

Danaher Corporation DHR [XNYS] | ★★

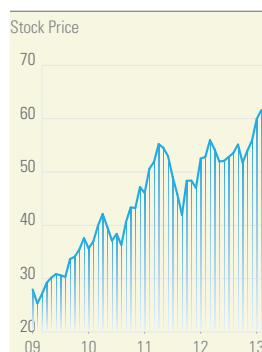
Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Stewardship	Morningstar Credit Rating	Industry
62.65 USD	54.00 USD	32.40 USD	83.70 USD	High	Narrow	Standard	A	Diversified Industrials

Danaher Delivers Strong Fourth-Quarter Earnings and Cash Flow.

by Daniel Holland
Senior Stock Analyst
Analyst covering this company do not own its stock.

Pricing as of Mar 15, 2013.
Rating as of Mar 15, 2013.

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



Analyst Note Jan. 29, 2013

Danaher DHR delivered earnings of \$0.89 per share in the fourth quarter, a 12.5% improvement versus the same period in the prior year. The result was a bit stronger than we had expected, largely due to 250 basis points of margin improvement in the dental segment. Management attributes dental's success in the quarter to atypical customer orders stemming from tax uncertainty in the U.S. The 120-basis-point improvement in operating margins versus the fourth quarter of 2011 in the life sciences also stands out in the quarter as Danaher continues to drive operating improvements from recently acquired Beckman Coulter and AB Sciex. During 2012, Danaher generated \$3 billion of free cash flow, a 25% improvement versus the prior year.

While the results were generally better than we had anticipated, test and measurement continues to lag the rest of the portfolio in both top-line growth (core growth was down 2% versus the prior year) and operating margin performance (margins fell 280 basis points in the period to 18.7%). Management points to elevated restructuring (\$22 million in the period) as the primary culprit for the margin decline. As such, we anticipate a meaningful improvement in operating performance in 2013 and 2014 in the segment.

Management expects the divestiture of Apex tools to close in the first quarter, resulting in a \$220 million (\$0.19 per share) pretax gain. Additionally, management lowered 2013 earnings guidance by \$0.08 per share to account for the lost earnings from Apex. While we will adjust our model to reflect this, we do not anticipate these events will materially change our valuation for the company. That said, once the company releases its 10-K in the coming weeks, we will adjust our model and fair value estimate.

Thesis Jan. 22, 2013

Danaher has generated double-digit margins and growth

through acquisitions and its proprietary business integration system. Its focus on eking out efficiencies and attacking niche markets has helped the firm build a narrow economic moat.

Danaher's path to success involves execution on two basic levels: acquiring companies in attractive markets at reasonable prices and easily integrating them into the larger organization to maximize potential efficiencies. As opposed to going into highly competitive markets, Danaher attacks niche markets and executes on the principles of the Danaher Business System, resulting in higher operating margins and stronger cash flows. In addition, Danaher's focus on smaller markets enables it to enjoy economies of scale and helped the company build a narrow moat.

Acquisitions are the company's primary growth engine. This has had an accretive impact on the top line, but it has also caused the balance sheet to become more heavily weighted with goodwill and other intangible assets. Even though operating margins have remained strong, returns on invested capital slid 520 basis points, from 17.0% in 2004 to 12.1% in 2010. This is a combined result of the global recession in 2009 and the prices that Danaher has been paying for acquisitions. Although current returns on invested capital are higher than the firm's cost of capital, we would like to see Danaher slow acquisition spending in order to focus on stabilizing shareholder returns.

Danaher raised its exposure to the test and measurement business with the November 2007 purchase of Tektronix. Tektronix dominates the market for high-precision oscilloscopes used in telecom networking and helps fill out the company's electronic test platform, which already includes specialty test toolmaker Fluke. In addition, Danaher should be able to rely on its medical technology business unit for meaningful internal revenue growth. Thanks to acquisitions like Sybron Dental, a producer of light equipment for the professional dental market, and Leica Microsystems, a maker of high-end microscopes, the medical technology unit now represents nearly 40% of Danaher's

Danaher Corporation DHR [XNYS] | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Stewardship	Morningstar Credit Rating	Industry
62.65 USD	54.00 USD	32.40 USD	83.70 USD	High	Narrow	Standard	A	Diversified Industrials

