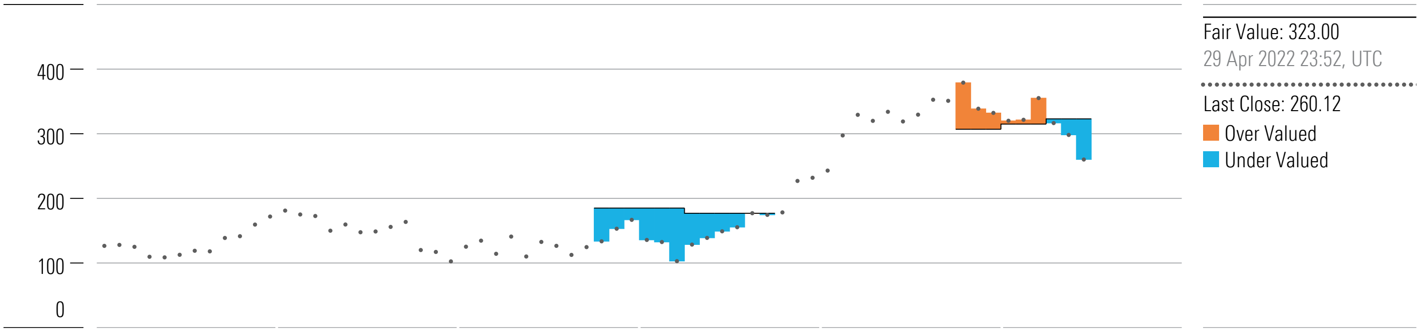
Morningstar Equity Analyst Report | Report as of 14 Jun 2022 23:18, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC. Page 1 of 17

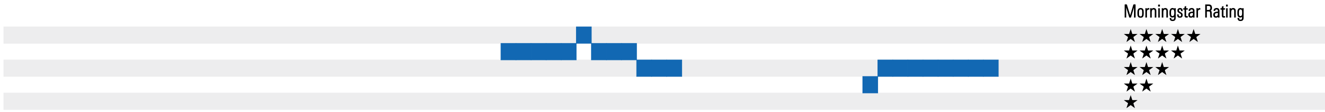
United Rentals Inc URI ★★★★ 14 Jun 2022 21:23, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Moat Trend™	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
260.12 USD 14 Jun 2022	323.00 USD 29 Apr 2022 23:52, UTC	0.81	18.98 USD Bil 13 Jun 2022	None	Stable	High	Standard	1 Jun 2022 05:00, UTC

Price vs. Fair Value



	2017	2018	2019	2020	2021	YTD	
	—	—	0.90	—	1.08	0.81	Price/Fair Value
	62.82	-40.36	62.65	39.06	43.28	-21.72	Total Return %



Total Return % as of 14 Jun 2022. Last Close as of 14 Jun 2022. Fair Value as of 29 Apr 2022 23:52, UTC.

Contents

Important Disclosure

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

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

Rental Equipment Demand Expected to Remain Strong in the Near Term, Benefitting United Rentals

Business Strategy & Outlook Dawit Woldemariam, Equity Analyst, 29 Apr 2022

We think United Rentals will continue to be the top player in the equipment rental industry. As the industry leader, the company provides customers better equipment availability and reliability than smaller players. However, many of the equipment brands found in United Rentals' product catalog can also be found at other competitors, such as Sunbelt Rentals (owned by Ashtead), Herc, and at thousands of other rental companies across North America.

United Rentals has employed an aggressive mergers and acquisitions strategy, completing hundreds of acquisitions over the past two decades. We expect the company to continue rolling in smaller rental companies onto its rental platform, further expanding its geographical reach and fleet categories. We think the equipment rental industry is ripe for consolidation and we believe United Rentals will be a beneficiary, but so too will its competitors. The company will likely be competing with other players looking to build scale. In terms of its branch network, United Rentals operates approximately 1,300 rental locations throughout North America, significantly more than the next-largest player, Sunbelt Rentals, which operates over 900 locations in the region. The company is also increasingly extending into the specialty equipment vertical (28% of sales), which includes trench safety, power and HVAC, and fluid solutions.

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United Rentals Inc URI ★★★★ 14 Jun 2022 21:23, UTC

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Sector	Industry
Industrials	Rental & Leasing Services

Business Description

United Rentals is the world's largest equipment rental company, and principally operates in the United States and Canada, where it commands approximately 15% share in a highly fragmented market. It serves three end markets: general industrial, commercial construction, and residential construction. Like its peers, United Rentals historically has provided its customers with equipment that was intermittently used, such as aerial equipment and portable generators. As the company has grown organically and through hundreds of acquisitions since it went public in 1997, its catalog (fleet size of $16 billion) now includes a range of specialty equipment and other items that can be rented for indefinitely long time periods.

Finally, the company has exposure to end markets with near-term, attractive tailwinds. We think construction and industrial markets will continue to improve from their pandemic lows. Nonresidential construction spending has been depressed, but we think this trend will reverse over the next few years as economic growth will spur new project development for industrial, retail, hotel, and office markets. We also believe the total addressable market for the equipment rental industry will continue to expand as rental penetration increases. More and more contractors are electing to rent general equipment (aerial lifts, forklifts, generators) that are intermittently used on projects. This allows them to save on project costs.

