MORNINGSTAR



Moat Rating Change Report

During the first half of 2026, we upgraded 18 moat ratings and downgraded 59.

Table of Contents

Executive Summary	3
Upgrade and Downgrade Focus	6
Moat Changes and Valuation	16
Historical Moat Rating Changes	23

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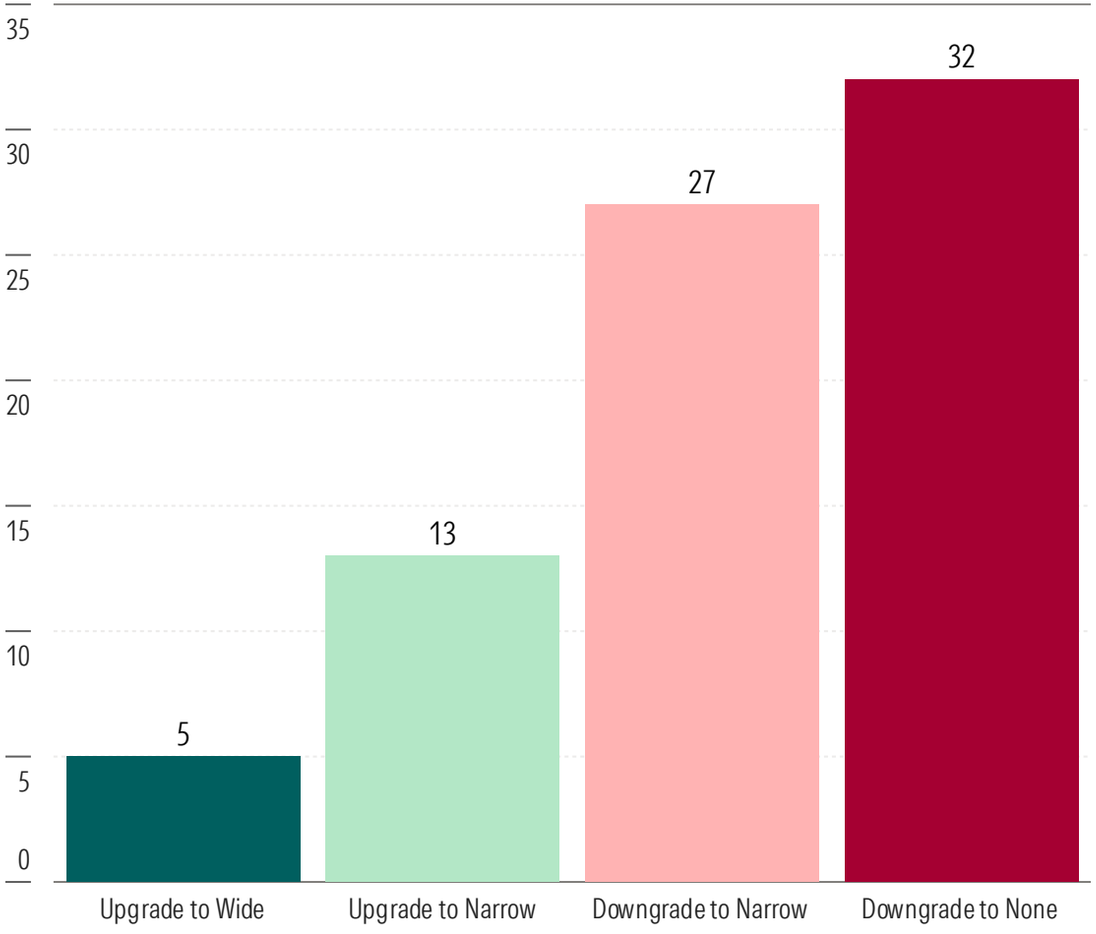
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Executive Summary

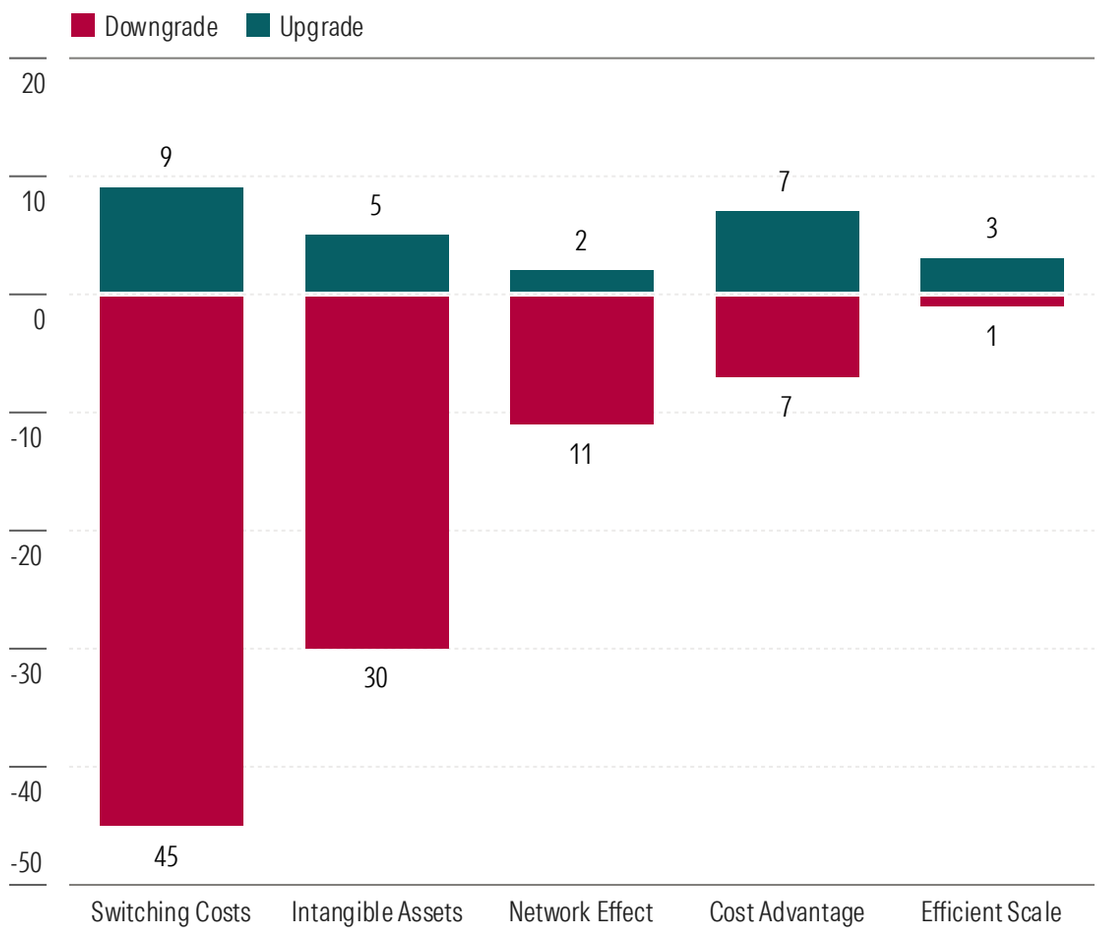
We removed more moat ratings than we awarded in the first half of 2026, reflecting a reevaluation of the AI threat.

Downgrades Dominated the First Half of 2026 as We Incorporated the AI Threat Into Our Ratings

We Downgraded 59 Moat Ratings, Exceeding Our 18 Upgrades



Intangible Assets and Switching Costs Were the Most Downgraded



Source: Morningstar.

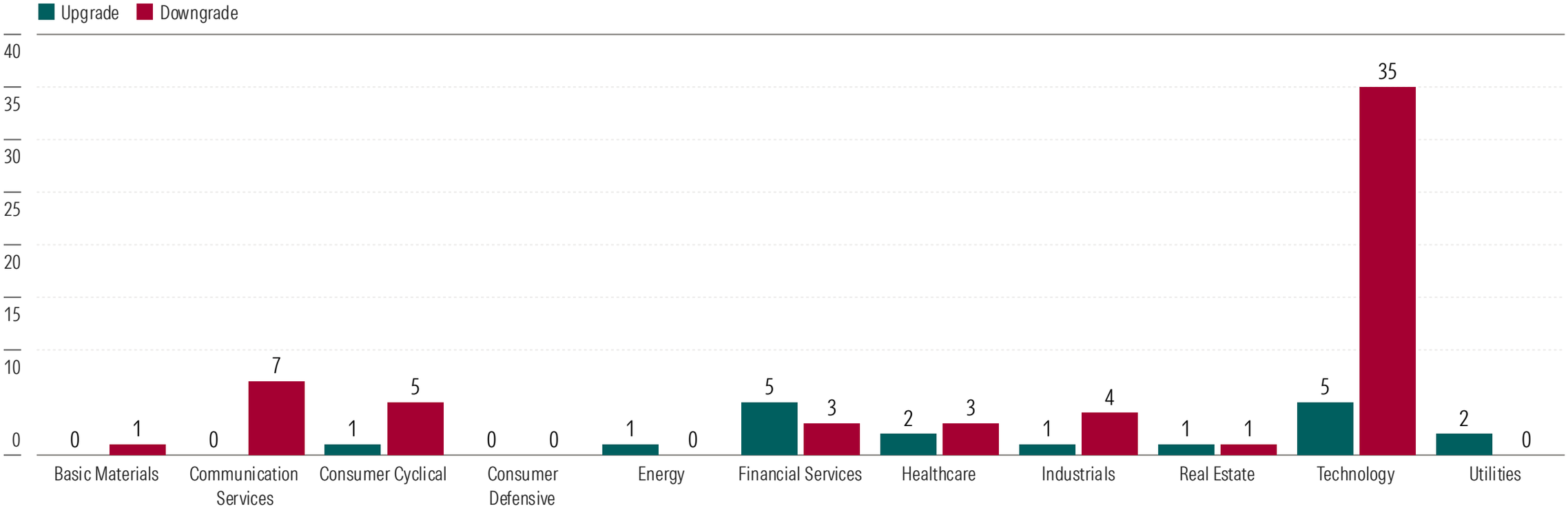
Note: Companies may have more than one moat source. As a result, upgrades and downgrades by moat source in the right-hand chart will be greater than rating changes in the left-hand chart.

See Important Disclosures at the end of this report.

Most Exposed to the Threat From AI, Technology Suffered the Bulk of Downgrades

Given the recent, rapid advances in AI, we convened a review of the companies most exposed to AI. Of the 132 companies reviewed, we downgraded 22 wide moats (20 to narrow, two to none) and 18 narrow moats (to none from narrow). However, we maintained moat ratings for most of the companies we reviewed and even upgraded two narrow-moat companies to wide-moat (CrowdStrike and Cloudflare) due to their positioning in the infrastructure layer and their network effects. Our special report (linked below) fully reviews the changes.

