

# Intel Corp INTC [Nasdaq] | ★★★

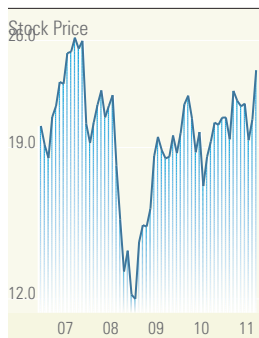
Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Stewardship	Morningstar Credit Rating	Industry
25.34 USD	26.00 USD	18.20 USD	35.10 USD	Medium	Wide	B	AA	Semiconductors

We expect Intel to benefit from the build-out of the cloud.

by Andy Ng  
Senior Stock Analyst  
Analysts covering this company do not own its stock.

Pricing data through November 15, 2011.  
Rating updated as of November 15, 2011.

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



## Thesis Oct. 20, 2011

Intel holds long-term advantages over smaller rival Advanced Micro Devices in the microprocessor industry. While there have been rising fears that Intel may have trouble competing against emerging processor design firm ARM, we believe such panic has been blown out of proportion.

Intel is the dominant force in the roughly \$30 billion computer processor market. It has benefited tremendously from the proliferation of personal computers in the past few decades. Intel has long held the lead in microprocessor technology and performance, while AMD has mostly been an also-ran. Although AMD has periodically emerged as a threat, such occurrences are few and far between. After being caught off-guard several years ago when AMD narrowed the competitive gap between the two firms, Intel has gone on an impressive streak of out-innovating its smaller foe while reasserting its stranglehold on the microprocessor market.

The runaway success that Intel has had in the processor market can be traced back to the firm's economic moat. As the world's largest semiconductor company, Intel has a massive research and development budget that is unmatched. In addition, the firm has the financial resources to invest in cutting-edge semiconductor manufacturing technologies. These advantages enable Intel to push processor performance and lower manufacturing costs at a much faster pace than AMD. Although AMD has shown it can trump Intel in a particular processor generation, it has never been able to maintain its lead in successive generations.

Intel continues to go full throttle and has laid out aggressive plans to introduce new chip architectures every two years, in an effort to widen its lead over AMD in the processor performance race. The firm recently launched its Sandy Bridge chips, which combine both computer and

graphics processors onto the same silicon, and has begun to further push the envelope of semiconductor fabrication technologies, as it ramps up manufacturing of cutting-edge 22-nanometer (circuit size) chips.

We believe the biggest obstacle facing Intel in the coming years is the maturation of the PC market, which could pose challenges for growth. In addition, the firm has begun to see the emergence of a new competitor in ARM, whose processor designs populate most smartphones and tablets. The line between PCs and mobile devices has been blurring, with ARM attempting to move upstream, while Intel tries to extend its presence downstream with its Atom chips. The emergence of the tablet has provided a battleground for the two, and ARM has been much more successful than Intel so far.

Although there is the risk that ARM-based tablets will eventually become powerful enough to cannibalize low-end PCs, which in turn would cut into Intel's processor sales, we believe ARM's threat to Intel has been overblown. ARM has been highly successful in chips for mobile devices and tablets because of the low power consumption of its designs, something that Intel has been unable to match despite being able to offer higher processor performance. Nonetheless, we expect Intel's Atom processors to become much more competitive on the power efficiency front in the next couple of years, which should allow the firm to achieve design wins in tablets and smartphones and ultimately encroach upon ARM's turf. Intel also bolstered its capabilities as a chip supplier for mobile devices when it bought Infineon's wireless chip business earlier this year.

No matter how successful Intel ends up faring against ARM in tablets, we believe the mass proliferation of these devices will ultimately be beneficial to Intel. The emergence of tablets is part of the trend toward cloud computing, where computing tasks are offloaded onto the "cloud" and users access the cloud with an interface such as a tablet. As adoption of tablets and other mobile devices continues to rise, it will require substantial server build-outs to create the infrastructure necessary for the

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Close Competitors	Currency(Mil)	Market Cap	TTM Sales	Oper Income	Net Income
Intel Corp	USD	129,031	51,569	16,901	12,762
Advanced Micro Devices Inc	USD	4,014	6,526	710	1,043

Morningstar data as of November 15, 2011.

cloud. This will provide significant long-term tailwinds for the growth of Intel's server processor segment, which is the firm's most lucrative business.