Bulls Say Dawit Woldemariam, Equity Analyst, 29 Apr 2022

- Increased equipment rental penetration in North America could result in more general equipment rentals, driving higher revenue growth for United Rentals.
- Construction and industrial spending may begin to recover from pandemic lows, creating demand for United Rentals' products.
- United Rentals' growing focus on building up its specialty fleet could lead to higher dollar utilization and increased profitability.

Bears Say Dawit Woldemariam, Equity Analyst, 29 Apr 2022

- Rental customers may elect to buy equipment outright instead of renting, which could lead to a decrease in the rental penetration rate, ultimately meaning lower sales for United Rentals.
- The COVID-19 pandemic could disrupt the recovery of construction and industrial spending, keeping demand for United Rental's products soft in the near term.
- A weaker economic backdrop may force end users to hold off from renting equipment until new project demand picks up, pressuring United Rentals' sales.

Economic Moat Dawit Woldemariam, Equity Analyst, 29 Apr 2022

We don't think United Rentals benefits from an economic moat, despite being the largest rental company globally. In our view, the most likely moat source would be scale-driven cost advantages over smaller competitors. Larger players typically offer customers with greater equipment availability and reliability than regional operators, but we don't see any established barriers preventing other rental companies from following the same strategy as United Rentals. Over the past decade, the company has acquired smaller players, a playbook that others can easily replicate, eventually leading to similar levels of scale to United Rentals. For these reasons, we believe it will be difficult for United Rentals to generate excess returns over the next decade. Furthermore, we think the price-sensitive profile of customers in the rental industry prevents the company from developing pricing power.

Even if industry consolidation starts to take hold, we think the top 10 rental companies are in a strong position to increase their market share. The rental industry is highly fragmented, presenting numerous

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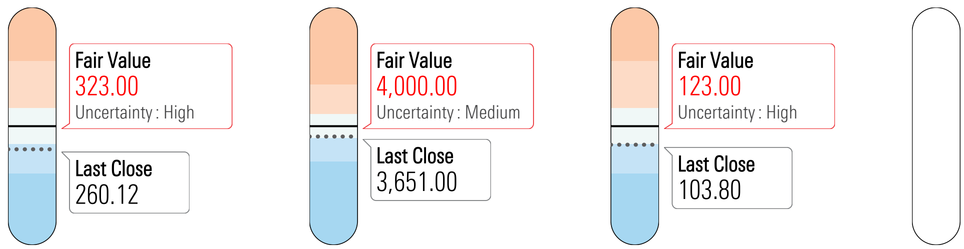
260.12 USD 14 Jun 2022	323.00 USD 29 Apr 2022 23:52, UTC	0.81	18.98 USD Bil 13 Jun 2022	None	Stable	High	Standard	1 Jun 2022 05:00, UTC

Competitors



	United Rentals Inc URI	Ashtead Group PLC AHT	Herc Holdings Inc HRI	Mobile Mini Inc MINI
Economic Moat	None	None	None	—
Moat Trend	Stable	Stable	Stable	—
Currency	USD	GBX	USD	—
Fair Value	323.00 29 Apr 2022 23:52, UTC	4,000.00 16 Sep 2021 11:39, UTC	123.00 21 Apr 2022 20:45, UTC	— —
1-Star Price	500.65	5,400.00	190.65	—
5-Star Price	193.80	2,800.00	73.80	—
Assessment	Fairly Valued 13 Jun 2022	Fairly Valued 13 Jun 2022	Fairly Valued 13 Jun 2022	— —
Morningstar Rating	★★★★ 14 Jun 2022 21:23, UTC	★★★ 14 Jun 2022 00:28, UTC	★★★ 14 Jun 2022 21:23, UTC	— —
Analyst	Dawit Woldemariam, Equity Analyst	Matthew Donen, Equity Analyst	Dawit Woldemariam, Equity Analyst	—
Capital Allocation	Standard	Exemplary	Standard	—
Price/Fair Value	0.81	0.91	0.84	—
Price/Sales	1.90	2.61	1.45	2.14
Price/Book	3.12	4.19	3.08	1.59
Price/Earning	12.45	16.94	12.72	17.66
Dividend Yield	—	1.16%	1.58%	4.01%
Market Cap	18.98 Bil	16.84 Bil	3.12 Bil	—
52-Week Range	261.80—414.99	36.42—74.48	102.10—203.14	—
Investment Style	Mid Core	Large Growth	Small Core	Small Core

M&A opportunities for not only the top three players, but also the top 10 rental companies. Through an aggressive acquisition strategy, these players could eventually build similar scale to United Rentals. While it's natural to think that the top three rental companies: United Rentals, Sunbelt Rentals, and Herc will be the first in line to benefit from industry consolidation, we believe it's also reasonable to assume that significantly sized rental companies have a relatively strong chance at outbidding the top three players when smaller companies come up for sale. In some cases, M&A opportunities may not rise to the top three players' attention, particularly in local markets where they don't have a strong presence.