Close Competitors	Currency (Mil)	Market Cap	TTM Sales	Oper Income	Net Income
3M Co	USD	73,415	29,904	6,483	4,444
Illinois Tool Works Inc	USD	28,093	17,924	2,847	2,870
Dover Corporation	USD	12,940	8,104	1,265	811
Ametek, Inc.	USD	10,415	3,334	746	459
Snap-on, Inc.	USD	4,733	2,938	516	306

total sales base. In early 2011, Danaher completed the acquisition of Beckman Coulter, a leading life sciences and diagnostics firm, for \$6.8 billion. While this presents an opportunity for Danaher to push further into the medical equipment end markets, we think this will be a test of DBS and may make more acquisition growth over the coming quarters.

Valuation, Growth and Profitability

We are raising our fair value estimate modestly to \$54 from \$53 per share after adjusting for improving markets in the life sciences markets and benefits from restructuring in 2013 that we did not include in our previous model. Our fair value estimate implies a forward price/earnings multiple of 15.5 times. Danaher's recent acquisition of Beckman Coulter heightens the firm's exposure to life sciences and diagnostics, further dampening the cyclical nature of Danaher's earnings. We think DBS could help increase Beckman's operating margin by around two percentage points, giving Danaher overall a better margin profile than it has ever had. Additionally, as customers reinvest in new products and research and development. Even though the company is operating above past midcycle margin levels, we think Danaher can hold on to recent productivity gains and will be able to sustain operating margins above 18%. Recent announcements of proactive restructuring may be a temporary drag on profitability, but should have a payback period of just over a year, and contributing to profitability by 2013. Given the firm's tradition of growth via acquisitions, we forecast average annual revenue growth of 7% during the next five years, down from our previous assumption of 9% average revenue growth, with 3% coming from newly acquired entities. We forecast the firm will reinvest all free cash flow into acquisitions at a price of 2.5 times target

sales.

Risk

Many of the end markets that Danaher serves are sensitive to prevailing economic conditions and customer capital expenditure budgets. In addition, more than half of the firm's revenue is generated outside the United States, leaving Danaher exposed to geopolitical risks as well as some currency risk. Because of Danaher's reliance on acquisitions for growth, there is risk of overpayment and integrating acquisitions into the portfolio.

Bulls Say

- ▶ Danaher products enjoy great brand presence. For instance, Fluke is the leader in handheld electronic test equipment, and Gilbarco Veeder-Root dominates the retail petroleum dispenser market.
- ▶ Before Danaher formed its sixth strategic platform, medical technology, management studied the industry for about three years and says it conducted more than 400 customer interviews.
- ▶ Danaher and Cooper Industries announced a joint venture between their tool segments, which will be managed by Danaher, paving the way for the business to be operated as a stand-alone entity.

Bears Say

- ▶ About 75% of Danaher's sales growth during the past five years has come from acquisitions. If the well of new acquisition candidates dries up, Danaher's growth rate could slow.
- ▶ Other manufacturing companies are catching up with Danaher's processes as former Danaher managers take high-level positions outside the firm. Developing an internal talent pipeline may be difficult.

Financial Overview

Financial Health: Danaher is in fine financial condition. Debt is a manageable 110% of EBITDA, though the recent debt issuance related to the acquisition of Beckman Coulter will likely cause this ratio to deteriorate. The firm's EBITDA

Danaher Corporation DHR [XNYS] | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Stewardship	Morningstar Credit Rating	Industry
62.65 USD	54.00 USD	32.40 USD	83.70 USD	High	Narrow	Standard	A	Diversified Industrials

comfortably covers interest payments 21.2 times.

Company Overview

Profile: Danaher is a diversified manufacturer, housing more than 40 industrial brands in three segments. The professional instrumentation segment produces electronic, medical, and water-test equipment. The industrial technology segment produces precision motors and controls, product-identification equipment, and other niche products. The tool and component division makes Sears' Craftsman line of hand tools, Matco tools for professional mechanics, and other store-branded tools through a joint venture with Cooper Industries.