Moat Upgrades and Downgrades per Sector in First-Half 2026



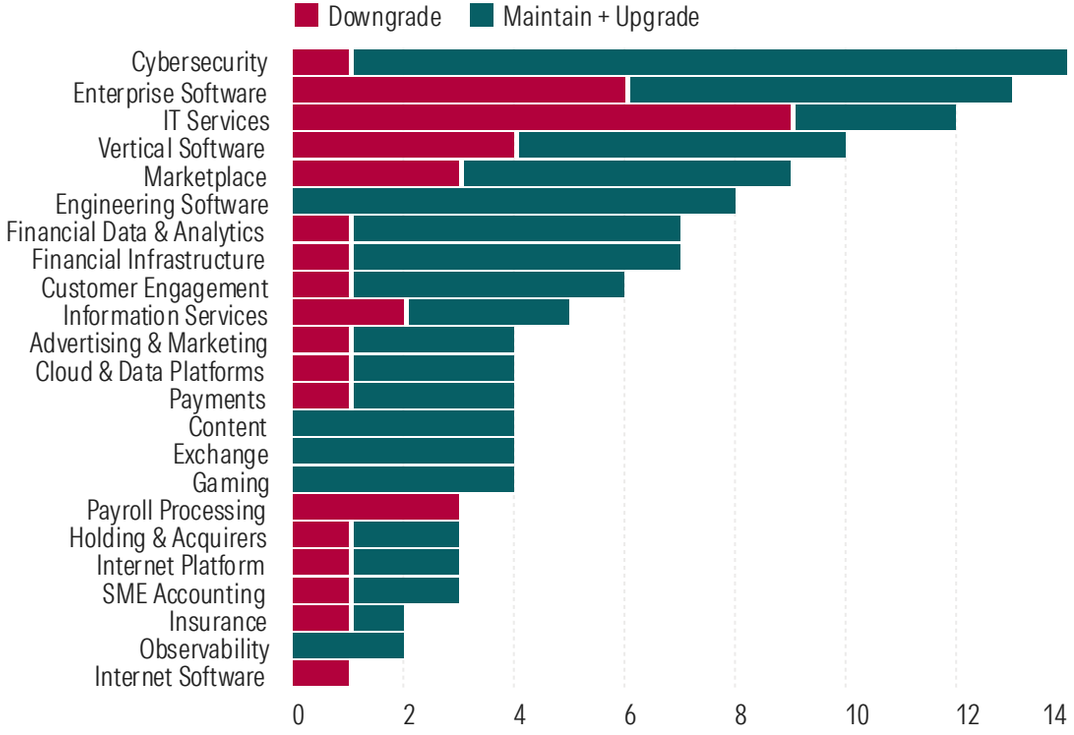
Source: Morningstar. For a full review of our AI related moat changes see: Moat Ratings Guidebook Amid AI Disruption; Ratings Updates, Winners/Losers, and Top Picks, March 2026

Upgrade and Downgrade Focus

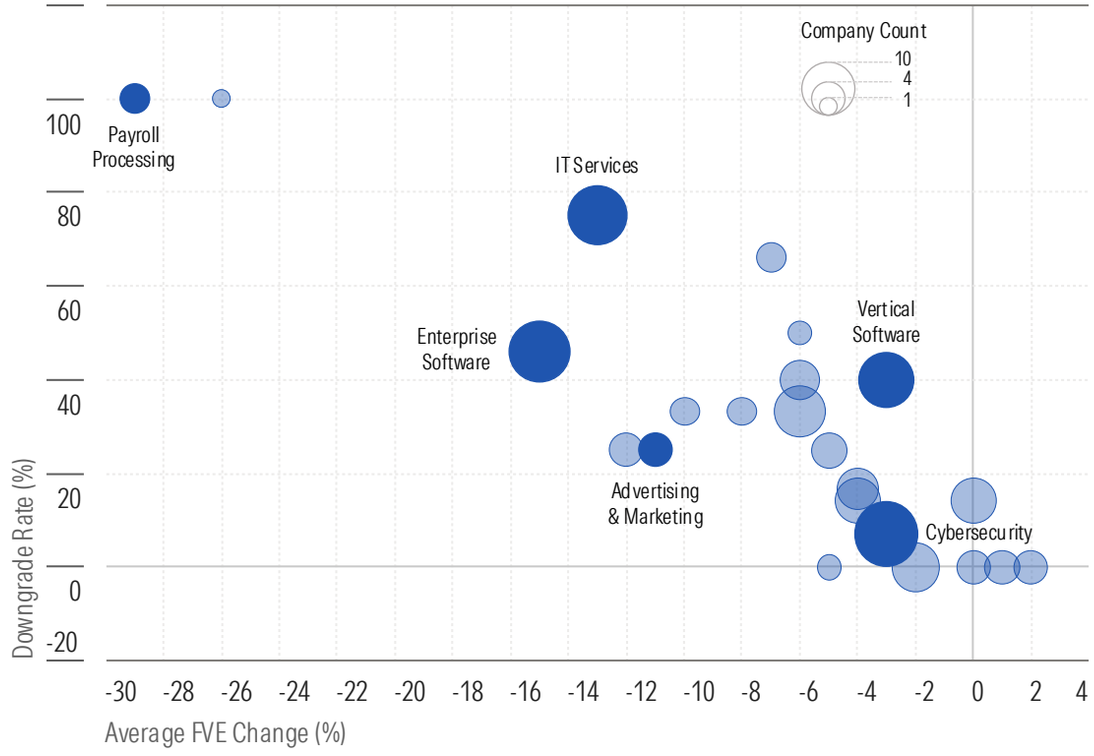
Revaluation of Moat Ratings in Light of AI Advances Prompts Wave of Downgrades, a Few Upgrades

Payroll services, IT services, and enterprise software bore the most downgrades, negative revaluations, and rising uncertainty. This makes intuitive sense, given that AI disruption tends to hit hardest when companies monetize human labor, simple workflow automation, and seat-based software licenses. Cybersecurity, design software, and financial infrastructure and exchanges were the most resilient sectors, with characteristics such as complex workflows, being part of the "infrastructure stack," or benefiting from network effects.

Enterprise Software, Payroll and IT Services Had the Most Downgrades



Cybersecurity, Vertical SaaS, Design Software Were Largely Unscathed

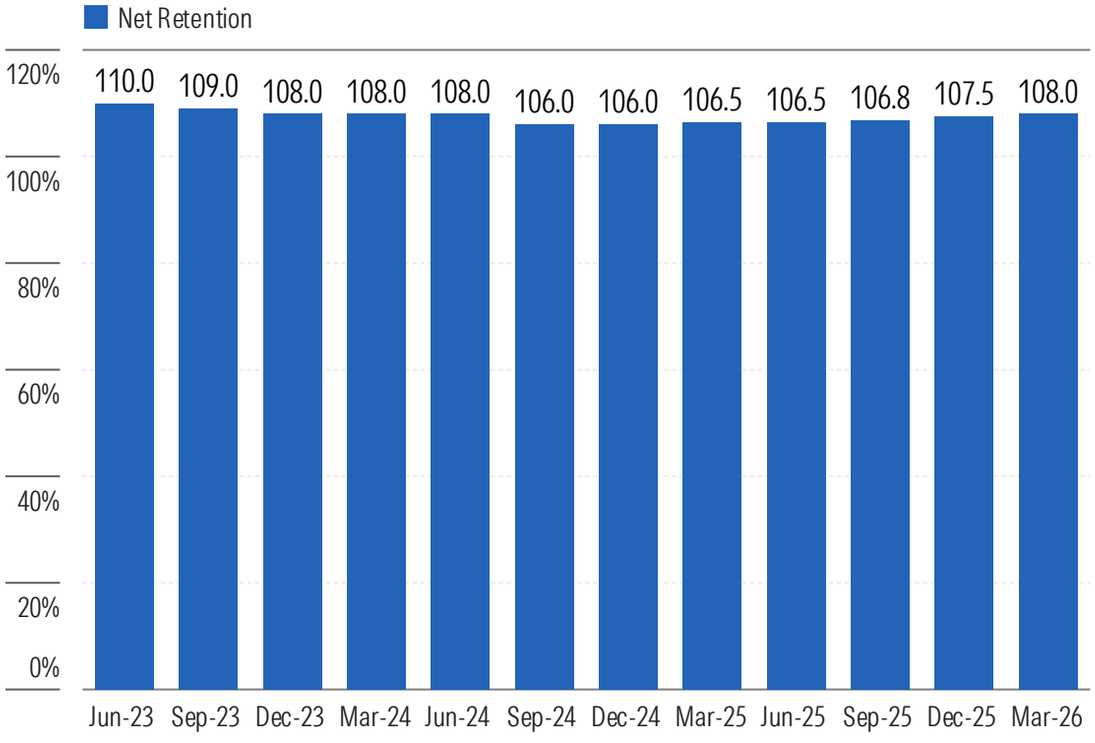


Source: Morningstar. For a full review of our AI related moat changes see: Moat Ratings Guidebook Amid AI Disruption; Ratings Updates, Winners/Losers, and Top Picks, March 2026

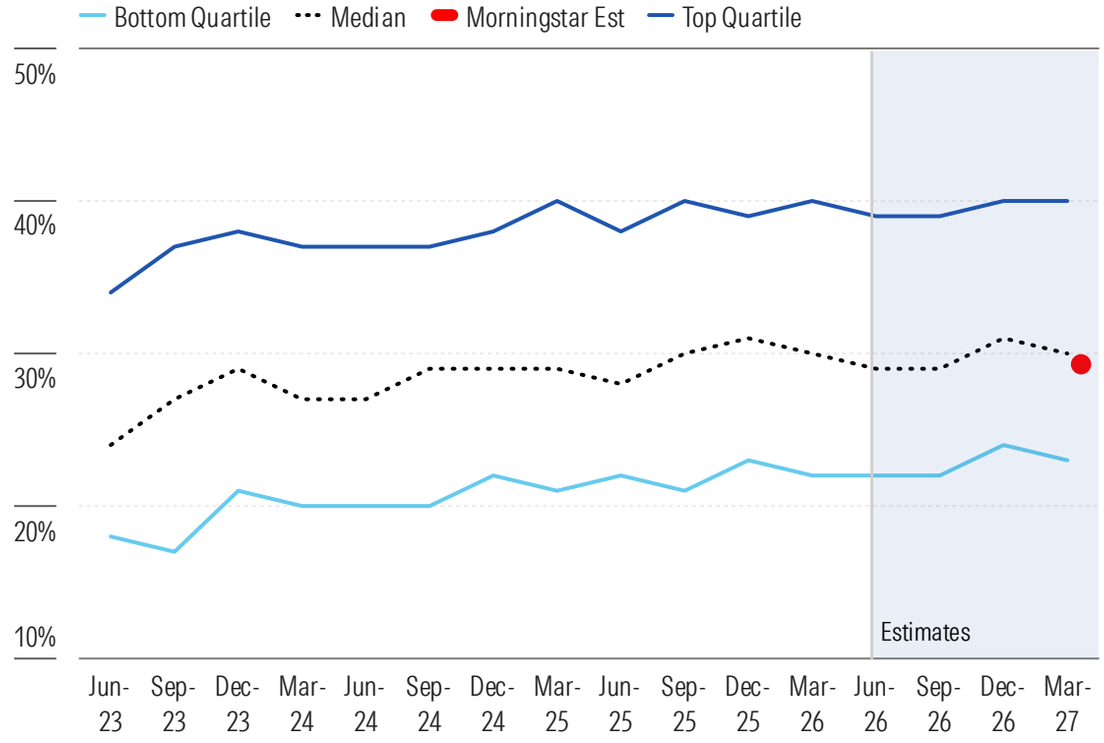
Software Moat Downgrades Were Preemptive of Performance Erosion

It remains to be seen if AI hurts SaaS by making code cheap and abundant, undermining per-seat pricing, dragging gross margins toward lower consumption-based economics, and lowering barriers to entry and switching costs, or if software's value is really in domain expertise, compliance, reliability, and sales execution so that incumbents can adapt pricing and turn AI into an advantage. With this outcome genuinely uncertain, our downgrades are largely based on uncertainty about future returns rather than current performance.

