Cummins Inc CMI [XNYS] | ★★★

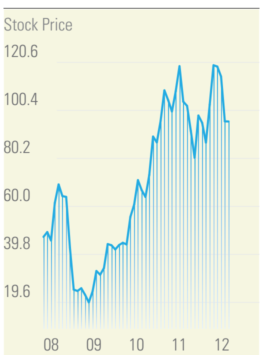
Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Stewardship	Morningstar Credit Rating	Industry
83.53 USD	95.00 USD	57.00 USD	147.25 USD	High	Narrow	Standard	BBB+	Diversified Industrials

Cummins expects 2012 revenue to be flat versus 2011 due to slowing growth in its emerging markets.

by Basili Alukos, CPA, CFA
Stock Analyst
Analyst covering this company do not own its stock.

Pricing data through Jul 11, 2012.
Rating Updated as of Jul 11, 2012.

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.



Thesis Jul. 11, 2012

After reinventing itself during the previous decade, Cummins has emerged stronger than ever and is primed to capitalize handsomely on future emissions standards, in our view.

Cummins was founded in 1919 and has encountered major fits and starts over its long life, but it reinvented itself during the last decade. Vertical integration became a real risk when Daimler DDAIF--Cummins' largest customer--acquired Detroit Diesel in 2000 and stopped sourcing Cummins' heavy-duty engines. Although Cummins would still produce light-duty engines for the Dodge Ram, this relationship subsequently become problematic when Chrysler filed for bankruptcy in 2009, since the automaker accounted for nearly 10% of overall sales.

During its transformation, Cummins repaired its truck engine, power generation, turbo charger, emissions solutions, and filtration businesses; overhauled at least two joint ventures; and formed its distribution business. The result has cemented Cummins as one of the world's only fully integrated engine manufacturers. Today, Cummins constructs the critical components--those that drive fuel economy and emissions controls--in-house and outsources the non-value-added components. Aside from our estimate that its break-even level has fallen nearly 20%, this technological mastery is important for two main reasons.

First, the government regulations for emissions control and fuel economy that have crept into the developed nations will blanket the globe in the coming decade. This should benefit Cummins tremendously, since the per-engine dollar amount of content will increase at least 60% from current levels, and because these are sophisticated technologies, we expect the company can capture a greater proportion of the economic profits.

Second, its arsenal of components enables Cummins to earn business by supplying competitors. As a result, Cummins generates nearly 30% of its business from parts and service business, up from 18% in 2005, and we expect this number will grow. The company enters the current decade with nearly 10 percentage points more of market share in the U.S. heavy-duty engine industry compared with the previous decade, and increasing engine performance standards should help Cummins gain business from less integrated engine manufacturers.

However, success is not guaranteed. The return of vertical integration ensures that Cummins will generate a smaller percentage from its largest customer, PACCAR PCAR, which represents 12% of annual sales. Still, we think increased government regulations and infrastructure growth in emerging economies feed into Cummins' strengths, and thanks to its transformation, we believe the firm will consistently outearn its cost of capital.

Valuation, Growth and Profitability

We are lowering our fair value estimate for Cummins to $95 from $100 after updating our estimates for the company's 2012 guidance. We forecast 6% (was 9%) average growth per year over the next two years, which is based on our forecast of 6% growth in North American heavy-truck production during this span. Past that, we expect volume will grow at a more modest 2% per year on top of price increases of nearly 1% per year. Collectively, this translates into 5% (6% previously) revenue growth per year over our five-year discrete forecast period

We expect Cummins will generate operating margins of 12% (15% EBIT margins) per year over the next two years. However, we don't project that the company can sustain these margins over the long run, given the inherent limitations in its operations relative to companies that operate under similar assembler-style operations. Accordingly, we forecast average EBIT margins of 13% (from 14% previously) per year over our forecast horizon, which is below the company's 16.5% EBIT margin goal. We expect capital expenditures will average roughly 4% per year over

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Close Competitors	Currency (Mil)	Market Cap	TTM Sales	Oper Income	Net Income
Caterpillar Inc	USD	52,017	63,170	7,643	5,289
Volvo Corporation	USD	22,491	47,238	3,958	2,629
Navistar International Corp	USD	1,577	14,210	-65	1,330

our forecast period, which is consistent with management's outlook.

