SFR Group SA SFR (XPAR) | ★★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
26.18 EUR	37.00 EUR	High	Narrow	Stable	Standard	Communication Services

SFR focuses on its fibre footprint to compete.

Updated Forecasts and Estimates from 05 Jan 2017

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Research as of 05 Jan 2017
Estimates as of 05 Jan 2017
Pricing data through 18 Jan 2017
Rating updated as of 18 Jan 2017

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

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Investment Thesis 05 Jan 2017

SFR, France's second-largest telecom firm, has the most extensive fibre network in France, with 8.9 million homes passed, and its total network passes over 10 million homes. In this area, we think the firm is a very strong competitor with the fastest broadband speeds. We expect the firm's increased focus on marketing its faster broadband speeds will enable it to turn the business around, eventually leading to stabilisation in its wireless business and a return to revenue growth.

While SFR was initially slow in building out its LTE network, which has hurt its wireless business, it is now quickly ramping up and plans to reach parity with Orange by the end of 2017. This will partially be accomplished through a network-sharing agreement with Bouygues Telecom that will allow SFR to use Bouygues' network and reduce the cost of building out its own network. However, Orange won't stand still, and we expect it to retain a superior wireless network.

SFR's cable TV network covers only about 35% of the population, which leaves its broadband business on its own in almost two thirds of the country. However, the firm is now the second-largest broadband provider in the country, with over 23% market share. Thus, even in areas without cable's presence, SFR is doing a decent job of selling broadband and fixed-line services. Increasingly, the firm is cross-selling quad-play services of fixed and wireless telephony, broadband, and pay television. About 72% of SFR's subscribers take at least three services. We think the company is well positioned to cross-sell quad-play services, and the movement to converged services will provide a tailwind of growth for the company. This is being enhanced by content through the acquisitions of NextRadioTV and Altice Media and obtaining the French rights to the Premier League.

We expect SFR to improve margins as it reduces its cost structure. In-country mergers are almost always accretive, and we anticipate that many functions between the two companies will be combined. In the longer term, there is the potential to benefit from additional consolidation in France if any companies can reach a merger agreement and the regulators allow consolidation.

Vital Statistics

Market Cap (EUR Mil)	11,583
52-Week High (EUR)	39.22
52-Week Low (EUR)	19.50
52-Week Total Return %	-24.1
YTD Total Return %	-2.4
Last Fiscal Year End	31 Dec 2015
5-Yr Forward Revenue CAGR %	-0.3
5-Yr Forward EPS CAGR %	16.7
Price/Fair Value	0.71

Valuation Summary and Forecasts

Fiscal Year:	2014	2015	*2016(E)*	*2017(E)*
Price/Earnings	NM	22.8	*28.2*	*16.0*
EV/EBITDA	0.0	0.0	*0.0*	*0.0*
EV/EBIT	0.2	0.0	*0.0*	*0.0*
Free Cash Flow Yield %	516.7	5,053.3	*-2,193.2*	*7,140.5*
Dividend Yield %	—	NM	—	—

Financial Summary and Forecasts (EUR Mil)

Fiscal Year:	2014	2015	*2016(E)*	*2017(E)*
Revenue	2,170,000	11,039,000	*10,778,437*	*10,648,430*
Revenue YoY %	65.1	408.7	*-2.4*	*-1.2*
EBIT	108,000	1,017,000	*1,552,095*	*1,906,069*
EBIT YoY %	-57.8	841.7	*52.6*	*22.8*
Net Income, Adjusted	-176,000	675,000	*427,854*	*752,676*
Net Income YoY %	-372.0	-483.5	*-36.6*	*75.9*
Diluted EPS	-0.97	1.47	*0.93*	*1.64*
Diluted EPS YoY %	-273.2	-251.5	*-36.6*	*75.9*
Free Cash Flow	-12,732,706	1,396,415	*763,077*	*1,775,890*
Free Cash Flow YoY %	NM	-111.0	*-45.4*	*132.7*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

The combination of Numericable, the largest cable television operator in France, with SFR, the second-largest wireless telephone company in the country, creates a stronger competitor in France. The firm now known as SFR Group has a fibre network passing over 9 million homes, or 35% of the population, and has 19 million wireless customers, or 23% market share. The combined company is also the second-largest broadband company, with 6 million customers, again about 23% market share in France.

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Morningstar Analysis

Valuation, Growth and Profitability 05 Jan 2017

We are maintaining our fair value estimate at EUR 37 per share. We have slightly reduced our revenue expectation for 2016 to a decline of 2.4% from a drop of 2% previously. We have been disappointed with the continued subscriber losses in the wireless business. However, the firm has increased its 4G coverage, which should help, and in the third quarter, it increased its average revenue per user, which bodes well for the future. We continue to believe its superior fibre network will enable it to expand its broadband base, and as more customers move to converged services, this should help stabilise its wireless base. We expect revenue declines to decrease in 2017 and 2018 and for SFR to return to revenue growth in 2019. In the meantime, we anticipate continued cost-cutting, which should enable significant margin improvement. We have been impressed by the firm's margin expansion since the merger and margin expansion at other operations that Altice has acquired and had built significant margin expansion into our model. While we remain sceptical regarding management's objective of 45% EBITDA margins in the medium term, we do project they can approach 42% by 2020. In-country consolidation is almost always accretive, and Altice has demonstrated a particular knack for cost reductions. Cost-cutting is generated from eliminating duplicate facilities and moving much of SFR's wireless backhaul to its cable network. We also expect the merger and cost-cutting will drive a large improvement in the firm's return on invested capital.

