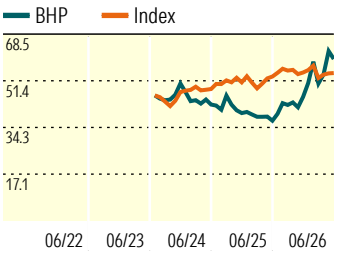
BHP Group Limited BHP ★★ (1:02PM 20-Oct-2026)

Snapshot

Fair Value Uncertainty	Medium
Moat Rating	None
Fair Value $	48.00
Capital Allocation	Standard
Market Cap $Mil	307,390
Morningstar Style Box	
Price $ (4:00PM 19-Oct-2026)	60.46
52 Week High/Low $	68.77/40.18
Shares Issued Mil	5,084
Morningstar Sector	Basic Materials
Morningstar Industry	Other Industrial Metals & Mining
GICS Sector	Materials

Price vs. Market



	06/25	06/26	06/27e	06/28e
Price/Sales	2.4	3.5	3.7	3.6
Price/Earnings	12.0	15.9	15.8	15.1
Price/Cashflow	–	–	–	–
Div Yield %	4.6	4.2	3.8	4.0
Price/Book	2.6	4.1	3.8	3.5
EV/EBITDA	5.1	6.8	6.8	6.7

Source: Morningstar estimates 20-Oct-2026 .

Profile

BHP Group Limited (BHP) is a diversified natural resources company. It is engaged in mining of copper, silver, zinc, molybdenum, uranium and gold, iron ore, metallurgical coal and energy coal.

BHP: Lower First-Quarter Copper Sales Volume Driven by Escondida, but Better Performance in Iron Ore

Investment Perspective By Jon Mills (09-Oct-2026)

BHP has several of the world's largest mines and has ridden the commodity supercycle since the early 2000s. Key commodities are iron ore and copper. In addition, the company has coking and thermal coal operations and nickel exposure and is also entering the potash market through the development of its Jansen mine in Canada. BHP's iron ore mines in particular are at the low end of the industry cash cost curve along with Rio's; however, overinvestment during the peaks of the China boom, when capital costs were high relative to historical standards, diluted returns. After adding back the not-inconsiderable write-downs, we expect adjusted midcycle returns to be slightly above the company's cost of capital.

Analyst Note (1:02PM 20-Oct-2026)

BHP's fiscal 2027 first-quarter copper sales of 307,000 metric tons are 5% down on a year ago and 13% below the previous quarter. But Western Australian Iron Ore, or WAIO, fared better: sales volumes of 66 million metric tons are 6% up on a year ago, though flat on the fourth quarter of fiscal 2026.

Why it matters: The quarter is broadly as expected, with lower copper volumes driven by planned lower grades and maintenance, plus inclement weather in Chile and a conveyor failure in South Australia. Management reiterated production and unit cost guidance. Copper and iron ore drive its earnings, and these businesses are tracking broadly in line with our expectations. We make no changes to our estimates.

The bottom line: We retain our AUD 48 (USD 67, GBX 2,500) fair value estimate for no-moat BHP. While shares have retreated recently on a modestly lower copper price, at USD 6.50 per pound it remains materially above estimated long-run cost support. This likely accounts for much of the 23% premium to fair value at which shares trade.

Big picture: First-quarter copper and iron ore sales volumes are around 25% of our fiscal 2027 estimates for about 1.3 million and 255 million metric tons, respectively. These are near the top end and middle, respectively, of their guidance ranges. We forecast its share of copper sales volumes to rise to around 1.55 million metric tons in the early 2030s as it expands production at its mines in Chile and South Australia. But we expect more modest growth in WAIO volumes, to around 275 million in fiscal 2031. We forecast a five-year net profit after tax compound annual growth rate of negative 4%. Increased volumes will likely lead to improving unit costs, but these are more than offset by copper and iron ore prices reverting to our midcycle assumptions from 2030 of around USD 3.80 per pound and USD 75 per metric ton, respectively.

An average realized copper price of about USD 7.00 per pound, up 53% on a year ago, is moderately above our USD 6.50 full-year assumption, but we maintain the latter for now, given volatility in futures prices.