Rental companies face numerous competitive forces, which we believe prevents the formation of cost advantages and intangible asset moat sources. United Rentals is just one of the hundreds, if not thousands, of other players in the rental industry that customers can choose to rent from. The industry ranges from small and local rental companies to national players like Sunbelt Rentals, which possesses approximately 11% market share in North America compared with United Rentals' 15% share and Herc's 3% share. In addition, customers can rent equipment from large retail stores such as Home Depot and

Lowe's and heavy equipment dealers. Together, we believe these competitive forces make it difficult for United Rentals and Herc to develop durable competitive advantages. From a cost advantage perspective, as illustrated earlier, both players will likely compete with the other rental companies on the M&A front, which may limit their ability to develop economies of scale. Additionally, we think both companies will need to improve their respective cost structures by reducing the costs associated with their branch networks and equipment sourcing strategies. With respect to intangible assets, we believe rental companies are closer to price takers than price makers. Customers choose to rent to keep project costs as low as possible, meaning, rental companies have little room to raise rental prices and drive higher capital returns.

In our view, the rental companies have not built up enough of an economic cushion to weather future economic downturns. While United Rentals has normally outearned its cost of capital over the past decade, we are not comfortable enough to award the company an economic moat given the cyclical nature of the end markets it serves. Adjusted returns on invested capital have typically ranged from the low-double-digit to midteens range over the past decade. Moatworthy companies under our coverage in the heavy equipment industry possess stronger returns on invested capital, which we forecast to be well over 20% on average compared with the midteens range we forecast for United Rentals. While we are encouraged by the rental companies' ability to pull back on capital expenditures during slower economic periods to preserve free cash flow, we acknowledge the cyclical nature of industrial and construction markets can lead to prolonged periods of muted sales growth and lower returns on invested capital.

We do not think United Rentals faces any substantial threats from ESG risks. As a rental company, the firm does not have the same level of exposure to the product safety issues, carbon emissions, and environmental regulation that original equipment manufacturers face. With respect to carbon emissions, rental companies' equipment can be used multiple times by different customers, reducing the need for new equipment to be manufactured, eliminating emissions that would have been produced through manufacturing operations. We expect this to continue in the future as rental penetration proliferates in the medium term. Looking inward, rental companies are aiming to reduce their own carbon emissions, from the energy use in branch locations to their own transportation services (moving rental equipment between branches). Additionally, rental companies have an opportunity to help their customers track the emissions of rental equipment to meet reporting requirements.

Fair Value and Profit Drivers Dawit Woldemariam, Equity Analyst, 29 Apr 2022

We raised our fair value estimate to $323 from $315 previously. This reflects our expectations for a strong equipment rental market in the next five years. We expect consolidated sales to grow 5% on average in our forecast, showing continued strength after a strong year in 2021, where sales increased 14% year over year. We project operating margins will improve from the 23% reported in 2021 to 28% in our midcycle year, as we believe United Rentals will benefit from increased rental penetration and recovering construction and industrial spending. The global health pandemic has depressed non-residential construction spending, but we think this trend will reverse over the next few years as economic growth will spur new project development for industrial, retail, hotel, and office markets.

We think the largest revenue driver will be growing rental penetration. Increasingly, contractors are opting to rent versus owning equipment. The economics of owning equipment that is intermittently used on projects isn't attractive, therefore, we expect contractors to continue shifting their business to rental companies. Currently, the rental penetration rate stands near 55% and we expect it to grow to over 60% in the medium term, setting up a healthy environment for United Rentals to attract new customers. As the total addressable market grows, we forecast the company's rental sales to grow 5% on average over the next five years.

Our valuation assumes specialty sales will make up a greater share of total revenue over our forecast. Specialty rentals account for 28% of total revenue. By our midcycle year, we expect specialty sales to be over 30% of total sales. With greater exposure to the specialty vertical, United Rentals can reduce the cyclicality of its business and improve profitability. In our model, we forecast the cyclical upturn and higher specialty sales to push adjusted EBITDA margins to 47% in our midcycle year, up from 45% in 2021. Furthermore, we believe the company will pursue inorganic opportunities as the rental industry is ripe for consolidation. The larger players in the industry have the capital to make tuck-in deals, which we think will be a nice complement to organic growth opportunities (expanding fleet capabilities at existing locations and driving operational efficiencies in large urban markets).

Risk and Uncertainty Dawit Woldemariam, Equity Analyst, 29 Apr 2022

We assign United Rentals a high uncertainty rating. The most substantial risk we see is declining investment in construction and industrial markets. While we believe United Rentals has benefited from modest scale efficiencies in comparison to smaller rental players, we think most of the upside over the past decade was due to the cycle upturn. During tough economic periods, investment in construction and industrial spending can quickly reverse, leading to weaker capital returns for rental companies like United Rentals. Amid the Great Financial Crisis, the company's adjusted return on invested capital stood in the mid-single-digit range, below its cost of capital.

Additionally, customers can easily rent from one of United Rentals' competitors. Most of all the brands that can be found at a United Rentals location can also be found at other national players, as well as at smaller rental companies. For customers, outside of equipment costs, the most important considerations are equipment availability and reliability, two factors that other players are also able to deliver. Rental companies could also lose customers to equipment ownership, meaning, more customers opt to buy equipment outright as opposed to renting.

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We believe the equipment rental industry is ripe for industry consolidation. United Rentals can use its size to acquire smaller rental companies or even buy another top 10 player to expand its footprint in North America. However, we think it's unlikely that United Rentals is the only beneficiary in this scenario. Sunbelt Rentals, Herc, and the other rental companies that round out the top 10 have enough capital to consolidate the industry. Many of the acquisitions have been small tuck-ins, often under $100 million in enterprise value, an attractive range for a lot of United Rentals' competitors. In addition, M&A integration efforts could prove challenging as the cost structure and operations of each individual company acquired will likely need improvement.