Despite Tumbling Share Prices, Net Revenue Retention Is Improving



Meanwhile, Operating Margins Are Still Trending Higher, Showing no AI Impact

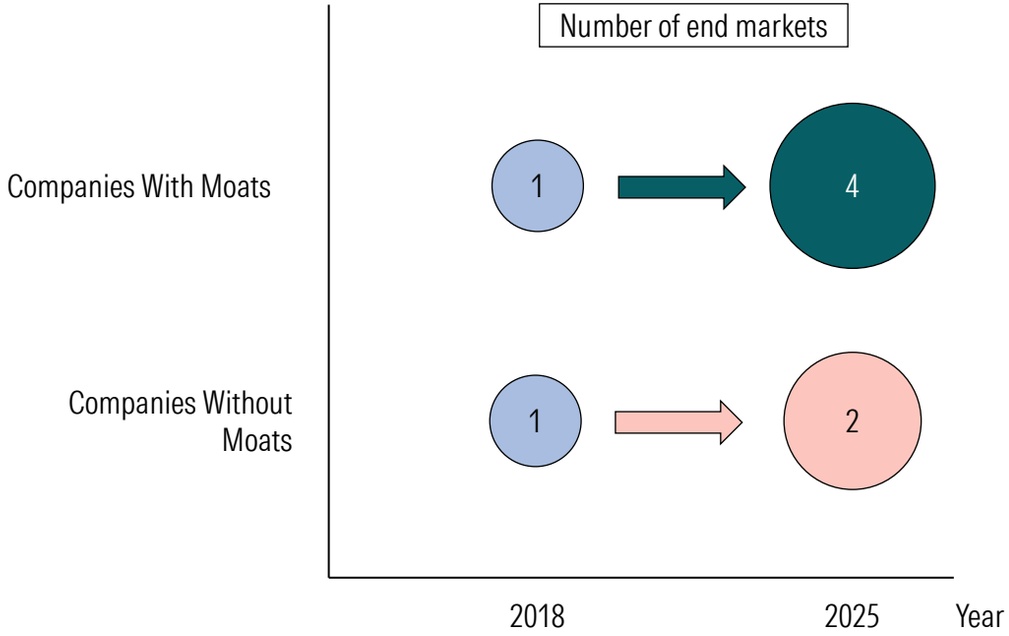


Source: Morningstar, PitchBook, Company reports. Data as of June 9, 2026. Note: For our latest views on software, see our Software Industry Pulse 2026 Q1, June 2026 and our Software Industry Landscape, May 2026.

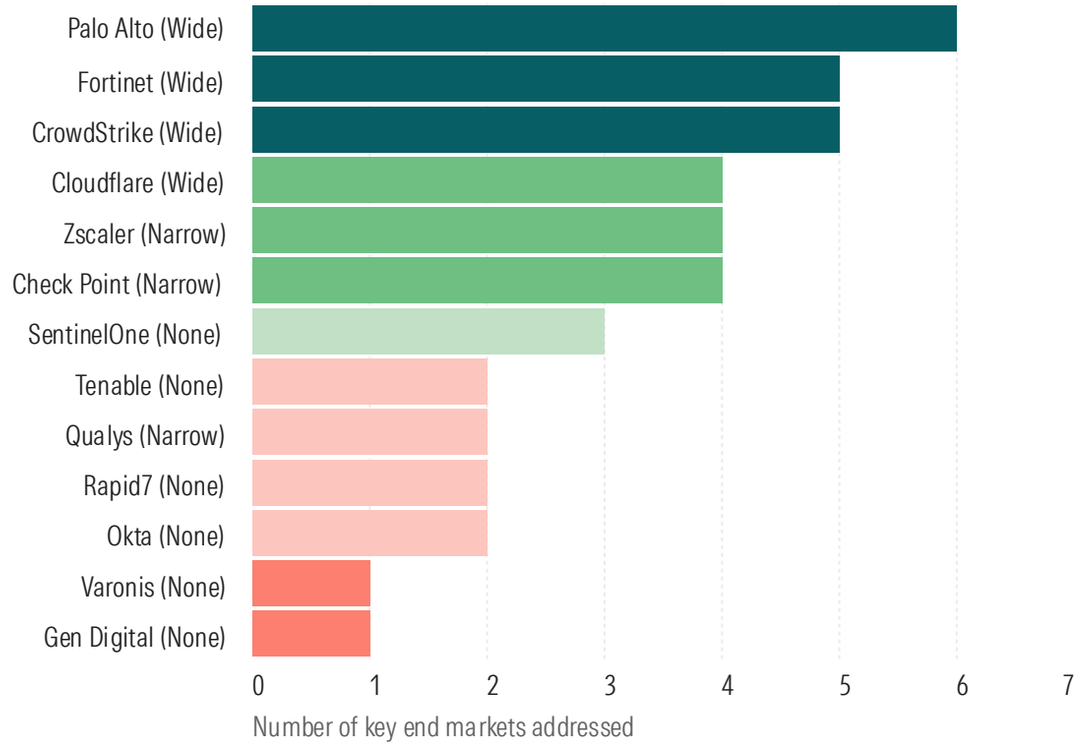
Cybersecurity a Winner Amid Rise in AI Adoption

Cybersecurity is structurally resilient to AI disruption because AI intensifies the arms race between attackers and defenders, expands the attack surface, and reinforces regulatory spending floors, all of which increase demand for security infrastructure. Palo Alto Networks and Fortinet maintained their wide moats, while Cloudflare and CrowdStrike were upgraded to wide because of their network effects and scale advantages. Firms combining deep workflow integration, proprietary data, and usage-based pricing are best positioned.

Moatworthy Companies Have Expanded Into Additional End Markets



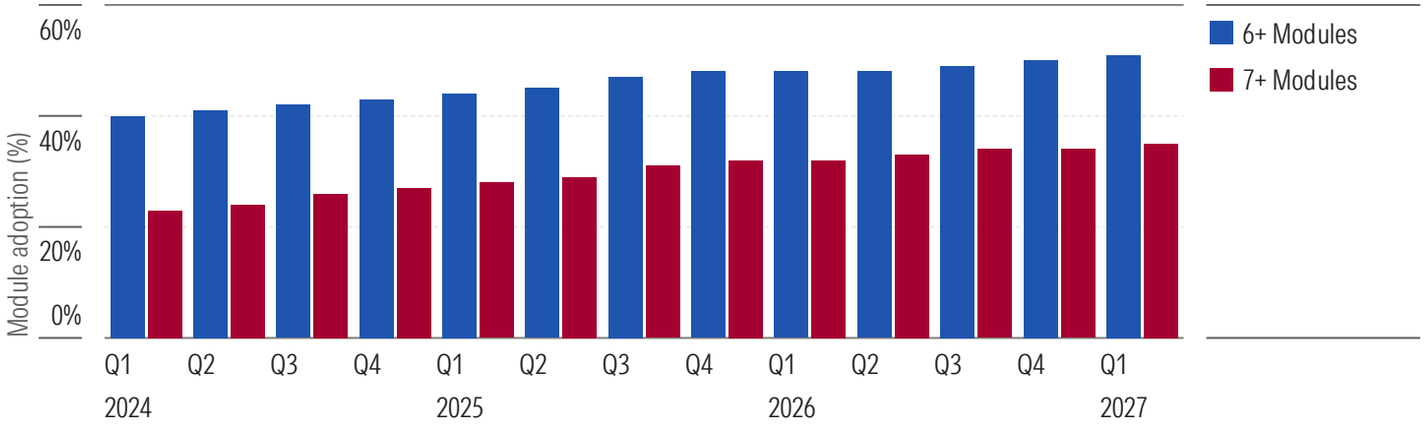
CrowdStrike and Cloudflare's Moats Were Upgraded, Tenable's Downgraded



Source: Morningstar. Data as of May 5, 2026. Note: For our latest views, see our Cybersecurity Industry Landscape, May 2026.

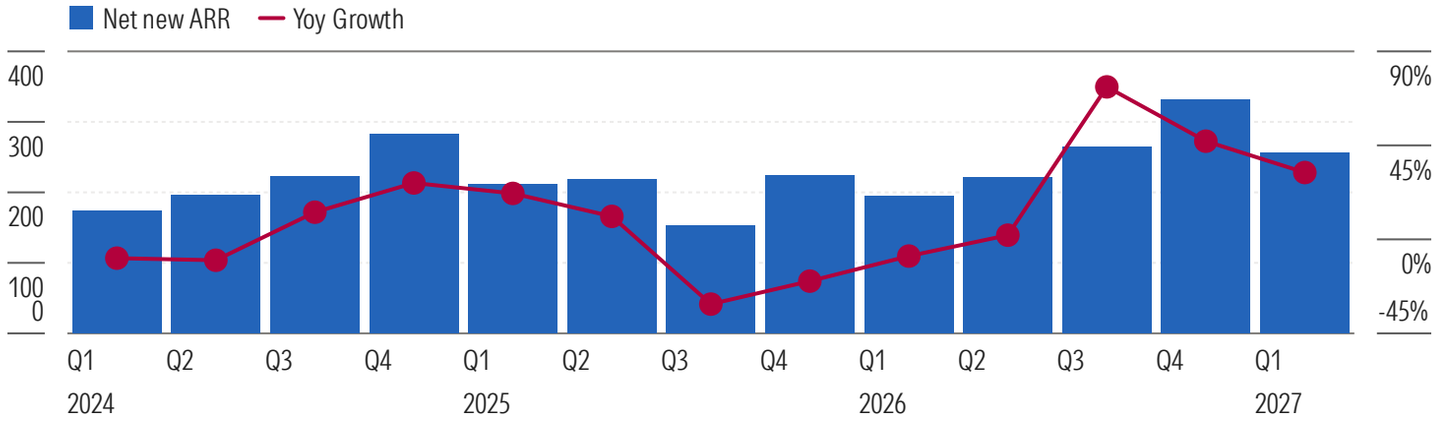
CrowdStrike Set to Benefit from AI Adoption, Leading to Wide Moat Upgrade

Multimodule Adoption Strengthens Network Effect With More Data Improving Detection Quality



We upgraded CrowdStrike to a wide moat from a narrow one because of its strong network effects. Its large installed base generates a continuous stream of proprietary threat data from real-world attacks, and that data feeds back into improving its defensive models—creating a self-reinforcing loop where scale begets better protection, which begets more scale. Accelerating multimodule adoption demonstrates a strengthening of this network effect, with more data improving detection quality and, in turn, driving more customers to adopt more modules and so on.

Strong Adoption of the Firm's AI Security Products Is Evident in Annual Recurring Revenue Growth

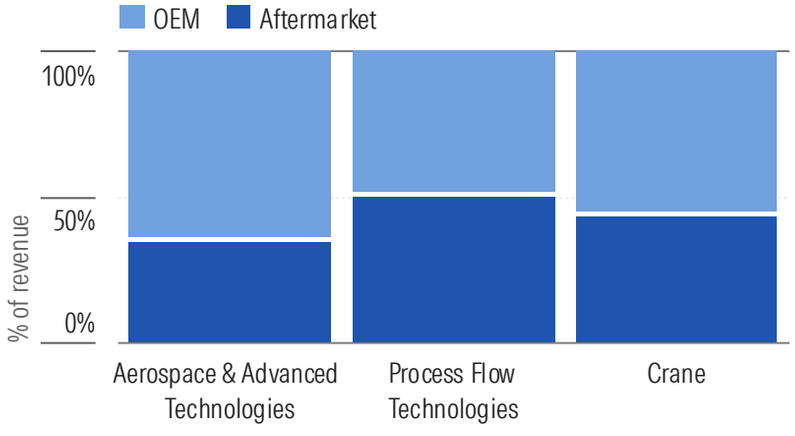


We believe AI strengthens rather than threatens this dynamic, since AI increases both the sophistication and volume of attacks (including the prospect of autonomous, always-on malicious agents), which only raises the value of CrowdStrike's structural data and scale advantages. Given its position at the infrastructure layer of the security stack, we see CrowdStrike as one of the clearest beneficiaries of AI proliferation rather than a casualty, warranting our upgrade to a wide-moat rating. Uptake of its AI security products is already translating into strong revenue growth.