Risk

Stringent regulatory standards, including those imposed by the U.S. Environmental Protection Agency, represent a significant risk to Cummins' operations. New standards can force unexpected capital expenditures that may not be recoverable through price increases. Additionally, the demand for truck engines is very cyclical, and operating profitability can fluctuate widely because of the high level of fixed costs. Counterparty risk is also a concern, because five customers account for 30% of Cummins' yearly revenue.

Bulls Say

- Cummins is the largest manufacturer of natural gas and hybrid bus engines in the U.S., which could provide significant growth potential as the country mulls cleaner alternative-energy solutions.
- We estimate that Cummins has lowered its break-even point for producing engines to around 260,000 engines annually on a consolidated basis from nearly 300,000 since it enacted substantial restructuring actions.
- Thanks to management's concerted effort, international sales now account for almost 60% of total sales versus 40% in 2000, helping moderate the risk of a country-specific downturn.
- Cummins has become an international powerhouse in the emerging markets. It has joint ventures with the largest truckmakers in China and India and derives nearly 60% of its business outside North America.

Bears Say

- Cummins currently does not manufacture a 13-liter engine in the U.S. Since its 15-liter engine sacrifices fuel economy, drastically higher diesel prices could place the firm at a disadvantage.
- Unionized employees account for roughly 40% of Cummins' workforce. As these contracts begin expiring over the next few years, we expect operating profits could come under pressure.
- Two of Cummins' truck engine customers, PACCAR and Navistar, build their own heavy-duty engine manufacturing facilities, which will reduce the company's growth opportunities.

Financial Overview

Financial Health:Cummins' free cash flow has averaged 5% of sales during the last seven years, boosting the firm's coffers by $750 million during this span. In addition, the firm extinguished nearly all its outstanding debt, leaving itself with a lean 11% debt/capital ratio.

Company Overview

Profile: Indiana-based Cummins designs, manufactures, distributes, and services diesel and natural gas engines, electric power generation systems, and engine-related products. The firm sells to original equipment manufacturers and distributors, including PACCAR and Daimler, through a network of 600 independent distribution centers and 6,500 dealer locations in more than 190 countries. Cummins employs 44,000 workers and generates annual revenue of $18 billion.

Management: We think Cummins has a good track record of allocating shareholder capital. Given the cyclical nature of the truck industry, management has opted for a debt-light capital structure. More recently, as Cummins has grown its free cash flow, it has also boosted its dividends. Operationally, management changed its stance on emissions regulations over the last decade. Instead of fighting new regulations, management has embraced the standards and worked harmoniously with regulators to comply with the standards early.

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We think current CEO and chairman Thomas Linebarger has big shoes to fill in replacing Theodore Solso, but we believe his experience proves he is a capable leader. During his 11 years at Cummins, Linebarger worked in various capacities, including CFO, vice president, and president of the power generation business, and most recently COO, before assuming his current role.

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Analyst Notes

Cummins Lowers 2012 Guidance Jul. 10, 2012
Cummins CMI announced Tuesday afternoon that it has lowered its revenue outlook for the remainder of 2012. The company now expects 2012 revenue will be in line with 2011 revenue of approximately $18 billion, versus its previous guidance of 10% growth. Based on first-quarter results, we estimate that revenue will decline about 4% during the remainder of 2012 compared with the same period last year.

Management noted that demand weakened recently as global growth slowed, pointing specifically to soft order trends in the U.S. for trucks and power generation equipment. Furthermore, Brazil, China, and India are not improving as management hoped, while the strengthening U.S. dollar will also hurt revenue.

Overall, we think that 2012 U.S. truck sales will likely match replacement demand of approximately 180,000 units, and we wouldn't be surprised if PACCAR PCAR and Rush Enterprises RUSHA report slowing growth when they report earnings in the coming month.

Cummins Reports First-Quarter Earnings and Affirms 2012 Guidance May. 01, 2012
Cummins CMI reported first-quarter earnings that topped our projections due to slightly stronger revenue growth, a lower effective tax rate, and fewer diluted shares. Even still, the company reaffirmed its 2012 guidance of 10% sales growth and EBIT margins between 14.5% and 15%, which is consistent with our annual projections. As such, we are maintaining our fair value estimate.

