Morningstar Institutional Equity Research

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Director, Europe Industrials

Why Morningstar?

- Strong Track Record of Performance
- Independent Unbiased View
- Global Coverage
- Differentiated Methodology – Focus on Long-Term Horizon and Competitive Advantages (Economic Moats)
- Consistent Application

Morningstar Equity Research
Global Analyst Team

Our accomplished team of award-winning analysts apply one consistent methodology across our global coverage universe.

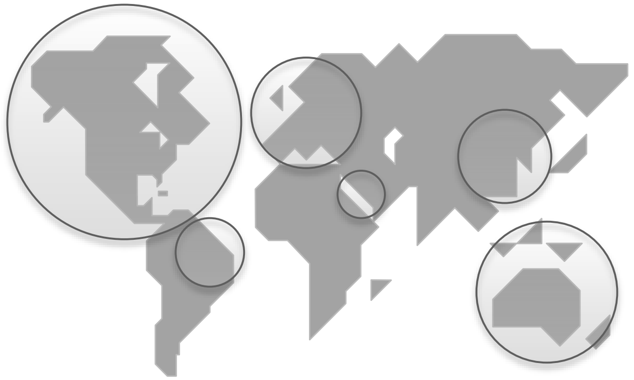
100
Equity Analysts

1,400
Companies Covered Globally

1
Methodology

Morningstar Equity Research
Comprehensive Equity Coverage

By Region, Market Cap, and Sector



Regional Coverage

Asia	176
Australia/New Zealand	207
Europe	279
Latin America	27
Middle East/Africa	51
North America	741
Total Global Coverage	1,481

Market Cap Coverage

!	Large-cap Stocks (10+ Bil USD)	738
@	Mid-cap Stocks (2-10 Bil USD)	417
#	Small-cap Stocks (0-2 Bil USD)	275

Market cap data as of 12/31/2014
Regional data as of 8/2017
Sector data as of 6/2016

Sector Coverage

h	Cyclical	
r	Basic Materials	129
t	Consumer Cyclical	207
y	Financial Services	209
u	Real Estate	52
j	Sensitive	
i	Communication Services	62
o	Energy	120
p	Industrials	194
a	Technology	131
k	Defensive	
s	Consumer Defensive	99
d	Health Care	143
f	Utilities	84

Morningstar Equity Research
Morningstar's Research Methodology

Our award-winning analysts rely on a proven methodology

Fundamental Analysis

Analyst conducts company and industry research:

- Financial statement analysis
- Channel checks
- Trade show visits
- Industry and company reports and journals
- Conference calls
- Management and site visits

Economic Moat Rating

Analyst rates the strength of competitive advantage, or moat: None, Narrow, or Wide

Advantages that confer a moat:

- High switching costs (Microsoft)
- Cost advantage (Wal-Mart)
- Intangible assets (Johnson & Johnson)
- Network effect (MasterCard)
- Efficient Scale (Lockheed Martin)

Company Valuation

Analyst considers past financial results and focuses on competitive position and future prospects to forecast cash flows.

Analyst enters assumptions into Morningstar's proprietary discounted cash flow model.

Fair Value Estimate

Analyst uses a discounted cash flow model to develop a Fair Value Estimate, which serves as the foundation for the Morningstar Rating™ for stocks.

Uncertainty Assessment

The analyst then evaluates the range of potential intrinsic values for the company and assigns an uncertainty rating: Low, Medium, High, Very High, or Extreme.

This uncertainty rating determines the margin of safety required before the analyst recommends the stock. The higher the uncertainty, the wider the margin of safety.

★★★★★ ★★★★ ★★★ ★★ ★

The current stock price relative to Morningstar's Fair Value Estimate, adjusted for uncertainty, determines the Morningstar Rating for stocks.

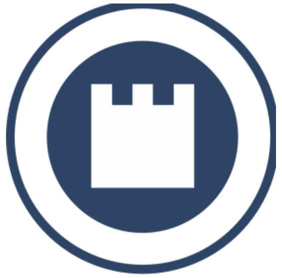
The Morningstar Rating for stocks is updated each evening after the market closes.

Morningstar Equity Research

Morningstar® Economic Moat™ Rating

Sustainable competitive advantages that allow a company to generate positive economic profits for the benefit of its owners for an extended period of time.

Wide
15%



Narro
w
45%

None
40%

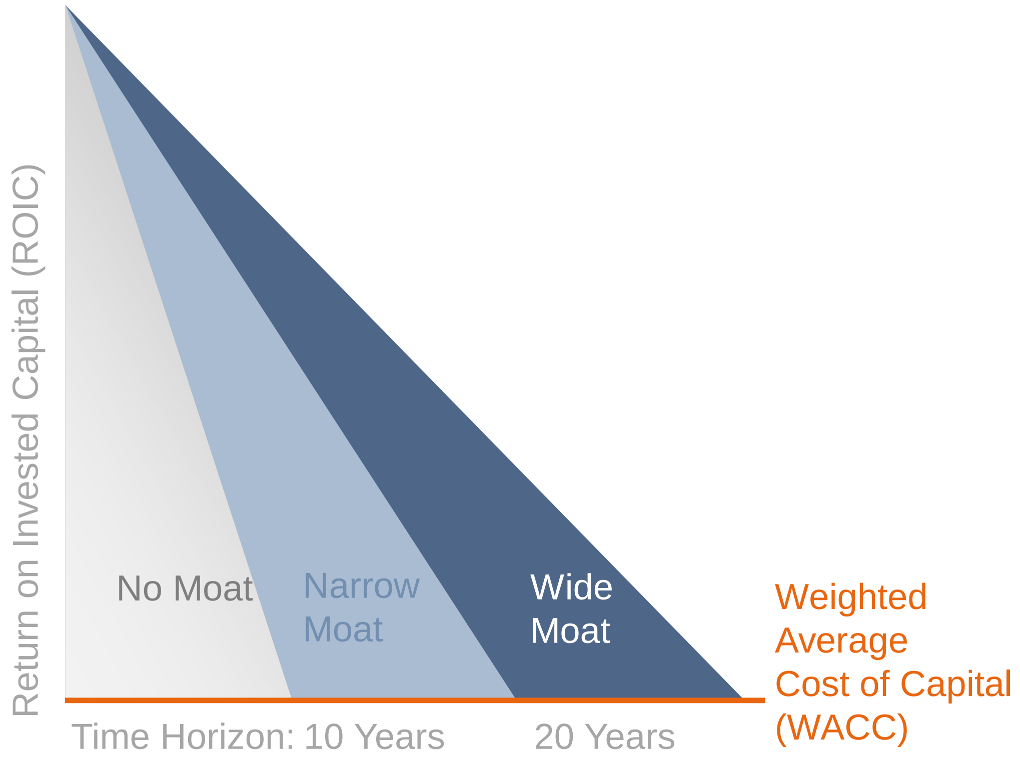
What is an Economic Moat?

- Capital flows to the areas of highest potential return, so all firms face competition that seeks to force down high returns on capital.
  - But some firms generate high returns for a very long time.
  - How? By creating economic moats around their businesses.
- An economic moat is a structural business characteristic that allows a firm to generate excess economic returns for an extended period.
  - Firms with moats have ability to invest incremental capital at high rates of return = faster earnings growth and/or higher free cash flow.
  - Firms with moats have more predictable cash flows, limiting the risk.

