in the medium term.

Bears Say David Swartz, Senior Equity Analyst, 16 Oct 2026

- Nike has had a tumultuous period due to economic issues in key regions and its own mistakes. Given the depth of its problems, the timing of a turnaround is uncertain, especially in China.
- Tariffs and higher oil prices are near-term risks that Nike cannot fully overcome through cost cuts and price increases. Moreover, inflation could reduce consumer demand for sportswear.
- The success of relative newcomers like Hoka and On demonstrates how consumers will sample new footwear brands. Nike is under constant pressure to innovate to hold its share.

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Economic Moat David Swartz, Senior Equity Analyst, 16 Oct 2026

We lower our Morningstar Economic Moat Rating to narrow from wide but continue to believe that Nike holds a brand-based intangible asset edge. In a market where consumers choose products based on performance, style, and marketing, Nike and its premium sub-brand, Jordan, remain leaders in global sportswear share, with significant pricing power driven in part by annual sports sponsorship spending that is 20%-25% higher than second-place Adidas (KPMG). This spending drives visibility and consumer desirability, giving Nike a market-leading 30% share of the US sports footwear market versus 10% for Adidas (Euromonitor). However, with no barriers to entry or switching costs, emerging sports brands like On and Hoka have gained share in the more than \$150-per-pair retail premium running-shoes market (Glossy.co). These brands have grown to mid-single-digit shares of the US sports footwear market from negligible levels before 2020 (Euromonitor). Given Nike's long-term contractual and business relationships with athletes, leagues, suppliers, distributors, franchisees, and retailers, we do not think any challenger brands can erode the firm's competitive advantage over the next 10 years, but we are now less confident over a 20-year horizon.

We believe Nike's moat is strongest in its home market, where it has deep connections to amateur and professional sports, but acknowledge that former management was slow to respond to rivals. As such, CEO Elliott Hill is cutting costs and lifting marketing spending (to 10% of revenue in fiscal years 2025 and 2026 from 7%-8% in prior years). Through such efforts, we believe Nike will achieve a 13% midcycle operating margin (up from 10% over the past three years and 3 points above our apparel coverage average) and returns on invested capital (ROICs) that exceed our 9% weighted average cost of capital (WACC) hurdle and trend up to the mid-20s over the next decade from 16% in fiscal 2026.

Much of Nike's increased marketing spending is tied directly to global sports, where it has deep connections that would be too costly (for example, due to rising endorsement prices) to replicate in a time frame that would threaten its narrow moat. The firm's decades of marketing, technical innovation, and consumer data let it sell higher-priced items in higher volumes than peers in categories like basketball and football (soccer). For example, at global sporting goods retailers like Dick's Sporting Goods/Foot Locker and JD Sports, many Jordan basketball shoe styles have US list prices above \$170 per pair—the only widely available brand priced at this level. Across the entire basketball shoe market, Jordan has the highest per-pair average of \$161 versus \$120 for both Puma and Adidas and \$110 for Under Armour, which we attribute to styling, quality, and endorsements with the most popular players (RunRepeat).

Nike has invested in its brand by accelerating both the pace of technical innovation and sports marketing. These efforts are especially important in football as boots (cleats) with the latest technology (materials, weight, etc.) carry retail prices that are roughly triple those of others. On has plans to challenge the leaders in this market, but it faces significant obstacles with virtually no past spending on

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innovation or marketing related to the sport. Meanwhile, both Nike and Adidas have annual football marketing budgets above \$800 million and have the highest-selling and most expensive boots (Footy Headlines). Nike currently has two of the three most expensive regular-priced offerings, and 48% of professional players wear its boots (Footy.com). As evidence of the barriers to success, Under Armour and New Balance entered football in 2009 and 2015, respectively, but still have negligible (sub-1%) shares (RunRepeat).

Given its unparalleled reach, we believe Nike has competitive advantages and pricing power in emerging markets like China, where yearly per-capita sportswear spending is small (less than \$50) but rising (Euromonitor). Nike and three other firms control nearly 60% of the Chinese sportswear market (Nike around 16%), making it more concentrated than developed markets (comparable figure is under 40%) and allowing less pricing pressure. Even so, Nike was slow to respond to recent entrants like Hoka and On, so it is increasing local product design and leaning into its strength in higher-priced performance footwear, where it has a 22% share versus 17% for second-place Anta (Euromonitor). This type of footwear has grown to 40% from 33% of China's sports footwear market over the past decade but remains below the US comparable mark at 58%, suggesting expansion potential (Euromonitor). After its current restructuring, we forecast Nike will achieve 5% annual sales growth in China, in line with market levels. However, even if its pricing power falters and revenue declines, consolidated ROICs would still average 19% over the next decade, as China accounts for less than 15% of total revenue.

Nike's ROICs have exceeded its WACC by sizable margins (averaging 13 points over the past 10 years), so we may consider removing its moat if competitive pricing pressure prevents this spread from expanding beyond recent levels of about 7 points by the end of its restructuring (fiscal 2030). Financial results could deteriorate from a permanent loss of pricing power across multiple sportswear categories. Consumers are willing to purchase from multiple brands, but the sportswear market is one in which few companies achieve broad success. For example, Under Armour is a legitimate challenger to Nike in some areas of performance apparel in the US but has largely failed in footwear; its share of the US sports footwear market halved between 2016 and 2025 (3.4% to 1.7%) despite the signing of NBA star Steph Curry away from Nike and other pricey investments (Euromonitor).

Fair Value and Profit Drivers David Swartz, Senior Equity Analyst, 16 Oct 2026

We cut our fair value estimate on Nike's shares to \$52.50 from \$94 after its first-quarter results, reducing our Morningstar Economic Moat Rating (to narrow from wide), and lowering our financial expectations.

Nike opened fiscal 2027 with a 4% decline in sales. Gross margin rose just 60 basis points to 42.8% on lower logistics costs, and selling, general, and administrative expenses fell a mere 3% as expense control offset higher sports-related marketing.