For the quarter, revenue increased 16% compared to the year-ago period, driven by a 12% increase in engine shipments on approximately 7% higher engine prices due to a positive mix shift to more heavy-duty engines. Cummins expanded gross margins 200 basis points to 26.8% through cost improvements and efficiency gains, although higher selling and research-and-development expenses partially offset this expansion. Nevertheless, operating margins still increased 110 basis points to 12.2%.

Surprisingly, North America was the market of strength for Cummins, compared to weakness in China--the company now expects full-year revenue to contract 5% in China compared to flat growth previously.

Looking ahead, however, we expect that 2012 North American heavy-duty truck sales will match replacement demand of approximately 220,000 units. We understand the order board has moved up recently due to an apparent lack of freight. As orders fall, we expect production will slow accordingly and reduce the demand for engines. Given that Cummins already expects that revenue in China and Brazil will contract this year, we wouldn't be surprised if 2012 revenue falls short of estimates.

Cummins Finishes Record 2011 on a Strong Note Feb. 02, 2012
Cummins CMI finished its record 2011 year with a strong fourth quarter and offered initial 2012 guidance. The company expects 10% sales growth and EBIT margins between 14.5% and 15% of sales, which suggests 2012 earnings of between $10.10 and $10.50 per diluted share.

For the quarter, revenue increased 19% versus the prior-year period, as the company shipped 24% more engines. Once again, demand was robust in North American and Brazilian on-highway markets, global mining and oil and gas, and Chinese construction markets. Operationally, Cummins reported excellent profitability despite negative currency movements and commodity costs. EBIT margins, excluding

Analyst Notes (continued)

the gain on sale and insurance settlement proceeds, expanded 100 basis points to 14%.

In 2012, Cummins will benefit from continued strength in the North American truck market. Specifically, it projects that the medium and heavy-duty markets will increase 21% to 278,00 units and 25% to 117,000 units, respectively, and aims to maintain its near-40% heavy-duty engine market share.

Interestingly, Cummins provided muted guidance for China, as it expects the medium and heavy-duty truck market to decline 5% for 2012. Still, at roughly 1.1 million units, the Chinese market dwarfs the North American market (400,000 trucks), so China will still represent a meaningful source of business this year.

Cummins Inc CMI

Sales USD Mil	Mkt Cap USD Mil	Industry	Sector
18,660	16,053	Diversified Industrials	Industrials

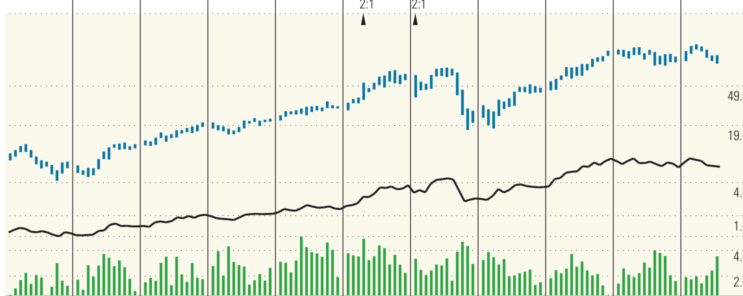
Indiana-based Cummins designs, manufactures, distributes, and services diesel and natural gas engines, electric power generation systems, and engine-related products. The firm sells to original equipment manufacturers and distributors, including PACCAR and Daimler, through a network of 600 independent distribution centers and 6,500 dealer locations in more than 190 countries. Cummins employs 44,000 workers and generates annual revenue of $18 billion.

500 Jackson Street P O Box 3005
Columbus, IN 47202
Phone: 1 812 377-5000Website: http://www.cummins.com

Morningstar Rating	Last Price	Fair Value	Uncertainty	Economic Moat™	Stewardship
★★★	83.53 USD	95.00 USD	High	Narrow	Standard

per share prices in USD

12.57	13.08	21.17	23.47	34.80	71.72	75.98	51.65	111.87	121.49	129.51	Annual Price High
4.90	5.43	12.03	15.90	22.17	28.16	17.70	18.34	44.84	79.53	83.29	Low
					2:1	2:1					Recent Splits



Price Volatility
Monthly High/Low
Rel Strength to S&P 500
52 week High/Low
129.51 - 79.53
10 Year High/Low
129.51 - 4.90
Bear-Market Rank
2 (10=worst)
Trading Volume Million