Moat (Quantitatively): Return On Invested Capital (ROIC) Is Key

- Use Cash Flows not Earnings
  - Cash is King!
  - Lack of IFRS/GAAP earnings <u>now</u> not hindrance to moat creation
- IC: Compare apples to apples
  - Adjust IC when needed
- Estimate appropriate cost of capital

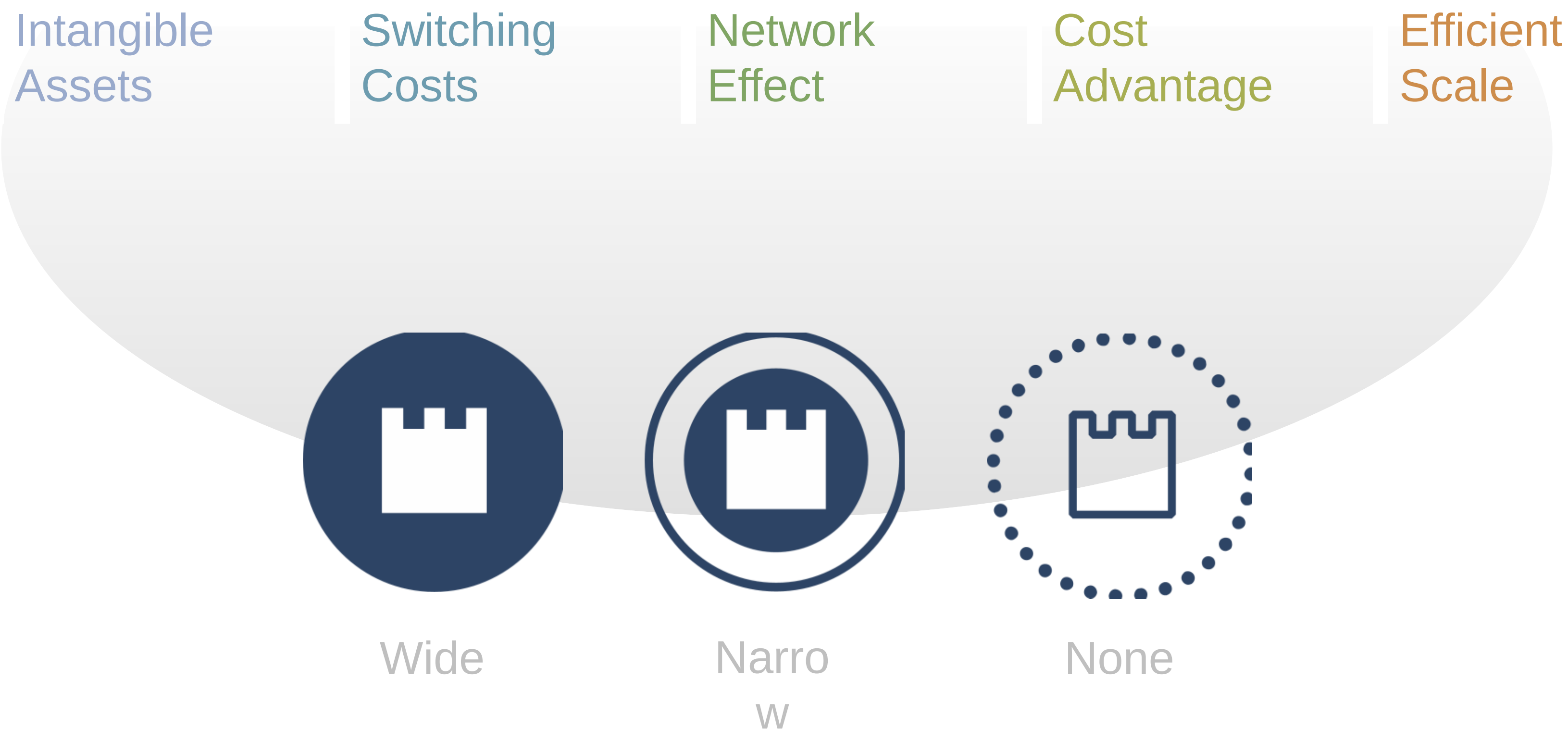
<u>Duration of excess returns is far more important than absolute magnitude</u>



Morningstar Institutional Equity Research Services

Economic Moats

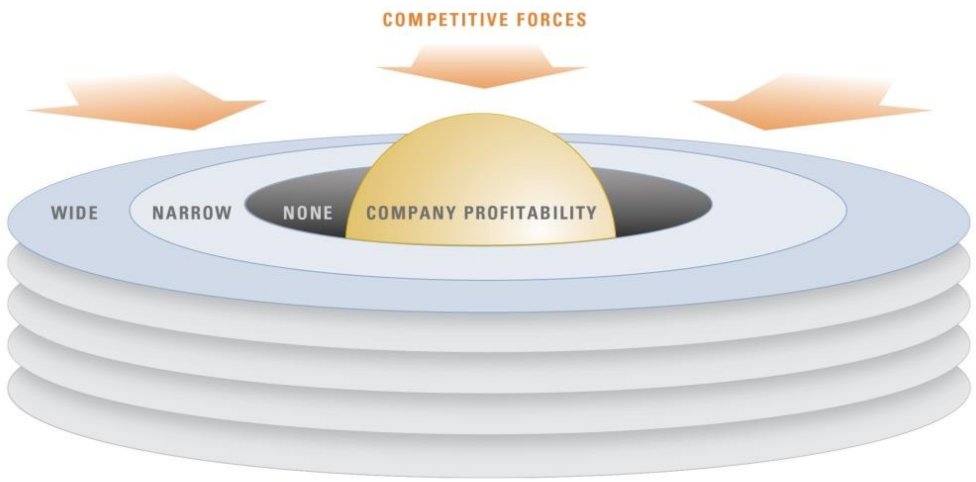
There are five sources of economic moats.



Morningstar® Economic Moat™ Rating
Sources of Moats

Intangible Assets

- Includes brands, patents, and regulatory licenses
- Brand increases the customer's willingness to pay
- Patents protect pricing power legally barring competition
- Government regulations hinder competitors from market.

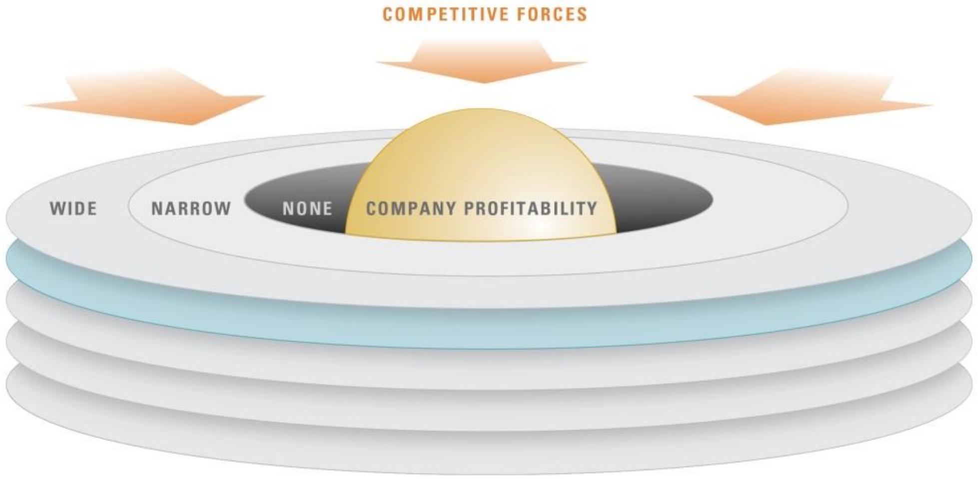


Johnson & Johnson
Unilever
SANOFI
Coca-Cola

Morningstar® Economic Moat™ Rating
Sources of Moats

Switching Costs

- Time = Money and vice versa
- The value of switching exceeds the expected value of the benefit
- Razor and blade model entrench repeat consumables customers
- Price not the only determinant