Its realized iron ore price is close to our assumption of about USD 82 per metric ton for fiscal 2027, down 9% on last year. First-quarter unit cash costs weren't disclosed, though management noted headwinds from higher

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energy and freight costs, as expected.

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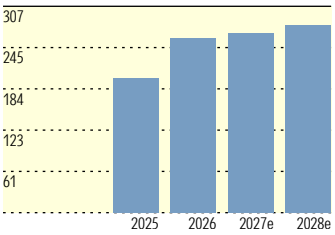
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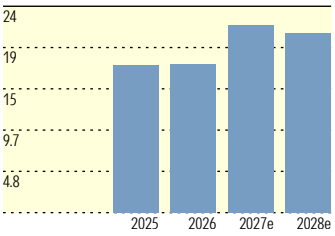
Key Valuation Assumptions

Cost of Equity %	-
Weighted Avg Cost of Capital %	-
Long Run Tax Rate %	-
Stage II EBI Growth Rate %	-
Stage II Investment Rate %	-
Perpetuity Year	-

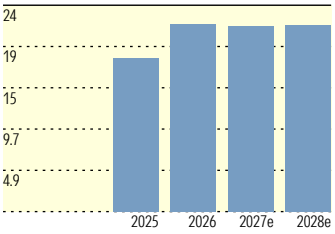
EPS ¢ (Diluted)



ROE %



ROIC %



Stronger Copper Price Sees BHP's Fair Value Increased, but More Than Reflected in Share Price

Business Strategy and Outlook (18-Aug-2026)

BHP is the world's largest miner by market capitalization. Its main operations span iron ore and copper, with smaller contributions from metallurgical coal and thermal coal. It placed its nickel operations on care and maintenance due to low prices in 2024. BHP is also developing its Jansen potash project in Canada. It merged its oil and gas assets with Woodside Energy in June 2022, vesting the Woodside shares it received to BHP shareholders and exiting the sector. It purchased copper miner Oz Minerals in fiscal 2023 and half of the Vicuña copper joint venture in fiscal 2025.

Commodity demand is tied to global economic growth, particularly China's. BHP benefited greatly from the China boom over the past two decades. China is BHP's largest customer, accounting for roughly 60% of sales in fiscal 2026. But we think demand for many commodities is likely to soften as the China boom ends, particularly for iron ore, which has disproportionately benefited from the boom in infrastructure and real estate investment.

Its generally low-cost, high-quality assets mean BHP is likely to be one of the few miners that remain profitable through the commodity cycle. Much of its operations are close to key Asian markets, particularly the low-cost iron ore business, providing a modest freight cost advantage relative to some producers such as those in Africa and South America.

BHP correctly values a strong balance sheet to provide some stability through the inevitable cycles and derives some modest benefit from commodity and geographic diversification. Much of its revenue comes from assets in the relatively safe haven of Australia. The development of Jansen in Canada is BHP's major expansion project, while it is also looking to expand copper production. It is also pursuing modest expansion of its Western Australia Iron Ore operations above 305 million metric tons (100% basis) per year.

The good times during the height of the China boom saw significant capital expenditure, notably on iron ore and onshore US shale gas and oil. Overinvestment in the boom diluted returns to the point where we struggle to justify a moat. As a commodity producer, it lacks pricing power and is a price taker.

Economic Moat

As a commodity producer, BHP is a price taker and needs low-cost mines with long lives and a low installed capital base to support the longer-term excess returns needed to justify an economic moat. We forecast midcycle returns on invested capital in the low double digits compared with its weighted average cost of capital of around 8%, primarily driven by BHP's moaty iron ore and copper segments, which account for the vast majority of midcycle EBIT. Our forecast is based on assumed midcycle prices from 2030 of about USD 75 per metric ton for iron ore (which is materially less than the average price of around USD 100 per metric ton over the past decade), roughly USD 3.80 per pound for copper, around USD 200 per metric ton for metallurgical coal, and about USD 120 per metric ton for thermal coal, based on our estimates of the long-run marginal costs of production. As we think BHP's midcycle ROIC isn't sufficiently above its WACC to merit a narrow moat, we don't assign the company a moat.