Scenario Analysis

In our bull-case scenario, our fair value estimate increases to EUR 55 per share. In this scenario, SFR is much more successful in cross-selling services and moving subscribers to quad-play subscriptions. Additionally, France's economy improves and the price wars end. The firm is also more successful in cutting costs and finding synergies, enabling its EBITDA margin to beat management's medium-term objective of 45% in 2018 and hit 46.4% in 2020.

In our bear-case scenario, our fair value estimate drops to EUR 20.50 per share. In this case, France's economy weakens further and the telecom price wars take another turn for the worse. Additionally, the integration fails to drive SFR's customers to quad-play subscriptions, stopping revenue growth, and the firm struggles to gain many synergies, preventing margins from increasing as much as in our base case.

Economic Moat

We think SFR has a narrow economic moat based on scale advantages. The firm controls almost the entire cable television system in France, though it is only the third-largest pay-TV provider in the country. Similar to the United Kingdom, the main satellite provider--in this case, CanalSat--has a significantly larger television subscriber base than the cable operator. In France, the incumbent telephone operator, Orange, also has more television customers than SFR, though there is some question as to how many of Orange's television customers actually pay for the service rather than have it thrown in as a perk of a larger telephone package. The big difference is that Numericable's network covers only 35% of the French population, versus CanalSat's and Orange's universal coverage.

That said, with Numericable's acquisition of SFR, the second-largest telephone company in the country, the company is well positioned for the movement to converged services and selling of quad-play packages of fixed and wireless telephony, broadband, and pay television. SFR now has about 1.6 million quad-play customers. Expanding this business will be a major focus of the combined firm. SFR's system has significantly more fibre in its network than Orange, which has the second most. SFR currently passes 8.9 million homes, while Orange passes 6.3 million. SFR is rapidly expanding its fibre network and expects to pass 12 million homes by the end of 2017 and 22 million by 2022. Fibre allows faster broadband speeds, which is becoming increasingly important. Generally, we prefer cable operators

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Price/Fair Value Morningstar data as of Jan 18, 2017

over phone companies because of their more extensive fibre networks and the ease of upgrading the network. Even where cable systems don't have fibre all the way to the home, the use of coaxial cable and Docsis 3.0 allows these firms to offer broadband speeds in excess of 100 Mb/second. The importance of quad-play customers is demonstrated through churn rates, which are roughly 10% for quad-play subscribers, versus 15% for broadband customers alone and 25% for wireless customers alone. Increasing its quad-play base should allow the firm to reduce its subscriber acquisition and retention costs, which should enable a nice boost to margins over time. Only SFR and Orange are building significant amounts of fibre, which should help distinguish their services from Bouygues Telecom and Iliad and boost their quad-play services.

Moat Trend

Our moat trend for SFR is stable. While SFR's larger size initially helped it deal better with Iliad's aggressive entrance than Bouygues Telecom, it has struggled recently. Since Iliad's entrance, France has become one of the most competitive telecom markets in the world. However, the company has been successful at cutting costs. Its adjusted EBITDA margin in the first three quarters of 2016 increased to 35% from 26.2% for all of 2014 on a pro forma basis, though the fourth quarter is historically weaker, which exaggerates the comparison. The firm also raised its medium-term target to 45%. We think the 45% is aggressive but project EBITDA margins close to 42% by 2020. Meanwhile, wireless pricing has stabilised in France, and SFR's wireless contract customers have transitioned to the new lower-priced plans.

On the fixed-line side, the firm's fibre-based cable network passes significantly more homes than the telecom operators. However, its network covers only 35% of the population. This means that for about two thirds of the country, the firm will rely just on SFR's network, which leaves it subject to price competition similar to where it was under Vivendi's ownership. That said, we think SFR's fibre position, successful cost-cutting, and the stabilised pricing environment in the French wireless market make the moat trend stable.

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Bulls Say/Bears Say

Bulls Say

- SFR is the largest cable television operator in France, with the most extensive fibre network.
- By acquiring SFR, Numericable became the second-largest wireless telephone network and second-largest fixed-broadband network. The firm also changed its name to SFR Group.
- The combined company is well positioned as the French market moves toward the convergence of fixed and wireless telephony, broadband, and pay television.

Bears Say

- SFR has a leveraged balance sheet that it could struggle to pay off.
- France has a very competitive telecom business, with some of the lowest wireless and broadband rates in the world.
- The company is controlled by Altice, whose objectives may not be aligned with minority shareholders.

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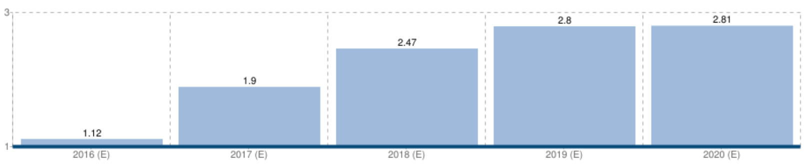
Five Year Adjusted Cash Flow Forecast (EUR Mil)

	2016(E)	2017(E)	2018(E)	2019(E)	2020(E)
Cash and Equivalents (beginning of period)	355,000	93,960	414,061	398,849	64,639
Adjusted Available Cash Flow	639,634	1,657,998	1,729,772	1,801,364	1,957,408
Total Cash Available before Debt Service	994,634	1,751,957	2,143,834	2,200,213	2,022,047
Principal Payments	64,249	—	—	—	—
Interest Payments	-950,675	-923,175	-868,175	-785,675	-719,675
Other Cash Obligations and Commitments	-42	-42	-42	-42	-42
Total Cash Obligations and Commitments	-886,468	-923,217	-868,217	-785,717	-719,717