Management: Danaher was founded by Steven and Mitchell Rales in the early 1980s. Combined, they own more than 10% of outstanding stock, and both serve as directors on the 10-member board. Steven Rales is chairman, and seven members are independent. Board members and senior management collectively own a significant chunk of the company, indicating strong alignment with minority holders. Lawrence Culp became CEO in 2001, replacing George Sherman, who led the firm's transformation from toolmaker to industrial conglomerate. While we are comforted by the fact the board is in the same boat as minority holders, we would prefer greater transparency in the incentive compensation structure. Executive officers' variable cash compensation is based on growth in earnings per share and undisclosed personal objectives. Equity awards are based on factors such as peer benchmarks, undisclosed contributions to growth, development, and success of the company, individual performance, and level of management. We'd be more comfortable if performance benchmarks were more explicitly stated and if a return on capital measure were mentioned prominently.

In spite of heavy acquisition spending, Danaher has managed to avoid asset impairments, indicating management is able to get what it expects from acquisitions. Shareholders benefit from the steady earnings growth, though the company pays a minimal dividend and rarely repurchases its own shares.

Danaher Corporation DHR [XNYS] | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Stewardship	Morningstar Credit Rating	Industry
62.65 USD	54.00 USD	32.40 USD	83.70 USD	High	Narrow	Standard	A	Diversified Industrials

Analyst Notes

Bain Capital Purchases Cooper's and Danaher's Apex Tool Joint Venture Oct. 10, 2012

Bain Capital is buying the Apex Tool joint venture of Danaher DHR and Cooper Industries CBE for \$1.6 billion, valuing the business at 12 times 2011 earnings or 1.1 times 2011 sales. While we ultimately think the business may be worth a bit more than the actual transaction value, this purchase closes one of the loose ends that remained after the announced purchase of Cooper by Eaton ETN. We expect proceeds from the sale to offset acquisition costs for Eaton; in the case of Danaher, we anticipate this capital will be redeployed for future acquisitions. Our long-term thesis for all companies remains unchanged, and we maintain our fair value estimates.

Danaher's Third Quarter Below Expectations, Cash Flow Remains Strong Oct. 18, 2012

Danaher DHR delivered third-quarter earnings below our expectations. Management's full year guidance trails our own projections for the year. We're lowering our fair value estimate to account for weaker earnings in 2012, and a more modest earnings growth assumption for 2013.

While we are lowering our fair value estimate for Danaher, our long-term thesis stands. Weaker global economic growth was the primary driver behind the quarter's weakness, particularly in Europe, and to a lesser extent in China. Quarterly operating margins were quite resilient, with consolidated margins reaching 18%, as compared to an adjusted 17.6% in the prior year, after accounting for charges related to the Beckman Coulter acquisition.

Our primary concerns for the portfolio reside in the continuing weakness in test and measurement, as capital spending and research and development budgets contract to adjust to a weaker economic environment. We have lowered

our 2013 top-line growth assumption to 3%, down from nearly 7%, as we account for slower growth in the in test and measurement, environmental, and industrial technologies segments. To Danaher's credit, cash flow remains quite strong: Trailing twelve months cash flow from operations is nearly \$3.4 billion, driven by strong performance at Beckman Coulter.

Danaher Delivers Strong Fourth-Quarter Earnings and Cash Flow. Jan. 29, 2013

Danaher DHR delivered earnings of \$0.89 per share in the fourth quarter, a 12.5% improvement versus the same period in the prior year. The result was a bit stronger than we had expected, largely due to 250 basis points of margin improvement in the dental segment. Management attributes dental's success in the quarter to atypical customer orders stemming from tax uncertainty in the U.S. The 120-basis-point improvement in operating margins versus the fourth quarter of 2011 in the life sciences also stands out in the quarter as Danaher continues to drive operating improvements from recently acquired Beckman Coulter and AB Sciex. During 2012, Danaher generated \$3 billion of free cash flow, a 25% improvement versus the prior year.

While the results were generally better than we had anticipated, test and measurement continues to lag the rest of the portfolio in both top-line growth (core growth was down 2% versus the prior year) and operating margin performance (margins fell 280 basis points in the period to 18.7%). Management points to elevated restructuring (\$22 million in the period) as the primary culprit for the margin decline. As such, we anticipate a meaningful improvement in operating performance in 2013 and 2014 in the segment.