Growth Rates Compound Annual

Grade: C	1 Yr	3 Yr	5 Yr	10 Yr
Revenue %	36.5	8.0	9.7	12.3
Operating Income %	67.3	28.2	18.8	—
Earnings/Share %	80.9	35.5	21.9	—
Dividends %	51.4	30.2	32.0	16.0
Book Value/Share %	21.1	21.3	16.5	16.5
Stock Total Return %	-17.9	39.3	9.0	28.7
+/- Industry	-10.5	19.7	11.8	23.5
+/- Market	-18.5	24.0	11.5	26.6

Profitability Analysis

Grade: C	Current	5 Yr Avg	Ind	Mkt
Return on Equity %	36.0	23.9	14.7	22.8
Return on Assets %	17.2	10.2	4.0	9.3
Fixed Asset Turns	8.4	7.4	3.9	7.7
Inventory Turns	6.0	6.3	5.0	17.0
Revenue/Employee USD K	425.1	352.7*	—	1055.7
Gross Margin %	25.9	21.9	38.0	39.7
Operating Margin %	15.0	10.2	15.6	16.6
Net Margin %	10.5	6.6	8.6	11.1
Free Cash Flow/Rev %	6.9	5.0	9.2	0.1
R&D/Rev %	3.6	0.0	—	9.5

Financial Position

Grade: C	12-11 USD Mil	03-12 USD Mil
Cash	1484	1317
Inventories	2141	2382
Receivables	2526	2684
Current Assets	7091	7317
Fixed Assets	2288	2391
Intangibles	566	592
Total Assets	11668	12119
Payables	1828	2028
Short-Term Debt	28	33
Current Liabilities	3657	3630
Long-Term Debt	658	650
Total Liabilities	6176	6109
Total Equity	5492	6010

Valuation Analysis

	Current	5 Yr Avg	Ind	Mkt
Price/Earnings	8.2	15.1	14.9	—
Forward P/E	7.0	—	—	13.2
Price/Cash Flow	8.0	11.8	9.2	—
Price/Free Cash Flow	12.5	21.4	14.0	—
Dividend Yield %	1.9	—	2.5	2.0
Price/Book	2.7	3.1	2.2	—
Price/Sales	0.9	0.9	1.3	—
PEG Ratio	2.2	—	—	0.3

Stock Performance

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	YTD	Stock Performance
-23.9	78.2	73.7	8.5	34.7	114.5	-57.1	74.2	141.8	-18.8	-4.2	Total Return %
-0.5	51.8	64.7	5.5	21.1	111.0	-18.6	50.8	129.0	-18.8	-11.7	+/- Market
2.1	41.1	57.0	5.9	21.6	98.9	-11.9	49.2	117.9	-14.3	-8.5	+/- Industry
4.3	2.5	1.4	1.3	1.1	0.7	2.2	1.5	0.8	1.5	1.9	Dividend Yield %
1167	2070	3814	4202	6272	12877	5383	9232	21760	16975	16053	Market Cap USD Mil

Financials

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	TTM	Financials
5853	6296	8438	9918	11362	13048	14342	10800	13226	18048	18660	Revenue USD Mil
17.9	17.8	19.9	22.0	22.8	19.6	20.5	20.1	24.0	25.4	25.9	Gross Margin %
116	93	424	763	1131	1158	1272	682	1602	2681	2800	Oper Income USD Mil
2.0	1.5	5.0	7.7	10.0	8.9	8.9	6.3	12.1	14.9	15.0	Operating Margin %
82	50	350	550	715	739	755	428	1040	1848	1960	Net Income USD Mil
0.53	0.32	1.85	2.75	3.55	3.70	3.84	2.16	5.28	9.55	10.19	Earnings Per Share USD
0.30	0.30	0.30	0.30	0.33	0.43	0.60	0.70	0.88	1.33	1.46	Dividends USD
154	158	189	200	201	200	197	198	197	194	192	Shares Mil
5.07	5.61	7.69	9.95	13.35	16.86	16.04	18.74	23.61	28.48	31.27	Book Value Per Share USD
193	158	614	760	840	810	987	1137	1006	2073	2006	Oper Cash Flow USD Mil
-90	-140	-151	-186	-301	-420	-625	-345	-407	-682	-723	Cap Spending USD Mil
103	18	463	574	539	390	362	792	599	1391	1283	Free Cash Flow USD Mil