Intel's recent acquisition of antivirus and security software maker McAfee for \$7.7 billion caught many by surprise, but there was a strategic rationale behind the deal. Intel believes that security is becoming increasingly important with the continued growth of Internet connected devices, including smartphones, tablets, and set-top boxes. With McAfee, the firm plans to add security features to its chips and hardware, which when integrated with software, will provide more effective security solutions. Intel also has the opportunity to integrate McAfee's security software into its desktop and notebook chips. This latest move will provide another opportunity for the firm to enhance its products in a bid to differentiate itself from AMD and ARM.

## Valuation, Growth and Profitability

We are raising our fair value estimate to \$26 per share from \$23, as Intel's latest results have exceeded our expectations. Intel reported record results in 2010, as the firm benefited from robust PC demand after a slowdown in 2009. In our model, we forecast that revenue will grow 26% in 2011, including the acquisitions of McAfee and Infineon's wireless chip unit, both of which closed in the first quarter. We expect McAfee and Infineon's wireless chip business to contribute about \$3.6 billion in revenue combined in 2011. While we expect a cyclical downturn in 2012, we think Intel can grow in the upper single digits

over the long run. Our assumptions are based on our projections for the processor market as well as other segments, including chipsets, motherboards, and flash memory. We believe the firm's server processor segment will be Intel's fastest-growing business, as the trend toward cloud computing will require substantial server build-outs. Although Intel has been widening its chip performance lead compared with AMD in recent years, we think that AMD will be much more competitive in 2011-2012, thanks to new products, and we project that Intel will lose some market share to its smaller rival in the near term. Nonetheless, we believe Intel's dominant position over AMD remains intact over the long run. Profitability has improved over the past several years, partly as a result of the firm's cost-cutting work. After posting superb profitability in 2010, with operating margin coming in at over 36%, we think Intel's operating margin will come in at 33% in 2011. However, we forecast that operating margins will trend toward the mid-20s over the long term.

## Risk

The semiconductor industry is cyclical, which causes fluctuations in Intel's financial performance. Intel must hold onto its technology lead in order to maintain its position as the behemoth of the microprocessor market. Failure to do so would result in share loss to AMD.

## Bulls Say

- Intel is the largest semiconductor company in the world. The firm has sustained its position at the forefront of technology by investing heavily in R&D.
- The firm holds roughly four fifths of the microprocessor market after gaining some share back from AMD.
- Intel has an immense budget for capital expenditures, allowing it to maintain the most cutting-edge semiconductor manufacturing technologies in the

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world.

- Intel's platform strategy, in which processors are bundled with chipsets, allows the firm to incorporate more features into its products.
- The firm subsidizes marketing efforts by customers when they highlight the Intel brand. As a result, it benefits from powerful brand recognition.

## Bears Say

- Growth of the PC industry has slowed from the heady rates of the 1990s. As a result, Intel's opportunities to expand may be limited.
- Intel must successfully maintain its technology lead in the processor market. Any missteps by the firm could cause market share loss to AMD.
- AMD's purchase of ATI in 2006 has given Intel's smaller rival the know-how and technology to offer platform solutions as well.
- ARM-based processors power most of the mobile devices, including smartphones and tablets, on the market today. The firm is becoming a bigger competitive threat to Intel.

## Financial Overview

Financial Health: Intel is in excellent financial shape. At the end of the third quarter of 2011, the firm had \$10.9 billion in cash and short-term investments compared with \$7.1 billion in debt.

## Company Overview

Profile: Intel is the largest chipmaker in the world. It develops and manufactures microprocessors and platform solutions for the global personal computer market. Intel pioneered the x86 architecture for microprocessors.