Management expects the divestiture of Apex tools to close in the first quarter, resulting in a \$220 million (\$0.19 per

Danaher Corporation DHR [XNYS] | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Stewardship	Morningstar Credit Rating	Industry
62.65 USD	54.00 USD	32.40 USD	83.70 USD	High	Narrow	Standard	A	Diversified Industrials

Analyst Notes (continued)

share) pretax gain. Additionally, management lowered 2013 earnings guidance by \$0.08 per share to account for the lost earnings from Apex. While we will adjust our model to reflect this, we do not anticipate these events will materially change our valuation for the company. That said, once the company releases its 10-K in the coming weeks, we will adjust our model and fair value estimate.

Danaher Corporation(USD) DHR

Last Close \$ \$62.12
Sales \$Mil \$18,260
Mkt Cap \$Mil \$42,878
Industry Diversified Industrials
Currency USD

Danaher Corporation designs, manufactures & markets professional, medical, industrial & commercial products. Its business consists of five segments: Test & Measurement; Environmental; Life Sciences & Diagnostics; Dental & Industrial Technologies.

2200 Pennsylvania Avenue, NW
 Washington, WA 20037-1701
 Phone: +1 202 828-0850
 Website: <http://www.danaher.com>

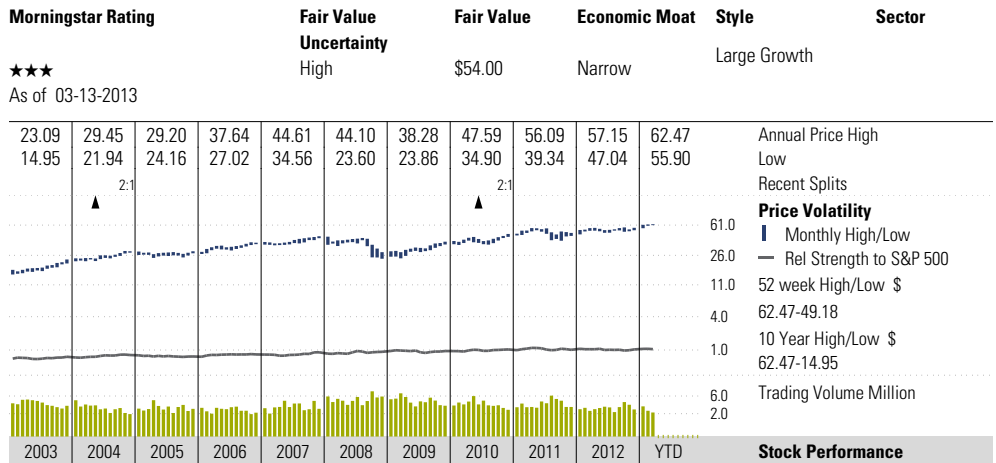
Growth Rates Compound Annual				
Grade: B	1 Yr	3 Yr	5 Yr	10 Yr
Revenue %	13.5	17.8	10.6	14.8
Operating Income %	20.9	27.1	12.7	16.3
Earnings/Share %	16.6	23.1	11.7	16.6
Dividends %	11.1	15.4	12.7	16.1
Book Value/Share %	12.5	15.4	14.2	18.8
Stock Total Return	13.6	16.9	11.4	14.6
+/- Industry	-3.3	3.5	7.9	5.8
+/- Market	-0.3	3.9	5.7	5.9

Profitability Analysis				
Grade: C	Current	5 Yr Avg	Ind	Mkt
Return on Equity %	13.3	13.3	15.4	19.7
Return on Assets %	7.6	7.7	4.1	8.2
Revenue/Employee \$K	289.8	263.1	—	1040.6
Fixed Asset Turns	8.6	10.1	4.0	7.0
Inventory Turns	4.9	5.4*	5.3	12.2
Gross Margin %	51.6	49.5	38.6	43.2
Operating Margin %	17.3	15.7	16.3	18.6
Net Margin %	13.1	12.3	8.8	13.1
Free Cash Flow/Rev %	16.2	—	9.5	11.7
R&D/Rev %	6.2	6.0	2.3	—