Capital Allocation Dawit Woldemariam, Equity Analyst, 29 Apr 2022

We assign United Rentals a Standard capital allocation rating. The rating reflects our overall assessment that the company's balance sheet is sound and the quality of its investing (reinvestment and acquisitions) is fair and supports its competitive positioning. We also think United Rentals' shareholder distributions are appropriate.

We think United Rentals has a sound balance sheet. The company's low balance sheet risk is largely due to its manageable debt levels, access to credit lines, and ability to liquidate equipment in the event of a downturn. We expect its net debt/adjusted EBITDA ratio and the number of debt maturities coming due in the near term to be relatively low. We believe the company can reduce its net leverage ratio to less than 2 times throughout the economic cycle based on our expectations of strong free cash flow generation in a midcycle environment.

United Rentals' investment strategy is fair, in our view. In addition to organic growth, the company has relied on acquisitions to strengthen its competitive position. United Rentals has completed hundreds of acquisitions throughout its history. Over the past decade, United Rentals has spent $9 billion in acquisitions, and we expect more of the same over our forecast, totaling approximately $6.5 billion. Overall, M&A has allowed the company to expand its fleet capabilities and customer diversity.

The company has also invested in its specialty equipment offering. Today, United Rentals' specialty business accounts for 28% of total revenue, growing from approximately 7% in 2012. Some of its specialty solutions include trench safety, power and HVAC, and fluid solutions. The specialty segment allows United Rentals to offer custom solutions for customers in multiple applications. This segment also exhibits higher dollar utilization than general equipment, such as aerial lifts and forklifts. We believe United Rentals will continue investing in its specialty fleet capabilities, given the attractive cross-selling opportunities with general equipment. There's a strong likelihood that specialty customers would also be open to buying the company's general equipment, making United Rentals a one-stop shop for rental equipment.

Going forward, we expect more investments around telematics. Connected equipment gives United Rentals the ability to track equipment performance and send service alerts. For customers, telematics helps track equipment utilization rates, providing them valuable data to manage their operations more efficiently. Digital solutions can help customers manage their fleet, predict maintenance, and lower the total cost of leasing, but we think it will take time for adoption rates to be material.

We believe shareholder distributions are appropriate. Historically, United Rentals has favored share repurchases as the avenue to return cash to shareholders. We expect this to continue going forward and don’t expect management to pay out a dividend in the near term. In our view, United Rentals will mainly be focused on building up its equipment fleet to drive sales growth. We’re confident in the company’s ability to generate solid free cash flow throughout the economic cycle. During downturns, rental companies can liquidate their fleet to protect free cash flow. In a midcycle environment, we expect free cash flow to be nearly $2.7 billion.

Analyst Notes Archive

United Rentals Benefits From Strong Rental Equipment Demand, Despite Tight Industry Supplies

Dawit Woldemariam, Equity Analyst, 30 Apr 2022

Robust rental demand was a key driver to United Rentals’ strong first-quarter results. We think demand will remain strong in the near-term as construction spending improves in the United States. Non-residential construction spending was impacted significantly in 2020, however, we expect economic growth to spur new project development, creating greater demand for construction equipment. In terms of our forecast, we raised our near-term revenue and margin expectations. As a result, our fair value estimate increased to $323 from $315 previously.

In our view, rental companies will benefit from a couple of tailwinds. First, we expect greater rental penetration over the next few years. Construction contractors are more willing to rent equipment as opposed to owning. By renting, customers can reduce their inventory of intermittently used equipment, eliminate maintenance costs, and save on storage and warehousing costs, leading to an improvement in profitability. Second, we think original equipment manufacturers will continue to face supply headwinds (component shortages) in the near term, limiting their ability to manufacture new equipment. We believe this dynamic will push more end customers to rent equipment, which leads us to project over 13% top-line growth for United Rentals in 2022.

In terms of fleet size, the rental companies under our coverage have been resilient, despite a constrained equipment environment. United Rentals’ fleet size reached approximately $16 billion, up $2.5 billion compared to the first quarter of 2021. United Rentals also benefitted from greater fleet productivity (up 13%), which accounts for the impact of rental rates, time utilization and product mix. We believe these factors provide support for strong rental demand throughout the remainder of the

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year. Additionally, we think United Rentals will be able to continue gaining market share over smaller regional players.

United Rentals Posts Solid Fourth-Quarter Results to Close Out 2021; Rental Revenue Strong Dawit Woldemariam, Equity Analyst, 28 Jan 2022

No-moat United Rentals reported solid fourth-quarter results to end 2021. We raised our fair value estimate to $315 from $307 previously, largely due to our improved near-term sales outlook and lower tax rate assumption. Even so, we think United Rentals' share price is fairly valued at current levels. Following our initiation of the stock in late October 2021, the company's share price has converged to our fair value estimate.

United Rentals reported strong revenue growth in the quarter, increasing nearly 22% year on year. To meet growing demand, the company increased its average fleet size over 13% year on year. United Rentals also benefited from greater fleet productivity (up over 10%), which accounts for the impact of rental rates, time utilization and product mix. Fleet productivity has been strong over the past few quarters, as demand from a broad base of end markets have continued to recover from pandemic lows. Looking ahead, we think the new U.S. infrastructure bill will be a tailwind for United Rentals. We believe demand for infrastructure related products will flow through starting in late 2022, with the majority of new projects likely beginning in 2023 and 2024.