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Given the slow progress, management guided to fiscal 2027 adjusted EPS of \$1.15-\$1.35, short of our prereport \$1.69 forecast. We expected that sales trends to improve, but management now anticipates a high-single-digit sales decline for the year. Consequently, for fiscal 2027, we now forecast an 8% drop in sales (down from a 2% decline previously), a 5.9% operating margin (from 6.8%), and \$1.16 in EPS (from \$1.69), including \$300 million in expected restructuring charges.

We also lower our long-term expectations, as we think increased competition will negatively affect Nike's sales and margins. Over the next decade, we assume a 3% compound annual growth rate in sales, down from 5% previously. Further, we estimate peak gross margin at 45% (down from 48%) and peak operating margin at 14% (down from 18%).

By region, we expect Nike to achieve annual revenue growth of roughly 3% after fiscal 2027 in North America, in line with expected market growth. We forecast mid-single-digit annual sales growth in Europe and emerging markets. In Greater China, Nike's fastest-growing segment before recent challenges (including rising competition and poor customer traffic at franchised stores), we expect compound average growth of 1% over the next decade, down from 9% previously. This reflects our view that sportswear revenue growth has slowed in China and the market has become more competitive.

We think Nike's operating margins will strengthen as it achieves cost efficiencies, shifts sales to direct channels, and increases sales in higher-margin Greater China (even if at a more measured clip). The firm's restructuring plan, which includes layoffs and the elimination of layers of management, is expected to reduce expenses by an additional \$2.5 billion over the next four years. In Greater China, we forecast Nike's EBIT margins will rise to 29% (32% previously) from a very poor 22% in fiscal 2026. Nike's EBIT margins in the region have recently been inconsistent due to economic conditions, clearing of obsolete inventory, and competition from native brands but should improve over time through greater investment. In North America, we forecast segment operating margins of about 26% after fiscal 2030 (down from 28% prior) as it increases direct-to-consumer sales and limits discounting of its products.

Risk and Uncertainty David Swartz, Senior Equity Analyst, 16 Oct 2026

Our Morningstar Uncertainty Rating on Nike is High. This rating is based on our quantitative model and challenges like intensifying competition, higher energy costs, and increased tariffs on US imports. Nike has recently struggled with economic conditions, supply chain issues, excess inventory, competition, and a lack of compelling merchandise. Consequently, the firm changed CEOs in 2024. Despite its issues, Nike's financial position remains strong, and a credible plan to improve results is underway.

As a global business, Nike is affected by economic conditions worldwide. Consumer spending on the company's products has been uneven because of inflation, war, currency movements, trade restrictions, and other factors.

The growth of activewear has attracted new competition. While Nike is the market leader in many

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categories and in most markets, brands like narrow-moat On, Vuori, and narrow-moat Deckers' Hoka have emerged as challengers. Nike is under constant pressure to release new products that resonate with consumers and may miss sales projections if it fails to do so.

We do not believe the environmental, social, and governance risks that affect Nike will materially impact its financial results or investment prospects. Nonetheless, the firm tends to be a lightning rod for controversy due to its high visibility. Ongoing controversies include the treatment of female and minority employees, efforts to reduce taxation, and the treatment of workers in its supply chain. Moreover, Nike was entangled in a forced-labor controversy in China that sparked consumer backlash in the country and international criticism. Any lasting effects on its operations in the country could be damaging, as China is the world's fastest-growing sportswear market and Nike's most profitable region.

Capital Allocation David Swartz, Senior Equity Analyst, 16 Oct 2026

We downgraded our Morningstar Capital Allocation Rating on Nike from Exemplary to Standard because its internal investments have recently generated lower returns than before, and its returns to shareholders have declined. Even so, Nike has a sound balance sheet, and its adjusted ROICs, including goodwill, have averaged 22% over the past five years, well above our estimated weighted average cost of capital for the company of 9%.

Nike generates consistent free cash flow and has manageable debt, having operated in a net cash position for most of the past decade. Although the firm issued \$6 billion in unsecured notes when the pandemic hit in the spring of 2020, we believe this was just a precaution, and that the firm now has more cash than it needs to fund operations and capital return plans. Despite restructuring, we forecast that Nike will generate an annual average of \$4.2 billion in free cash flow to the firm over the next five years. Most of its long-term debt matures after 2029.

Nike has invested heavily in direct-to-consumer efforts in recent years to boost margins, but these efforts have not been as successful as anticipated. The firm has expanded its physical store base and online operations, but it has lost sales in its wholesale operations. Nike's direct-to-consumer sales accounted for 38% of its Nike brand revenue in fiscal 2026, up from less than 20% before 2015. Other investments include a new technology center in India. We forecast Nike's fiscal 2027 capital expenditures at about \$684 million (2% of sales), with much of the investment going into direct-to-consumer efforts and technology to operate more efficiently.

Acquisitions are typically not part of Nike's strategy. In one of its few deals, it bought casual athletic shoe brand Converse for \$305 million in 2003. Although Converse was widely known in the US, it went bankrupt in 2001 and had only \$205 million in sales in 2002. Nike rebuilt Converse over the next two decades, but the brand has recently struggled, and Nike has reduced marketing support. Meanwhile, Nike has divested other brands. In 2012, for example, it sold Cole Haan for \$570 million, 24 years after it had bought it for \$95 million. In 2019, Nike sold Hurley, which it had acquired in 2002, for an

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undisclosed amount. We view divestments of niche brands as beneficial to shareholders because they let Nike focus on its core business.

Nike has returned significant cash to shareholders through dividends and stock buybacks. The company pays more than \$2 billion in annual dividends, and we expect its long-term dividend payout ratio to be roughly 70%. Nike also returns cash to shareholders through buybacks, although it has lately reduced repurchases due to its weaker operating results. Nonetheless, the firm has reduced its share count by roughly 26% over the past 18 years, and we expect it will repurchase \$3.5 billion (net) in stock over the next five years.