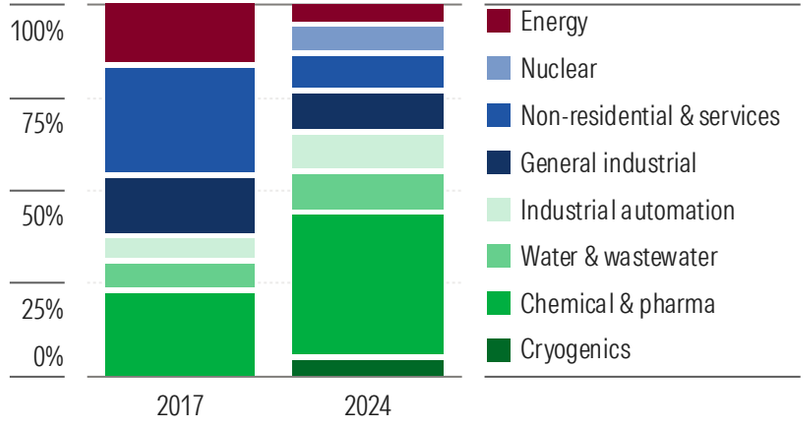
Source: Morningstar, Company reports. Note: CrowdStrike's Q1 2027 results refer to the three-month period from Feb. 1, 2026, to April 30, 2026.

Crane Now Earns a Wide Moat on Improved, Concentrated Portfolio

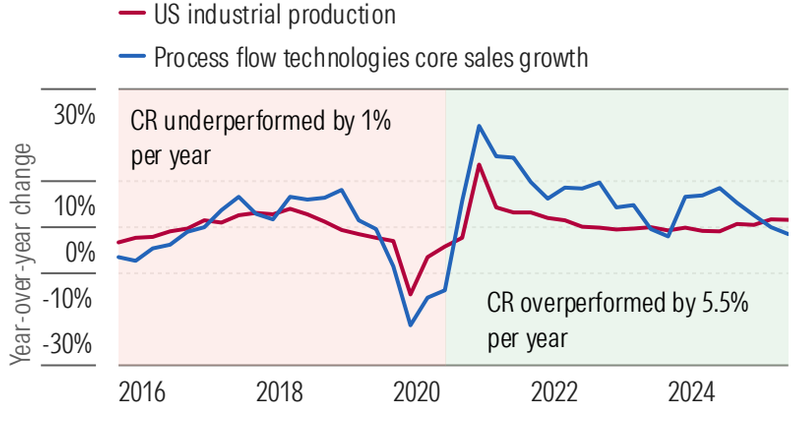
Crane Generates Over 40% of Its Sales From the Aftermarket



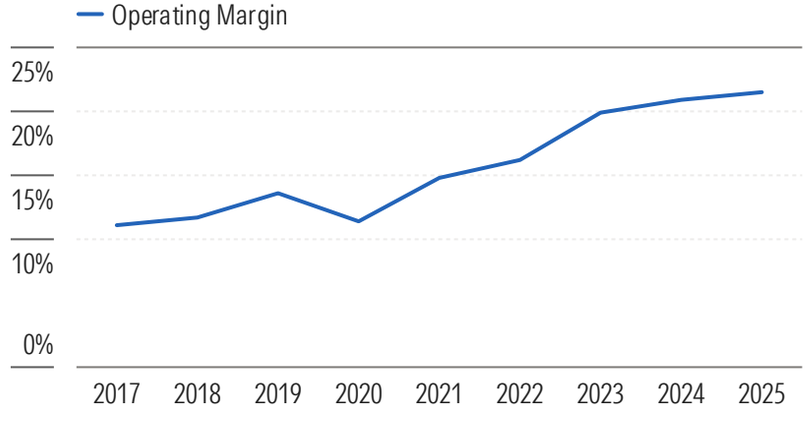
Process Flow Shifted Toward More Attractive Markets



Growth Then Meaningfully Exceeded the Industry



With Strong Growth, Operating Margins Doubled from 2017



Crane's moat was previously rated narrow, even as its aerospace and advanced technologies segment, its most profitable, was firmly a wide-moat business.

However, the process flow technologies side, still rated as narrow-moat, has shifted toward more differentiated solutions in water and wastewater, chemical and pharma, and industrial automation. Its intangible assets like engineering expertise and switching costs, given the high cost of failure, ensure this segment contributes a stable aftermarket revenue stream that, alongside aerospace's stronger moat, was enough to lift Crane's overall corporate rating from narrow to wide, with nearly 45% of total company sales now coming from aftermarket parts and services.

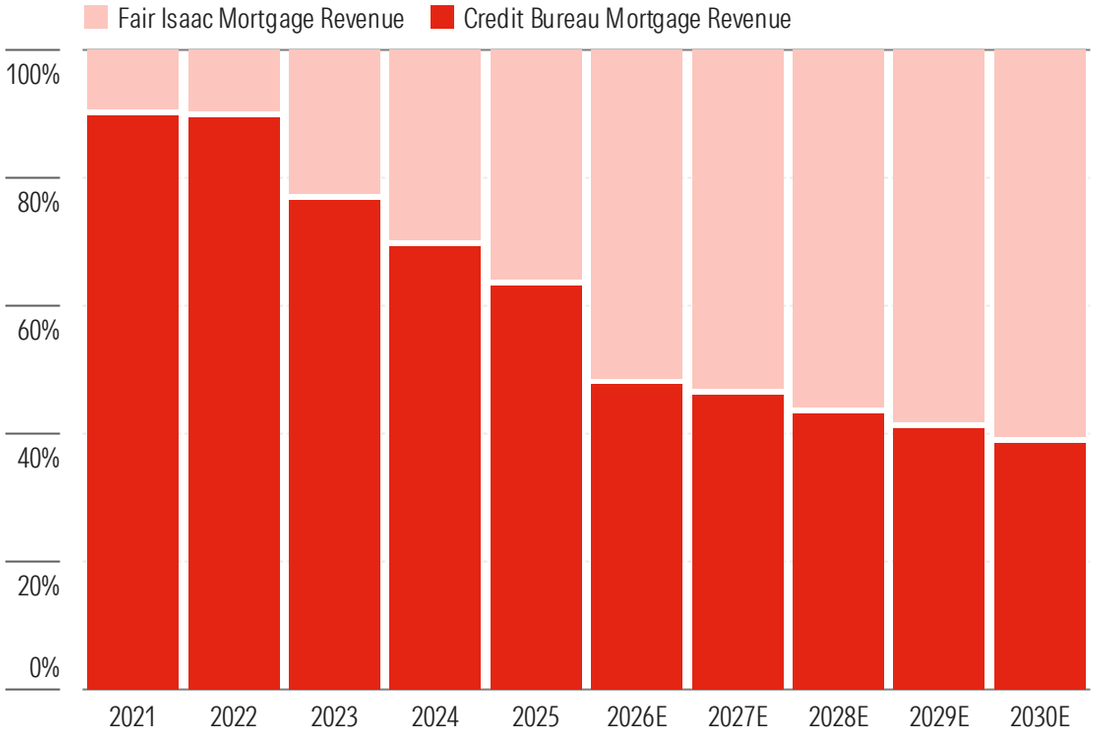
Also, Crane has divested its no-moat engineered materials business, further streamlining its portfolio.

Sources: Company reports and presentations, Morningstar estimates, Board of Governors of the Federal Reserve System (US) via FRED. Data retrieved on March 4, 2026.

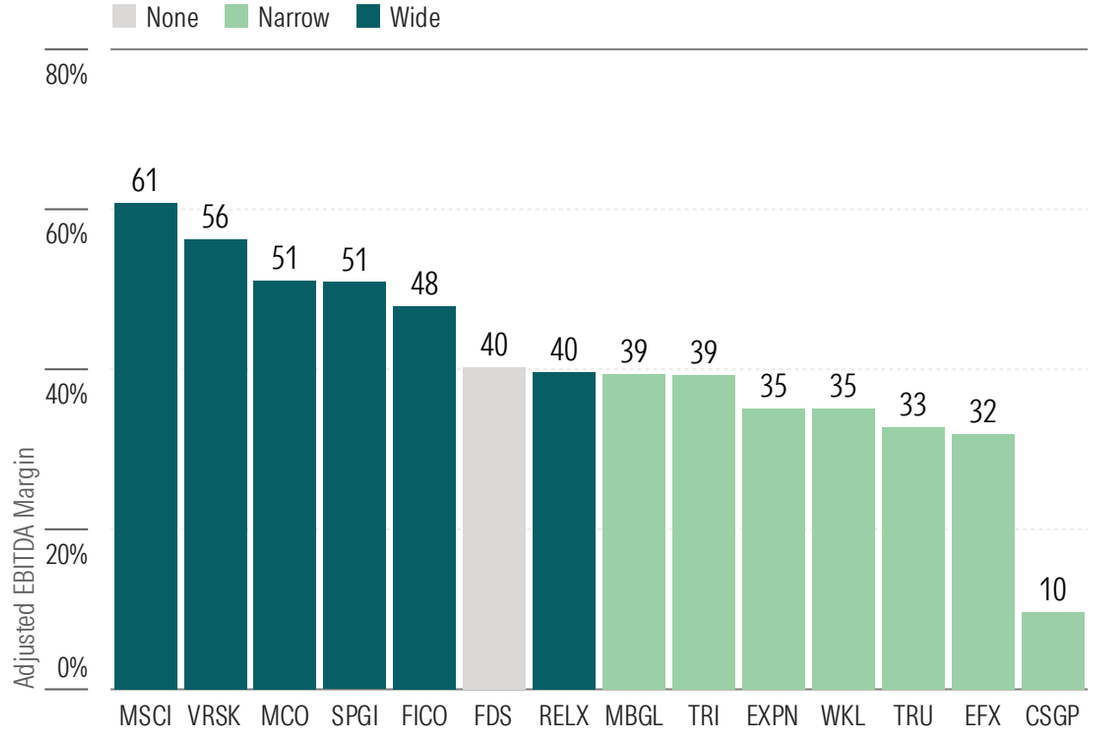
Credit Bureaus Lose Wide Moats on Deteriorating Returns, Regulatory Uncertainty

We think Equifax's, Experian's, and TransUnion's datasets are highly proprietary and do not face a credible threat from AI disruption. However, past returns on invested capital have been underwhelming. Returns should improve modestly, but volumes are difficult to predict, and regulatory uncertainty remains regarding the tri-merge requirement for government-conforming mortgages. Meanwhile, Fair Isaac is gaining more of the value chain as its move to a direct license model threatens credit bureau markups on scores.