Management: President and CEO Paul Otellini became

CEO in 2005. Otellini has been with Intel since 1974; before taking the helm, he had been president and COO since 2002. Stacy Smith became CFO in 2007. Smith joined Intel in 1988 and has held various positions, including finance, information technology, and sales and marketing roles, at the company. Former CFO Andy Bryant remains at Intel and now holds the position of chief administrative officer. Jane Shaw, a retired pharmaceutical executive, serves as chairman. We like the separation of the chairman and CEO positions. The outside director compensation consists of cash and an equity-based component.

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## Analyst Notes

Oct. 18, 2011

### Intel's Third Quarter is Another for the Record Books

Intel reported impressive third-quarter results, as the firm achieved record revenue and profitability. We will likely raise our fair value estimate by several dollars as we update our valuation model to take into account the latest results. For the quarter, revenue came in at \$14.2 billion, up 9% sequentially, and an increase from sales of \$11.1 billion a year ago. Intel benefited from record microprocessor shipments, as PC demand was particularly strong in the enterprise segment and in emerging markets, while the consumer PC segment in mature markets remained soft. The firm also reported that notebook PC units grew double-digits quarter over quarter and year over year, while server processor demand remained strong. Revenue from McAfee and Infineon's wireless chip business, both of which Intel acquired in the first quarter of this year, contributed \$1.1 billion in revenue, compared with about \$1 billion in the second quarter.

On the profitability front, gross margin widened quarter over quarter, to 63.4% from 60.6%, driven by higher manufacturing volumes, lower unit costs, and lower startup costs from Intel's production ramp of the firm's next-generation 22-nanometer (circuit size) manufacturing process. Operating income came in at \$4.8 billion, versus \$3.9 billion last quarter.

For the fourth quarter, management expects revenue to be between \$14.2 billion and \$15.2 billion. At the midpoint of

\$14.7 billion, sales would be up 3% sequentially. Although this would be below seasonality, the outlook indicates that Intel anticipates another excellent quarter.

Intel appears to be defying the slowdown in business conditions that is weighing on firms in other segments of the chip industry, thanks largely to its beneficial exposure to PC growth in such emerging countries as China and Brazil. Nonetheless, management noted that macroeconomic concerns in Europe are prompting caution in their outlook for the business environment. Given the cyclical nature of Intel's business, we believe that the threat of an economic slowdown will pose a risk to the firm in the upcoming quarters. That notwithstanding, we continue to believe that Intel has solid long-term growth prospects, especially in the firm's lucrative server processor segment. Additionally, we believe the continued proliferation of tablets and smartphones will inevitably necessitate considerable investment in the infrastructures of both the Internet and the cloud. We think this trend should keep demand for Intel's server chips healthy, and sustainable.

Jul. 20, 2011

### Intel Reports Solid Second Quarter

Intel reported solid second-quarter results, as the firm once again posted record quarterly revenue. For the quarter, sales were \$13.0 billion, up 1% sequentially, and an increase from revenue of \$10.8 billion a year ago. The results included the first full quarter of sales from recent acquisitions McAfee and Infineon's wireless chip business, which contributed about \$1 billion to the top line. Even

when excluding these purchases, the firm had a nice quarter, even though the June quarter is typically seasonally slower. Intel's growth was driven by strength in microprocessor and PC demand from enterprises and emerging markets, though this was somewhat offset by weakness in the consumer PC market in developed countries. Intel also noted that it continued to see strong

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## Analyst Notes (continued)

demand for its latest Sandy Bridge processors during the quarter. On the profitability front, gross margin came in at 60.6%, down from 61.4% in the first quarter. Intel was no longer affected by the additional costs needed to repair and replace the problematic chipsets for Sandy Bridge processors, which hurt gross margin last quarter. However, Intel saw higher manufacturing costs, primarily related to the ramp-up of its next-generation chip fabrication process. Operating income was \$3.9 billion for the quarter.