Analyst Notes Archive

Nike: Limiting Digital Selling in China Prudent for Brand Despite Hit to Sales; Shares Undervalued

David Swartz, Senior Equity Analyst, 22 Jul 2026

Nike has confirmed that, as of January, it will restrict its franchise partners in China from selling its products through digital channels. By doing so, Nike will limit e-commerce in the nation to official company-operated e-commerce and stores on major platforms Tmall, Douyin, and JD.com.

Why it matters: After surging during the pandemic, Nike has struggled with product innovation and lost share to rising peers over the past few years. Its Chinese sportswear share declined to 16% from 26% between 2020 and 2025 as narrow-moat Anta replaced it as market leader (Euromonitor).

- Nike's move to end e-commerce by franchisees is part of a larger plan to limit markdowns and offer locally produced merchandise and marketing to Chinese consumers. It will take time, but we think these efforts will succeed as Nike holds advantages in visibility and product development.
- The policy change damages partners like narrow-moat Topsports, which generates 22% of its revenue from online sales of Nike products. However, in the long run, partner retailers in China should benefit if Nike regains sales momentum, margins, and brand health.

The bottom line: We make no change to our \$94 fair value estimate, leaving wide-moat Nike's shares as undervalued. We think investors overlook its potential for improving margins and a return to midsingle-digit annual sales growth as it releases innovative products and raises prices.

- The new policy may reduce near-term sales, but a large (14%) sales decline and poor (22.5%) EBIT margin in Greater China in fiscal 2027 were already in our model. After changes are implemented, we think Nike will return to sales growth and a more typical EBIT margin of 31% in fiscal 2028.

Big picture: Greater China accounted for only 13% of Nike's fiscal 2026 sales, but the region has high growth potential. Although already the world's second-largest market, per-capita spending on sportswear in China (about \$45 in 2025) is only about one-tenth that of the US.

Nike Earnings: Transformation Progress Overshadowed by Near-Term Challenges; Shares Very

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Attractive David Swartz, Senior Equity Analyst, 1 Jul 2026

Nike's sales fell 1% in the fourth quarter of fiscal 2026, as a 12% decline in Greater China (11% of total) offset a 3% rise in North America (44%). Operating expenses fell 2% on reductions in marketing and administrative costs. Excluding a tariff refund, EPS rose to \$0.20 from \$0.14 last year.

Why it matters: Launched a year and a half ago, CEO Elliott Hill's "Win Now" plan has brought cost reductions, more efficient inventory management, and a reorganization to align product development and marketing around athletics. However, improvement in results has been limited.

- Nike's sales outpaced our estimate by 1%, but trends slowed in the second half of the quarter. Management attributed this weakness to higher gas prices and the war in the Middle East and suggested that sales would remain subpar through (calendar) 2026.
- In addition, Nike intends to reduce near-term sell-in intentionally to limit oversupply and discounts, especially for casual apparel and shoes. More positively, rising sales of performance products, such as running footwear, provide confidence in Hill's strategy.

The bottom line: We expect to reduce our \$97 fair value estimate for Nike's shares by a low-single-digit percentage given the soft near-term outlook. However, we think progress will be more apparent in (calendar) 2027 as many products are released and margins improve.

- We think Nike retains its brand advantages in global sportswear, the source of our wide moat rating. Within about three years, we think it will return to mid-single-digit yearly sales growth and midteen EBIT margins.

Between the lines: There have been reports that Nike may prevent its partners in China, such as narrow-moat Topsports, from selling through digital channels to prevent discounts. We do not expect Nike to go this far. Instead, it will likely work with partners to improve inventory management.

Nike Earnings: Positive Signs Amid a Frustratingly Slow Turnaround; Shares Attractive David Swartz, Senior Equity Analyst, 1 Apr 2026

Nike had flat sales in fiscal 2026's third quarter as 3% growth in North America (45% of sales) was offset by challenges elsewhere. Its gross margin fell 130 basis points to 40.2% on higher tariffs, and its operating margin dropped to 4.9% from 7% due, primarily, to layoff-related severance costs.

Why it matters: CEO Elliott Hill continues to implement the "Win Now" plan to operate more efficiently, clean up older inventory, introduce innovative products, and strengthen Nike's roots in sports. The process has been slow, but improvement in its home regions provides confidence.

- Nike's sales and operating margin were marginally above our forecast despite 10% constant-currency sales declines in Greater China and 7% in Europe, the Middle East, and Africa. Nike has structural problems in these regions, but we project a return to growth by calendar 2027.
- Indeed, despite external challenges like tariffs and higher oil prices, Nike expects to complete its Win

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Now actions by the end of this calendar year 2026. We believe that this is realistic based on aggressive channel clean up actions that are ongoing and product release plans.

The bottom line: We expect to reduce our \$102 fair value estimate on wide-moat Nike's shares by a mid-single-digit rate due to the dim near-term outlook. However, mid-single-digit sales growth and double-digit operating margins still appear to be achievable in fiscal 2028.

- With Greater China sales expected to be down 20% due to limited sell-in, Nike's fourth-quarter guidance for a 2%-4% sales decline is shy of our 2% growth estimate. Even so, we think Nike will regain its pricing power in China with clearance of old inventory and local product development.

Between the lines: There has been media speculation that Nike will sell struggling Converse, but management has repeatedly suggested otherwise. Whether sold or not, Converse has no material impact on our valuation and does not affect our moat rating, which is based on Nike's brand.

Nike Earnings: China Weakness and Tariffs Overshadow Progress; Shares Very Attractive David Swartz, Senior Equity Analyst, 19 Dec 2025

Nike's fiscal 2026 second-quarter sales edged up 1% as 9% growth in North America (45% of total) offset a steep 17% decline in Greater China (12%). Due to higher tariffs, Nike's gross and EBIT margins both declined about 3 percentage points to 40.6% and 8.1%, respectively. Overhead expenses fell 4%.

Why it matters: Now in his second year as CEO, Elliott Hill continues to implement the "Win Now" plan to drive sales and margin growth through sports. Hill has implemented several management and structure changes to strengthen product design and marketing for individual sports and regions.