Fair Isaac Will Continue Garnering More of the Total Bureau and Score Revenue



Credit Bureau EBITDA Margins Are at the Lower End for Information Services

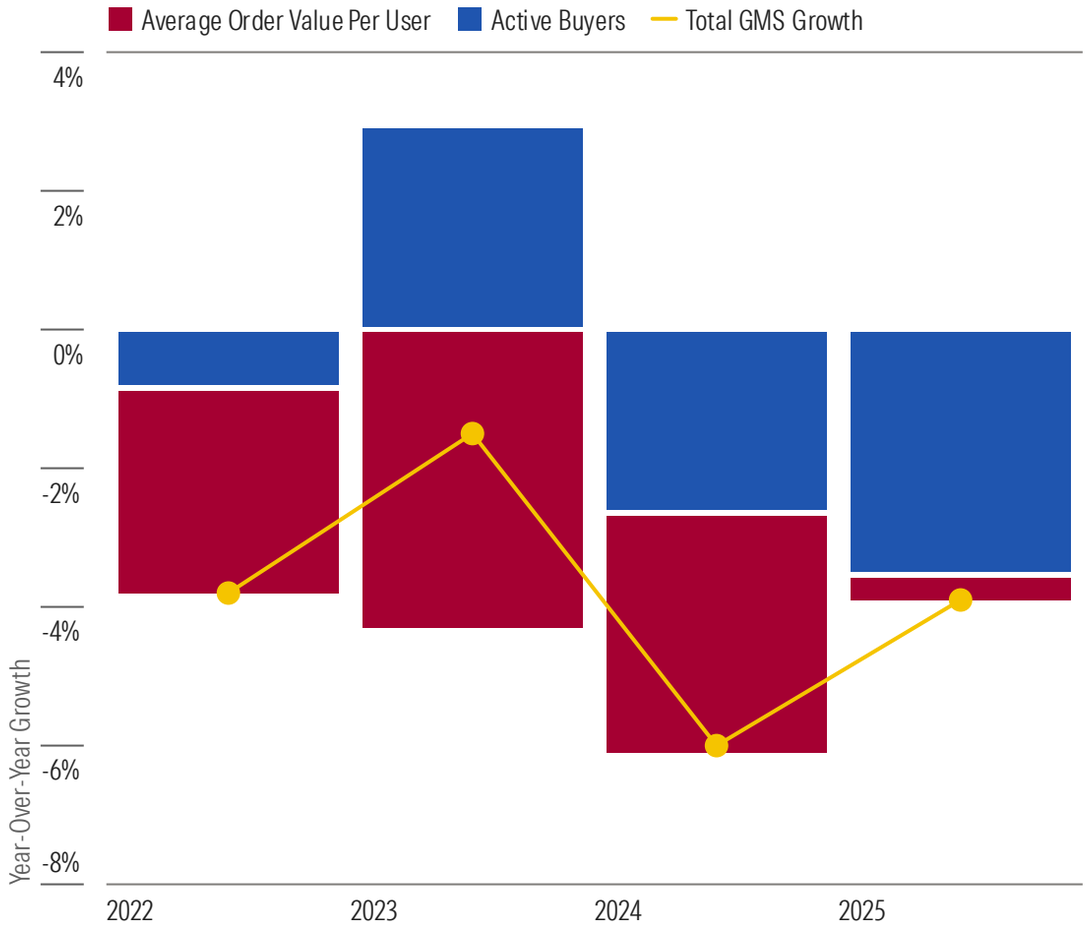


Source: Company reports, Morningstar research. Note: Bureau revenue excludes FICO royalty costs. Market share data as of Feb. 24, 2026. Note: EBITDA margins calendar year 2025, except FICO (Sept. 2025), EXPN (March 2026), FactSet (Aug. 2025).

See Important Disclosures at the end of this report.

Etsy's Inability to Extend Network Effect Beyond Core Niche Costs It a Wide Moat

Inability to Grow Demonstrates Limits of Etsy's Network Effect



We downgraded our economic moat rating for Etsy to narrow from wide due to the limits of its network-effect advantage. Etsy pursued a "House of Brands" strategy to expand beyond its core marketplace, but the divestitures of Elo7 (2023), Reverb (2025), and the pending Depop sale to eBay reveal that Etsy can't extend its network effect into adjacent retail categories.

Previously, we believed Etsy could leverage its large, engaged user base to succeed in these adjacent verticals, but this unwinding proves that view wrong. Without that extensibility, we no longer believe Etsy can generate excess economic returns over a 20-year horizon, so we're pulling back to a narrow rating.

That said, we still see real strength in Etsy's core marketplace. Buyers and sellers have built a self-reinforcing, trust-based network within Etsy's handmade and hard-to-find niche: GMS has more than doubled since 2019, active buyers have grown from 46 million to 87 million, and Etsy has pushed its take rate from 16.5% to 24.2% without losing sellers. In 2024, Etsy removed roughly 1.4 million low-quality storefronts and saw no meaningful drop in sales, suggesting the trust layer is holding up. Meanwhile, well-funded rivals like Amazon Handmade and Wish, plus smaller Etsy clones, have all failed to replicate this dynamic.

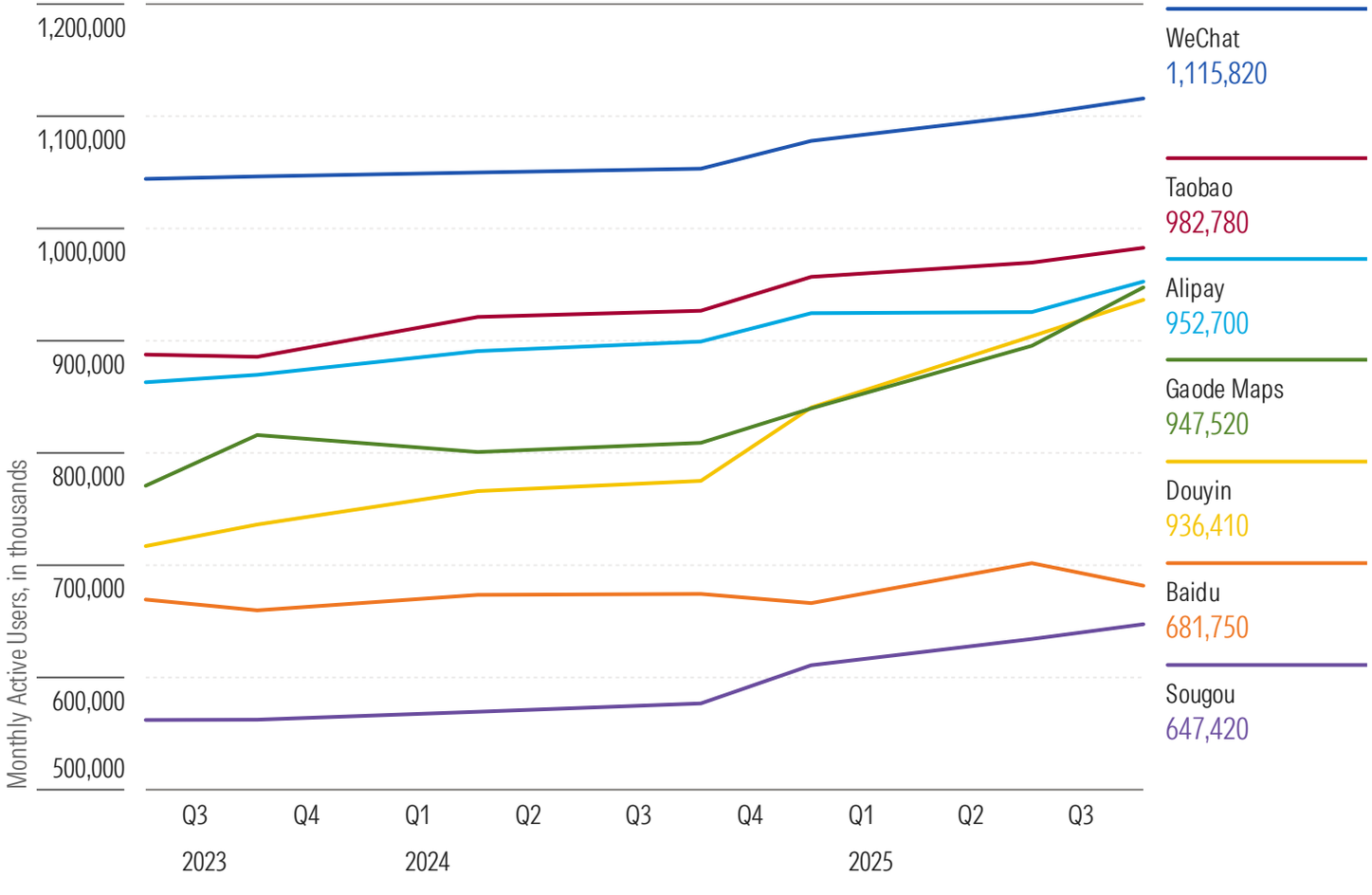
While we still award Etsy a narrow moat, we now see that moat as confined to its original craft vertical rather than something it can extend across e-commerce broadly.

Sources: Company filings, Morningstar estimates. Data as of May 4, 2026.

Baidu's Wide Moat Evaporates on Vicious Cycle of Declining Usage and Relevance

As Other Apps Gain Share, More Content Becomes Unavailable to Baidu Search, Reducing Its Relevance

Baidu usage is flat while other apps grow share.



We've downgraded Baidu to no moat from wide moat. Traditional search still made up 49% of revenue in Q3 2025, but that segment fell 18% in the quarter, and Baidu stopped disclosing it by Q4. We think Baidu will keep losing share to other apps and generative AI chatbots over the next decade, so we don't see a moat in the core search business.

Current trends are not in its favor either. Chinese users are searching more within other apps — social networking, short video, and platforms like Little Red Book, whose daily search volume roughly doubled between 2023 and 2024.

Baidu's user growth is also lagging peers, and its own AI app ranks far behind Douyin's Doubao and DeepSeek in monthly active users. As more content and data get locked inside individual vertical apps, Baidu's search results become less comprehensive, which drives a vicious cycle of declining usage and relevance.

Source: QuestMobile Research. Data as of Sept. 2025.