Turning to our outlook, we expect strong demand for rental equipment to push sales higher in 2022. In our model, we project the rental segment to grow 12% year on year. As the market leader in equipment rental space, we think United Rentals can continue to gain market share over smaller players. The used equipment market will also be a source of sales growth for United Rentals. The company has performed well in this market, benefiting from stronger pricing. We assume sales will grow by nearly 9% year on year. In addition, we now forecast United Rentals' long-term tax rate to be approximately 23%. This change incorporates Morningstar's updated assumption that a rise in the U.S. corporate tax rate will not occur.

$1.2 Trillion Infrastructure Deal Reached; $110 Billion Going to Roads, Bridges, and Major Projects Dawit Woldemariam, Equity Analyst, 8 Nov 2021

On Nov. 5, the U.S. House of Representatives passed a $1.2 trillion infrastructure bill nearly three months after the U.S. Senate approved its spending package. Lawmakers earmarked approximately $110 billion for spending on new roads, bridges, and other major infrastructure projects. Once signed into law, we believe many of the companies under our coverage will see increased demand for their products and services. That said, our forecasts already account for increased infrastructure spending over the next five years. Therefore, we are maintaining our fair value estimates for all companies set to profit from the infrastructure bill.

For aggregates, Martin Marietta and Vulcan Materials are well positioned to benefit from increased spending, however, we already forecast a near doubling of adjusted EBITDA by 2025 for both companies compared with 2020. To reach current market prices, we'd have to assume adjusted EBITDA grows to a significantly higher level than our 2025 estimate. Looking at equipment manufacturers, we expect Caterpillar's and Deere's road construction businesses to see higher sales, as municipalities across the U.S. will allocate new funding to much needed road repair.

Many urban roads and highways in the U.S. are in relatively poor condition, resulting in significant pent-up road construction demand. With new spending expected to come online, we believe increased demand for infrastructure-related products and services will flow through starting in late 2022, with the majority of projects likely beginning in 2023 and 2024. This is largely based on our view that dealers will gradually restock their inventories following a period where construction spending had been depressed due to the pandemic. In addition, we also expect construction companies to benefit from increased spending in emerging economies focused on infrastructure development. Oftentimes, regulatory authorities look to infrastructure development to drive economic growth.

The Equipment Rental Space Will Benefit From Growing Rental Penetration and Industry Consolidation Dawit Woldemariam, Equity Analyst, 28 Oct 2021

We're launching coverage of equipment rental leaders, United Rentals ($307 fair value estimate) and Herc ($112 fair value estimate) with no-moat ratings. While we believe both companies have benefited from modest scale efficiencies in comparison to smaller rental players, we think most of the upside over the past decade was due to the cycle upturn. During tough economic periods, investment in construction and industrial spending can quickly reverse, leading to weaker capital returns for rental companies. In the midst of the Great Financial Crisis, most rental companies adjusted ROICs fell short of their cost of capital.

Larger players typically offer customers with greater equipment availability and reliability than regional operators, but we do not see any established barriers preventing other rental companies from following the same strategy as United Rentals and Herc. Over the past decade, both companies have acquired smaller rental companies, a playbook that others can easily replicate, eventually leading to similar levels of scale to the industry leaders. For these reasons, we believe it'll be difficult for United Rentals and Herc to sustainably generate excess returns over the next decade.

We think the opportunities to improve each company's competitive positioning are about evenly balanced with potential threats, resulting in a stable moat trend rating. Both companies face stiff competition from local players, national chains (Sunbelt Rentals), heavy equipment dealers, large retail

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stores (Home Depot and Lowe's), in addition to customers opting to buy equipment rather than renting. We believe the top-ten rental players will continue to consolidate the industry, but we do not think any single player will realize material market share gains over the next five years.

Dropping Coverage of United Rentals Brian Bernard, CFA, CPA, Sector Director, 26 Oct 2020

We are dropping coverage of United Rentals. We provide broad coverage of more than 1,500 companies globally and periodically adjust our coverage according to investor interest and staffing.

United Rentals Under Review Brian Bernard, CFA, CPA, Sector Director, 16 Oct 2020

We are placing our fair value estimate for United Rentals under review as we transition coverage to a new analyst. We plan to publish an updated report and valuation by early December.