- At 9%, Nike's North America sales growth soared past our 2% estimate. We think the firm's releases in running and other categories have gained acceptance from consumers and retailers. We also see signs that Nike's products are attracting renewed interest in the collectors' market.
- On the downside, Nike acknowledges that it is struggling to hold its premium positioning in China. Although timing is difficult to predict, we think the firm's investments in marketing, merchandise, and stores will bring improvement in this sportswear market, which we expect to expand significantly.

The bottom line: Wide-moat Nike's shares are very undervalued relative to our \$104 fair value estimate, which we do not expect to change materially. Shares fell about 10% in postmarket Dec. 18 trading, but we think a turnaround is closer than investors believe.

- Specifically, we think Nike can return to annual sales growth above 5% and EBIT margins above 10% in fiscal 2028. We still believe the firm has significant advantages in its connections to sports, product development, marketing, and relationships with key retailers.
- In the near term, Nike expects tariffs and inventory problems in Greater China to continue to weigh on its sales and margins. However, the firm has a history of beating expectations; for example, its 8.1%

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operating margin was 290 basis points better than our forecast.

Nike Earnings: Signs of a Comeback but Finish Line Remains Distant; Shares Very Attractive David Swartz, Senior Equity Analyst, 1 Oct 2025

Nike overcame a 9% sales decline in Greater China (13% of total) to post 1% growth in fiscal 2026's first quarter. Its gross margin fell 320 basis points to 42.2% due to higher markdowns and tariffs, and led to an EBIT margin that declined to 7.7% from 10.9% despite a 1% cut in operating costs.

Why it matters: Nike outpaced our estimate for a 5.5% sales decline as it continues to implement CEO Elliott Hill's "Win Now" plan. The firm is prioritizing its connections to sports, rebuilding relationships with wholesale partners, clearing overexposed lifestyle products, and innovation.

- One positive sign is that North America sales outpaced our estimate for a 3% decline by growing 4% on an 11% increase in wholesale. Even so, Nike's plan to reposition its digital operations in the region to full-price selling is far from complete.
- Meanwhile, Nike continues to face challenges in both store and digital channels in Greater China. Nonetheless, we continue to think the region has high potential and forecast sales growth to return to double digits in fiscal 2027.

The bottom line: Wide-moat Nike's shares are undervalued relative to our \$104 per share fair value estimate, which we do not expect to change materially. We think investors are overlooking its potential to build to midteen operating margins through product releases, new marketing, and price hikes.

- For the current quarter, Nike expects a small sales decline, a gross margin drop of 300-375 basis points, and higher operating costs due to increased marketing, which we support. Much (175 basis points) of the gross margin reduction is due to tariffs, which we think will be mitigated over time.

Big picture: We think retailers—like the combined Foot Locker and narrow-moat Dick's Sporting Goods—are reacting positively to Nike's new running shoe lineup. We think it will reclaim lost selling space in this and other performance categories through innovation and new marketing.

Nike Earnings: Hurdles Remain but Efforts Should Bring Back Winning Ways; Shares Attractive David Swartz, Senior Equity Analyst, 27 Jun 2025

Nike's sales plummeted 12% in its May-ended fiscal 2025 fourth quarter, as it continues to work through excess inventory. Its EBIT margin of 2.7% was down from 12.3% in the prior year, and its earnings per share fell to \$0.14 from \$0.99.

Why it matters: CEO Elliott Hill's Win Now turnaround plan includes discounting and less distribution of overexposed footwear. Hill is responding to competitive threats through a focus on sports, stronger wholesale partnerships (including a return to wide-moat Amazon), and product innovation.

- Although a weak period, Nike's sales decline was less than our 15% forecast, and its EBIT margin was above our 1.4% estimate. Greater China (13% of sales) remains very challenged (sales down 21%), but

Nike Inc Class B NKE★★★★

16 Oct 2026 23:13, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation
37.14 USD 15 Oct 2026	52.50 USD 16 Oct 2026 23:10, UTC	0.71	55.15 USD Bil 16 Oct 2026	 Narrow	 Mid Value	High	Standard

we think Nike is in position to benefit from the market's eventual recovery.

- We believe Nike's advantages in products, marketing, and connections to athletics will allow it to win back share and reduce discounting in fiscal 2026. Although unlikely until at least fiscal 2027, we think it will return to mid-single-digit yearly sales growth and double-digit EBIT margins.

The bottom line: We think wide-moat Nike is very undervalued but expect to reduce our \$112 per share fair value estimate by a mid-single-digit percentage.

- Sales declines are likely to continue in fiscal 2026 (especially in the first half), and Nike disclosed that higher tariffs on US imports are expected to bring \$1 billion in new expense and reduce its gross margin by about 75 basis points (includes mitigation actions).
- We are adjusting our Morningstar Uncertainty Rating on Nike to High from Medium based on our quantitative model and challenges like intensifying competition and tariffs.

