MORNINGSTAR

Moat Ratings Change Report

During the first half of 2025, we upgraded 31 moat ratings and downgraded 11.

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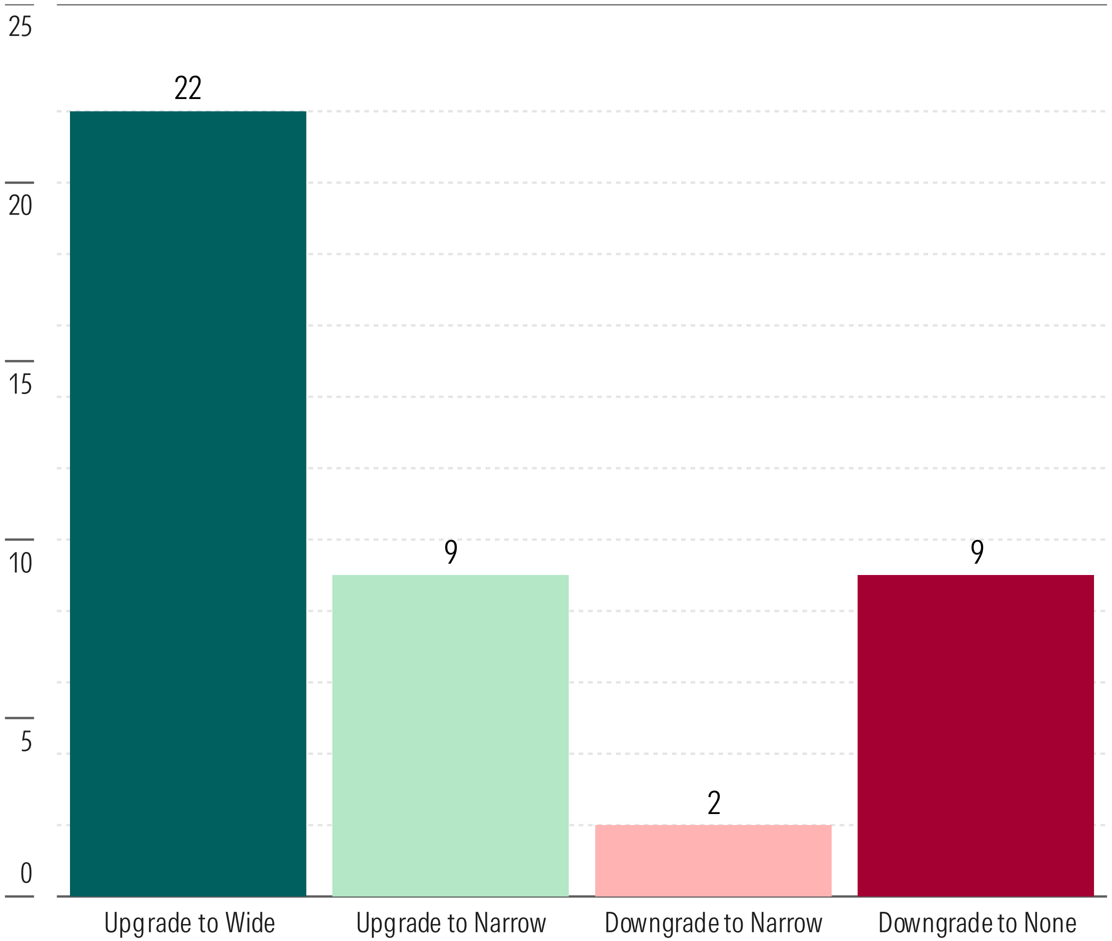
Executive Summary