For the third quarter, management expects revenue to be between \$13.5 billion and \$14.5 billion, which would indicate another quarter of strong results. Intel anticipates continued strength from emerging markets and corporations, while consumer PC and processor demand

from mature markets is expected to improve slightly. Management presently forecasts that global PC unit growth will be 8% to 10% in 2011, although the firm believes it has opportunities to grow revenue at a faster rate than the broader PC industry, thanks to enterprise-driven product mix. Intel's bright outlook appears to conflict with whispers that the PC market may be weakening. Although we are weary that the firm could see a business slowdown in the upcoming quarters, we think Intel has good long-term growth prospects. In particular, we are optimistic about the firm's server processor opportunities. The rising popularity of smartphones and tablets will require substantial build-outs of Internet infrastructure and the cloud should drive demand for server processors from Intel.

## Disclaimers & Disclosures

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# Intel Corp INTC

**Sales USD Mil** 51,569 **Mkt Cap USD Mil** 129,031 **Industry** Semiconductors **Sector** Technology

Intel is the largest chipmaker in the world. It develops and manufactures microprocessors and platform solutions for the global personal computer market. Intel pioneered the x86 architecture for microprocessors.

**Morningstar Rating** ★★ ★ **Last Price** 25.34 **Fair Value** 26.00 **Uncertainty** Medium **Economic Moat™** Wide **Stewardship Grade** B  
per share prices in USD

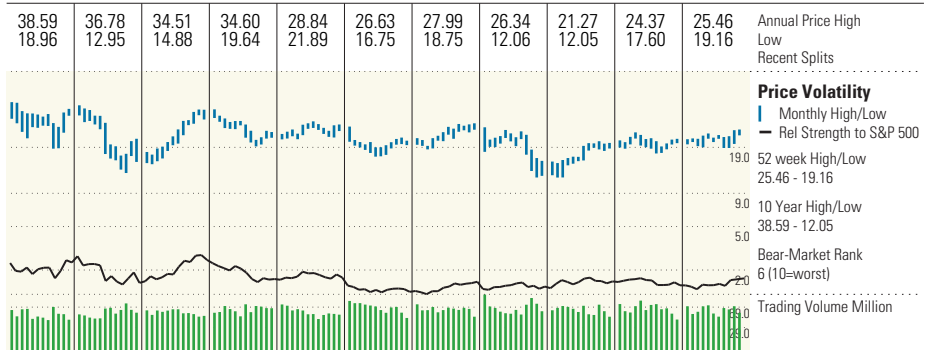
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Growth Rates Compound Annual					
Grade: C	1 Yr	3 Yr	5 Yr	10 Yr	
Revenue %	24.2	4.4	2.4	2.6	
Operating Income %	172.9	23.8	5.2	4.1	
Earnings/Share %	161.0	19.4	7.5	2.9	
Dividends %	12.5	11.9	14.5	24.6	
Book Value/Share %	18.8	7.0	8.4	4.9	
Stock Total Return %	22.7	27.0	4.9	1.5	
+/- Industry	12.2	-1.1	2.3	0.4	
+/- Market	17.7	14.1	7.0	-0.2	

Profitability Analysis				
Grade: B	Current	5 Yr Avg	Ind	Mkt
Return on Equity %	27.2	16.1	20.1	22.3
Return on Assets %	19.5	12.4	11.1	9.4
Fixed Asset Turns	2.6	2.2	2.5	7.4
Inventory Turns	5.2	4.7	5.1	15.7
Revenue/Employee USD K	625.1	472.3*	—	1042.9
Gross Margin %	62.5	56.0	39.8	38.4
Operating Margin %	32.8	22.6	15.2	16.3
Net Margin %	24.7	17.1	13.9	10.9
Free Cash Flow/Rev %	19.6	18.8	13.8	0.1
R&D/Rev %	15.0	0.2	—	9.9

Financial Position		
Grade: A	12-10 USD Mil	09-11 USD Mil
Cash	5498	7057
Inventories	3757	3959
Receivables	2867	3821
Current Assets	31611	26698
Fixed Assets	17899	22157
Intangibles	4531	15583
Total Assets	63186	70551
Payables	2290	2999
Short-Term Debt	38	66
Current Liabilities	9327	11909
Long-Term Debt	2077	7076
Total Liabilities	13756	24434
Total Equity	49430	46117