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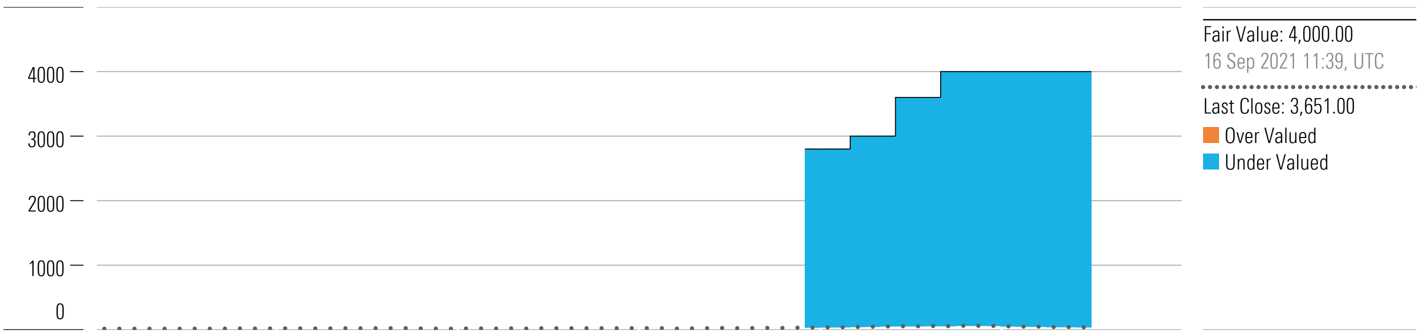
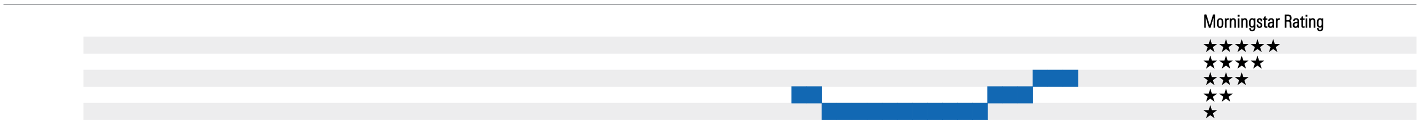
Competitors Price vs. Fair Value

Ashtead Group PLC AHT

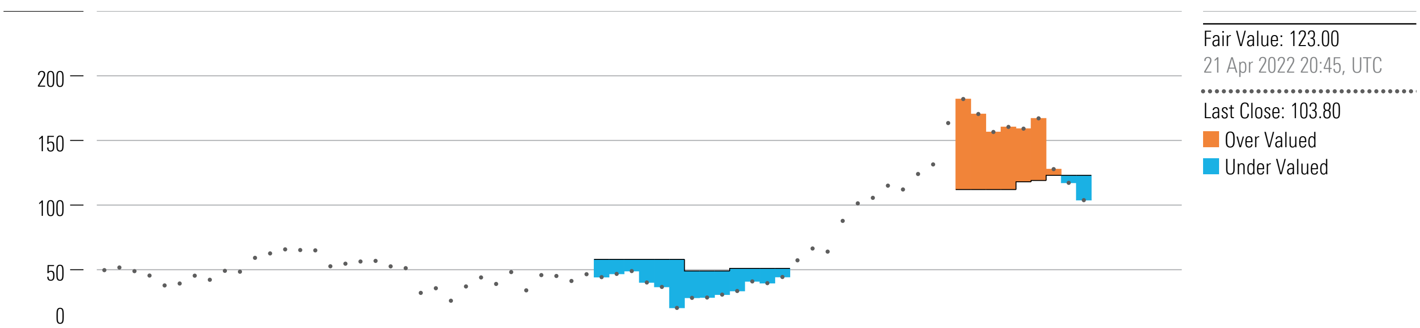


	2017	2018	2019	2020	2021	YTD
Price/Fair Value	—	—	—	1.23	1.49	0.91
Total Return %	27.82	-16.16	49.91	44.10	74.06	-35.82

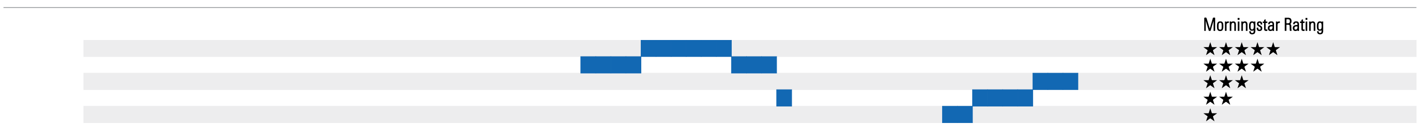


Total Return % as of 13 Jun 2022. Last Close as of 14 Jun 2022. Fair Value as of 16 Sep 2021 11:39, UTC.

Herc Holdings Inc HRI



	2017	2018	2019	2020	2021	YTD
Price/Fair Value	—	—	0.84	—	1.40	0.84
Total Return %	55.90	-58.49	88.30	35.70	136.49	-32.96



Total Return % as of 14 Jun 2022. Last Close as of 14 Jun 2022. Fair Value as of 21 Apr 2022 20:45, UTC.

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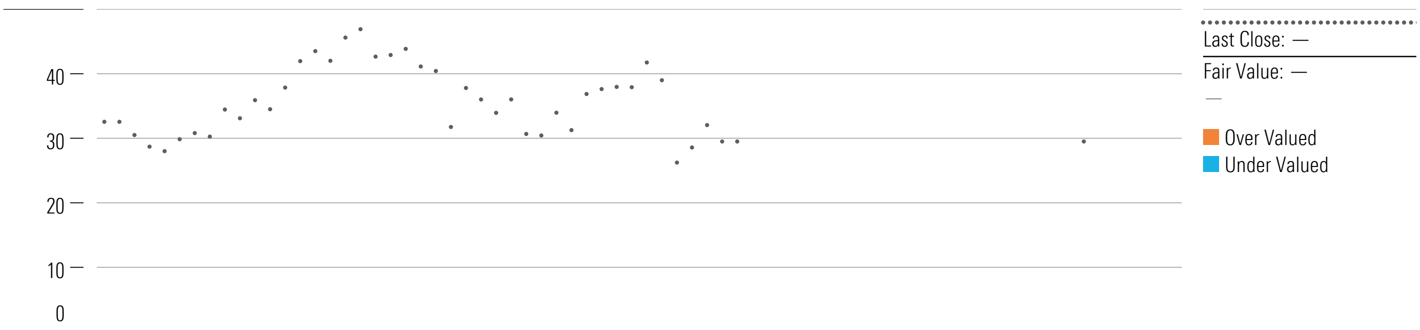
United Rentals Inc URI ★★★★ 14 Jun 2022 21:23, UTC