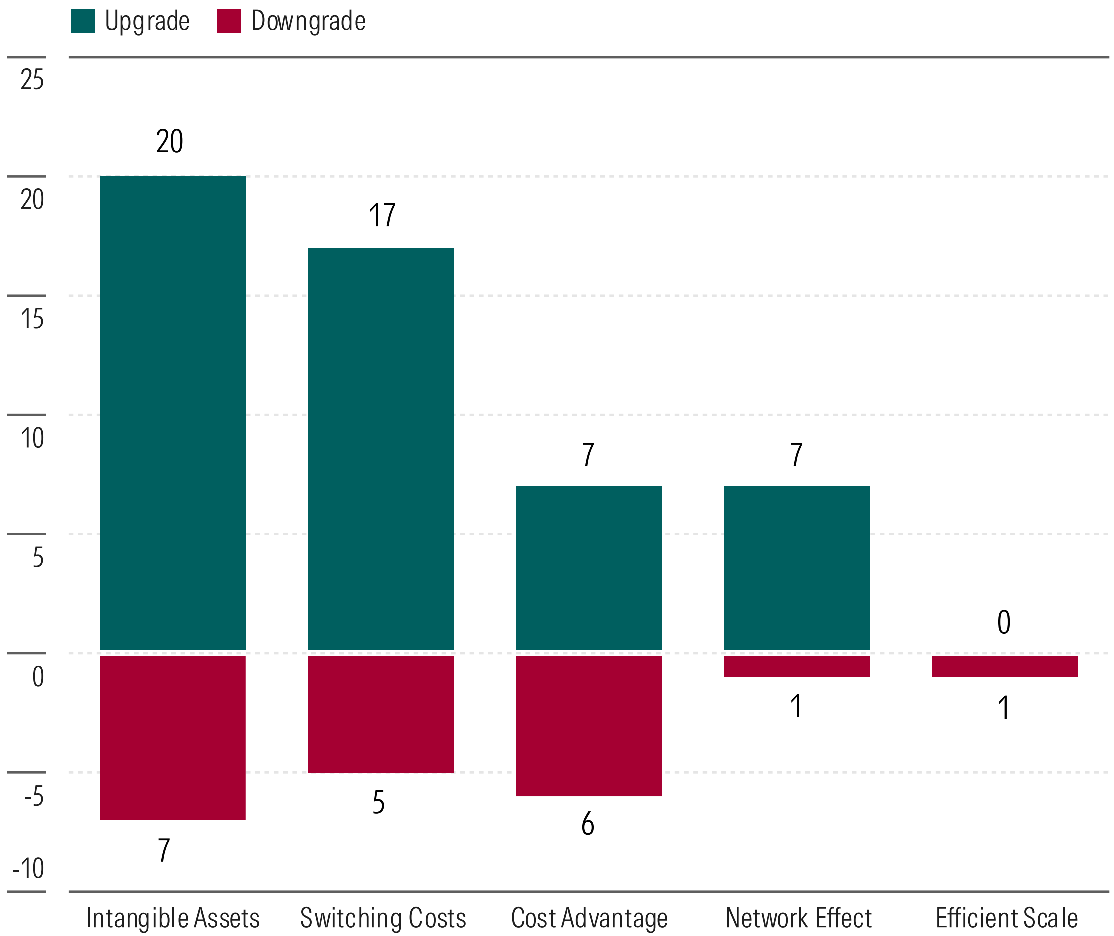
We uncovered more wide moats in the first half of 2025.

Wide-Moat Upgrades Were More Prevalent Thanks to Intangible Assets and Switching Costs