INTUITIVE SURGICAL®

ADP®

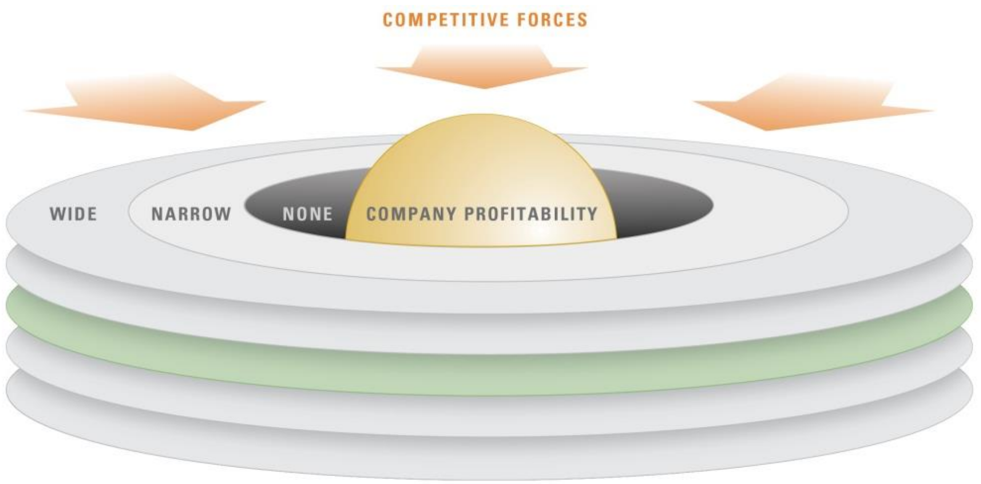
ORACLE®

MORNINGSTAR®

Morningstar® Economic Moat™ Rating
Sources of Moats

Network Effect

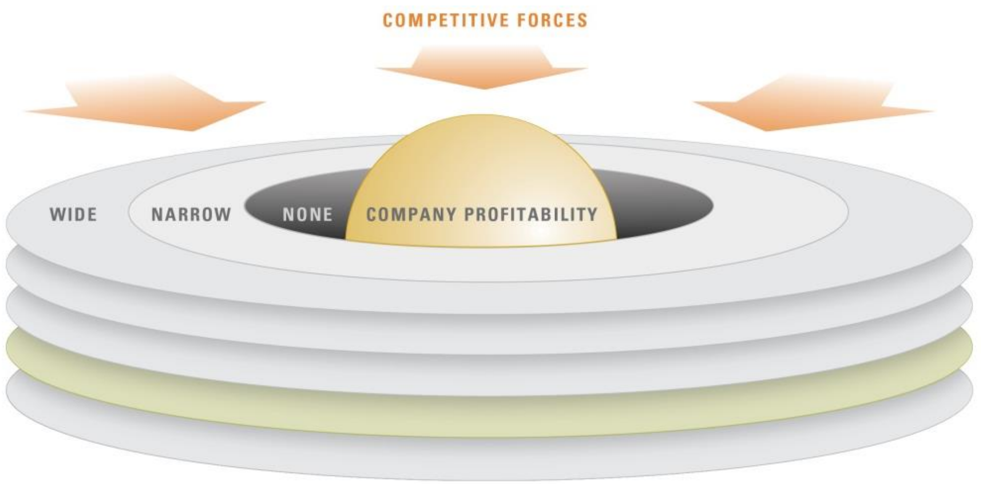
- The value of a particular good or service increases for both new and existing users as more customers use that good or service
- With each additional node, the number of potential connections grows exponentially



Morningstar® Economic Moat™ Rating
Sources of Moats

Cost Advantage

- Sustainably lower costs than competitors
- Irreplaceable process advantages
- Superior location
- Hard-to-amass scale
- Access to a unique asset



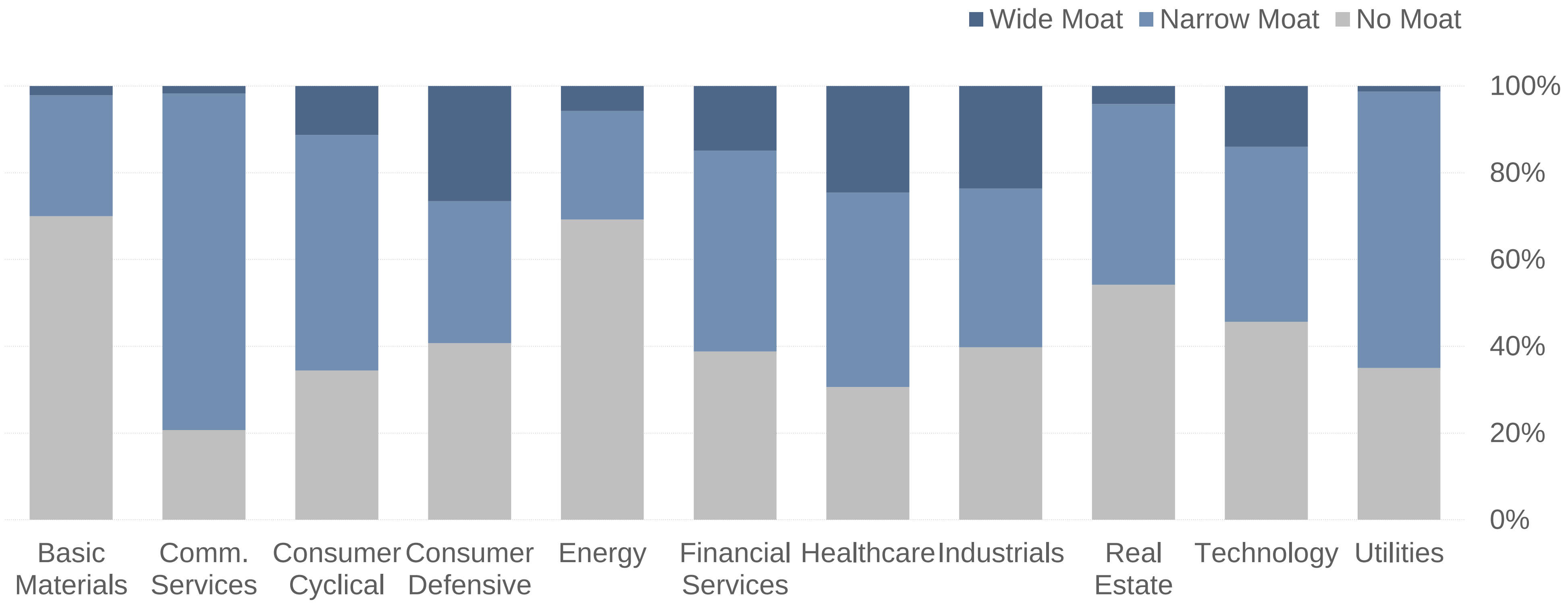
Morningstar® Economic Moat™ Rating
Sources of Moats

Efficient Scale

- Dynamic in which a market of limited size is effectively served by few companies
- Incumbents generate economic profits
- Newcomers discouraged from entering because returns in the market fall below the cost of capital

Morningstar Institutional Equity Research Services
Moat Rating Distribution

Moats are not equally distributed across sectors. Highly commoditized or competitive industries will have fewer companies with moats.



Data as of June 30, 2017

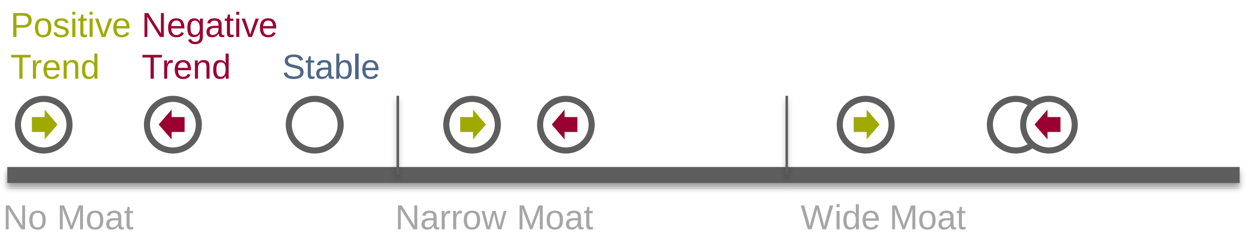
Morningstar® Economic Moat™ Trend
Moat Trend Concept

Moat Trend is a detectable direction of change in the competitive position of a company's businesses

Morningstar® Economic Moat™ Trend

- **Positive Trend**
  The underlying sources (or potential sources) of an economic moat must be materially strengthening for an identifiable reason

- **Negative Trend**
  The underlying sources (or potential sources) of an economic moat must be materially weakening or face a substantial
  and identifiable threat that is growing



Morningstar® Valuation Methodology

We are valuation-driven. Buy assets that cost less than they are worth.