Profitability

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	TTM	Profitability
1.8	1.0	6.0	8.2	10.0	9.4	9.0	4.9	10.8	16.8	17.2	Return on Assets %
8.8	5.6	29.8	33.7	30.6	23.8	22.7	12.2	24.6	36.4	36.0	Return on Equity %
1.4	0.8	4.1	5.5	6.3	5.7	5.3	4.0	7.9	10.2	10.5	Net Margin %
1.28	1.26	1.45	1.48	1.58	1.67	1.72	1.25	1.38	1.64	1.63	Asset Turnover
5.8	5.4	4.7	3.7	2.7	2.4	2.6	2.3	2.2	2.1	2.0	Financial Leverage

Financial Health

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	03-12	Financial Health
653	739	1076	1698	2089	2104	2074	2571	3029	3434	3687	Working Capital USD Mil
999	1380	1299	1213	647	555	629	637	709	658	650	Long-Term Debt USD Mil
841	949	1401	1864	2802	3409	3230	3773	4670	5492	6010	Total Equity USD Mil
1.19	1.45	0.93	0.65	0.23	0.16	0.19	0.17	0.15	0.12	0.11	Debt/Equity

Valuation

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	TTM	Valuation
13.7	36.0	11.3	8.2	8.4	17.2	7.0	21.2	20.8	9.2	8.2	Price/Earnings
—	—	—	—	—	—	—	—	—	0.5	—	P/E vs. Market
0.2	0.3	0.5	0.5	0.5	1.0	0.4	0.8	1.6	0.9	0.9	Price/Sales
1.4	2.2	2.7	2.3	2.2	3.8	1.7	2.5	4.7	3.1	2.7	Price/Book
5.6	12.2	6.5	5.9	7.2	15.7	5.3	8.0	21.6	8.3	8.0	Price/Cash Flow

Quarterly Results

Revenue USD Mil	Jun 11	Sep 11	Dec 11	Mar 12
Most Recent Period	4641.0	4626.0	4921.0	4472.0
Prior Year Period	3208.0	3401.0	4139.0	3860.0
Rev Growth %	**Jun 11**	**Sep 11**	**Dec 11**	**Mar 12**
Most Recent Period	44.7	36.0	18.9	15.9
Prior Year Period	32.0	34.4	21.7	55.8
Earnings Per Share USD	**Jun 11**	**Sep 11**	**Dec 11**	**Mar 12**
Most Recent Period	2.60	2.35	2.87	2.38
Prior Year Period	1.25	1.44	1.84	1.75

Industry Peers by Market Cap

	Mkt Cap USD Mil	Rev USD Mil	P/E	ROE%
Cummins Inc	16053	18660	8.2	36.0
Caterpillar Inc	52017	63170	10.1	38.3
Volvo Corporation	22491	47238	8.9	21.8

Major Fund Holders

	% of shares
	—
	—
	—

*3Yr Avg data is displayed in place of 5Yr Avg

TTM data based on rolling quarterly data if available; otherwise most recent annual data shown.

MORNINGSTAR®

Morningstar's Approach to Rating Stocks

Our Key Investing Concepts

- Economic Moat™ Rating
- Discounted Cash Flow
- Discount Rate
- Fair Value
- Uncertainty
- Margin of Safety
- Consider Buying/Consider Selling
- Stewardship Grades

At Morningstar, we evaluate stocks as pieces of a business, not as pieces of paper. We think that purchasing shares of superior businesses at discounts to their intrinsic value and allowing them to compound their value over long periods of time is the surest way to create wealth in the stock market.

We rate stocks 1 through 5 stars, with 5 the best and 1 the worst. Our star rating is based on our analyst's estimate of how much a company's business is worth per share. Our analysts arrive at this "fair value estimate" by forecasting how much excess cash--or "free cash flow"--the firm will generate in the future, and then adjusting the total for timing and risk. Cash generated next year is worth more than cash generated several years down the road, and cash from a stable and consistently profitable business is worth more than cash from a cyclical or unsteady business.

Stocks trading at meaningful discounts to our fair value estimates will receive high star ratings. For high-quality businesses, we require a smaller discount than for mediocre ones, for a simple reason: We have more confidence in our cash-flow forecasts for strong companies, and thus in our value estimates. If a stock's market price is significantly above our fair value estimate, it will receive a low star rating, no matter how wonderful we think the business is. Even the best company is a bad deal if an investor overpays for its shares.