We Upgraded 31 Morningstar Moat Ratings Compared With Only 11 Downgrades



Firms With Intangible Assets and Switching Costs Were Upgraded Most Often

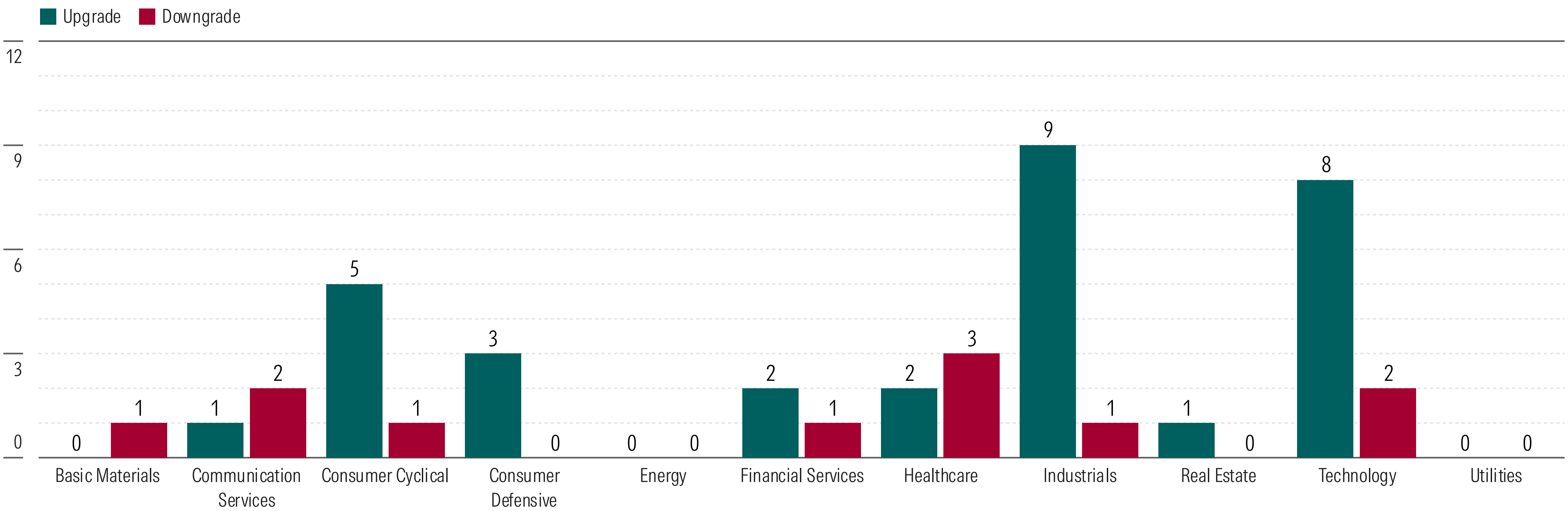


Source: Morningstar.
Note: Companies may have more than one moat source. As a result, upgrades and downgrades by moat source in right-hand chart will be greater than rating changes in left-hand chart.

Industrials and Technology Led to Upgrades and Healthcare Led to Downgrades in First-Half 2025

Industrials lead the upgrades with 9 in total (8 wide, 1 narrow), where we continue to recognize the powerful combination of intangible assets and switching costs in the sector, followed by technology (6 wide, 2 narrow) which featured some long-standing firms, which have made a comeback (SAP, Oracle) and newer, semiconductor-focused firms (ASM International, BE Semiconductor Industries). Downgrades were less concentrated. Healthcare had the most downgrades as regulatory uncertainty continues to play a role (CVS, Centene). A complete list of changes is on Slide 13 and Slide 14.

Moat Upgrades and Downgrades per Sector in First-Half 2025

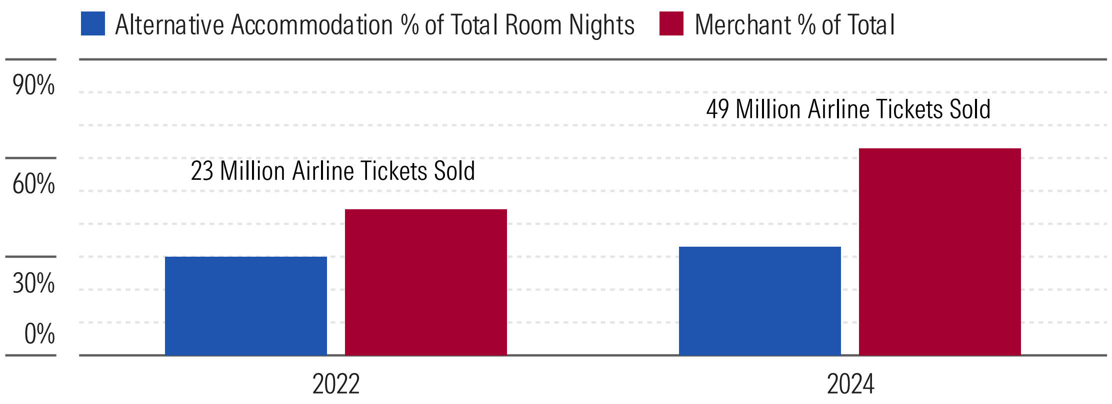


Source: Morningstar.

Upgrade and Downgrade Focus

Strengthening Network Effects Lead to Moat Upgrades for Booking and Airbnb

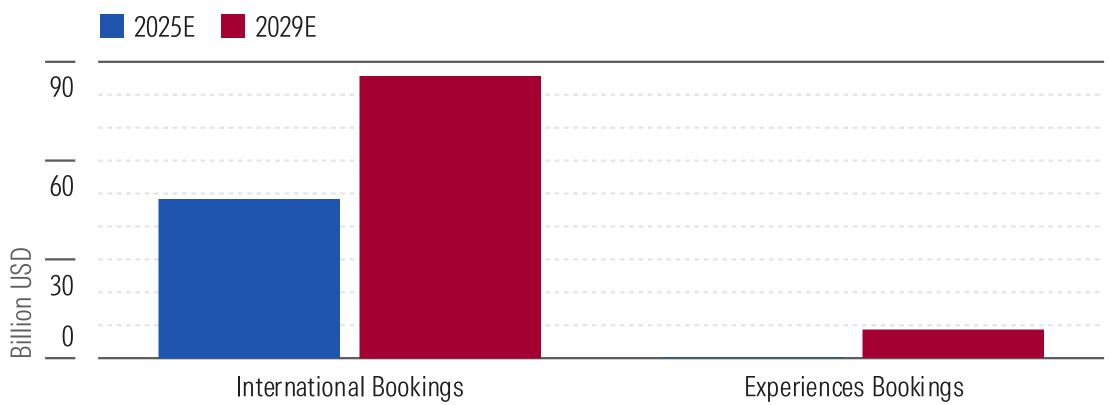
Increasing Air Volume, Merchant and Accommodation Bookings



We have upgraded Booking's Morningstar Economic Moat Rating to wide from narrow due to its successful expansion into payments, flights, and alternative accommodation, which has strengthened its already stout platform position. Additionally, we are increasingly confident that generative artificial intelligence will not hinder Booking's leading position.