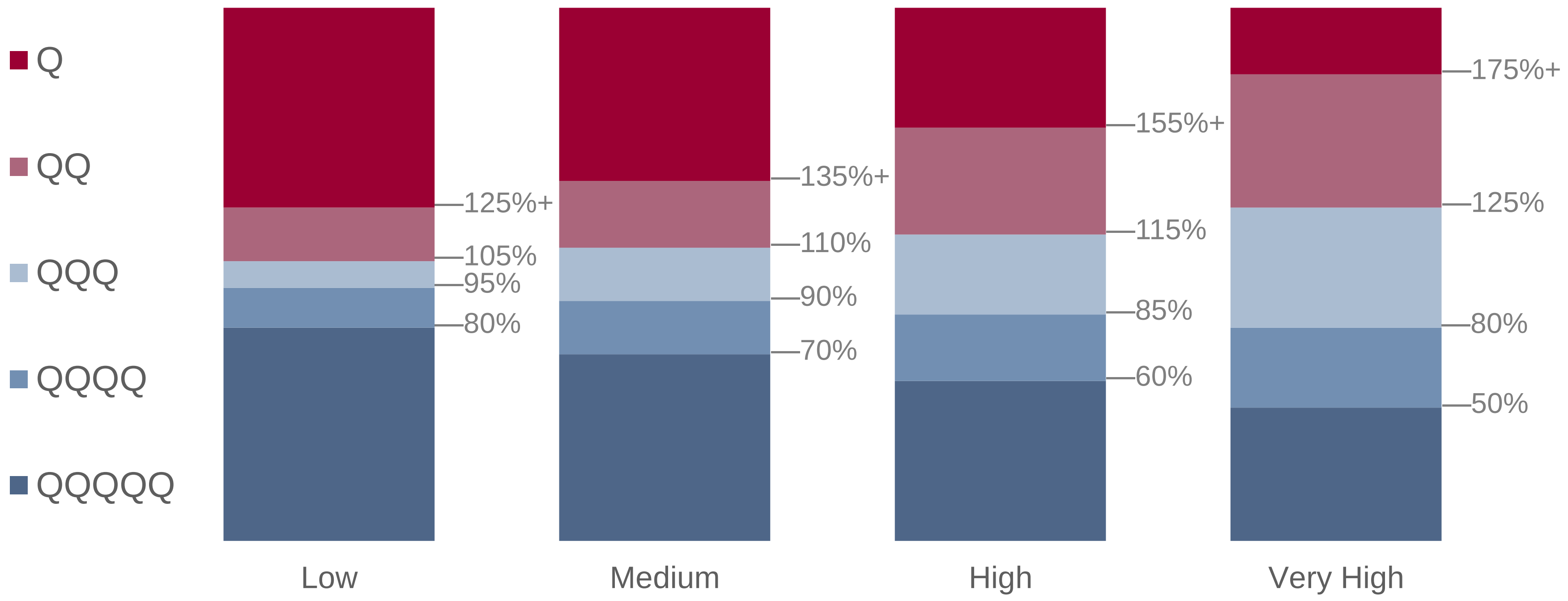
Price ≠ Value

- Market Sentiment
- News Flow (noise)
- Liquidity

- Lifetime Cash Flow
- Risk

Morningstar Star Rating™

We assign the Morningstar Rating for stocks by comparing the market price with our fair value estimate, adjusted for uncertainty.



Data as of December 31, 2014.

Morningstar Performance – Focus on Moats Works!

Why Moats Matter –Performance

Moat isn't always priced in!

- Two companies with similar growth rates, returns on capital, and reinvestment needs:
  - The "moaty" company has a higher value
  - Moats provide a margin of safety
  - Companies with moats likely to continue to compound in value

g **Overestimating a moat = paying for unlikely value creation**

- Why isn't the moat already priced in?
  - Time-horizon arbitrage: market is myopic, and moats matter more in the long run
  - Recency bias: investors project the way the world is today much too far into the future

Waiting for moats, particularly wide, to get cheap pays off!

The Effectiveness of Our Ratings Over Time

Morningstar® Wide Moat Focus Index℠ vs. S&P 500

Trailing Annualized Returns (%)

Index	1-Year	3-Year	5-Year	10-Year	Since Inception (09/30/2002)
Morningstar® Wide Moat Focus Index℠	23.6	11.2	16.6	11.5	15.1
S&P 500 Index (cap-weighted)	17.9	9.6	14.6	7.2	9.8

Data from September 30, 2002 through June 30, 2017. Indexes are unmanaged and not available for direct investment.

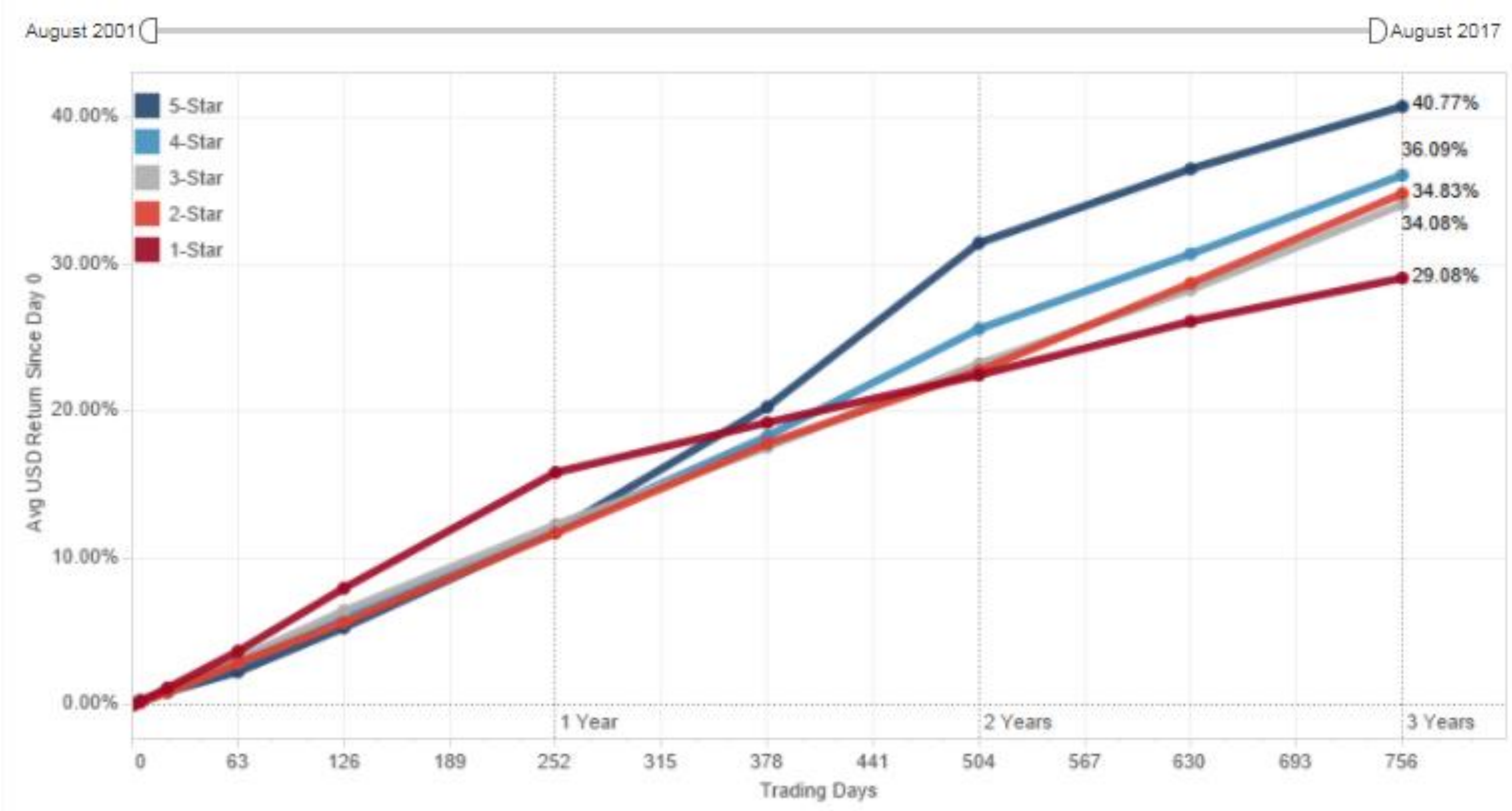
The Effectiveness of Morningstar Ratings for All Stocks