Valuation Analysis				
	Current	5 Yr Avg	Ind	Mkt
Price/Earnings	11.0	19.8	10.6	13.6
Forward P/E	9.8	—	—	13.8
Price/Cash Flow	7.0	9.8	8.4	6.8
Price/Free Cash Flow	13.9	17.6	18.9	15.7
Dividend Yield %	3.1	—	2.1	2.0
Price/Book	2.8	2.8	1.7	1.8
Price/Sales	2.7	3.2	1.5	1.2
PEG Ratio	0.8	—	—	1.6



2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	YTD	Stock Performance
4.9	-50.2	106.4	-26.5	8.1	-17.3	33.9	-43.0	43.0	6.2	24.2	Total Return %
17.9	-26.8	80.0	-35.5	5.1	-30.9	30.4	-4.5	19.6	-6.6	24.2	+/- Market
16.6	0.4	16.6	-7.2	-4.5	-11.7	27.1	1.4	-21.9	-11.3	21.8	+/- Industry
0.3	0.5	0.3	0.7	1.3	2.0	1.7	3.7	2.8	3.0	3.1	Dividend Yield %
211092	103151	209351	147895	150484	116762	155881	81539	112669	115896	129031	Market Cap USD Mil

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	TTM	Financials
26539	26764	30141	34209	38826	35382	38334	37586	35127	43623	51569	Revenue USD Mil
49.2	49.8	56.7	57.7	59.4	51.5	51.9	55.5	55.7	65.3	62.5	Gross Margin %
2256	4382	7533	10130	12090	5652	8216	8954	5711	15588	16901	Oper Income USD Mil
8.5	16.4	25.0	29.6	31.1	16.0	21.4	23.8	16.3	35.7	32.8	Operating Margin %
1291	3117	5641	7516	8664	5044	6976	5292	4369	11464	12762	Net Income USD Mil
0.19	0.46	0.85	1.16	1.40	0.86	1.18	0.92	0.77	2.01	2.31	Earnings Per Share USD
0.08	0.08	0.08	0.16	0.32	0.40	0.45	0.55	0.56	0.63	0.73	Dividends USD
6879	6759	6621	6494	6178	5880	5936	5748	5645	5696	5524	Shares Mil
5.34	5.35	5.79	6.10	6.00	6.37	7.31	7.11	7.55	8.97	9.06	Book Value Per Share USD
8654	9129	11515	13119	14823	10620	12625	10926	11170	16692	19883	Oper Cash Flow USD Mil
-7309	-4703	-3656	-3843	-5818	-5779	-5000	-5197	-4515	-5207	-9789	Cap Spending USD Mil
1345	4426	7859	9276	9005	4841	7625	5729	6655	11485	10094	Free Cash Flow USD Mil

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	TTM	Profitability
2.8	7.0	12.4	15.8	18.0	10.4	13.4	9.9	8.4	19.7	19.5	Return on Assets %
3.5	8.7	15.4	19.7	23.2	13.8	17.6	12.9	10.8	25.2	27.2	Return on Equity %
4.9	11.6	18.7	22.0	22.3	14.3	18.2	14.1	12.4	26.3	24.7	Net Margin %
0.57	0.60	0.66	0.72	0.81	0.73	0.74	0.71	0.68	0.75	0.79	Asset Turnover
1.2	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.5	Financial Leverage

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	09-11	Financial Health
11063	12330	16003	16052	11960	9766	15314	12053	13566	22284	14789	Working Capital USD Mil
1050	929	936	703	2106	1848	1980	1886	2049	2077	7076	Long-Term Debt USD Mil
35830	35468	37846	38579	36182	36752	42762	39088	41704	49430	46117	Total Equity USD Mil
0.03	0.03	0.02	0.02	0.06	0.05	0.05	0.05	0.05	0.04	0.15	Debt/Equity

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	TTM	Valuation
—	—	—	—	—	—	—	—	—	0.6	0.8	Price/Earnings
8.2	3.9	7.0	4.4	4.0	3.4	4.1	2.2	3.3	2.8	2.7	P/E vs. Market
5.9	2.9	5.5	3.8	4.2	3.2	3.6	2.1	2.7	2.3	2.8	Price/Sales
25.0	11.5	18.4	11.6	10.5	11.3	12.5	7.7	10.3	7.2	7.0	Price/Cash Flow