Booking's platform includes the industry's most comprehensive array of travel content, cementing the supply side of its network effect advantage. But Booking has not rested on its laurels when to comes to platform strength. Booking's robust network prowess has only strengthened in recent years, driven by its expansion in the flight and vacation rental verticals and payment offerings that led to revenue outperformance versus peers.

Increasing International Alternative Accommodation and Experiences Bookings



We upgraded Airbnb's Morningstar Economic Moat Rating to wide as we expect the company will successfully expand internationally in its core vacation rental market and augment its stout position with a leading experiences offering. Even in the face of changing dynamics from generative AI, we have confidence that Airbnb can deliver excess returns for the next two decades, underpinned by the company's strong track record in innovation.

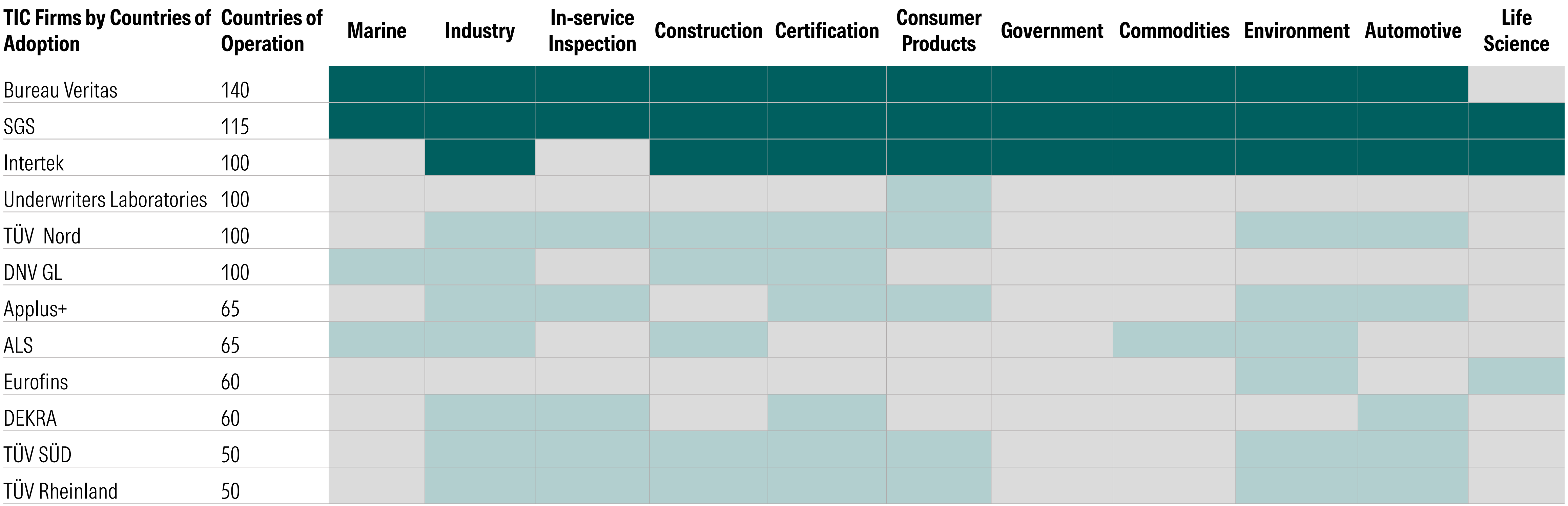
Like wide-moat Booking Holdings, Airbnb has developed a two-sided marketplace network effect by incentivizing private accommodation owners to post their dwellings (supply side) on its platform, in turn attracting travelers (demand side), subsequently enticing more supply, creating a virtuous cycle, and increasing value for all.

Source: Company reports, Morningstar.