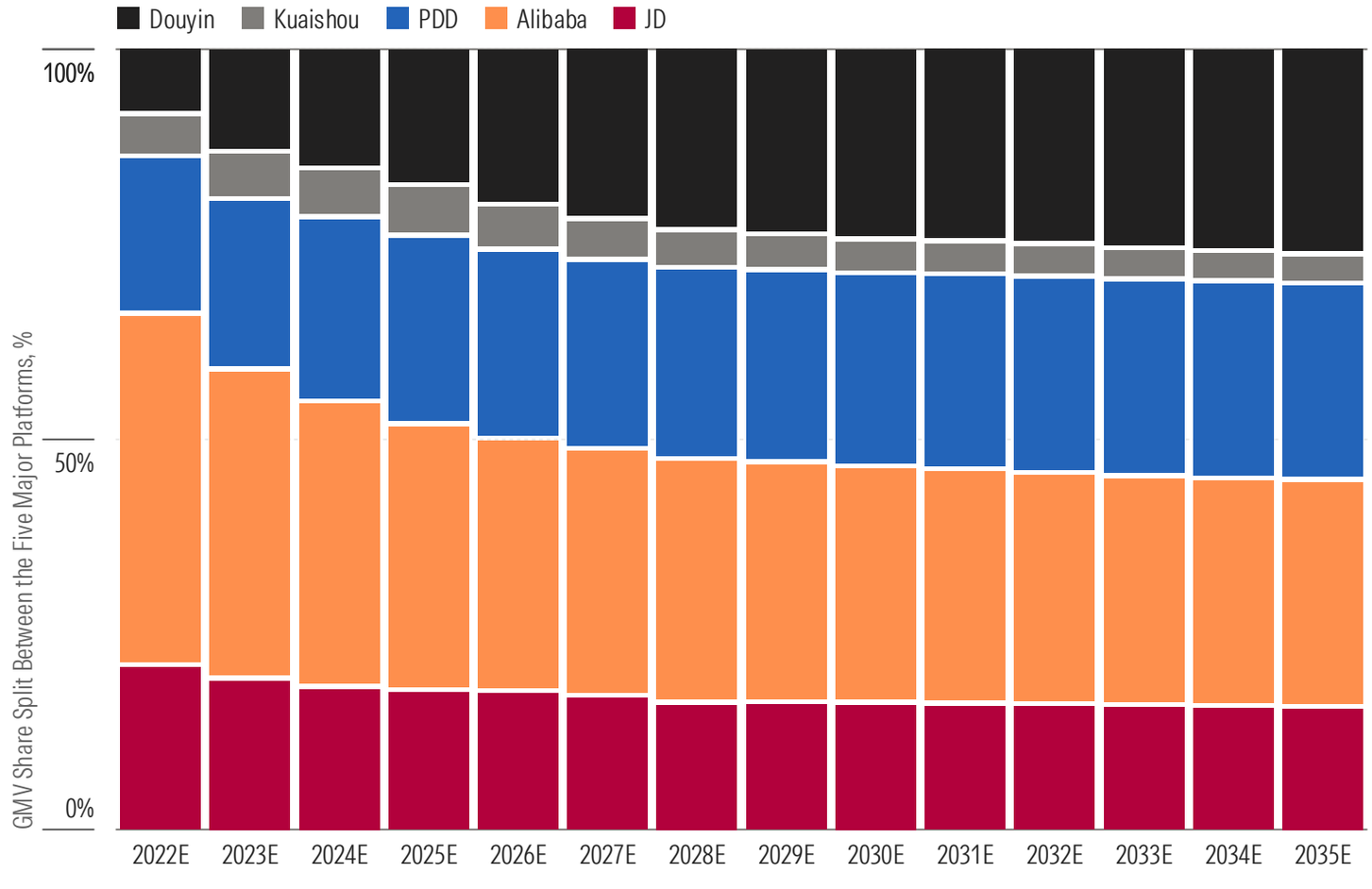
JD. com No Longer Earns a Wide Moat as Differentiated Competitors Steal Share and Its Speed Advantage Erodes

We downgraded JD's moat to none from wide, driven mainly by intensifying competition in China's online shopping market.

Douyin and PDD have taken meaningful gross merchandise value share from JD by offering fundamentally different shopping formats. Douyin built its business on short video and livestreaming e-commerce, which drives impulse purchases in discretionary and low-ticket categories, and it's now expanding into shelf-based, search-driven e-commerce too (roughly 40% of its GMV today, up from 14% in 2022), putting it in more direct competition with JD's core model. PDD, meanwhile, wins on price for consumers who don't need JD's fast delivery, and it already draws a larger monthly active user base than JD — 414 million versus 227 million on Singles' Day 2025.

We also see JD's traditional advantage in speed and quality eroding to on-demand delivery platforms, which now deliver in an average of 38 minutes and are increasingly capturing impulse categories (alcohol, snacks, urgent needs) and pushing into electronics and appliances.

JD.com's Traditional Retail Platform Is Losing Share to Newer, Differentiated E-Commerce Platforms



Source: Morningstar. Data as of May 2026.

Moat Changes and Valuation

Moat Ratings Upgrades in Second-Half 2025

Moat Rating Upgrades Sorted by Price/Fair Value Estimate

Upgrade to Wide

Name	Current Moat Rating	Previous Moat Rating	Sector	Analyst	Currency	FVE	Current Price	Price/Fair Value	Star rating
Bentley Systems Inc BSY	Wide	Narrow	Technology	Luke Yang, CFA	USD	43.00	32.34	0.75	★★★★
PTC Inc PTC	Wide	Narrow	Technology	Luke Yang, CFA	USD	160.00	124.37	0.78	★★★★
Cloudflare Inc NET	Wide	Narrow	Technology	Malik Ahmed Khan, CFA	USD	235.00	277.66	1.18	★★★
Crane Co CR	Wide	Narrow	Industrials	Krzysztof Smalec, CFA	USD	185.00	217.49	1.18	★★
CrowdStrike Holdings Inc CRWD	Wide	Narrow	Technology	Malik Ahmed Khan, CFA	USD	133.00	203.08	1.53	★★

Upgrade to Narrow

Name	Current Moat Rating	Previous Moat Rating	Sector	Analyst	Currency	FVE	Current Price	Price/Fair Value	Star rating
Innovent Biologics Inc 01801	Narrow	None	Healthcare	Kai Wang, CFA	HKD	120.00	88.95	0.74	★★★★
Teva Pharmaceutical Industries Ltd TEVA	Narrow	None	Healthcare	Keonhee Kim	USD	42.00	32.03	0.76	★★★★
Link Real Estate Investment Trust 00823	Narrow	None	Real Estate	Kathy Chan, CFA	HKD	45.00	39.22	0.87	★★★★
National Grid PLC NG.	Narrow	None	Utilities	Tancrede Fulop, CFA	GBX	1,440.00	1,257.00	0.87	★★★★
CK Infrastructure Holdings Ltd 01038	Narrow	None	Utilities	Adrian Atkins	HKD	69.00	62.25	0.90	★★★★
ARC Resources Ltd ARX	Narrow	None	Energy	Adam Baker	CAD	35.00	32.27	0.92	★★★
HSBC Holdings PLC HSBA	Narrow	None	Financial Services	Kathy Chan, CFA	GBX	1,490.00	1,492.20	1.00	★★★
SoFi Technologies Inc SOFI	Narrow	None	Financial Services	Michael Miller, CFA	USD	17.00	17.28	1.02	★★★
ASICS Corp 7936	Narrow	None	Consumer Cyclical	Ivan Su	JPY	4,790.00	4,895.00	1.02	★★★
BOC Hong Kong Holdings Ltd 02388	Narrow	None	Financial Services	Kathy Chan, CFA	HKD	45.00	46.50	1.03	★★★
Nordea Bank Abp NDA SE	Narrow	None	Financial Services	Niklas Kammer, CFA	SEK	172.00	187.85	1.09	★★★
Skandinaviska Enskilda Banken AB SEB A	Narrow	None	Financial Services	Niklas Kammer, CFA	SEK	191.00	215.30	1.13	★★★
Ciena Corp CIEN	Narrow	None	Technology	Martin Szumski	USD	270.00	374.41	1.39	★★

Source: Morningstar. Data as of July 20, 2026.

Moat Ratings Downgrades in Second-Half 2025

Moat Rating Downgrades Sorted by Price/Fair Value Estimate

Downgrade to Narrow									
Name	**Current Moat Rating**	**Previous Moat Rating**	**Sector**	**Analyst**	**Currency**	**FVE**	**Current Price**	**Price/Fair Value**	**Star rating**
Wolters Kluwer NV WKL	Narrow	Wide	Industrials	Rob Hales, CFA	EUR	120.00	61.78	0.51	★★★★★
CoStar Group Inc CSGP	Narrow	Wide	Real Estate	Austin Taggart, CFA	USD	57.00	29.78	0.52	★★★★★
FINEOS Corp Holdings PLC FCL	Narrow	Wide	Technology	Shaun Ler	AUD	3.60	1.90	0.53	★★★★★
Salesforce Inc CRM	Narrow	Wide	Technology	Dan Romanoff, CPA	USD	280.00	170.77	0.61	★★★★★
Oracle Corp ORCL	Narrow	Wide	Technology	Luke Yang, CFA	USD	207.00	126.41	0.61	★★★★
Adobe Inc ADBE	Narrow	Wide	Technology	Dan Romanoff, CPA	USD	380.00	237.25	0.62	★★★★★
ServiceNow Inc NOW	Narrow	Wide	Technology	Dan Romanoff, CPA	USD	165.00	103.24	0.63	★★★★
Intuit Inc INTU	Narrow	Wide	Technology	Luke Yang, CFA	USD	455.00	291.09	0.64	★★★★
Accenture PLC ACN	Narrow	Wide	Technology	Luke Yang, CFA	USD	223.00	143.57	0.64	★★★★
Thomson Reuters Corp TRI	Narrow	Wide	Industrials	Rob Hales, CFA	USD	146.00	96.20	0.66	★★★★★
LY Corp 4689	Narrow	Wide	Consumer Cyclical	Pujance Chan	JPY	570.00	447.40	0.78	★★★★
The Descartes Systems Group Inc DSGX	Narrow	Wide	Technology	Dan Romanoff, CPA	USD	94.00	74.16	0.79	★★★★
JD.com Inc JD	Narrow	Wide	Consumer Cyclical	Chelsey Tam	USD	36.00	29.62	0.82	★★★★
Infosys Ltd INFY	Narrow	Wide	Technology	Luke Yang, CFA	INR	1,330.00	1,096.50	0.82	★★★★
Experian PLC EXPN	Narrow	Wide	Industrials	Rajiv Bhatia, CFA	GBX	3,150.00	2,719.00	0.86	★★★★
Equifax Inc EFX	Narrow	Wide	Industrials	Rajiv Bhatia, CFA	USD	205.00	177.08	0.86	★★★★
TransUnion TRU	Narrow	Wide	Financial Services	Rajiv Bhatia, CFA	USD	85.00	79.85	0.94	★★★
Tata Consultancy Services Ltd TCS	Narrow	Wide	Technology	Luke Yang, CFA	INR	2,400.00	2,269.00	0.95	★★★
Manhattan Associates Inc MANH	Narrow	Wide	Technology	Dan Romanoff, CPA	USD	170.00	163.33	0.96	★★★
Workday Inc WDAY	Narrow	Wide	Technology	Luke Yang, CFA	USD	150.00	144.78	0.97	★★★
Automatic Data Processing Inc ADP	Narrow	Wide	Technology	Jivyaa Vaidya	USD	249.00	255.27	1.03	★★★
Shopify Inc SHOP	Narrow	Wide	Technology	Dan Romanoff, CPA	USD	120.00	123.56	1.03	★★★
Nomura Research Institute Ltd 4307	Narrow	Wide	Technology	Makoto Naito	JPY	4,900.00	5,076.00	1.04	★★★
Paychex Inc PAYX	Narrow	Wide	Technology	Jivyaa Vaidya	USD	110.00	114.39	1.04	★★★
Etsy Inc ETSY	Narrow	Wide	Consumer Cyclical	Brett Husslein	USD	70.00	84.10	1.20	★★
REA Group Ltd REA	Narrow	Wide	Communication Services	Roy Van Keulen	AUD	129.00	160.86	1.25	★★
Technology One Ltd TNE	Narrow	Wide	Technology	Roy Van Keulen	AUD	22.00	29.66	1.35	★★

Source: Morningstar. Data as of July 20, 2026.