All stocks sorted by Morningstar Rating for stocks vs. S&P 500

	Trailing Annualized Returns (%)				
Morningstar Rating™ for stocks	1-Year	3-Year	5-Year	10-Year	Since Inception (08/06/2001)
QQQQQ	34.5	9.3	15.4	13.6	12.0
QQQQ	29.8	6.7	14.5	8.4	11.5
QQQ	18.6	9.4	14.8	8.5	9.4
QQ	10.1	5.3	9.3	2.8	4.6
Q	10.2	3.6	11.0	8.8	8.0
Morningstar Coverage Universe	17.9	7.8	13.5	8.8	9.6
S&P 500 Index (cap-weighted)	17.9	9.6	14.6	7.2	6.6

Source: Morningstar
Time-weighted returns through: June 30, 2017

Performance of our Global Universe from Ratings Launch in 2001.



Source: Morningstar, Data as of 9/8/2017

Ready-to-Wearhouse:

Supplying Warehouse Automation Equipment Is a Moaty, Growing Business

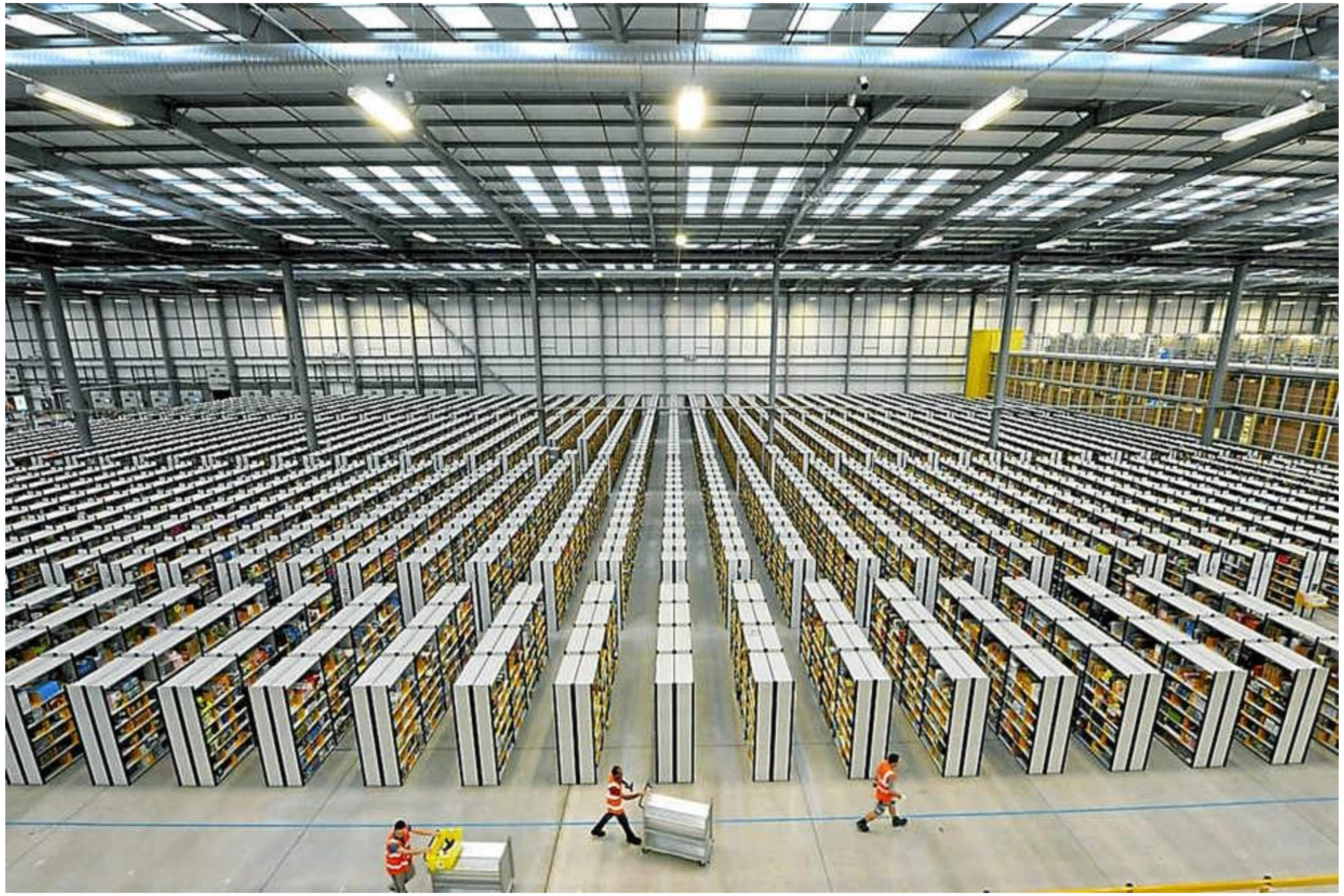
CONCLUSIONS FROM OUR RESEARCH

- Warehouse equipment suppliers have a long runway of growth.
- This is a wide-moat business, where incumbents have the advantage.
- Kion Group is the market leader and on our Best Ideas List.

80% of the World's Warehouses Today Are Manually Run

INEFFICIENCIES

- Paying for people to walk
- Paying for empty spaces



Amazon Rugeley, UK Fulfilment Centre

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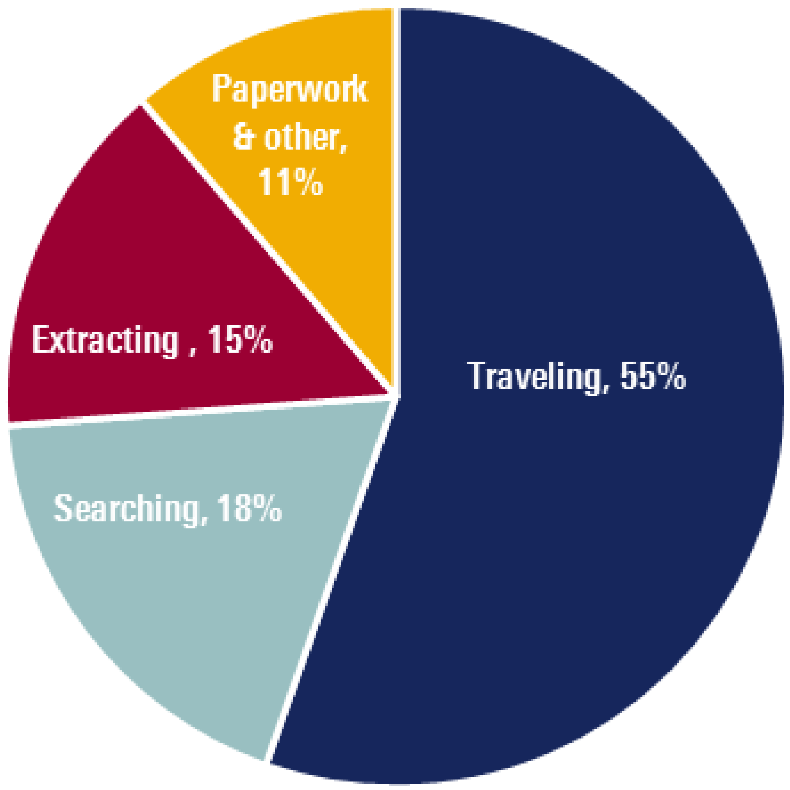
Manual Pickers Rack Up a Lot of Miles