Financial Position (USD)		
Grade: A	12-11 \$Mil	12-12 \$Mil
Cash	537	1679
Inventories	1781	1813
Receivables	3050	3267
Current Assets	6272	7588
Fixed Assets	2101	2141
Intangibles	20315	21806
Total Assets	29950	32941
Payables	1422	1546
Short-Term Debt	1422	56
Current Liabilities	4172	4206
Long-Term Debt	5207	5288
Total Liabilities	13045	13925
Total Equity	16905	19017

Valuation Analysis				
	Current	5 Yr Avg	Ind	Mkt
Price/Earnings	19.2	17.6	20.9	16.2
Forward P/E	14.8	—	—	13.6
Price/Cash Flow	13.0	12.8	11.2	9.4
Price/Free Cash Flow	15.0	14.4	18.2	27.5
Dividend Yield %	0.2	0.2	2.2	2.3
Price/Book	2.3	2.0	2.7	2.2
Price/Sales	2.4	2.1	1.5	2.6
PEG Ratio	2.9	—	—	2.3

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



Stock Performance										
40.3	24.8	-2.7	30.0	21.3	-35.3	33.1	25.7	-0.1	19.0	11.1
11.6	13.9	-7.6	14.2	15.8	1.7	6.6	10.6	-2.2	3.0	1.6
3.2	8.1	-5.3	16.9	5.7	9.8	8.1	1.8	4.4	-1.1	0.7
0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2
14089	17718	17186	22297	27928	18093	24270	30961	32286	38431	42878

Financials (USD)										
5294	6889	7871	9466	11026	12697	11185	12550	16091	18260	18260
40.4	42.0	43.3	44.3	45.7	46.8	47.2	51.0	50.8	51.6	51.6
846	1105	1248	1500	1741	1869	1542	2050	2617	3165	3165
16.0	16.0	15.9	15.9	15.8	14.7	13.8	16.3	16.3	17.3	17.3
537	746	898	1122	1370	1318	1152	1793	2172	2392	2392
0.84	1.15	1.38	1.74	1.86	1.98	1.73	2.64	2.77	3.23	3.36
0.03	0.03	0.04	0.04	0.06	0.06	0.07	0.08	0.09	0.10	0.10
646	655	656	651	659	672	671	683	701	713	713
5.94	7.48	8.24	10.79	14.27	15.34	18.02	20.89	24.63	27.66	27.55
862	1033	1204	1547	1646	1859	1801	2084	2626	3415	3415
-80	-116	-120	-136	-162	-194	-189	-217	-335	-458	-458
781	917	1084	1411	1484	1665	1612	1867	2292	2957	2957

Profitability										
8.3	9.7	10.2	10.2	9.0	7.5	6.2	8.6	8.3	7.6	7.6
16.1	18.1	18.5	19.1	17.4	14.0	10.7	14.2	14.2	13.3	13.3
0.82	0.90	0.89	0.86	0.73	0.73	0.60	0.60	0.62	0.58	0.58
10.1	10.8	11.4	11.9	12.4	10.4	10.3	14.3	13.5	13.1	13.1
1.9	1.8	1.8	1.9	1.9	1.8	1.7	1.6	1.8	1.7	1.7

Financial Health (USD)										
1284	926	858	2423	3396	2553	2889	2784	5207	5288	5288
3647	4620	5080	6645	9086	9809	11630	13711	16905	19017	19017
0.35	0.20	0.17	0.36	0.37	0.26	0.25	0.20	0.31	0.28	0.28
1562	716	676	977	1150	1442	2460	2425	2100	3382	3382

Valuation										
27.3	24.9	20.2	20.8	23.6	14.3	21.7	17.9	17.0	17.3	19.2
0.0	0.0	—	—	0.0	0.0	0.0	0.0	—	0.0	1.2
2.8	2.7	2.3	2.5	2.6	1.5	2.3	2.4	2.0	2.2	2.4
3.9	3.8	3.4	3.4	3.1	1.8	2.1	2.3	1.9	2.0	2.3
17.3	18.2	15.2	15.2	17.6	10.2	14.0	15.5	12.5	11.7	13.0