Moat Ratings Downgrades in Second-Half 2025

Moat Rating Downgrades Sorted by Price/Fair Value Estimate

Downgrade to None

Name	Current Moat Rating	Previous Moat Rating	Sector	Analyst	Currency	FVE	Current Price	Price/Fair Value	Star rating
Bapcor Ltd BAP	None	Narrow	Consumer Cyclical	Angus Hewitt, CFA	AUD	1.60	0.41	0.25	★★★★★
Bath & Body Works Inc BBWI	None	Narrow	Consumer Cyclical	Jaime M. Katz, CFA	USD	54.00	20.87	0.39	★★★★★
Globant SA GLOB	None	Narrow	Technology	Rob Hales, CFA	USD	61.00	32.23	0.53	★★★★
NICE Ltd NICE	None	Narrow	Technology	Rob Hales, CFA	USD	170.00	100.08	0.59	★★★★★
Capgemini SE CAP	None	Narrow	Technology	Rob Hales, CFA	EUR	150.00	91.32	0.61	★★★★
Wix.com Ltd WIX	None	Narrow	Technology	Rob Hales, CFA	USD	82.00	51.45	0.63	★★★★
EPAM Systems Inc EPAM	None	Narrow	Technology	Luke Yang, CFA	USD	136.00	88.66	0.65	★★★★
NAVER Corp 035420	None	Narrow	Communication Services	Dan Baker	KRW	265,000.00	190,000.00	0.72	★★★★
GN Store Nord AS GN	None	Narrow	Healthcare	Max Jousma	DKK	123.00	91.16	0.74	★★★★
SS&C Technologies Holdings Inc SSNC	None	Narrow	Technology	Rajiv Bhatia, CFA	USD	90.00	69.62	0.77	★★★★
Hansen Technologies Ltd HSN	None	Narrow	Technology	Roy Van Keulen	AUD	5.30	4.14	0.78	★★★★
Sega Sammy Holdings Inc 6460	None	Narrow	Communication Services	Pujance Chan	JPY	3,200.00	2,508.50	0.78	★★★★
Nexi SpA NEXI	None	Narrow	Technology	Niklas Kammer, CFA	EUR	5.00	4.09	0.82	★★★
Sabre Corp SABR	None	Narrow	Technology	Dan Wasiolek	USD	2.10	1.73	0.82	★★★
Baidu Inc BIDU	None	Wide	Communication Services	Chelsey Tam	USD	128.00	107.24	0.84	★★★
The Trade Desk Inc TTD	None	Narrow	Communication Services	Mark Giarelli	USD	21.00	18.59	0.89	★★★
FactSet Research Systems Inc FDS	None	Narrow	Financial Services	Rajiv Bhatia, CFA	USD	285.00	258.09	0.91	★★★
Paylocity Holding Corp PCTY	None	Narrow	Technology	Jivyaa Vaidya	USD	135.00	125.89	0.93	★★★
Otsuka Corp 4768	None	Narrow	Technology	Makoto Naito	JPY	3,200.00	3,015.00	0.94	★★★
Akzo Nobel NV AKZA	None	Narrow	Basic Materials	Rashmi Nair	EUR	60.00	57.58	0.96	★★★
Akamai Technologies Inc AKAM	None	Narrow	Technology	Martin Szumski	USD	125.00	120.19	0.96	★★★
Hakuhodo DY Holdings Inc 2433	None	Narrow	Communication Services	Pujance Chan	JPY	1,300.00	1,268.50	0.98	★★★
Sensata Technologies Holding PLC ST	None	Narrow	Technology	William Kerwin, CFA	USD	46.00	45.05	0.98	★★★
Dentsu Group Inc 4324	None	Narrow	Communication Services	Pujance Chan	JPY	3,500.00	3,506.00	1.00	★★★
Paycom Software Inc PAYC	None	Narrow	Technology	Jivyaa Vaidya	USD	144.00	147.94	1.03	★★★
OBIC Co Ltd 4684	None	Wide	Technology	Makoto Naito	JPY	4,100.00	4,267.00	1.04	★★★
Icon PLC ICLR	None	Narrow	Healthcare	Rachel Elfman	USD	155.00	170.00	1.10	★★★
Wipro Ltd WIPRO	None	Narrow	Technology	Luke Yang, CFA	INR	160.00	176.00	1.10	★★

Source: Morningstar. Data as of July 20, 2026.

Moat Ratings Downgrades in Second-Half 2025

Moat Rating Downgrades Sorted by Price/Fair Value Estimate

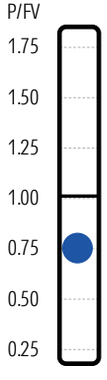
Downgrade to None									
Name	**Current Moat Rating**	**Previous Moat Rating**	**Sector**	**Analyst**	**Currency**	**FVE**	**Current Price**	**Price/Fair Value**	**Star rating**
Elastic NV ESTC	None	Narrow	Technology	Mark Giarelli	USD	53.00	61.59	1.16	★★★
Pinnacle Investment Management Group Ltd PNI	None	Narrow	Financial Services	Shaun Ler	AUD	14.00	17.66	1.26	★★
Charles River Laboratories International Inc CRL	None	Narrow	Healthcare	Rachel Elfman	USD	135.00	224.35	1.66	★
Tenable Holdings Inc TENB	None	Narrow	Technology	Malik Ahmed Khan, CFA	USD	23.00	39.89	1.73	★

Source: Morningstar. Data as of Jul. 20, 2026.

Recently Upgraded Bentley Systems and PTC Are Undervalued

Undervalued After Moat Rating Upgrade

Bentley Systems (BSY)



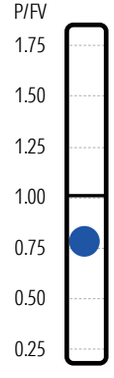
Market Cap	Moat Rating	Last Close	Fair Value Est.	Rating
10b USD	Wide	32.35	43.00	★★★★

We have upgraded our moat rating for Bentley Systems to wide from narrow. We believe the company's dominant position across all aspects of civil engineering is relatively safe from AI's disruption and sufficient to support its competitive edge over the next 20 years.

Switching costs are the main source of Bentley Systems' wide moat. The company's annual revenue retention above 98% and net revenue retention of 110% are in line with other wide-moat software names enjoying mature customer bases.

We think digital twin solutions present an exciting long-term opportunity for Bentley Systems. This multibillion-dollar market extends Bentley's monetization opportunity from pre-construction design to the entire lifecycle of the real asset, which should comfortably support our low-double-digit annual revenue growth forecast over the long term.

PTC (PTC)



Market Cap	Moat Rating	Last Close	Fair Value Est.	Rating
14b USD	Wide	124.83	160.00	★★★★

We have upgraded our moat rating for PTC to wide from narrow. The company's best-in-class product lifecycle management software is crucial to the industrial manufacturing process, which reinforces the high switching costs it enjoys.

PTC's products cover the entire manufacturing process, from design to production and maintenance. Migrating to another platform is difficult, as engineers can struggle to recreate the same workflow on a new platform. We like PTC's ability to continuously improve client churn, from around 9% to below 5% over the past decade.

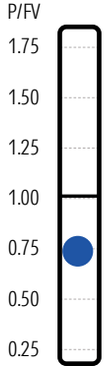
PTC's smooth rollout of cloud-based software gives clients an easy option to unlock product data insights with AI. We see positive signs with client adoption across PTC's AI agents, and mainstream AI adoption on the factory floor should provide PTC with a stable growth tailwind for years to come.

Source: Morningstar. Data as of July 21, 2026.

Recently Upgraded Teva Pharmaceutical Industries and National Grid Are Undervalued

Undervalued After Moat Rating Upgrade

Teva Pharmaceutical Industries (TEVA)



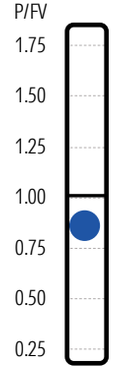
Market Cap	Moat Rating	Last Close	Fair Value Est.	Rating
37b USD	Narrow	31.00	42.00	★★★★

We have upgraded Teva's moat rating to narrow from none, supported by intangible assets, to reflect the firm's improving portfolio mix and a pipeline of promising candidates. We believe Teva's transition from a generics-focused business into an innovation-driven biopharmaceutical company—a strategy years in the making—positions the firm for maintainable value creation. With a growing portfolio of differentiated branded therapies and a strengthened balance sheet, Teva looks well-positioned to capitalize on the investments it has made throughout its turnaround.

Our $42 fair value estimate for Teva reflects 13.8 times 2026 adjusted EBITDA. This scores the firm as the top pick across our generic manufacturer coverage. Shares look undervalued with a 23% upside. We think the market is mispricing Teva's growing innovative engine, which is fueled by attractive commercial assets and should be bolstered by upcoming near-term and midterm pipeline assets with the potential for blockbuster sales

For more on Teva, see our special report, Teva: Market Fails to Realize Long-Term Value From Innovation, July 2026.

National Grid (NG.)



Market Cap	Moat Rating	Last Close	Fair Value Est.	Rating
83b GBP	Narrow	12.36	14.40	★★★★

We have upgraded our economic moat rating for National Grid to narrow from none on the hike in allowed returns under the 2026-31 regulatory regime RIIO-T3 for the UK transmission grid and the likelihood that the group will outearn those returns on continued solid execution.

Shares appear undervalued as the market overlooks RIIO-T3's improvement and solid execution of the ongoing hefty investment plan by overly discounting high Gilt yields.

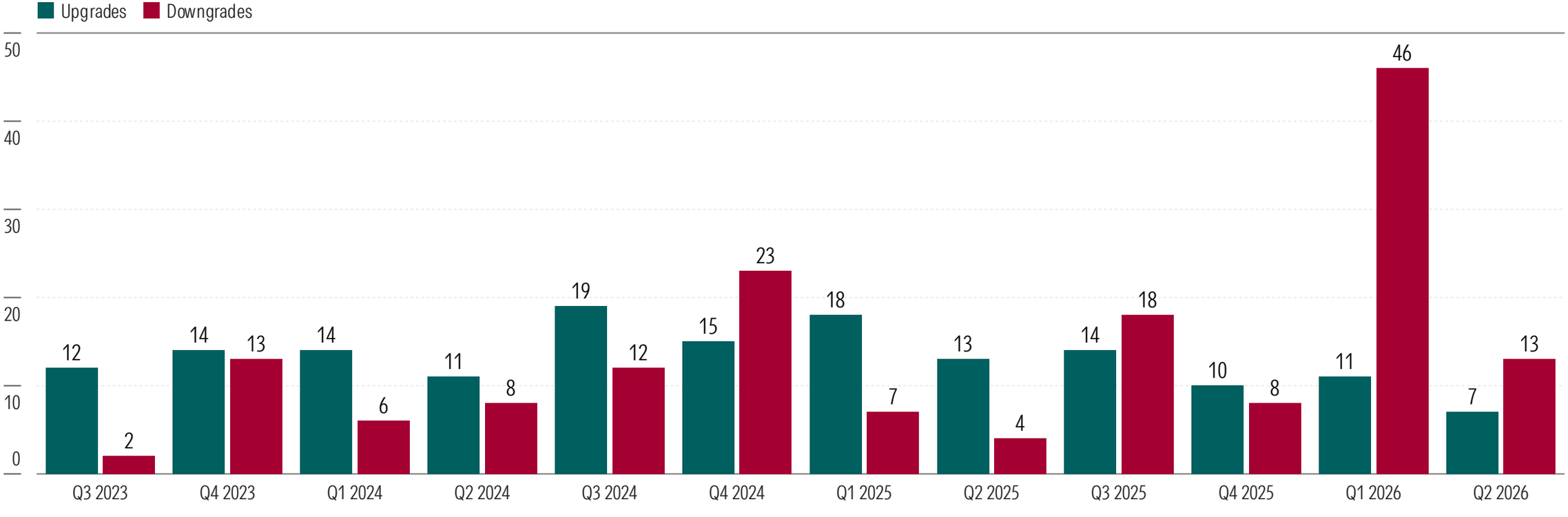
Source: Morningstar. Data as of July 21, 2026.