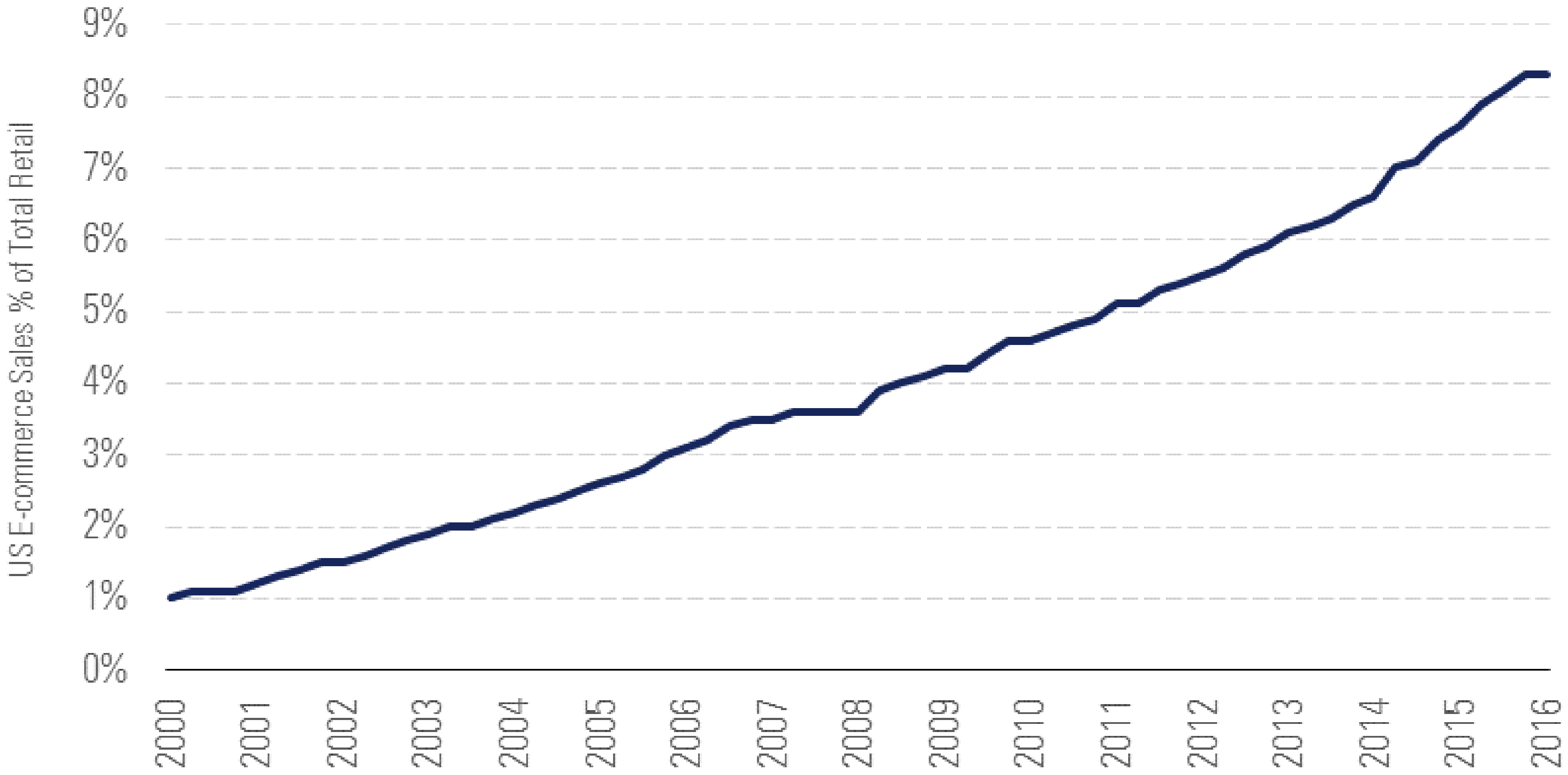
Time Split for Typical Manual Picker



- **Pickers spend more than half of their day walking, up to 15 miles a day.**
- **Walking is unproductive time for the warehouse.**

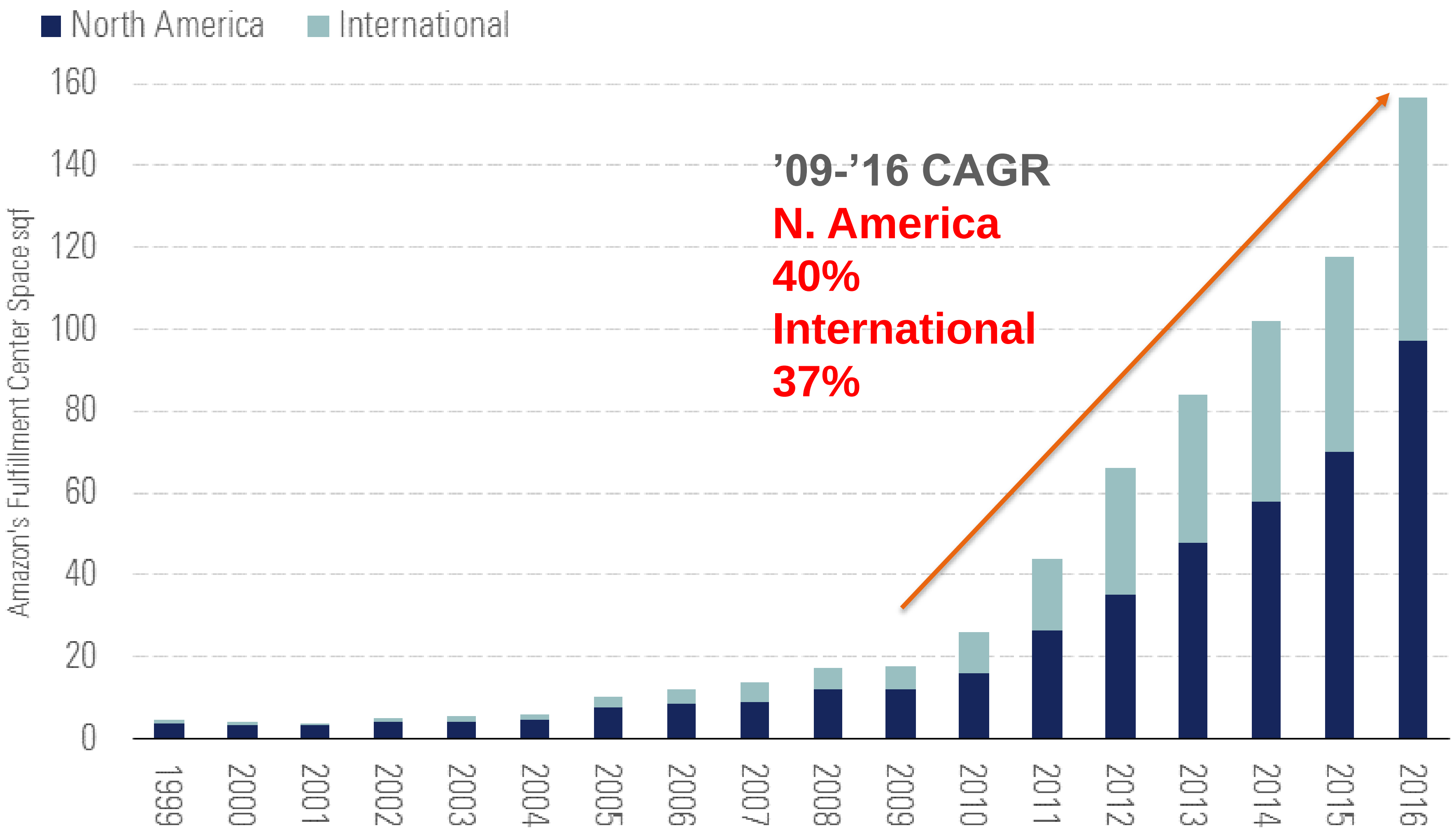
Source: Frazelle

E-Commerce and Next-Day/Same-Day Delivery Are Pushing Demand for Warehouse Space, Especially in Urban Areas