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

	EUR Millions	% of Commitments
Beginning Cash Balance	355,000	8.5
Sum of 5-Year Adjusted Free Cash Flow	7,786,176	186.1
Sum of Cash and 5-Year Cash Generation	8,141,176	194.6
Revolver Availability	300	0.0
Asset Adjusted Borrowings (Repayment)	-64,249	-1.5
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	8,077,227	193.1
Sum of 5-Year Cash Commitments	-4,183,334	—

Financial Health

SFR has a leveraged balance sheet at about 5 times debt/EBITDA, which is similar to many cable firms and well above the average of 2-2.5 times for other European telecom companies. Additionally, the cable firms that have higher debt/EBITDA ratios are generating significantly more of their revenue from pay television, which has historically been stickier and higher-priced than telephone services. However, in this case, the SFR telecom side totally dominates the firm's total revenue. Telecom revenue in France has been under pressure since Iliad entered the wireless market at the beginning of 2012. This has hurt not only revenue, but also margins and churn rates. As such, we think the higher leverage rate is riskier for SFR than for other cable television companies, such as Liberty Global. That said, the company is doing a better job than we anticipated at generating free cash flow and using it to pay down debt. While the firm has no set dividend policy, Altice used it to enhance its own liquidity by having it pay a special dividend of EUR 5.70 per share, which significantly increased SFR's debt. Altice could do something similar in the future.

Enterprise Risk

France is one of the most competitive telecom markets in the world because of Iliad's aggressiveness. Numericable took on significant debt to finance its purchase of SFR. If the combined company struggles to integrate or prices in France fall further, the company could struggle to pay off its debt. This could be exacerbated by additional acquisitions that would push its debt levels even higher. In December 2015, SFR paid a special dividend of EUR 5.70 per share, which increased its debt by about EUR 2.5 billion, but provided Altice with additional liquidity. Altice could continue to look on SFR as its personal piggy bank.

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Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
NA	NA	NA	NA	NA

*Represents the date on which the owner's name, position, and common shares held were reported by the holder or issuer.

Fund Ownership

Top Owners	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
VA CollegeAmerica EuroPacific Growth	0.82	0.09	-2,877	31 Dec 2016
Thornburg Global Opportunities Fund	0.39	2.35	-200	30 Nov 2016
Echiquier Agressor	0.29	2.24	—	30 Sep 2016
Vanguard Total Intl Stock Idx Fund	0.24	0.01	20	31 Dec 2016
iShares MSCI EAFE (AU)	0.11	0.02	—	13 Jan 2017
Concentrated Holders				
Putnam Global Telecommunication Fund	0.01	4.41	—	30 Sep 2016
Thornburg Global Equity Fund	0.02	3.32	—	30 Nov 2016
Thornburg Global Equity Income Fund	—	3.00	—	30 Nov 2016
Thornburg Global Opportunities Fd	—	2.73	—	30 Nov 2016
Stonehage European All Cap Equity	0.02	2.49	—	30 Nov 2016

Institutional Transactions

Top 5 Buyers	% of Shares Held	% of Fund Assets	Shares Bought/ Sold (k)	Portfolio Date
DNCA Finance S.A	0.13	0.91	178	30 Nov 2016
CPR Asset Management	0.03	1.05	92	31 Aug 2016
Sjunde AP-Fonden	0.02	0.01	68	30 Sep 2016
BlackRock Investment Management (UK) Ltd.	0.03	0.06	32	30 Sep 2016
JP Morgan Alternative Asset Mgmt Inc	0.01	0.61	31	30 Nov 2016
Top 5 Sellers				
Capital Research and Management Company	0.82	0.09	-7,812	31 Dec 2016
Lyxor International Asset Management	—	0.05	-977	31 Dec 2016
Capital Guardian Trust Company	0.04	0.23	-547	30 Sep 2016
Massachusetts Financial Services Co	0.03	0.06	-286	30 Nov 2016
Thornburg Investment Management Inc	0.45	2.39	-200	30 Nov 2016

Management 05 Jan 2017

After Altice and SFR bought back the rest of Vivendi's stake, SFR is 78% owned by Altice. At some point Altice may decide to buy in the rest of SFR, and expectations of such an acquisition or the lack thereof could increase the volatility of the stock. This company is controlled by Altice, particularly its controlling shareholder, billionaire Patrick Drahi. Recently, Michel Combes added the CEO title to his chairman title. He has significant telecom experience. He previously was CEO of Alcatel-Lucent and sold the business to Nokia Networks. Before that, he held various senior management positions at Vodafone, TDF, and France Telecom. The new CFO is Francois Vauthier, who joined Altice in 2011 and has held several management positions within the company. Prior to that, he worked at Ernst & Young.

Altice has been on an acquisition tear recently and has been willing to pay top valuations for its purchases. While most have made strategic sense, we are concerned that the company is more interested in gaining global scale than worrying about valuation or the amount of debt it takes on. SFR paid a special dividend at year-end 2015 to provide cash for Altice, which significantly increased SFR's debt. Similar deals could happen again.

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Analyst Notes

SFR Reports Mixed Third-Quarter Results With Weak Revenue, but Strong Margins; Shares Undervalued 10 Nov 2016

SFR posted mixed third-quarter results with weak revenue but strong margins. We don't anticipate any significant changes to our fair value estimate. Our narrow-moat rating remains intact. The firm's revenue declined 2.4% versus our full-year projection of a drop of 2%. However, we believe it made some important progress. We believe SFR's key advantage is in its superior fibre network, which now passes 8.9 million premises. The firm grew its fibre base 13.4% year over year to 2 million subscribers. This enabled its fixed-line revenue to grow 1.3%. We think SFR can continue to grow its fibre base as it upgrades its broadband base from slower DSL technology.