Quarterly Results (USD)				
	Mar	Jun	Sep	Dec
Revenue \$Mil				
Most Recent	4316.0	4553.0	4415.0	4975.0
Previous	3292.0	3635.0	4445.0	4716.0
Rev Growth %				
Most Recent	31.1	25.2	-0.7	5.5
Previous	9.5	13.0	43.7	45.9
Earnings Per Share \$				
Most Recent	0.73	0.84	0.77	0.89
Previous	0.61	0.65	0.74	0.77

Close Competitors				
	Mkt Cap \$Mil	Rev \$Mil	P/E	ROE%
3M Co	72511	29904	16.6	26.9
Illinois Tool Works Inc	27682	17924	11.6	27.9

Major Fund Holders		% of shares
T. Rowe Price Growth Stock		1.89
Fidelity Contrafund		1.80
MainStay Large Cap Growth A		1.33

©2013 Morningstar. All Rights Reserved. The information, data, analyses and opinions contained herein (1) include the confidential and proprietary information of Morningstar, (2) may include, or be derived from, account information provided by your financial advisor which cannot be verified by Morningstar, (3) may not be copied or redistributed, (4) do not constitute investment advice offered by Morningstar, (5) are provided solely for informational purposes and therefore are not an offer to buy or sell a security, and (6) are not warranted to be correct, complete or accurate. Except as otherwise required by law, Morningstar shall not be responsible for any trading decisions, damages or other losses resulting from, or related to, this information, data, analyses or opinions or their use. This report is supplemental sales literature. If applicable it must be preceded or accompanied by a prospectus, or equivalent, and disclosure statement.



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

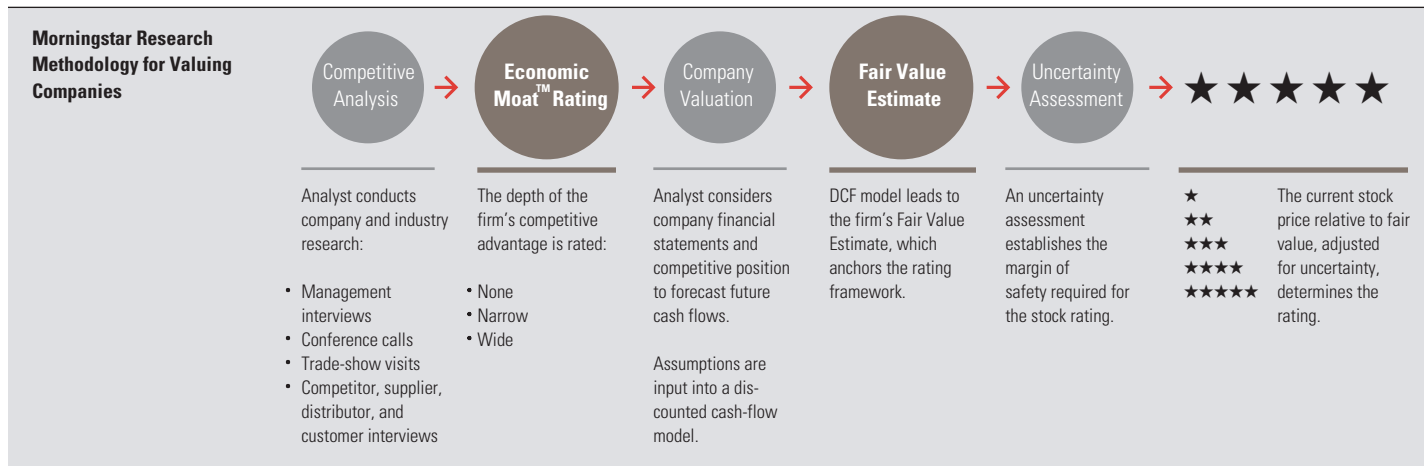
just on movement in the share price. If we think a stock's fair value is \$50, and the shares decline to \$40 without much change in the value of the business, the star rating will go up. Our estimate of what the business is worth hasn't changed, but the shares are more attractive as an investment at \$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's Approach to Rating Stocks (continued)

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.