In calculating ROIC, we have added back to invested capital roughly USD 11 billion in asset and intangibles write-downs taken over roughly the past decade on the basis that these amounts relate to assets developed or acquired in the ordinary course of business and so should be included when calculating ROIC. Some of the larger amounts include

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USD 4.6 billion in relation to its nickel business and USD 4.1 billion in relation to potash. However, we have not added back USD 11.6 billion in relation to BHP's oil and gas businesses as the company has since exited the sector, and these acquisitions were made by previous management, which has since been replaced.

Iron ore (narrow moat): BHP's Pilbara iron ore assets have cash costs in or around the lowest quartile of the cost curve. In comparison to peers such as Rio and Vale, however, who expanded much more aggressively during the last iron ore boom, BHP also benefits from having a sizable portion of its iron ore assets built prior to the boom at much lower unit rates. Port, rail, and mine assets are fully integrated, benefit from scale, and are favorably located in key Asian markets. New mines are periodically developed to continue to feed and utilize the installed infrastructure base, with incremental capacity able to be added for very low capital costs through incremental expansions and efficiencies, including innovative technology such as automated haulage. We estimate that iron ore will produce around 45% of midcycle EBIT and generate a midcycle ROIC of about 25% in fiscal 2031, materially above BHP's WACC. As such, we consider BHP's iron ore business moatworthy.

Copper (narrow moat): Led by its Escondida and Antamina mines, BHP's overall copper production sits comfortably within the bottom half of the cost curve. We forecast the copper segment will produce more than half of midcycle EBIT and generate a midcycle ROIC in the low double digits in fiscal 2031, comfortably above BHP's WACC. As such, we deem BHP's copper business moatworthy.

Coal (no moat): This segment includes its high-quality Queensland metallurgical coal operations as well as its remaining thermal coal operations at Mount Arthur, which are due to close in 2030. We forecast midcycle ROIC from fiscal 2031 materially below its WACC. As such, we don't deem the coal segment to be moatworthy.

Other (nickel and potash, no moat): BHP's nickel business is struggling as a result of low nickel prices and an inflated capital base, and it was placed into care and maintenance in 2024. While we assume a 50% chance it restarts by midcycle in fiscal 2031, and higher nickel prices are a potential tailwind, we think the nickel business' inflated capital base makes it unlikely that it will generate above-WACC returns. In addition, while BHP's Jansen potash project is likely to be in the lowest quartile of the cost curve once complete, the substantial capital expenditure investment to complete the project means we think that it is also unlikely to generate ROIC above WACC for more than a decade.

Exploration projects (no moat): These are an immaterial part of BHP and way too early in their potential development to assign any of them a moat.

Fair Value and Profit Drivers (09-Oct-2026)

We raise our fair value estimate to AUD 48 per share, from AUD 46, driven by stronger copper prices.

Looking at the futures curve, our assumed average copper price from 2026 to 2029 is now about USD 6.50 per pound, up from around USD 6.00. Based on our estimate of the long-run marginal cost of production, we assume a midcycle price of about USD 3.80 per pound from 2030.

We continue to assume iron ore averages about USD 100 per metric ton from 2026 to 2029 based on the futures curve. Our assumed midcycle price is around USD 75 per metric ton from 2030 based on our estimate of the long-run marginal cost of production. Solid demand from China, which accounts for around 75% of the seaborne iron ore trade, is supportive of near-term prices. However, longer-term, we expect demand from China to moderate on declining steel production as its economy moves away from one reliant on fixed-asset investment to a more consumption-based economy. China's falling

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population, along with rising scrap-based production, also contributes to reduced demand for iron ore in our view. We also think additional supply is likely, led by Simandou and Vale. Hence, we expect a long-term price substantially below the current spot of around USD 90 per metric ton.

Based on the futures curve, we continue to assume average 2026 to 2029 prices of about USD 250 per metric ton for metallurgical or coking coal. Our assumed midcycle price from 2030 is around USD 200 per metric ton based on our estimate of the long-run marginal cost of production.

We now assume thermal coal averages around USD 140 per metric ton from 2026 to 2029 based on the futures curve, up from about USD 125. We assume around USD 120 per metric ton midcycle from 2030 based on our estimate of the long-run marginal cost of production.

We assume prices of about USD 7.40 per pound nickel, USD 0.85 per pound lead, and USD 1.80 per pound zinc from 2027, in line with spot.