As this installed base grows we expect its focus on converged services will enable SFR to also turnaround its declining wireless business. However, in the meantime, the wireless business continues to struggle losing 3.9% of its retail customers to 14.5 million. This was partially offset though by a slight increase in its average revenue per user to EUR 23.40 per month. While we continue to be disappointed with SFR's ability to grow its wireless base when the other three operators in France are growing, we do think this can be changed.

The biggest reason we think SFR's stock is undervalued despite its revenue struggles is its ability to cut costs. The firm did a great job in the quarter, generating an adjusted EBITDA margin of 36.3% versus our full-year projection of 33.9%. This result is close to our projection for 2017, which also provides us with confidence in our estimates for next year. We continue to project significant margin expansion and are pleased with the margin progress the company is making and believe its continued margin expansion offsets worries regarding its inability to increase its revenue.

Altice Terminates Its Offer for SFR's Shares Due to Opposition From French Securities Regulator 05 Oct 2016

Altice has announced that the French securities regulator, the Autorite des marches financiers, opposed its decision to exchange its shares for those of SFR that it didn't already own. As a result of the AMF's decision, Altice has terminated the offer, though it reserves the right to appeal the decision. We are pleased to see the offer terminated, as we believe it significantly undervalued SFR's shares. While we agree that consolidating SFR wholly into Altice would simplify its structure and potentially reduce conflicts of interest, we don't believe these benefits justified the low conversion price. We would be happy to see the consolidation at an exchange ratio that more fairly values SFR's shares. The termination now removes the risk of not tendering due to the lowball offer and being left with an illiquid stock. We maintain our fair value estimate for SFR, along with its narrow moat rating; shares remain undervalued.

Altice Offers Exchange for All SFR Shares It Doesn't Already Own; We Believe Offer Undervalues SFR 05 Sep 2016

On 5 September 2016, Altice offered 8 shares of its stock for every 5 shares of SFR that it doesn't already own (22.5% of the company). We think this deal significantly undervalues SFR's stock. At the EUR 15.61 price Altice's shares are trading at, it values SFR's shares at EUR 24.98 versus our fair value estimate of EUR 37. With SFR's stock trading at EUR 25.76, the market assumes Altice's shares will rise further as the market recognizes the value it is gaining from this ratio or Altice will need to increase its offer. We believe it should offer a ratio of 2 Altice shares for 1 SFR or higher, which would still value SFR below our fair value estimate.

However, the deal does have some advantages. Altice's shares liquidity is significantly higher than SFR's. It removes

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Analyst Notes

the minority position of SFR and fully aligns shareholders with the larger Altice Group. However, we think Altice is taking advantage of the pummelling SFR's stock has taken recently where the market has become concerned with its short-term subscriber losses and the lack of consolidation in the French wireless market and is giving no credit for its ability to turn its operations around. All those improved synergies if they occur as we anticipate due to its leading fibre network will go to the parent and SFR shareholders will benefit on a diluted basis as it also accrues to the rest of Altice's shareholders. Remember only about one year ago Altice paid EUR 40 per share for Vivendi's residual 20% stake. We do not currently cover Altice, but are maintaining SFR's narrow moat rating while it remains independent.

The deal is not contingent upon receiving a certain amount of shares. So, any shares tendered will further reduce SFR's float. If Altice gains control of 95% of SFR it will invoke French law to squeeze out the remaining shareholders. Even with a smaller holding, Altice may be able to have SFR's shares delisted from Euronext Paris.

SFR Reported Mixed Q2 Results With Weak Revenue, but Better Margins; Shares Undervalued 09 Aug 2016
SFR reported mixed second-quarter results with worse revenue, but better margins. We expect these factors to basically offset each other and don't anticipate any significant changes to our fair value estimate. Our narrow moat rating is unchanged. The firm reported that revenue fell 4.6% year over year, versus our full-year projection of a 2% drop. However, this was a smaller decline than the first quarter, and we expect revenue declines to decrease further in the second half of the year. We also project declining revenue in 2017.

SFR's biggest issue is its shrinking retail wireless subscriber base, which fell 4.4% to 14.6 million. However, the firm continues to increase its capital expenditures to catch up from its slow 4G network rollout and now covers 70% of the French population. This has helped it improve customer sentiment in the annual survey from ARCEP, the telecom regulator. SFR's bundling of media services, which it recently acquired, is improving customers' perception of the firm.

SFR is doing better on the fixed-line side, where we believe it has an advantage, given its more extensive fibre network. Broadband and cost-cutting are key to our fair value estimate. The firm now passes over 8.5 million premises with fibre; it added 419,000 customers in the quarter and more than 1.5 million during the past year. Its average revenue per user on the fixed-line side grew sequentially to EUR 35.6 from EUR 33.9. We believe broadband will enable the firm to return to revenue growth in 2018.

SFR continues to work on cost reduction, and recently signed a new contract with the unions to improve efficiencies. The company reported an EBITDA margin of 35.9%, which is ahead of our full-year projection of 33.9%. We still project significant margin expansion over the next five years, but we remain below management's objective of 45%. We believe the shares are undervalued but are likely to remain volatile.