Mobile Mini Inc MINI



	2017	2018	2019	2020	2021	YTD
Price/Fair Value	—	—	—	—	—	—
Total Return %	17.05	-5.07	22.87	—	—	-19.79

Morningstar Rating

No data available

Total Return % as of 1 Jul 2020. Last Close as of —. Fair Value as of —.

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United Rentals Inc URI ★★★★ 14 Jun 2022 21:23, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Moat Trend™	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
260.12 USD 14 Jun 2022	323.00 USD 29 Apr 2022 23:52, UTC	0.81	18.98 USD Bil 13 Jun 2022	None	Stable	High	Standard	1 Jun 2022 05:00, UTC

Morningstar Historical Summary

Financials as of 31 Mar 2022

Fiscal Year, ends 31 Dec	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	YTD	TTM
Revenue (USD Mil)	4,117	4,955	5,685	5,817	5,762	6,641	8,047	9,351	8,530	9,716	2,524	10,183
Revenue Growth %	57.7	20.3	14.7	2.3	-1.0	15.3	21.2	16.2	-8.8	13.9	22.7	20.3
EBITDA (USD Mil)	1,501	2,181	2,599	2,774	2,665	2,895	3,628	4,200	3,796	4,253	1,109	4,522
EBITDA Margin %	36.5	44.0	45.7	47.7	46.3	43.6	45.1	44.9	44.5	43.8	43.9	44.4
Operating Income (USD Mil)	801	1,099	1,401	1,498	1,429	1,607	2,018	2,171	1,817	2,282	572	2,481
Operating Margin %	19.5	22.2	24.6	25.8	24.8	24.2	25.1	23.2	21.3	23.5	22.7	24.4
Net Income (USD Mil)	75	387	540	585	566	1,346	1,096	1,174	890	1,386	367	1,550
Net Margin %	1.8	7.8	9.5	10.1	9.8	20.3	13.6	12.6	10.4	14.3	14.5	15.2
Diluted Shares Outstanding (Mil)	95	106	105	96	88	86	84	78	73	73	73	73
Diluted Earnings Per Share (USD)	0.79	3.64	5.15	6.07	6.45	15.73	13.12	15.11	12.20	19.04	5.05	21.29
Dividends Per Share (USD)	—	—	—	—	—	—	—	—	—	—	—	—

Valuation as of 31 May 2022

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Recent Qtr	TTM
Price/Sales	1.0	1.7	2.0	1.2	1.6	2.4	1.1	1.4	2.0	2.6	2.7	2.1
Price/Earnings	57.5	28.3	22.2	11.8	16.3	24.4	5.2	11.5	18.5	20.1	18.7	14.0
Price/Cash Flow	6.0	6.2	5.7	3.8	4.6	7.0	3.3	4.0	6.3	7.1	7.0	5.7
Dividend Yield %	—	—	—	—	—	—	—	—	—	—	—	—
Price/Book	2.7	4.2	5.5	4.4	5.8	6.6	2.5	3.4	4.0	4.4	4.3	3.5
EV/EBITDA	7.7	6.8	6.9	5.4	6.2	7.8	5.0	5.8	7.2	8.1	0.0	0.0

Operating Performance / Profitability as of 31 Mar 2022

Fiscal Year, ends 31 Dec	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	YTD	TTM
ROA %	1.0	3.5	4.6	4.8	4.7	10.0	6.6	6.3	4.8	7.3	1.8	8.2
ROE %	8.9	22.6	29.6	35.7	36.2	56.6	33.7	32.5	21.3	26.3	6.1	28.6
ROIC %	8.5	7.7	9.5	9.6	9.3	14.8	10.5	10.8	9.1	10.8	2.7	12.2
Asset Turnover	0.5	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.1	0.5

Financial Leverage

Fiscal Year, ends 31 Dec	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Recent Qtr	TTM
Debt/Capital %	81.1	78.0	80.3	83.7	81.4	73.7	76.1	74.1	67.7	61.1	60.1	—
Equity/Assets %	14.3	16.5	14.8	12.2	13.7	20.7	18.8	20.2	25.4	29.5	30.2	—
Total Debt/EBITDA	4.9	3.3	3.1	2.9	2.9	3.3	3.2	2.9	2.7	2.5	9.1	—
EBITDA/Interest Expense	2.9	4.6	4.7	4.9	5.2	6.2	7.5	6.5	5.7	10.0	11.8	10.8