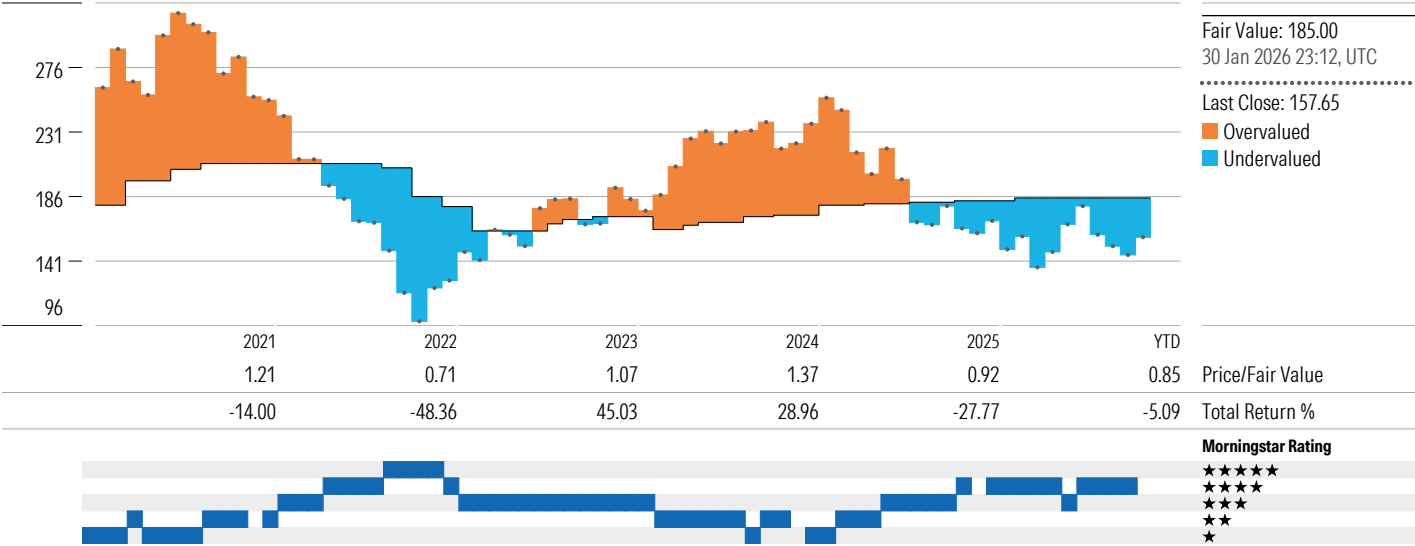
Between the lines: Nike imports about 16% of its US footwear from China, which has been subjected to sky-high tariffs. The company intends to reduce this percentage to below 10% by the end of fiscal 2026.



Nike Inc Class B NKE ★★★★★ 16 Oct 2026 23:13, UTC

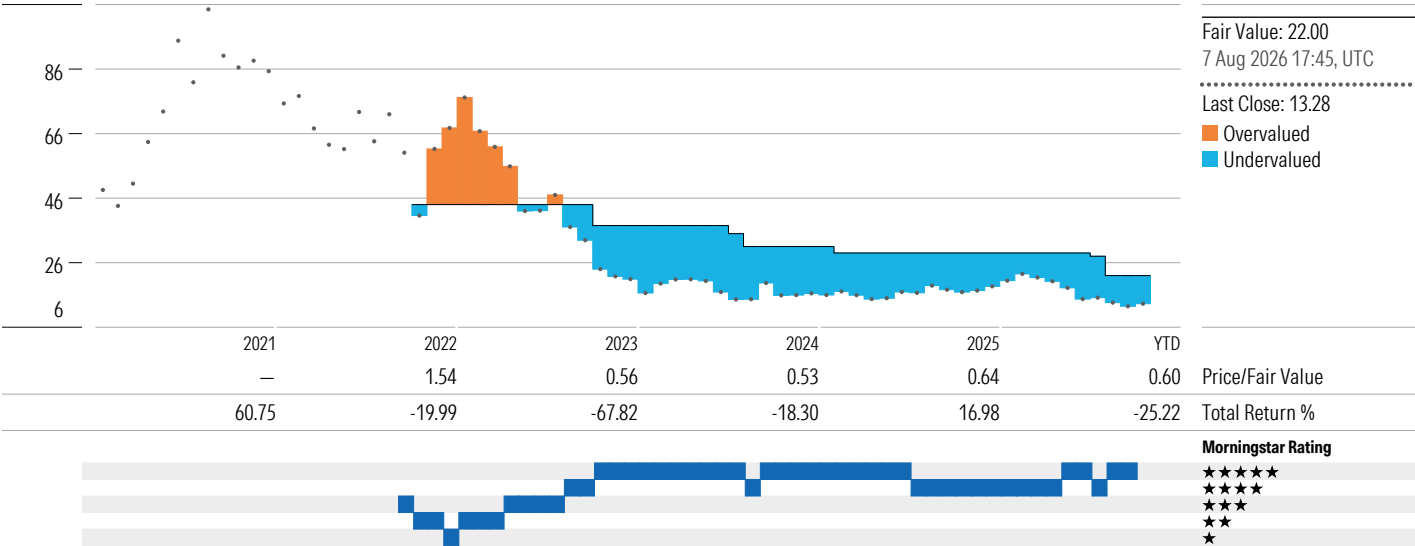
Competitors Price vs. Fair Value

adidas AG ADS



Total Return % as of 15 Oct 2026. Last Close as of 15 Oct 2026. Fair Value as of 30 Jan 2026 23:12, UTC.