Historical Moat Rating Changes

The Spike in Downgrades Is Likely to be a One-Off, Even as the Pace of Innovation Is Seemingly Accelerating

We don't anticipate repeating the large number of downgrades in Q2 that we saw in Q1 2026. The rapid acceleration in AI capabilities prompted us to quickly reevaluate the moats of companies most likely to be affected. Assuming AI continues to advance, it will likely change industries beyond just technology. However, those changes are likely to be more gradual and nuanced compared with the threats posed to software companies, for example. That said, if more sudden advances or disruptions occur, then so too may more moat changes.

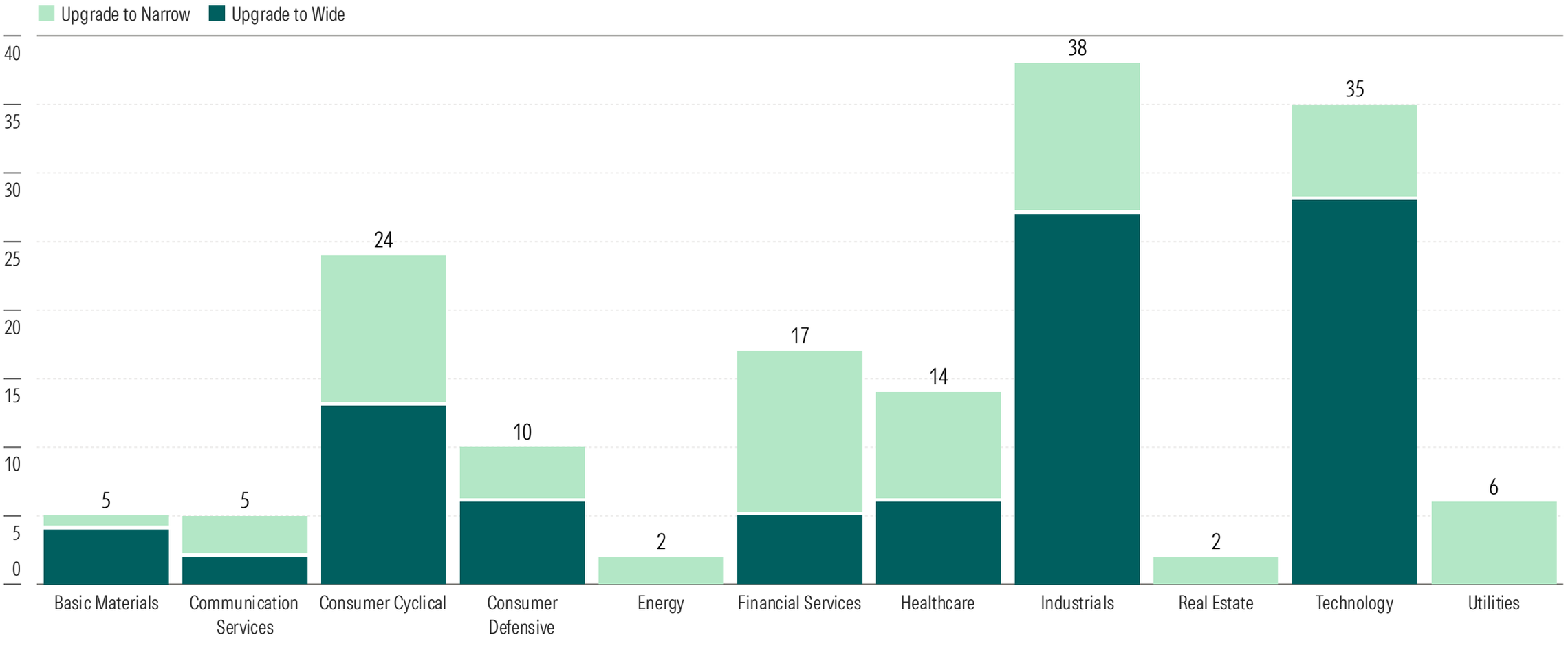
Moat Rating Changes During the Last Three Years



Source: Morningstar.

Industrials and Technology Lead Rating Upgrades During the Last Three Years

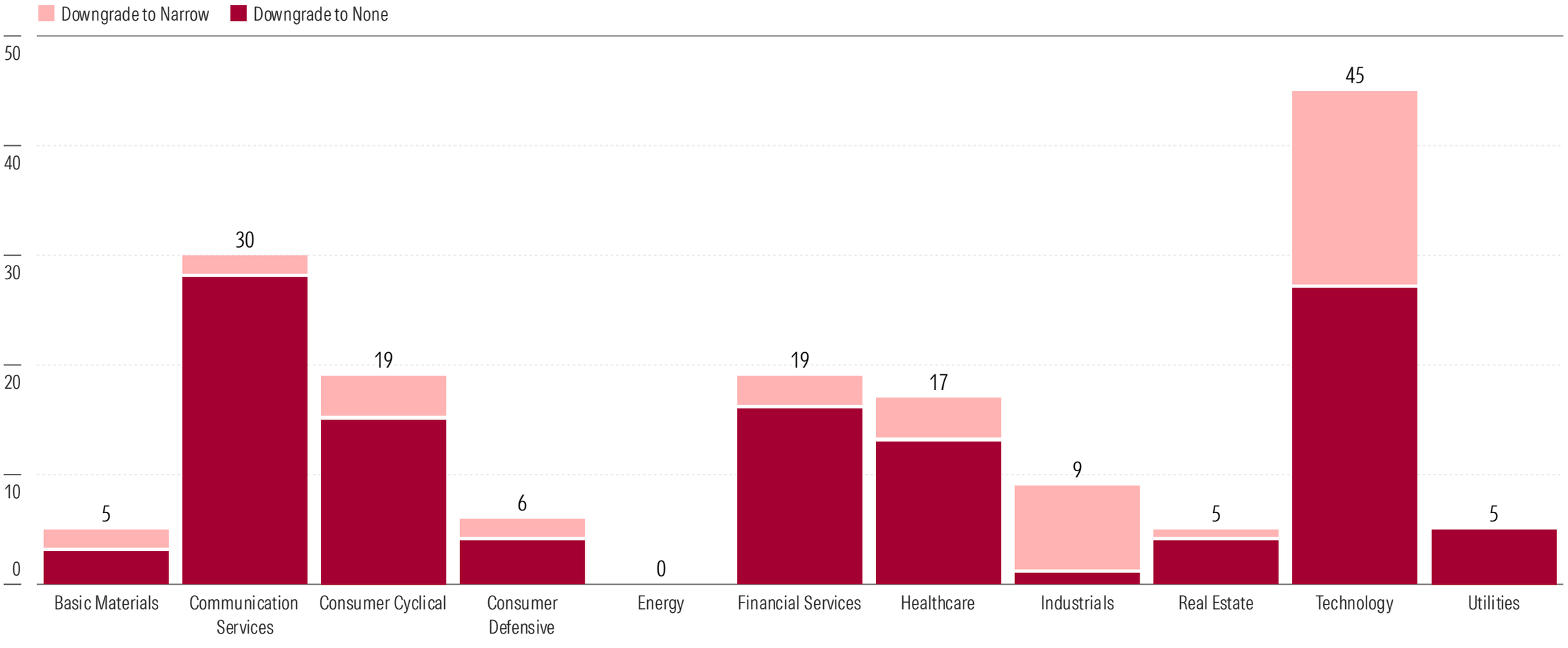
Moat Rating Upgrades During the Last 12 Quarters



Source: Morningstar.

Technology, Communication Services Were Downgraded Most Often

Moat Rating Downgrades During the Last 12 Quarters

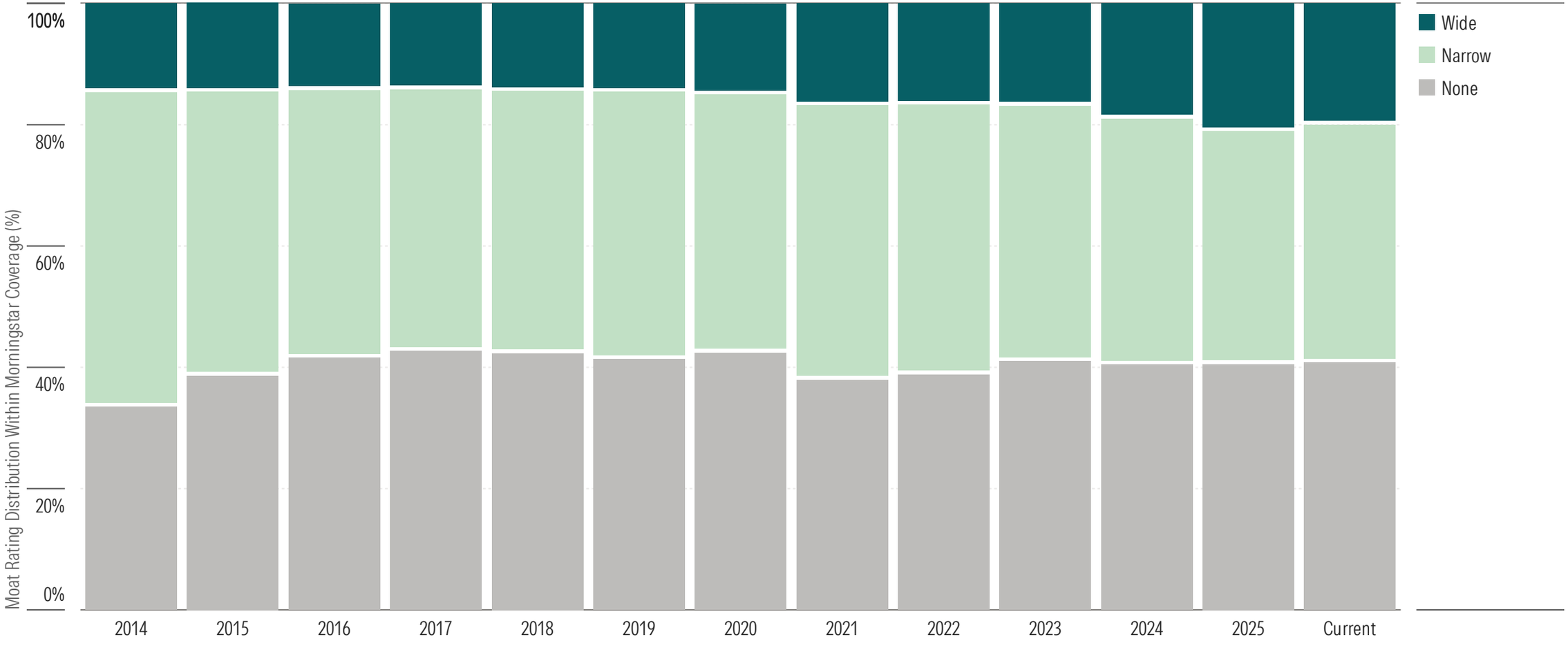


Source: Morningstar.

The AI-Related Downgrades Broke the Trend of Increasing Wide Moats

The Relative Amount of Wide Moats Decreased in the First Half of 2026 as AI Increases Uncertainty

The wide-moat rating share decreased to 20%, while narrow-moat companies increased to 39% of our coverage from 38% last year. No-moat ratings remained flat at 41%.



Source: Morningstar.

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