Morningstar Analyst Historical/Forecast Summary as of 29 Apr 2022

Financials

Fiscal Year, ends 31 Dec	2020	2021	Estimates 2022	2023	2024
Revenue (USD)	8.53	9.72	11.02	11.67	12.03
Revenue Growth %	-8.8	13.9	13.4	6.0	3.1
EBITDA (USD Mil)	3,788	4,421	4,985	5,336	5,440
EBITDA Margin %	44.4	45.5	45.2	45.7	45.2
Operating Income (USD Mil)	1,817	2,282	2,802	3,020	3,163
Operating Margin %	21.3	23.5	25.4	25.9	26.3
Net Income (USD Mil)	1,272	1,606	1,973	2,177	2,067
Net Margin %	14.9	16.5	17.9	18.7	17.2
Diluted Shares Outstanding (Mil)	73	73	73	72	71
Diluted Earnings Per Share(USD)	17.44	22.06	27.11	30.33	29.15
Dividends Per Share(USD)	0.00	0.00	0.00	0.00	0.00

Forward Valuation

	2020	2021	Estimates 2022	2023	2024
Price/Sales	2.0	2.5	1.7	1.6	1.5
Price/Earnings	13.3	15.1	9.6	8.6	8.9
Price/Cash Flow	7.0	16.2	13.5	9.6	8.0
Dividend Yield %	—	—	—	—	—
Price/Book	—	—	—	—	—
EV/EBITDA	7.2	7.8	5.7	5.4	5.3

Research Methodology for Valuing Companies

Overview

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

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

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

1. Economic Moat

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

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

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

To assess the sustainability of excess profits, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

2. Estimated Fair Value

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

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

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

Stage II: Fade

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

Stage III: Perpetuity

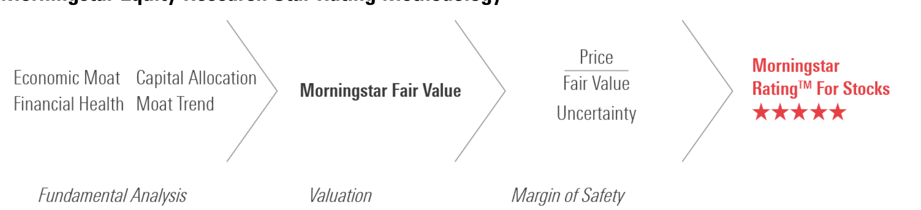
Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with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

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

3. Uncertainty Around That Fair Value Estimate

Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to

Morningstar Equity Research Star Rating Methodology



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Research Methodology for Valuing Companies

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.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate. In cases where there is less than a 25% probability of an event, but where the event could result in a material decline in value, analysts may adjust the uncertainty rating to reflect the increased risk. Analysts may also make a fair value adjustment to reflect the impact of this event.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, 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 for our qualitative analysis are low, medium, high, very high, and extreme.

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

4. Market Price

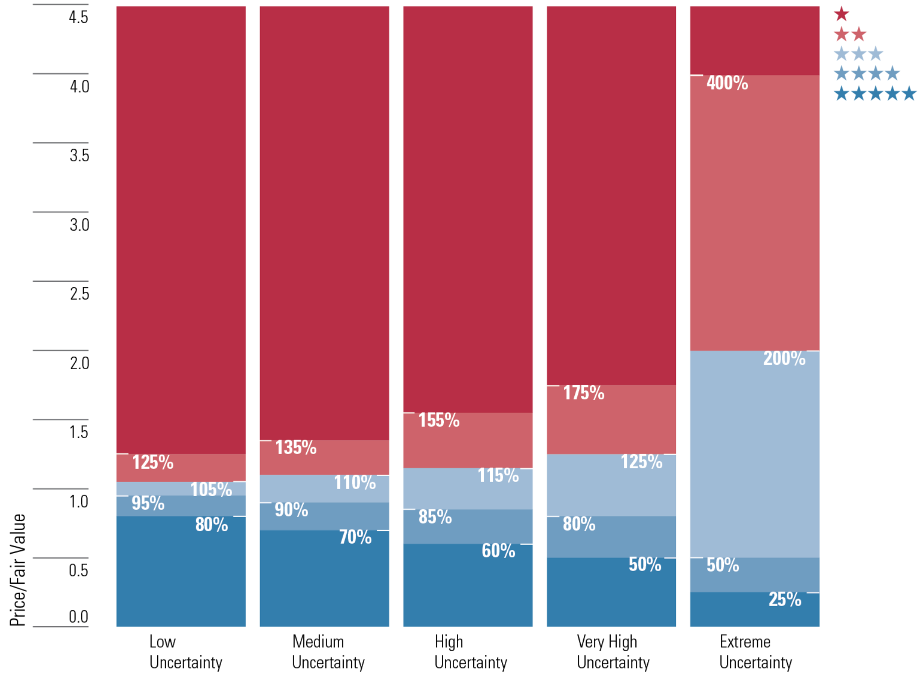
The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

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

Morningstar Star Rating for Stocks

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.

Morningstar Equity Research Star Rating Methodology



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

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

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

The Morningstar Star Ratings for stocks are defined below:

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

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

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

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

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

Other Definitions

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

Capital Allocation Rating: Our Capital Allocation (or Stewardship) Rating represents our assessment of the quality of management's capital allocation, with particular emphasis on the firm's balance sheet, investments, and shareholder distributions. Analysts consider 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: "Exem-

Research Methodology for Valuing Companies

plary", "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.

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.

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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Research Methodology for Valuing Companies

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