We employ a 9.3% cost of equity, reflecting high cyclicality and operating leverage with moderate financial leverage. This drives an 8.1% weighted average cost of capital, assuming a long-run 30/70 debt/equity split, appropriate for a major mining company such as BHP. Our fair value estimate equates to an enterprise value/EBITDA exit multiple of 7.5 times.

Risk and Uncertainty

Our Morningstar Uncertainty Rating for BHP is Medium. The key risk to BHP stems from cyclical commodity prices, particularly as China's fixed asset-intensive growth is likely to wane. Operating leverage and inherent cyclicality are key earnings drivers. High capital intensity and the risk of poor capital allocation are other risks. A focus on debt repayment after the 2015-16 downturn, modest ongoing capital expenditure requirements, current stronger commodity prices, and earnings see BHP in strong financial shape.

The most significant environmental, social, and governance factors are relatively small, relating to carbon emissions, water resource dependency, land disturbance, labor strikes and disputes, and community relations. BHP's carbon emissions could be the subject of future costs. Its largest emissions source is in the iron ore supply chain, particularly steelmaking. We think demand for steel is relatively price-inelastic, so any carbon price will likely be passed on to steel consumers. BHP's ore could command a premium relative to others, given the higher grade incurs lower emissions during the steel-making process due to lower fuel use (usually coal). Water scarcity and regulation can pose a threat to production in the sensitive areas that BHP operates in, requiring costly workarounds such as desalination plants.

Following the tailings dam failures at Samarco, a BHP/Vale joint venture, and Brumadinho, 100% owned by Vale, BHP put more stringent construction and monitoring measures in place, so we think recurrences are unlikely. Mining developments and operations have a significant environmental footprint, requiring good relations with local communities. To the extent that relations can limit industry supply, this factor can also work in favor of incumbent producers. Community opposition can challenge BHP's social license to operate and future developments, although we think increased industry attention and regulation will likely support improved relations.

Financial Strength

BHP's balance sheet is strong. Net debt at the end of June 2026 was about USD 9 billion, below its net debt target range of USD 10 billion-USD 20 billion through the cycle and about 0.3 times adjusted trailing 12-month EBITDA. With modest near-term capital requirements and elevated commodity prices, BHP's

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financial position is likely to remain strong. We expect it to move into a net cash position over the five years ending fiscal 2031.

Capital Allocation (18-Aug-2026)

We assign a Standard Morningstar Capital Allocation Rating to BHP. The key considerations for our rating are balance sheet, investments, and shareholder distributions. For the longer term, we think investment is the key driver of returns. Exposure to cyclical commodity prices presents a risk of materially value-destructive investment, such as the acquisition of onshore US oil and gas assets in the past. And high capital intensity means future investments are likely to be the primary long-run driver, along with commodity prices, of total shareholder returns.

After a series of expansionary capital allocation missteps during the China boom, BHP's primary focus is cost control, increased productivity, and broader economies of scale. It has also undertaken some asset sales to improve the portfolio, notably the spinout of South32, the sale of onshore US shale oil and gas assets in 2018, and the petroleum exit in 2022. More recently, it has focused on increasing copper production, though the investment required is likely to be relatively moderate for a company of its size. The acquisition of copper miner Oz Minerals in fiscal 2023 represented a modest expansion of its copper and nickel businesses. The subsequent purchase of half of the Vicuña copper joint venture in fiscal 2025 was also modest.

We think BHP's investment is likely to remain relatively disciplined in the near to medium term. If we thought new investments by BHP would consistently be above its cost of capital, support and improve its competitive position, and add shareholder value, then an Exemplary Rating would be appropriate. However, we do not have sufficient confidence that the firm will be able to continually invest well in the long term—both to add value and to improve or maintain the competitive position—and as a result, we think a Standard Rating is appropriate. A return to loose expenditure in the future, though we don't think this is likely, could even justify a Poor Rating.

BHP's balance sheet is sound, and we think the company will continue to target a relatively conservative balance sheet for the foreseeable future. We like the focus on predominantly returning excess cash to shareholders and think the company's approach to shareholder distributions is appropriate.

BHP's strong balance sheet, reasonable dividend policy, greater recent and likely future capital discipline and productivity focus make the Standard Rating appropriate.