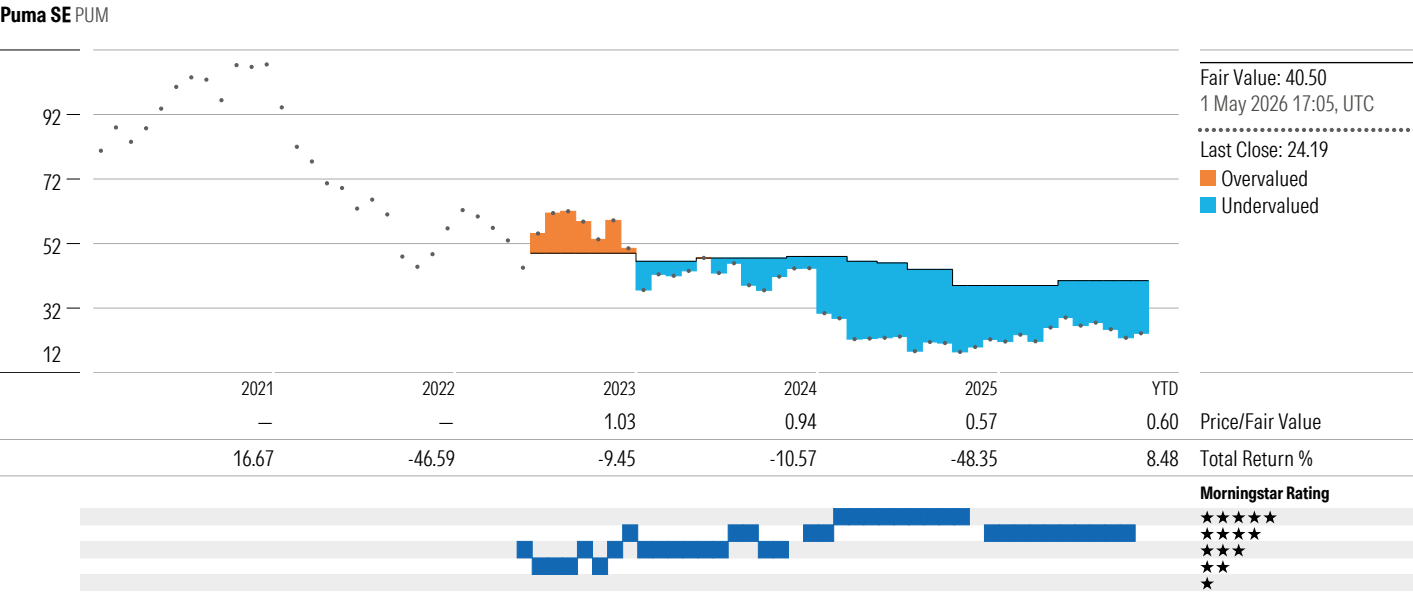
Li Ning Co Ltd 02331



Total Return % as of 16 Oct 2026. Last Close as of 16 Oct 2026. Fair Value as of 7 Aug 2026 17:45, UTC.

Nike Inc Class B NKE★★★★16 Oct 2026 23:13, UTC

Competitors Price vs. Fair Value



Total Return % as of 15 Oct 2026. Last Close as of 15 Oct 2026. Fair Value as of 1 May 2026 17:05, UTC.

Nike Inc Class B NKE ★★★★★

16 Oct 2026 23:13, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation
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Morningstar Valuation Model Summary

Financials as of 16 Oct 2026

Fiscal Year, ends 31 May	Actual			Forecast				
	2024	2025	2026	2027	2028	2029	2030	2031
Revenue (USD Mil)	51,362	46,309	46,398	42,843	44,181	46,096	48,215	50,440
Operating Income (USD Mil)	6,311	3,702	3,797	2,510	3,176	3,969	5,293	6,302
EBITDA (USD Mil)	7,383	4,586	4,647	2,971	3,767	4,594	5,955	7,003
Adjusted EBITDA (USD Mil)	7,155	4,510	4,594	3,252	3,942	4,769	6,130	7,178
Net Income (USD Mil)	5,700	3,219	3,108	1,721	2,355	2,968	3,989	4,768
Adjusted Net Income (USD Mil)	5,700	3,219	3,108	1,721	2,355	2,968	3,989	4,768
Free Cash Flow To The Firm (USD Mil)	6,390	4,410	2,716	4,956	3,073	3,342	4,339	5,126
Weighted Average Diluted Shares Outstanding (Mil)	1,530	1,488	1,481	1,484	1,480	1,465	1,450	1,436
Earnings Per Share (Diluted) (USD)	3.73	2.16	2.10	1.16	1.59	2.03	2.75	3.32
Adjusted Earnings Per Share (Diluted) (USD)	3.73	2.16	2.10	1.16	1.59	2.03	2.75	3.32
Dividends Per Share (USD)	1.45	1.57	1.63	1.64	1.64	1.80	1.98	2.18

Margins & Returns as of 16 Oct 2026

	3 Year Avg	Actual			Forecast					5 Year Avg
		2024	2025	2026	2027	2028	2029	2030	2031	
Operating Margin %	9.7	12.3	8.0	8.2	5.9	7.2	8.6	11.0	12.5	8.6
EBITDA Margin %	—	14.4	9.9	10.0	6.9	8.5	10.0	12.4	13.9	—
Adjusted EBITDA Margin %	—	13.9	9.7	9.9	7.6	8.9	10.4	12.7	14.2	10.8
Net Margin %	8.3	11.1	7.0	6.7	4.0	5.3	6.4	8.3	9.5	6.7
Adjusted Net Margin %	8.3	11.1	7.0	6.7	4.0	5.3	6.4	8.3	9.5	6.7
Free Cash Flow To The Firm Margin %	9.3	12.4	9.5	5.9	11.6	7.0	7.2	9.0	10.2	9.0

Growth & Ratios as of 16 Oct 2026

	3 Year CAGR	Actual			Forecast					5 Year CAGR
		2024	2025	2026	2027	2028	2029	2030	2031	
Revenue Growth %	-3.2	0.3	-9.8	0.2	-7.7	3.1	4.3	4.6	4.6	1.7
Operating Income Growth %	-13.7	6.7	-41.3	2.6	-33.9	26.5	25.0	33.4	19.1	10.7
EBITDA Growth %	-10.6	4.7	-37.9	1.3	-36.1	26.8	22.0	29.6	17.6	12.0
Adjusted EBITDA Growth %	-12.1	5.6	-37.0	1.9	-29.2	21.2	21.0	28.5	17.1	9.3
Earnings Per Share Growth %	-13.4	15.4	-41.9	-3.0	-44.7	37.2	27.3	35.8	20.7	9.6
Adjusted Earnings Per Share Growth %	-13.4	15.4	-41.9	-3.0	-44.7	37.2	27.3	35.8	20.7	9.6

Valuation as of 16 Oct 2026

	Actual			Forecast				
	2024	2025	2026	2027	2028	2029	2030	2031
Price/Earning	25.5	28.1	22.0	32.0	23.4	18.3	13.5	11.2
Price/Sales	2.8	1.9	1.5	1.3	1.2	1.2	1.1	1.1
Price/Book	10.1	6.8	4.6	3.9	4.0	4.1	4.0	3.8
Price/Cash Flow	—	—	—	—	—	—	—	—
EV/EBITDA	20.2	20.2	15.6	17.8	14.7	12.1	9.4	8.1
EV/EBIT	22.9	24.6	18.9	23.1	18.2	14.6	10.9	9.2
Dividend Yield %	1.5	2.6	3.5	4.4	4.4	4.9	5.3	5.9
Dividend Payout %	38.9	72.6	77.7	141.4	103.1	89.1	72.1	65.7
Free Cash Flow Yield %	—	—	—	—	—	—	—	—