Sources: St Louis Fed, Morningstar

Amazon Has Been Snapping Up Logistics Space at a 30%+ Clip



Sources: Company documents, Morningstar

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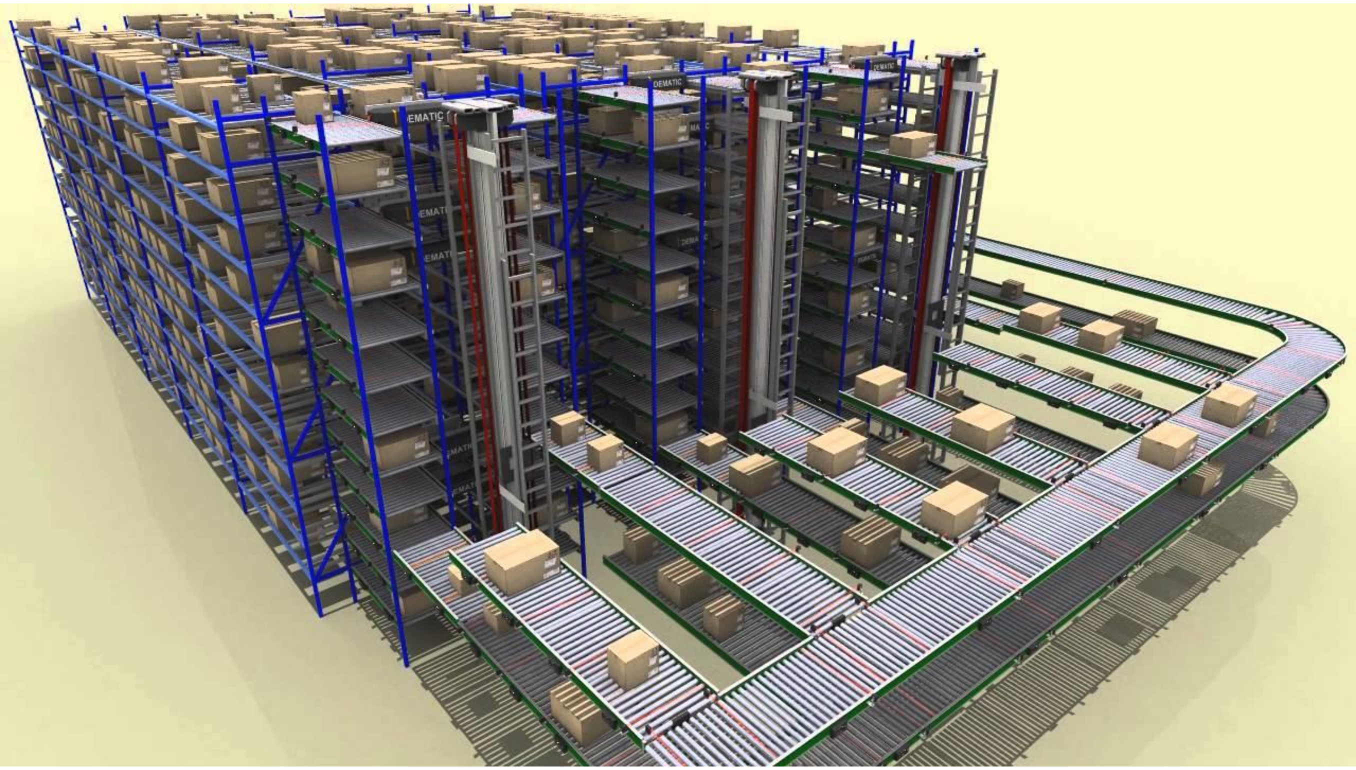
Automation Can Be 5-10 Times More Expensive Than Manual, but Increase Throughput by up to 10 Times in a Smaller Footprint

Manual Paper-Based Picking Rates: 100 items/hour

Pick-to-Light Automated Picking Increases Throughput to 200 to 400 Items Per Hour

Multishuttle Picking Rates Are 1,000 Items Per Hour, or 10 Times Manual



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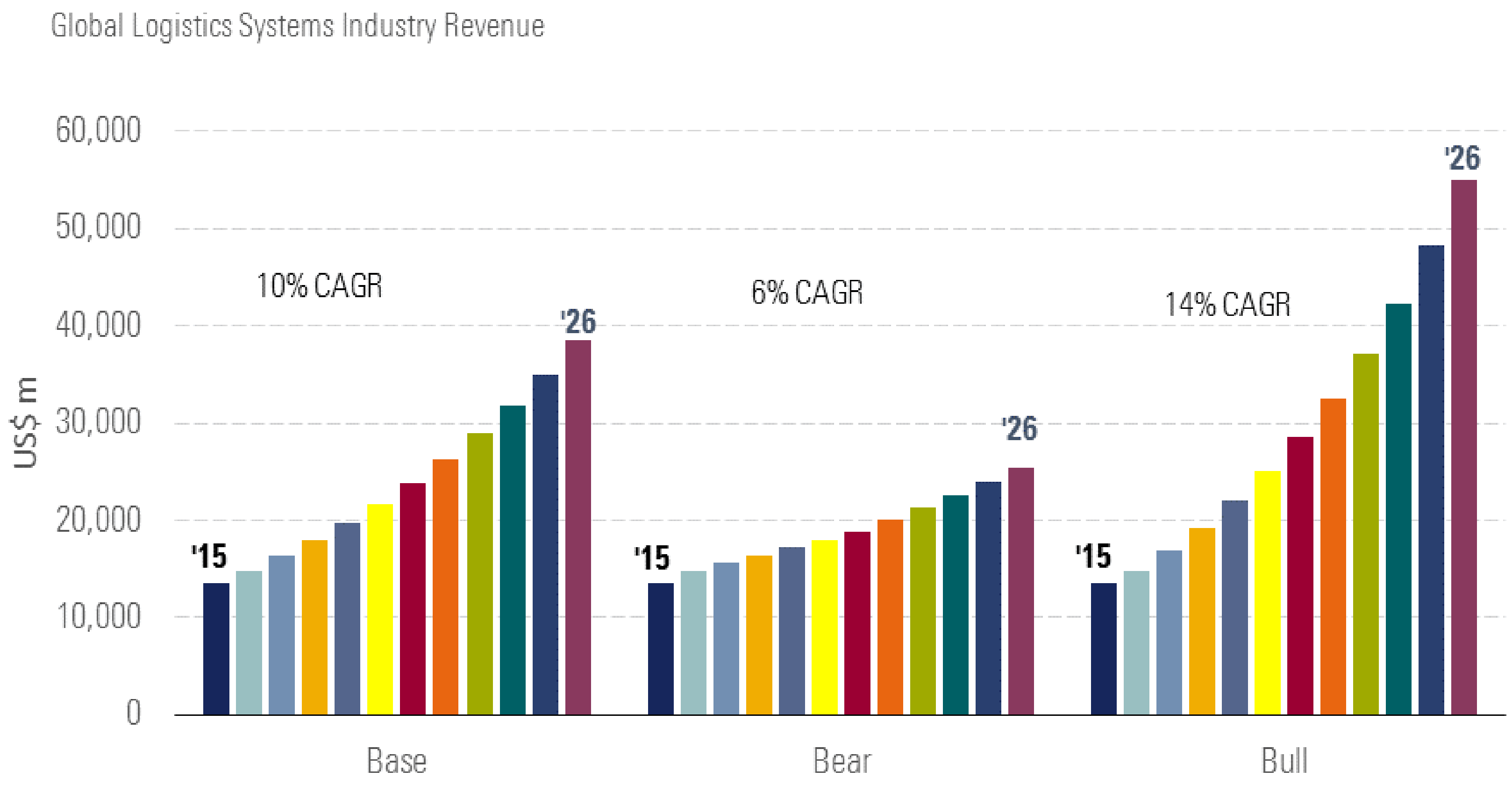
Long Runway of Growth: We Forecast 10% Growth in Automation Equipment Demand Over the Next 10 Years