Our fair value estimates don't change very often, but market prices do. So, a stock may gain or lose stars based just on movement in the share price. If we think a stock's fair value is $50, and the shares decline to $40 without much change in the value of the business, the star rating will go up. Our estimate of what the business is worth hasn't changed, but the shares are more attractive as an investment at $40 than they were at $50.

Because we focus on the long-term value of businesses, rather than short-term movements in stock prices, at times we may appear out of step with the overall stock market. When stocks are high, relatively few will receive our highest rating of 5 stars. But when the market tumbles, many more will likely garner 5 stars. Although you might expect to see more 5-star stocks as the market rises, we find assets more attractive when they're cheap.

We calculate our star ratings nightly after the markets close, and issue them the following business day, which is why the rating date on our reports will always be the previous business day. We update the text of our reports as new information becomes available, usually about once or twice per quarter. That is why you'll see two dates on every Morningstar stock report. Of course, we monitor market events and all of our stocks every business day, so our ratings always reflect our analyst's current opinion.

Economic Moat™ Rating

The Economic Moat™ Rating is our assessment of a firm's ability to earn returns consistently above its cost of capital in the future, usually by virtue of some competitive advantage. Competition tends to drive down such

Morningstar Research Methodology for Valuing Companies

Analyst conducts company and industry research: • Management interviews • Conference calls • Trade-show visits • Competitor, supplier, distributor, and customer interviews	The depth of the firm's competitive advantage is rated: • None • Narrow • Wide	Analyst considers company financial statements and competitive position to forecast future cash flows. Assumptions are input into a discounted cash-flow model.	DCF model leads to the firm's Fair Value Estimate, which anchors the rating framework.	An uncertainty assessment establishes the margin of safety required for the stock rating.	★ ★★ ★★★ ★★★★ ★★★★★ The current stock price relative to fair value, adjusted for uncertainty, determines the rating.

economic profits, but companies that can earn them for an extended time by creating a competitive advantage possess an Economic Moat. We see these companies as superior investments.

Discounted Cash Flow

This is a method for valuing companies that involves projecting the amount of cash a business will generate in the future, subtracting the amount of cash that the company will need to reinvest in its business, and using the result to calculate the worth of the firm. We use this technique to value nearly all of the companies we cover.

Discount Rate

We use this number to adjust the value of our forecasted cash flows for the risk that they may not materialize. For a profitable company in a steady line of business, we'll use a lower discount rate, also known as "cost of capital," than for a firm in a cyclical business with fierce competition, since there's less risk clouding the firm's future.

Fair Value

This is the output of our discounted cash-flow valuation models, and is our per-share estimate of a company's intrinsic worth. We adjust our fair values for off-balance sheet liabilities or assets that a firm might have--for example, we deduct from a company's fair value if it has issued a lot of stock options or has an under-funded pension plan. Our fair value estimate differs from a "target price" in two ways. First, it's an estimate of what the business is worth, whereas a price target typically reflects what other investors may pay for the stock. Second, it's a long-term estimate, whereas price targets generally focus on the next two to 12 months.

Uncertainty

To generate the Morningstar Uncertainty Rating, analysts consider factors such as sales predictability, operating leverage, and financial leverage. Analysts then classify their ability to bound the fair value estimate for the stock into one of several uncertainty levels: Low, Medium, High, Very High, or Extreme. The greater the level of uncertainty, the greater the discount to fair value required before a stock can earn 5 stars, and the greater the premium to fair value before a stock earns a 1-star rating.

Margin of Safety

This is the discount to fair value we would require before recommending a stock. We think it's always prudent to buy stocks for less than they're worth.The margin of safety is like an insurance policy that protects investors from bad news or overly optimistic fair value estimates. We require larger margins of safety for less predictable stocks, and smaller margins of safety for more predictable stocks.

Consider Buying/Consider Selling

The consider buying price is the price at which a stock would be rated 5 stars, and thus the point at which we would consider the stock an extremely attractive purchase. Conversely, consider selling is the price at which a stock would have a 1 star rating, at which point we'd consider the stock overvalued, with low expected returns relative to its risk.

Stewardship Grades

Our corporate Stewardship Rating represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.