Operating Performance / Profitability as of 16 Oct 2026

Fiscal Year, ends 31 May	Actual			Forecast				
	2024	2025	2026	2027	2028	2029	2030	2031
ROA %	15.0	8.8	8.1	4.7	6.8	8.6	11.5	13.5
ROE %	39.5	24.4	20.9	12.2	17.0	22.4	29.9	34.1
ROIC %	26.2	16.7	16.0	10.7	13.2	15.4	19.0	21.6

Nike Inc Class B NKE ★★★★★

16 Oct 2026 23:13, UTC

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Financial Leverage (Reporting Currency)	Actual			Forecast				
	2024	2025	2026	2027	2028	2029	2030	2031
Fiscal Year, ends 31 May								
Debt/Capital %	5.9	8.2	10.4	7.9	5.5	5.2	4.9	4.7
Assets/Equity	2.6	2.8	2.6	2.6	2.5	2.6	2.6	2.5
Net Debt/EBITDA	-0.4	-0.3	-0.2	-0.9	-0.6	-0.3	-0.2	-0.1
Total Debt/EBITDA	1.2	1.8	1.7	2.2	1.3	1.0	0.8	0.7
EBITDA/ Net Interest Expense	-44.4	-42.1	-91.9	-58.1	-68.3	-79.1	-97.3	-108.9

Forecast Revisions as of 16 Oct 2026	2027		2028		2029	
	Current	Prior	Current	Prior	Current	Prior
Prior data as of 19 Jul 2026						
Fair Value Estimate Change (Trading Currency)	52.50	93.95	—	—	—	—
Revenue (USD Mil)	42,843	45,712	44,181	48,103	46,096	50,758
Operating Income (USD Mil)	2,510	3,124	3,176	5,902	3,969	7,010
EBITDA (USD Mil)	3,252	3,913	3,942	6,732	4,769	7,885
Net Income (USD Mil)	1,721	2,509	2,355	4,718	2,968	5,600
Earnings Per Share (Diluted) (USD)	1.16	1.69	1.59	3.22	2.03	3.86
Adjusted Earnings Per Share (Diluted) (USD)	1.16	1.69	1.59	3.22	2.03	3.86
Dividends Per Share (USD)	1.64	1.64	1.64	1.80	1.80	1.98

Key Valuation Drivers as of 16 Oct 2026

Cost of Equity %	9.8
Pre-Tax Cost of Debt %	4.0
Weighted Average Cost of Capital %	8.7
Long-Run Tax Rate %	—
Stage II EBI Growth Rate %	5.0
Stage II Investment Rate %	29.6
Perpetuity Year	15

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

Discounted Cash Flow Valuation as of 16 Oct 2026

	USD Mil
Present Value Stage I	32,097
Present Value Stage II	10,497
Present Value Stage III	33,439
Total Firm Value	76,033
Cash and Equivalents	9,027
Debt	7,942
Other Adjustments	-1,079
Equity Value	76,039
Projected Diluted Shares	1,483
Fair Value per Share (USD)	52.50

Nike Inc Class B NKE ★★★ 16 Oct 2026 23:13, UTC

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ESG Risk Rating Breakdown

Exposure

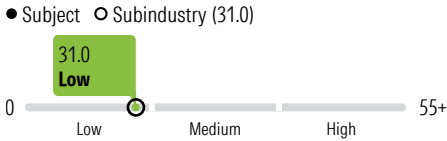
Company Exposure ¹	31.0
- Manageable Risk	28.0
Unmanageable Risk²	3.0

Management

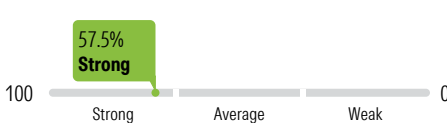
Manageable Risk	28.0
- Managed Risk ³	16.1
Management Gap⁴	11.9

Overall Unmanaged Risk

14.9



- Exposure represents a company's vulnerability to ESG risks driven by their business model
- Exposure is assessed at the Subindustry level and then specified at the company level
- Scoring ranges from 0-55+ with categories of low, medium, and high-risk exposure



- Management measures a company's ability to manage ESG risks through its commitments and actions
- Management assesses a company's efficiency on ESG programs, practices, and policies
- Management score ranges from 0-100% showing how much manageable risk a company is managing

ESG Risk Rating



ESG Risk Rating is of Oct 14, 2026. Highest Controversy Level is as of Oct 08, 2026. Sustainability Subindustry: Footwear. Sustainability provides Morningstar with company ESG ratings and metrics on a monthly basis and as such, the ratings in Morningstar may not necessarily reflect current Sustainability's scores for the company. For the most up to date rating and more information, please visit: sustainalytics.com/esg-ratings/.

ESG Risk Ratings measure the degree to which a company's value is impacted by environmental, social, and governance risks, by evaluating the company's ability to manage the ESG risks it faces.