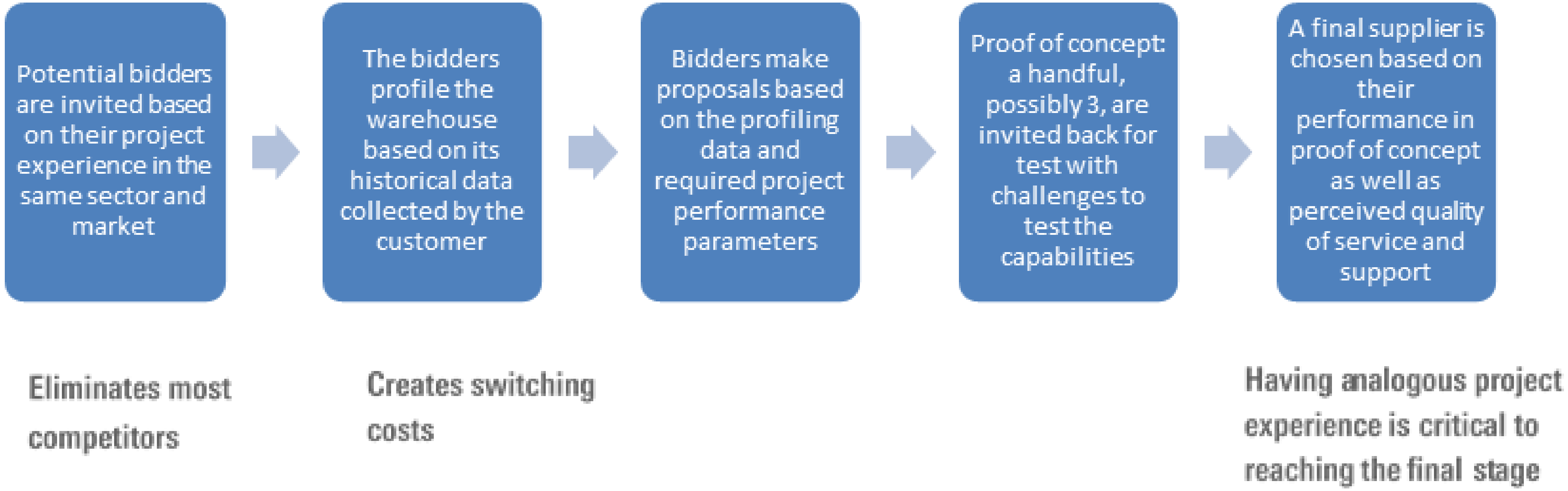


- **Automated equipment is 5-10 times more expensive than manual.**
- **Industry starting from a low base.**
- **E-commerce in early stages globally.**

Source: Morningstar

Wide-Moat Business Driven by Switching Costs

The Tender Process Favours Incumbents: The Strong Get Stronger

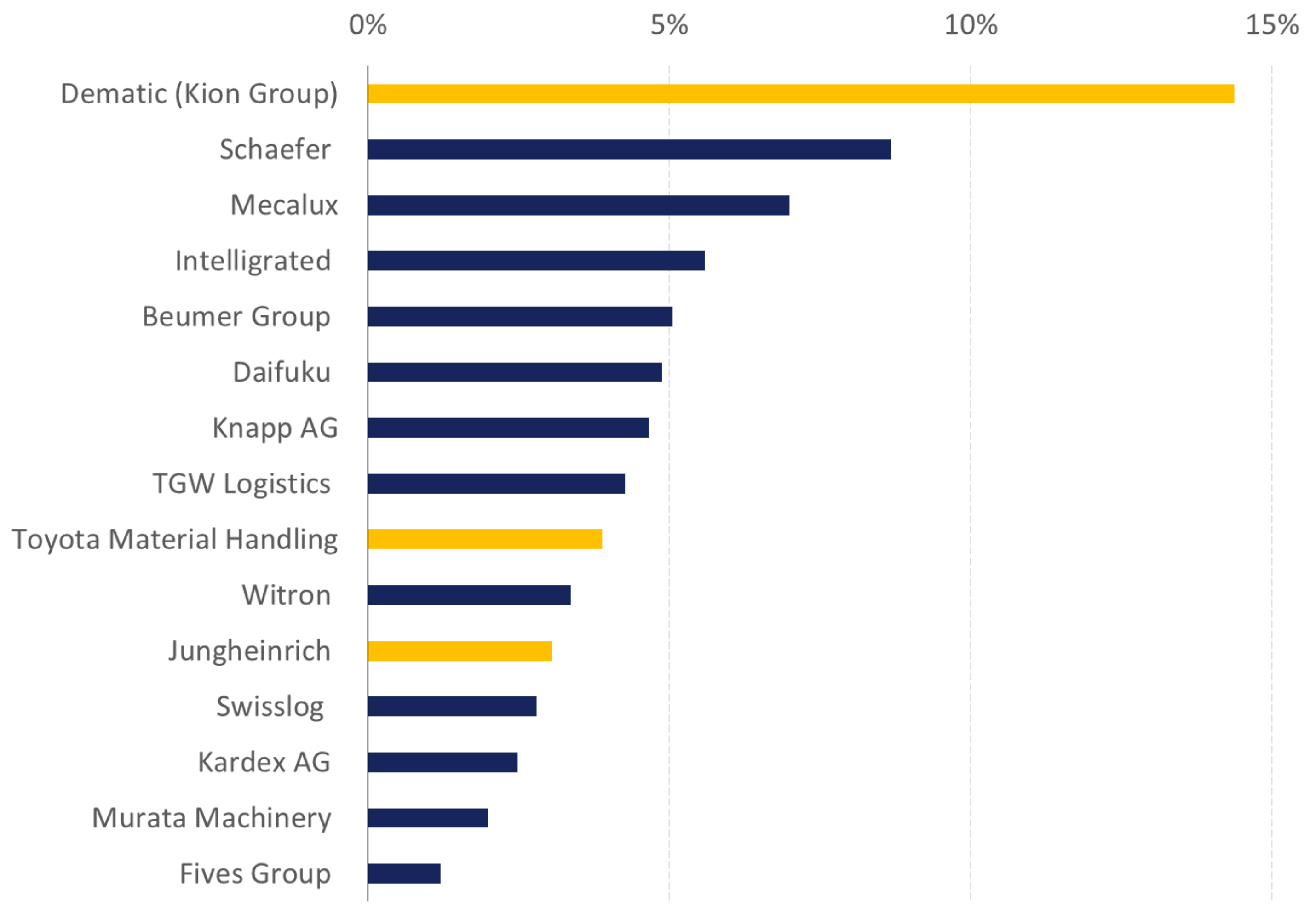


Source: Morningstar

Who Are the Strong?

Companies in yellow also provide forklifts:

Toyota, Kion, & Jungheinrich are the #1, #2 & #3 forklift manufacturers globally.



Sources: Company documents, Morningstar

Best Idea: Kion Group

- Industry leader with an impressive reference book of clients to win new business.
- Able to cross sell Dematic's warehouse equipment to existing Kion forklift customers-same end markets but complementary geographic strongholds.
- EUR 80 fair value estimate
- Morningstar 2%-3% above consensus on medium-term forecasts.

Sector	Dematic (Kion) Customer Examples
e-commerce	Amazon, Asos, JD.com
General merchandise	Wal-Mart, Tesco, JC Penney
Grocery	Delhaize, Migros, Rewe, Netto
Apparel	Adidas, Gap, Zara
Food & Beverage	Unilever, Coca-Cola, Nestle
Parcel	FedEx, Deutsche Post

Sources: Company documents, Morningstar


thank you!