Bulls Say

► BHP is likely to increase copper production from existing as well as new mines such as Vicuña over the next decade.

► BHP's Jansen potash project gives it additional diversification, with potash being less correlated to the other commodities it produces.

► BHP's iron ore assets are industry-leading. The company remains well placed to continue low-cost production and increase output with minimal expenditure and an efficiency focus.

Bears Say

► BHP has shown improved capital allocation since its missteps during the China boom, but continuing high commodity prices could encourage it to once again aggressively expand output.

► With its earnings dominated by copper and iron ore, structurally lower demand from China could lead to significantly lower earnings.

► Resource companies could face growing sovereign risk as governments under fiscal pressure look to plug budgetary holes by taxing the industry.

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Morningstar Valuation Model Summary

	Actual			Forecast					
Financials (USD)		**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	
Revenue (Mil)		56,943	51,630	59,274	58,012	59,222	59,842	63,234	44,963	
Operating Income (Mil)		20,193	19,311	23,295	26,777	27,093	27,150	28,997	18,683	
EBITDA (Mil)		25,578	25,049	29,602	32,767	33,313	33,541	35,789	24,321	
Adjusted EBITDA (Mil)		29,016	25,978	32,947	32,767	33,313	33,541	35,789	24,321	
Net Income (Mil)		7,897	9,019	9,833	13,612	14,185	14,802	16,151	10,632	
Adjusted Net Income (Mil)		13,660	10,157	13,204	13,612	14,185	14,802	16,151	10,632	
Free Cash Flow To The Firm (Mil)		8,519	3,969	4,582	12,694	13,252	11,735	12,974	8,861	
Weighted Average Diluted Shares Outstanding (Mil)		5,077	5,083	5,089	5,089	5,089	5,089	5,089	5,089	
Earnings Per Share (Diluted)		1.56	1.77	1.93	2.67	2.79	2.91	3.17	2.09	
Adjusted Earnings Per Share (Diluted)		2.69	2.00	2.59	2.67	2.79	2.91	3.17	2.09	
Dividends Per Share		1.46	1.10	1.72	1.60	1.67	1.60	1.75	1.04	
Margins & Returns	**3 Yr Avg**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**5 Yr Avg**
Operating Margin %	37.4	35.5	37.4	39.3	46.2	45.8	45.4	45.9	41.6	44.9
EBITDA Margin %	47.8	44.9	48.5	49.9	56.5	56.2	56.0	56.6	54.1	55.9
Adjusted EBITDA Margin %	52.3	51.0	50.3	55.6	56.5	56.2	56.0	56.6	54.1	55.9
Net Margin %	16.0	13.9	17.5	16.6	23.5	24.0	24.7	25.5	23.6	24.3
Adjusted Net Margin %	22.0	24.0	19.7	22.3	23.5	24.0	24.7	25.5	23.6	24.3
Free Cash Flow To The Firm Margin %	10.1	15.0	7.7	7.7	21.9	22.4	19.6	20.5	19.7	20.8
Growth & Ratios	**3 Yr CAGR**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**5 Yr CAGR**
Revenue Growth %	3.0	5.0	-9.3	14.8	-2.1	2.1	1.0	5.7	-28.9	-5.4
Operationg Income Growth %	1.4	-9.6	-4.4	20.6	15.0	1.2	0.2	6.8	-35.6	-4.3
EBITDA Growth %	–	-6.9	-2.1	18.2	10.7	1.7	0.7	6.7	-32.0	–
Adjusted EBITDA Growth %	5.6	3.8	-10.5	26.8	-0.5	1.7	0.7	6.7	-32.0	-5.9
Earnings Per Share Growth %	–	-38.9	14.1	8.9	38.4	4.2	4.4	9.1	-34.2	–
Adjusted Earnings Per Share Growth %	-8.8	1.7	-25.7	29.8	3.1	4.2	4.4	9.1	-34.2	1.6
Valuation		**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	
Price/Earnings		10.6	12.0	15.9	15.8	15.1	14.5	13.3	20.2	
Price/Sales		2.5	2.4	3.5	3.7	3.6	3.6	3.4	4.8	
Price/Book		3.2	2.6	4.1	3.8	3.5	3.1	2.8	2.6	
Price/Cashflow		–	–	–	–	–	–	–	–	
EV/EBITDA		5.4	5.1	6.8	6.8	6.7	6.6	6.2	9.2	
EV/EBIT		7.7	6.9	9.6	8.3	8.2	8.2	7.7	11.9	
Dividend Yield %		5.1	4.6	4.2	3.8	4.0	3.8	4.2	2.5	
Dividned Payout %		54.3	55.0	66.3	59.8	59.9	55.0	55.1	49.8	
Dividend Franking %		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	
Free Cash Flow Yield %		–	–	–	–	–	–	–	–	
Operating Performance / Profitability		**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	
ROA %		7.7	8.3	8.1	10.9	10.9	10.9	11.3	7.3	
ROE %		16.1	17.3	17.5	22.0	21.0	20.0	19.8	12.3	
ROIC %		23.2	18.1	22.1	21.9	22.0	21.6	22.4	14.2	
Financial Leverage		**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	
Debt/Capital %		8.7	11.6	8.2	13.0	12.0	11.1	10.3	9.3	
Assets/Equity		2.1	2.1	2.2	2.0	1.9	1.8	1.7	1.7	
Net Debt/EBITDA		0.3	0.5	0.3	0.1	-0.1	-0.2	-0.3	-0.6	
Total Debt/EBITDA		0.7	0.9	0.8	0.8	0.8	0.7	0.6	0.9	
EBITDA/ Net Interest Expense		19.5	23.4	22.6	64.9	115.7	357.2	-383.5	-85.0	