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SFR Group SA SFR (XPAR) | ★★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
26.18 EUR	37.00 EUR	High	Narrow	Stable	Standard	Communication Services

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2013	2014	2015	*Forecast 2016*	*Forecast 2017*	*5-Year Proj. CAGR*
Revenue	*103.9*	0.9	65.1	408.7	*-2.4*	*-1.2*	*-0.3*
EBIT	*50.1*	-14.8	-57.8	841.7	*52.6*	*22.8*	*22.6*
EBITDA	*82.6*	-2.5	6.1	488.3	*2.2*	*4.6*	*5.0*
Net Income	*98.4*	-25.1	-372.0	-483.5	*-36.6*	*75.9*	*16.7*
Diluted EPS	*24.7*	-26.1	-273.2	-251.5	*-36.6*	*75.9*	*16.7*
Earnings Before Interest, after Tax	*45.4*	-146.6	-139.5	NM	*60.0*	*17.7*	*18.3*
Free Cash Flow	*73.3*	-152.9	NM	-111.0	*-45.4*	*132.7*	*8.0*

Profitability	3-Year Hist. Avg	2013	2014	2015	*2016*	*2017*	*5-Year Proj. Avg*
Operating Margin %	*11.2*	19.5	5.0	9.2	*14.4*	*17.9*	*20.3*
EBITDA Margin %	*34.7*	43.6	28.0	32.4	*33.9*	*35.9*	*37.9*
Net Margin %	*1.0*	4.9	-8.1	6.1	*4.0*	*7.1*	*9.0*
Free Cash Flow Margin %	*NM*	-10.8	NM	12.7	*7.1*	*16.7*	*15.6*
ROIC %	*3.2*	5.9	0.6	3.2	*4.8*	*5.8*	*6.6*
Adjusted ROIC %	*6.5*	12.2	1.2	6.3	*9.4*	*11.2*	*12.9*
Return on Assets %	*1.0*	1.7	-1.0	2.2	*1.4*	*2.6*	*3.3*
Return on Equity %	*-124.6*	-380.7	-4.3	11.1	*9.6*	*14.9*	*15.1*

Leverage	3-Year Hist. Avg	2013	2014	2015	*2016*	*2017*	*5-Year Proj. Avg*
Debt/Capital	*0.78*	0.92	0.62	0.80	*0.79*	*0.76*	*0.70*
Total Debt/EBITDA	*10.25*	4.83	21.08	4.83	*4.73*	*4.39*	*3.86*
EBITDA/Interest Expense	*3.02*	3.10	1.39	4.58	*3.84*	*4.14*	*4.87*

Valuation Summary and Forecasts

	2014	2015	*2016(E)*	*2017(E)*
Price/Fair Value	1.24	0.73	—	—
Price/Earnings	NM	22.8	*28.2*	*16.0*
EV/EBITDA	0.0	0.0	*0.0*	*0.0*
EV/EBIT	0.2	0.0	*0.0*	*0.0*
Free Cash Flow Yield %	516.7	5,053.3	*-2,193.2*	*7,140.5*
Dividend Yield %	—	NM	—	—

Key Valuation Drivers

Cost of Equity %	10.0
Pre-Tax Cost of Debt %	5.5
Weighted Average Cost of Capital %	6.8
Long-Run Tax Rate %	34.4
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	20.0
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	EUR Mil	Firm Value (%)	Per Share Value
Present Value Stage I	6,724,778	20.6	14.68
Present Value Stage II	9,976,412	30.6	21.77
Present Value Stage III	15,948,776	48.9	34.81
Total Firm Value	**32,649,966**	**100.0**	**71.26**
Cash and Equivalents	357,000	—	0.78
Debt	-17,285,000	—	-37.73
Preferred Stock	—	—	—
Other Adjustments	-382,979	—	-0.84
Equity Value	**15,338,987**	**—**	**33.48**
Projected Diluted Shares	458,181		
Fair Value per Share (EUR)	**37.00**		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

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SFR Group SA SFR (XPAR) | ★★★★

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26.18 EUR	37.00 EUR	High	Narrow	Stable	Standard	Communication Services

Morningstar Analyst Forecasts

Income Statement (EUR Mil)
Fiscal Year Ends in December

				Forecast	
	2013	2014	2015	*2016*	*2017*
Revenue	**1,314,242**	**2,170,000**	**11,039,000**	***10,778,437***	***10,648,430***
Cost of Goods Sold	611,016	1,331,000	6,357,000	*3,837,124*	*3,684,357*
Gross Profit	**703,226**	**839,000**	**4,682,000**	***6,941,314***	***6,964,073***
Selling, General & Administrative Expenses	188,527	320,000	877,000	*2,371,256*	*2,257,467*
Other Operating Expense (Income)	-86,321	-98,000	234,000	*916,167*	*883,820*
Other Operating Expense (Income)	40,932	48,000	—	—	—
Depreciation & Amortization (if reported separately)	304,042	461,000	2,554,000	*2,101,795*	*1,916,717*
Operating Income (ex charges)	**256,046**	**108,000**	**1,017,000**	***1,552,095***	***1,906,069***
Restructuring & Other Cash Charges	—	—	80,000	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**256,046**	**108,000**	**937,000**	***1,552,095***	***1,906,069***
Interest Expense	184,839	439,000	781,000	*950,675*	*923,175*
Interest Income	-138,809	-161,000	741,000	*-138,809*	*-138,809*
Pre-Tax Income	**-67,602**	**-492,000**	**897,000**	***462,611***	***844,085***
Income Tax Expense	-132,792	-313,000	215,000	*27,757*	*84,408*
Other After-Tax Cash Gains (Losses)	-484	3,000	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	—	—	-7,000	*-7,000*	*-7,000*
(Preferred Dividends)	—	—	—	—	—
Net Income	**64,706**	**-176,000**	**675,000**	***427,854***	***752,676***
Weighted Average Diluted Shares Outstanding	115,271	181,038	458,181	*458,181*	*458,181*
Diluted Earnings Per Share	**0.56**	**-0.97**	**1.47**	***0.93***	***1.64***
Adjusted Net Income	64,706	-176,000	675,000	*427,854*	*752,676*
Diluted Earnings Per Share (Adjusted)	**0.56**	**-0.97**	**1.47**	***0.93***	***1.64***
Dividends Per Common Share	—	—	5.70	—	—
EBITDA	**572,966**	**608,000**	**3,497,000**	***3,653,890***	***3,822,786***
Adjusted EBITDA	**572,966**	**608,000**	**3,577,000**	***3,653,890***	***3,822,786***