Quarterly Results						
Revenue USD Mil	Dec 10	Mar 11	Jun 11	Sep 11		
Most Recent Period	11457.0	12847.0	13032.0	14233.0		
Prior Year Period	10569.0	10299.0	10765.0	11102.0		
Rev Growth %	Dec 10	Mar 11	Jun 11	Sep 11		
Most Recent Period	8.4	24.7	21.1	28.2		
Prior Year Period	28.5	44.1	34.2	18.2		
Earnings Per Share USD	Dec 10	Mar 11	Jun 11	Sep 11		
Most Recent Period	0.56	0.56	0.54	0.65		
Prior Year Period	0.40	0.43	0.51	0.52		

Industry Peers by Market Cap				
	Mkt Cap USD Mil	Rev USD Mil	P/E	ROE%
Intel Corp	129031	51569	11.0	27.2
Advanced Micro Devic	4014	6526	4.1	88.5

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'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

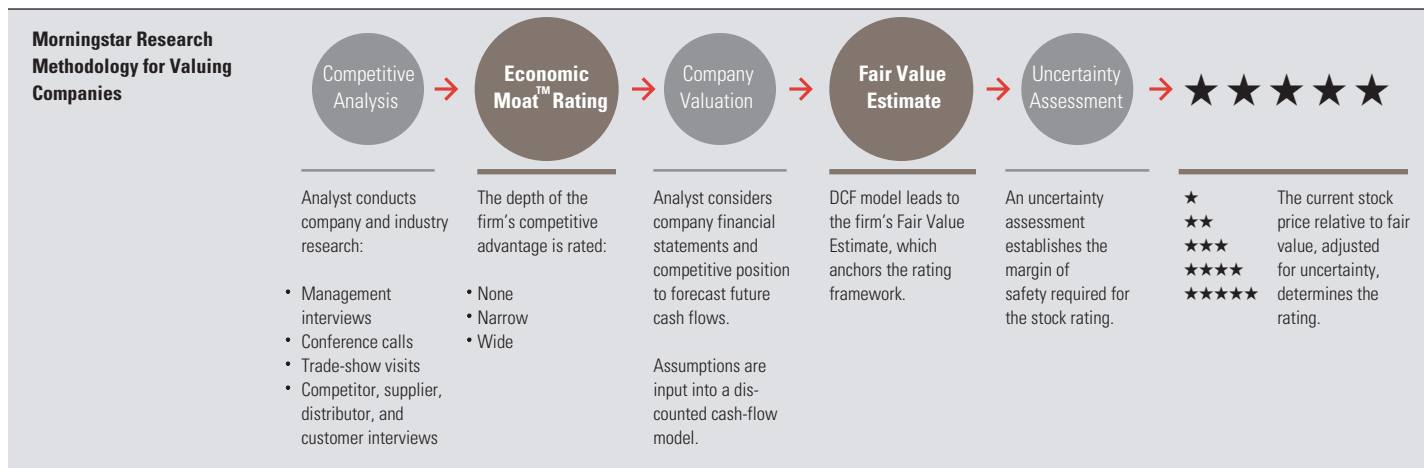
just on movement in the share price. If we think a stock's fair value is \$50, and the shares decline to \$40 without much change in the value of the business, the star rating will go up. Our estimate of what the business is worth hasn't changed, but the shares are more attractive as an investment at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

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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.

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### 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.

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### 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.

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### 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.

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### 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.

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### 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.

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### 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.

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### Stewardship Grades

We evaluate the commitment to shareholders demonstrated by each firm's board and management team by assessing transparency, shareholder friendliness, incentives, and ownership. We aim to identify firms that provide investors with insufficient or potentially misleading financial information, seek to limit the power of minority shareholders, allow management to abuse its position, or which have management incentives that are not aligned with the interests of long-term shareholders. The grades are assigned on an absolute scale--not relative to peers--and can be interpreted as follows: A means "Excellent," B means "Good," C means "Fair," D means "Poor," and F means "Very Poor."

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