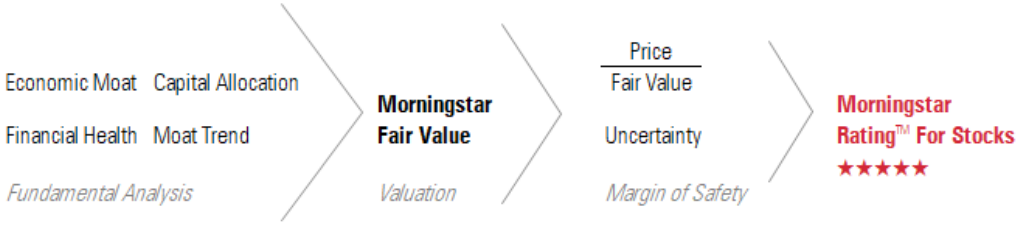
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Equities Research Methodology

We believe that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star, or Buy-rated, stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star, or Sell-rated, stocks trade at premiums to their intrinsic worth. Four key components drive the Morningstar rating: our assessment of the firm's economic moat, our estimate of the stock's fair value, our uncertainty around that fair value estimate and the current market price. This process ultimately culminates in our single-point star rating. Underlying this rating is a fundamentally focused methodology and a robust, standardized set of procedures and core valuation tools used by Morningstar's equity analysts. In this document, we provide a detailed overview of how the Morningstar Rating for stocks is derived, and also outline the analytical work that feeds into our coverage of stocks.

Morningstar Research Methodology



Morningstar's Economic Moat™ Rating

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define excess profits as returns on invested capital, or ROICS, above our estimate of a firm's cost of capital, or WACC (weighted average cost of capital). Without a moat, profits are more susceptible to competition. Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Measuring a Moat

Determining Fair Value

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' independent primary research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process.

The Uncertainty Rating

Morningstar's Uncertainty Rating is designed to capture the range of potential outcomes for a company's intrinsic value. The rating begins with a suggested rating produced by a quantitative process based on the trailing 12-month standard deviation of daily stock returns. Analysts use the suggested rating, historical rating data, and their own knowledge of the company to inform them as they make the final Uncertainty Rating decision. Our Uncertainty Rating is meant to consider anything that can increase the potential dispersion of outcomes for the intrinsic value of a company, and anything that can affect our ability to predict these outcomes

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Equities Research Methodology

accurately. These can include cyclical factors, operational and financial factors such as leverage, company-specific events, ESG risks, and anything else that might increase the potential dispersion of future outcomes and our ability to estimate those outcomes. We have five different ratings: Low, Medium, High, Very High, or Extreme. Our recommended margin of safety—the discount to fair value demanded before we'd recommend buying or selling the stock—widens as our uncertainty of the estimated value of the equity increases.