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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
26.18 EUR	37.00 EUR	High	Narrow	Stable	Standard	Communication Services

Morningstar Analyst Forecasts

Balance Sheet (EUR Mil)

Fiscal Year Ends in December

	2013	2014	2015	*Forecast* 2016	2017
Cash and Equivalents	101,365	620,000	355,000	*93,960*	*414,061*
Investments	4,000	135,000	2,000	*2,000*	*2,000*
Accounts Receivable	403,000	1,771,000	1,835,000	*1,792,469*	*1,770,848*
Inventory	50,000	256,000	286,000	*172,631*	*165,758*
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	3,000	1,213,000	1,159,000	*1,159,000*	*1,159,000*
Current Assets	**561,365**	**3,995,000**	**3,637,000**	***3,220,060***	***3,511,668***
Net Property Plant, and Equipment	1,464,763	5,643,000	5,627,000	*5,357,539*	*5,251,055*
Goodwill	1,483,628	10,554,000	10,554,000	*10,554,000*	*10,554,000*
Other Intangibles	307,362	8,395,000	7,983,000	*7,983,000*	*7,983,000*
Deferred Tax Assets (Long-Term)	132,662	501,000	2,000	*2,000*	*2,000*
Other Long-Term Operating Assets	2,893	176,000	167,000	*167,000*	*167,000*
Long-Term Non-Operating Assets	7,263	1,001,000	2,111,000	*2,111,000*	*2,111,000*
Total Assets	**3,959,936**	**30,265,000**	**30,081,000**	***29,394,599***	***29,579,723***
Accounts Payable	757,000	2,899,000	2,811,000	*1,696,745*	*1,629,192*
Short-Term Debt	64,249	278,000	842,000	*842,000*	*842,000*
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	7,207	3,266,000	3,180,000	*3,180,000*	*3,180,000*
Current Liabilities	**828,456**	**6,443,000**	**6,833,000**	***5,718,745***	***5,651,192***
Long-Term Debt	2,701,894	12,539,000	16,443,000	*16,443,000*	*15,943,000*
Deferred Tax Liabilities (Long-Term)	—	1,294,000	816,000	*816,000*	*816,000*
Other Long-Term Operating Liabilities	102,585	582,000	780,000	*780,000*	*780,000*
Long-Term Non-Operating Liabilities	73,633	1,445,000	942,000	*942,000*	*942,000*
Total Liabilities	**3,706,568**	**22,303,000**	**25,814,000**	***24,699,745***	***24,132,192***
Preferred Stock	—	—	—	—	—
Common Stock	123,942	487,000	440,000	*440,000*	*440,000*
Additional Paid-in Capital	2,108,037	9,748,000	5,360,000	*5,360,000*	*5,360,000*
Retained Earnings (Deficit)	-1,978,611	-2,283,000	-1,545,000	*-1,117,146*	*-364,469*
(Treasury Stock)	—	—	—	—	—
Other Equity	—	—	—	—	—
Shareholder's Equity	**253,368**	**7,952,000**	**4,255,000**	***4,682,854***	***5,435,531***
Minority Interest	—	10,000	12,000	*12,000*	*12,000*
Total Equity	**253,368**	**7,962,000**	**4,267,000**	***4,694,854***	***5,447,531***

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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
26.18 EUR	37.00 EUR	High	Narrow	Stable	Standard	Communication Services

Morningstar Analyst Forecasts

Cash Flow (EUR Mil)

Fiscal Year Ends in December

	2013	2014	2015	Forecast 2016	Forecast 2017
Net Income	64,706	-176,000	675,000	*434,854*	*759,676*
Depreciation	316,920	500,000	2,560,000	*2,101,795*	*1,916,717*
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	—	—	—	—	—
Other Non-Cash Adjustments	110,073	12,000	202,000	—	—
(Increase) Decrease in Accounts Receivable	—	—	—	*42,531*	*21,620*
(Increase) Decrease in Inventory	—	—	—	*113,369*	*6,873*
Change in Other Short-Term Assets	20,653	358,000	-322,000	—	—
Increase (Decrease) in Accounts Payable	—	—	—	*-1,114,255*	*-67,552*
Change in Other Short-Term Liabilities	—	—	—	—	—
Cash From Operations	**512,352**	**694,000**	**3,115,000**	***1,578,294***	***2,637,335***
(Capital Expenditures)	-330,090	-591,000	-2,370,000	*-1,832,334*	*-1,810,233*
Net (Acquisitions), Asset Sales, and Disposals	-22,259	-13,214,000	175,000	—	—
Net Sales (Purchases) of Investments	-568	-3,000	16,000	—	—
Other Investing Cash Flows	10,260	160,000	446,000	—	—
Cash From Investing	**-342,657**	**-13,648,000**	**-1,733,000**	***-1,832,334***	***-1,810,233***
Common Stock Issuance (or Repurchase)	236,490	4,721,000	-1,923,000	—	—
Common Stock (Dividends)	—	—	-2,509,000	—	—
Short-Term Debt Issuance (or Retirement)	—	—	—	—	—
Long-Term Debt Issuance (or Retirement)	-190,197	8,765,000	2,839,000	—	*-500,000*
Other Financing Cash Flows	—	-76,000	439,000	*-7,000*	*-7,000*
Cash From Financing	**46,293**	**13,410,000**	**-1,154,000**	***-7,000***	***-507,000***
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	—	—
Net Change in Cash	**215,988**	**456,000**	**228,000**	***-261,040***	***320,102***