1. A company's Exposure to material ESG issues 2. Unmanageable Risk refers to risks that are inherent to a particular business model that cannot be managed by programs or initiatives 3. Managed Risk = Manageable Risk multiplied by a Management score of 57.5% 4. Management Gap assesses risks that are not managed, but are considered manageable

Peer Analysis 14 Oct 2026

Peers are selected from the company's Sustainability-defined Subindustry and are displayed based on the closest market cap values

Company Name	Exposure	Management	ESG Risk Rating
Nike Inc	31.0 Low 0 —●— 55+	57.5 Strong 100 —●— 0	14.9 Low 0 —●— 40+
Under Armour Inc	31.8 Low 0 —●— 55+	57.9 Strong 100 —●— 0	15.2 Low 0 —●— 40+
adidas AG	31.6 Low 0 —●— 55+	69.4 Strong 100 —●— 0	11.9 Low 0 —●— 40+
Puma SE	33.0 Low 0 —●— 55+	67.9 Strong 100 —●— 0	12.9 Low 0 —●— 40+
Li Ning Co Ltd	28.5 Low 0 —●— 55+	36.3 Average 100 —●— 0	19.2 Low 0 —●— 40+

Morningstar Sustainability ESG ratings are issued in accordance with the EU ESG Ratings Regulation (2024/3005). For regulatory disclosures related to Morningstar Sustainability ESG ratings, please see [Morningstar Sustainability Ratings Transparency](#).

Appendix

Historical Morningstar Rating

Nike Inc Class B NKE 16 Oct 2026 05:00, UTC

Dec 2026 —	Nov 2026 —	Oct 2026 ★★★★	Sep 2026 ★★★★★	Aug 2026 ★★★★★	Jul 2026 ★★★★★	Jun 2026 ★★★★★	May 2026 ★★★★★	Apr 2026 ★★★★★	Mar 2026 ★★★★★	Feb 2026 ★★★★	Jan 2026 ★★★★
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 ★★

adidas AG ADS 15 Oct 2026 05:00, UTC

Dec 2026 —	Nov 2026 —	Oct 2026 ★★★★	Sep 2026 ★★★★	Aug 2026 ★★★★	Jul 2026 ★★★★	Jun 2026 ★★★	May 2026 ★★★★	Apr 2026 ★★★★	Mar 2026 ★★★★	Feb 2026 ★★★★	Jan 2026 ★★★★
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 ★★★★
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Dec 2021 —	Nov 2021 ★★	Oct 2021 ★★	Sep 2021 ★★	Aug 2021 ★	Jul 2021 ★	Jun 2021 ★	May 2021 ★	Apr 2021 ★★	Mar 2021 ★	Feb 2021 ★	Jan 2021 ★

Li Ning Co Ltd 02331 16 Oct 2026 05:00, UTC

Dec 2026 —	Nov 2026 —	Oct 2026 ★★★★★	Sep 2026 ★★★★★	Aug 2026 ★★★★	Jul 2026 ★★★★★	Jun 2026 ★★★★★	May 2026 ★★★★	Apr 2026 ★★★★	Mar 2026 ★★★★	Feb 2026 ★★★★	Jan 2026 ★★★★
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 —

Puma SE PUM 15 Oct 2026 05:00, UTC

Dec 2026 —	Nov 2026 —	Oct 2026 ★★★★	Sep 2026 ★★★★	Aug 2026 ★★★★	Jul 2026 ★★★★	Jun 2026 ★★★★	May 2026 ★★★★	Apr 2026 ★★★★	Mar 2026 ★★★★	Feb 2026 ★★★★	Jan 2026 ★★★★
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 —

Research Methodology for Valuing Companies

Overview

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

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

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

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a

long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

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

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

2. Estimated Fair Value

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

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working capital accounts, and capital spending. Based on these projections, we calculate earnings before interest,

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

Stage II: Fade

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

Stage III: Perpetuity

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

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

3. Uncertainty Around That Fair Value Estimate

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

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

Morningstar Equity Research Star Rating Methodology



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

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

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

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

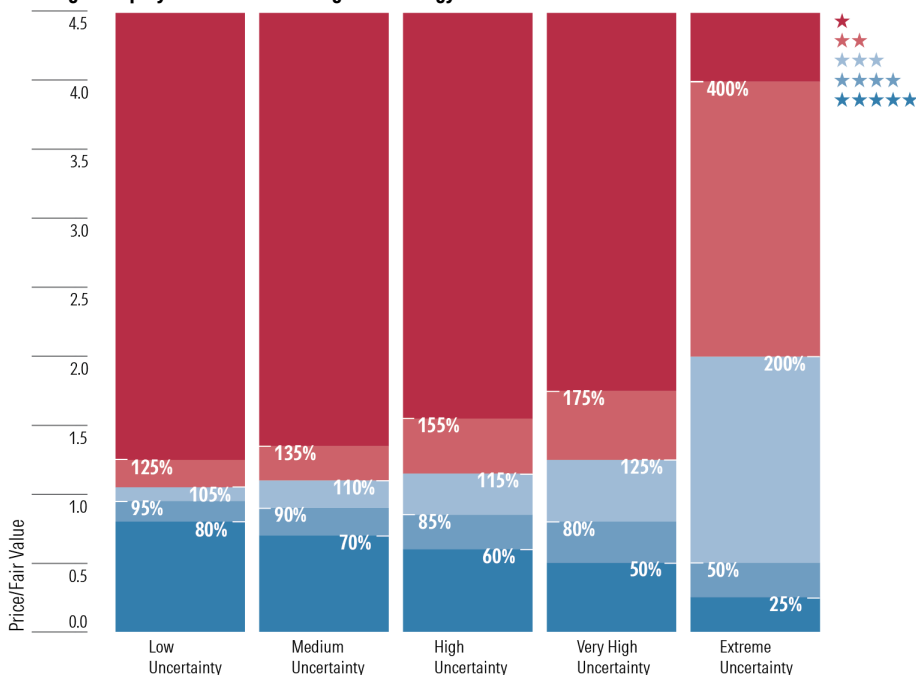
Our uncertainty rating is based on the interquartile range, or the middle 50% of potential outcomes, covering the 25th percentile–75th percentile. This means that when a stock hits 5 stars, we expect there is a 75% chance that the intrinsic value of that stock lies above the current market price. Similarly,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

4. Market Price

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

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

Morningstar Equity Research Star Rating Methodology



Morningstar Star Rating for Stocks

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

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

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

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

The Morningstar Star Ratings for stocks are defined below:

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

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

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

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

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

Other Definitions

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

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

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

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

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

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

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

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

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

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

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

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