Morningstar Equity Research Star Rating Methodology

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Equities Research Methodology

Generating the Morningstar Star Rating

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the recommendation, or star rating, is automatically re-calculated at the market close on every day the market is open.

Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted. Furthermore, we would expect our fair value estimates to generally rise over time, due to the time value of money. Specifically, over the course of a year, barring major changes to analyst assumptions, we would expect our fair value estimates to increase at the level of our estimate of a firm's cost of equity (net of shareholder returns attributed to dividends). So, for a stock that pays no dividends with a $100 fair value estimate today and an estimated 10% cost of equity, we would expect our fair value estimate to rise to $110 in 12 months, all else equal.

It is also worth noting that there is no predefined distribution of our recommendations. That is, the percentage of stocks that earn a Buy rating can fluctuate daily, so the recommendations, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many Buy-rated stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

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

★★★★★ We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential. This rating encourages investors to consider an overweight position in the security relative to the appropriate benchmark.

★★★★ Appreciation beyond a fair risk-adjusted return is likely, in our opinion. This rating encourages investors to own the firm's shares, possibly overweight relative to the appropriate benchmark after fully considering more attractively priced alternatives, such as our Buy recommendations.

★★★ Indicates that we believe investors are likely to receive a fair risk-adjusted return (approximately cost of equity). Concentrated portfolios might consider exiting these positions if more attractively priced alternatives are available.

★★ We believe investors are likely to receive a less than fair risk-adjusted return and should consider directing their capital elsewhere. Securities with this recommendation should generally be underweight, assuming less expensive alternatives are available for the portfolio strategy being employed.

★ Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss. This rating encourages investors to strongly consider exiting portfolio positions in the security in nearly all strategies.

Capital Allocation

Our Capital Allocation (or Stewardship) Rating represents our assessment of the quality of management's capital allocation, with particular emphasis on the firm's balance sheet, investments, and shareholder distributions. Analysts consider companies' investment strategy and valuation, balance sheet management, and dividend and share buyback policies. Corporate governance factors are only considered if they are likely to materially impact shareholder value, though either the balance sheet, investment, or shareholder distributions. Analysts assign one of three ratings: "Exemplary", "Standard", or "Poor". Analysts judge Capital Allocation from an equity holder's perspective. Ratings are determined on a forward looking and absolute basis. The Standard rating is most common as most managers will exhibit neither exceptionally strong nor poor capital allocation.

Capital Allocation (or Stewardship) analysis published prior to Dec. 9, 2020, was determined using a different process. Beyond investment strategy, financial leverage, and dividend and share buyback policies, analysts also considered execution, compensation, related party transactions, and accounting practices in the rating.

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Research Report Disclosure Document (Australia and New Zealand)

Currency

Morningstar research reports are current as at the date on the report until it is replaced, updated or withdrawn. Our financial product research may be withdrawn or changed at any time as other information becomes available to us. A report will be updated if events affecting the report materially change.

Research Criteria

For further information as to:

- the scope of our research,
- the process by which products are selected for coverage,
- the filters and research methodology applied, and
- Morningstar's rating scales across equity, ETF, fund, and LIC research,

please refer to :

https://www.morningstar.com/company/disclosures#australian-disclosures and https://shareholders.morningstar.com/governance/compliance-disclosures/default.aspx

Conflicts of Interest and How We Manage Them

Morningstar recognises that its business activities may give rise to actual or potential conflicts of interest. Morningstar is committed to identifying, managing and monitoring conflicts in accordance with our obligations under the Corporations Act and ASIC guidance. Morningstar's conflicts management framework is designed to ensure that financial services are provided efficiently, honestly and fairly.

Where Morningstar determines that a conflict of interest cannot be effectively managed using the controls described below, Morningstar may decline to provide the relevant financial service, withdraw coverage, or not proceed with the engagement.

1. Identification and assessment of conflicts

Morningstar maintains a conflicts of interest framework that requires:

- identification of conflicts arising from our business model, remuneration structures, and commercial and personal relationships;
- assessment of the materiality of those conflicts; and
- documentation of conflicts in a conflicts register.

Conflicts are reviewed on an ongoing basis and when there are material changes to our business or services. Morningstar applies a risk-based approach to conflicts management. Conflicts that present a higher risk of potential client detriment are subject to enhanced controls, escalation and monitoring.