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Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Valuation Analysis

Company/Ticker	Price/Fair Value	Price/Earnings 2015	2016(E)	2017(E)	EV/EBITDA 2015	2016(E)	2017(E)	Price/Free Cash Flow 2015	2016(E)	2017(E)	Price/Book 2015	2016(E)	2017(E)	Price/Sales 2015	2016(E)	2017(E)
Orange SA ORAN USA	0.87	9.8	13.2	12.1	3.1	2.6	2.5	13.4	16.0	14.8	1.3	1.2	1.2	1.0	1.0	1.0
Bouygues EN FRA	0.90	31.2	20.6	15.1	6.2	6.0	5.6	NM	20.2	13.3	1.6	1.5	1.5	0.4	0.4	0.4
Average		20.5	16.9	13.6	4.7	4.3	4.1	13.4	18.1	14.1	1.5	1.4	1.4	0.7	0.7	0.7
SFR Group SA SFR FR	**0.71**	**22.8**	**28.2**	**16.0**	**0.0**	**0.0**	**0.0**	**0.0**	**NM**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Returns Analysis

Company/Ticker	Last Historical Year Total Assets (Mil)	ROIC % 2015	2016(E)	2017(E)	Adjusted ROIC % 2015	2016(E)	2017(E)	Return on Equity % 2015	2016(E)	2017(E)	Return on Assets % 2015	2016(E)	2017(E)	Dividend Yield % 2015	2016(E)	2017(E)
Orange SA ORAN USA	— EUR	5.4	6.7	7.0	9.9	11.6	11.9	8.8	9.7	10.1	3.0	3.5	3.9	4.6	3.9	3.9
Bouygues EN FRA	— EUR	7.5	6.5	7.4	12.9	11.0	12.5	5.1	7.3	9.8	1.2	1.7	2.3	4.3	4.7	4.7
Average		6.5	6.6	7.2	11.4	11.3	12.2	7.0	8.5	10.0	2.1	2.6	3.1	4.5	4.3	4.3
SFR Group SA SFR FR	— EUR	**3.2**	**4.8**	**5.8**	**6.3**	**9.4**	**11.2**	**11.1**	**9.6**	**14.9**	**2.2**	**1.4**	**2.6**	**NM**	**—**	**—**

Growth Analysis

Company/Ticker	Last Historical Year Revenue (Mil)	Revenue Growth % 2015	2016(E)	2017(E)	EBIT Growth % 2015	2016(E)	2017(E)	EPS Growth % 2015	2016(E)	2017(E)	Free Cash Flow Growth % 2015	2016(E)	2017(E)	Dividend/Share Growth % 2015	2016(E)	2017(E)
Orange SA ORAN USA	40,236 EUR	2.0	1.8	1.5	-6.6	25.2	6.3	—	-28.1	9.1	177.7	82.2	-61.6	—	-14.4	—
Bouygues EN FRA	32,428 EUR	-2.1	-2.6	1.4	-1.4	-13.9	15.1	-51.4	42.1	36.7	-91.9	513.9	48.1	—	—	—
Average		0.0	-0.4	1.5	-4.0	5.7	10.7	-51.4	7.0	22.9	42.9	298.1	-6.8	—	-14.4	—
SFR Group SA SFR FR	**11,039,000** EUR	**408.7**	**-2.4**	**-1.2**	**841.7**	**52.6**	**22.8**	**-251.5**	**-36.6**	**75.9**	**-111.0**	**-45.4**	**132.7**	**—**	**-100.0**	**—**

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SFR Group SA SFR (XPAR) | ★★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
26.18 EUR	37.00 EUR	High	Narrow	Stable	Standard	Communication Services

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Profitability Analysis

Company/Ticker	Last Historical Year Net Income (Mil)	Gross Margin % 2015	2016(E)	2017(E)	EBITDA Margin % 2015	2016(E)	2017(E)	Operating Margin % 2015	2016(E)	2017(E)	Net Margin % 2015	2016(E)	2017(E)	Free Cash Flow Margin % 2015	2016(E)	2017(E)
Orange SA ORAN USA	2,230 EUR	56.0	*56.5*	*56.6*	27.9	*31.1*	*31.3*	11.9	*14.6*	*15.3*	5.5	*7.5*	*8.1*	7.5	*6.2*	*6.6*
Bouygues EN FRA	886 EUR	50.9	*53.6*	*53.7*	8.7	*8.2*	*8.7*	4.2	*3.7*	*4.2*	2.7	*2.2*	*2.4*	-2.3	*1.9*	*2.8*
Average		53.5	*55.1*	*55.2*	18.3	*19.7*	*20.0*	8.0	*9.2*	*9.8*	4.1	*4.9*	*5.3*	2.6	*4.1*	*4.7*
SFR Group SA SFR FR	**675,000** EUR	**42.4**	***64.4***	***65.4***	**32.4**	***33.9***	***35.9***	**9.2**	***14.4***	***17.9***	**6.1**	***4.0***	***7.1***	**6.8**	***-2.4***	***7.8***

Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity % 2015	2016(E)	2017(E)	Debt/Total Cap % 2015	2016(E)	2017(E)	EBITDA/Interest Exp. 2015	2016(E)	2017(E)	Total Debt/EBITDA 2015	2016(E)	2017(E)	Assets/Equity 2015	2016(E)	2017(E)
Orange SA ORAN USA	34,064 EUR	110.2	*85.0*	*77.7*	52.4	*46.0*	*43.7*	7.0	*9.6*	*10.2*	3.0	*2.2*	*2.0*	3.0	*2.7*	*2.5*
Bouygues EN FRA	6,332 EUR	80.5	*80.3*	*78.0*	44.6	*44.5*	*43.8*	9.1	*9.3*	*10.0*	2.3	*2.4*	*2.3*	4.3	*4.2*	*4.1*
Average		95.4	*82.7*	*77.9*	48.5	*45.3*	*43.8*	8.1	*9.5*	*10.1*	2.7	*2.3*	*2.2*	3.7	*3.5*	*3.3*
SFR Group SA SFR FR	**17,285,000** EUR	**406.2**	***369.1***	***308.8***	**80.3**	***78.7***	***75.5***	**4.6**	***3.8***	***4.1***	**4.8**	***4.7***	***4.4***	**7.1**	***6.3***	***5.4***

Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share 2015	2016(E)	2017(E)	Current Ratio 2015	2016(E)	2017(E)	Quick Ratio 2015	2016(E)	2017(E)	Cash/Short-Term Debt 2015	2016(E)	2017(E)	Payout Ratio % 2015	2016(E)	2017(E)
Orange SA ORAN USA	42,721 USD	1.70	*1.64*	*1.70*	0.66	*0.66*	*0.67*	0.63	*0.62*	*0.63*	0.99	*0.95*	*0.99*	69.6	*51.5*	*47.2*
Bouygues EN FRA	11,874 EUR	10.97	*10.67*	*11.21*	0.92	*0.92*	*0.93*	0.74	*0.75*	*0.76*	3.69	*3.58*	*3.77*	137.0	*96.4*	*70.6*
Average		6.34	*6.16*	*6.46*	0.79	*0.79*	*0.80*	0.69	*0.69*	*0.70*	2.34	*2.27*	*2.38*	103.3	*74.0*	*58.9*
SFR Group SA SFR FR	**11,583** EUR	**0.77**	***0.21***	***0.90***	**0.53**	***0.56***	***0.62***	**0.49**	***0.53***	***0.59***	**0.42**	***0.11***	***0.49***	—	—	—

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Research Methodology for Valuing Companies

Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' 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. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss short-term market-price movements), but we believe these negatives are mitigated by deep analysis and our long-term approach.

Morningstar's equity research group ("we", "our") believes 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 stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat

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 economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

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.

To assess the sustainability of excess profits, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total pres-

Morningstar Research Methodology for Valuing Companies

Economic Moat
Financial Health
Stewardship
Uncertainty
Moat Trend

Morningstar Fair Value

Margin of Safety
Market Pricing

Morningstar Rating™ For Stocks
★★★★★

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ent value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty around that fair value estimate
Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

- **Low:** margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- **Medium:** margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- **High:** margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- **Very High:** margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- **Extreme:** Stock's uncertainty exceeds the parameters we have set for assigning the appropriate margin of safety.

4. Market Price
The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more detail information about our methodology, please go to http://global.morningstar.com/equitydisclosures

Morningstar Star Rating for Stocks
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 star rating is automatically re-calculated at the market close on every day the market on which the stock is listed 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.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our 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.

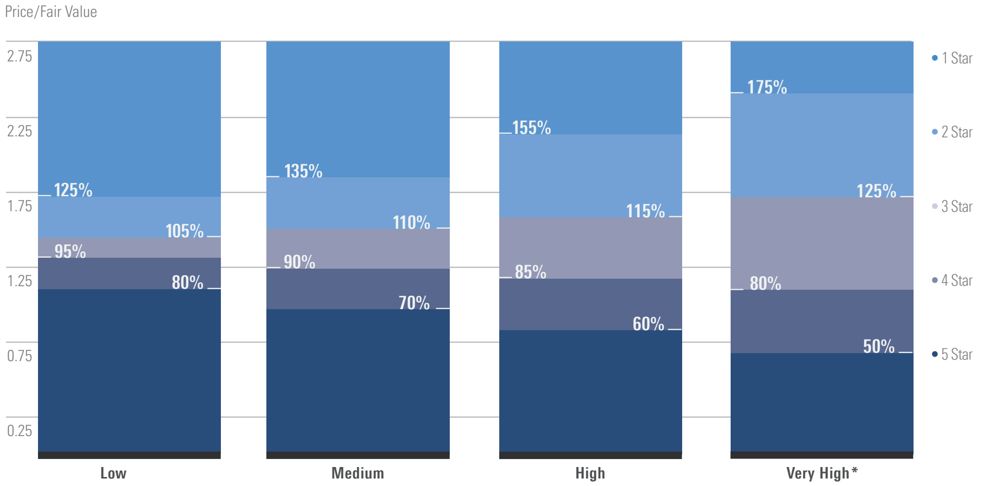
The Morningstar Star Ratings for stocks are defined below:

Five Stars ★★★★★
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.

Four Stars ★★★★
We believe appreciation beyond a fair risk-adjusted return is likely.

Three Stars ★★★
Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

Morningstar Research Methodology for Valuing Companies



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

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Two Stars ★★
We believe investors are likely to receive a less than fair risk-adjusted return.

One Star ★
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.

Other Definitions:

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

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

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- ► **Undervalued:** Last Price is below Morningstar's quantitative fair value estimate.
- ► **Farily Valued:** Last Price is in line with Morningstar's quantitative fair value estimate.
- ► **Overvalued:** Last Price is above Morningstar's quantitative fair value estimate.

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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
26.18 EUR	37.00 EUR	High	Narrow	Stable	Standard	Communication Services

Price/Fair Value Morningstar data as of Jan 18, 2017

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