2. Organisational separation and information barriers

Morningstar maintains structural separation between:

- research teams; and
- sales, marketing and commercial teams.

Information barriers are implemented and monitored to prevent inappropriate influence over research, including restrictions on:

- involvement of research employees in commercial negotiations. The negotiations to license a Morningstar rating or index are conducted by Sales who are segregated from research employees.

3. Research quality and integrity

Morningstar maintains research integrity through:

- documented research methodologies;
- peer review and/or committee-based decision-making processes before distribution of research reports;
- quality assurance controls; and
- fair and consistent dissemination of research.

Research employees are required to comply with Morningstar's internal research integrity policies, the Morningstar, Inc. Code of Ethics, and other Morningstar internal policies.

No material interests are held by Morningstar, its staff, or related companies in the financial products that are the subject of our research reports or the product issuer. Equity research analysts are not permitted to hold securities in entities that they rate.

These arrangements are intended to help ensure that Morningstar's research is produced with integrity and that conflicts of interest do not adversely affect the quality of the financial services provided to clients.

4. Related party relationships

Morningstar has an associated business, Morningstar Investment

Management Australia Limited, which provides investment management and consulting services. Morningstar avoids potential conflicts of interest by not undertaking or publishing qualitative analyst research on Morningstar Investment Management's investment products.

Morningstar's parent entity Morningstar, Inc. creates and provides indexes via the Morningstar Indexes business unit. Morningstar licenses Morningstar Indexes to product issuers for a fee. Morningstar may also receive basis point income based on the assets under management of the product issuer's investment product that track a Morningstar Index. Morningstar mitigates conflicts of interests by not promoting or endorsing the product issuers investment products or performing activities where it could be perceived as if Morningstar was promoting their investment products. Morningstar also ensures licensing negotiations are undertaken by sales employees who are segregated from research teams and the appropriate information barriers are in place between research and sales teams. Further information about how Morningstar manages these conflicts of interest can be found in the Investment Research Integrity Policies: https://shareholders.morningstar.com/governance/compliance-disclosures/default.aspx and in the Morningstar Indexes Governance policies: https://indexes.morningstar.com/page/resources .

5. Employee interests, gifts and benefits

Morningstar employees are subject to strict policies governing:

- personal trading and holdings in financial products;
- gifts, benefits and hospitality; and
- participation in external events or forums.

Morningstar maintains personal trading restrictions for research employees to prevent trading around the preparation of publication of research.

Morningstar's employees may from time to time receive nominal gifts, hospitality or other benefits from clients and/or product providers. We have strict guidelines in place as to the circumstances and extent to which our employees may accept any such gifts, hospitality, or other benefits. Morningstar regularly reviews gifts, benefits and entertainment received to ensure adherence with internal policy requirements.

Any travel or accommodation associated with industry events must be approved in accordance with internal policy and is monitored to ensure it does not compromise, or appear to compromise, research integrity.

6. Monitoring and review

Morningstar regularly monitors the effectiveness of its conflicts management arrangements, including through:

- compliance monitoring and testing;
- periodic reviews of conflicts registers;
- escalation of material conflicts to senior management; and
- ongoing review of policies and controls.

Responsibility for oversight of Morningstar's conflicts management framework sits with the Board, supported by the compliance function, with material conflicts escalated in accordance with internal governance arrangements.

Providing Other Services

Morningstar may provide the investment product issuer or its related entities with services or products for a fee and on an arms' length basis including software products and licenses, research and consulting services, data services, licenses to republish our ratings and research in their promotional material, event sponsorship and website advertising.

Reasons For Our Opinion and Ratings

Morningstar believes reasonable efforts were made by its analysts to carefully research information contained in their analysis and by the Quantitative Research team in creating methodologies and choosing supporting data. The information on which the analysis is based has been obtained from sources which are believed to be reliable such as, for example, shareholder reports (or their equivalents), company website, interviews with company personnel, and relevant and appropriate press sources as well as data, statistics, and information within Morningstar's own database. While Morningstar, its analysts, and the Quantitative Research team has obtained data, statistics and information from sources it believes to be reliable, the data, statistics, and information has not been audited or independently verified.

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