SGS, Bureau Veritas and Intertek's Offerings Represent an Intangible Asset That Creates Switching Costs

Multinational clients often prefer to do business with TIC firms, which can offer the breadth of testing services needed globally. A fourth firm with similar capabilities and offerings has not emerged over the past 30 years and we do not anticipate one to emerge over the next 20 years, given how hard it is for new companies to enter new areas due to a lack of experience, the increased difficulty for smaller firms to make acquisitions, and the fact that global expansion has only happened once in the past 30 years.

Breadth of Offerings Sets SGS, Bureau Veritas and Intertek Apart from Peers and Underpins Their Wide Moats



Source: Company reports, Morningstar.

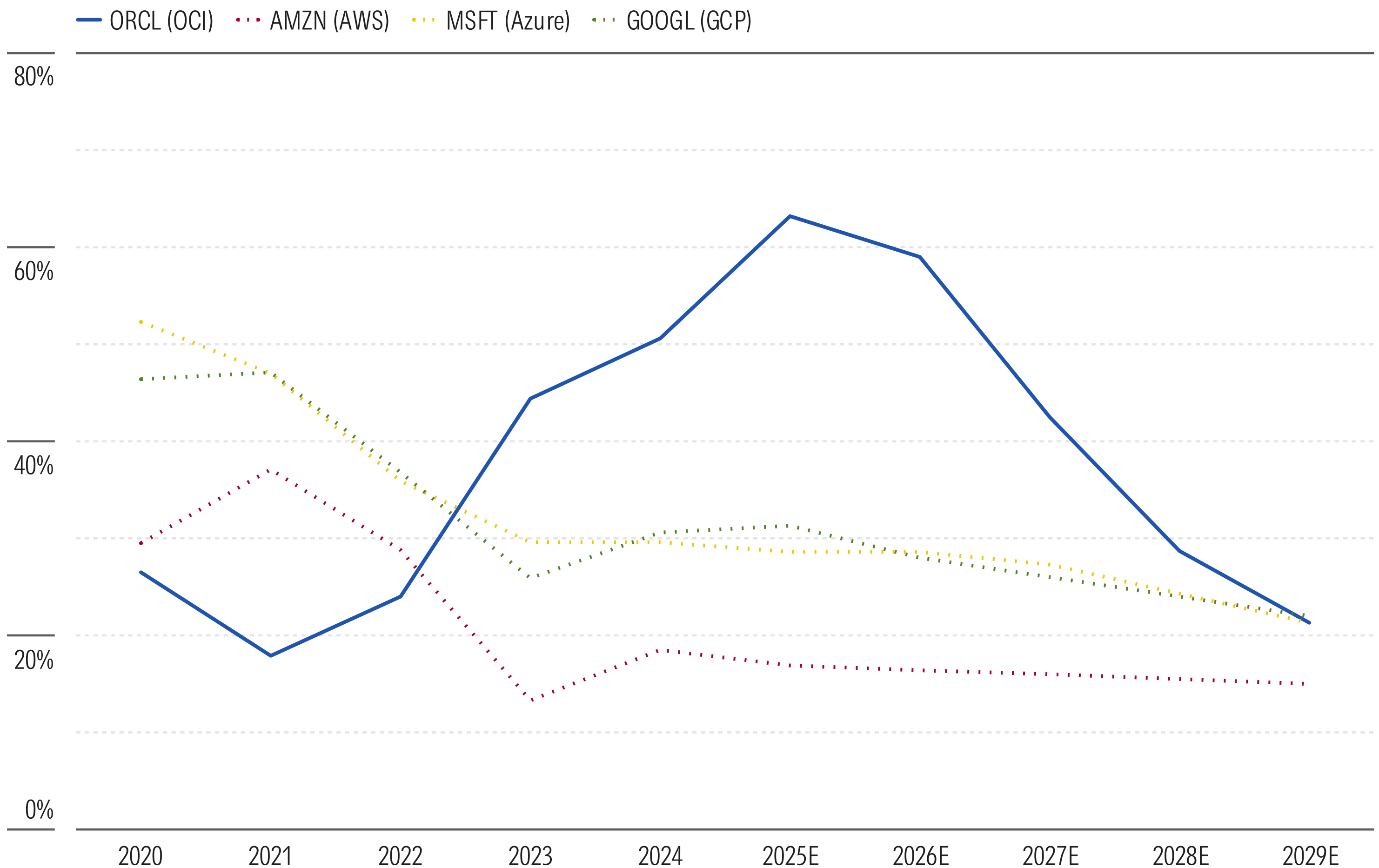
Oracle's Buildout of Cloud Offerings Strengthens Switching Costs and Earns a Wide-Moat Upgrade

After introducing Generation 2 Cloud in 2018, the growth of Oracle's Cloud Infrastructure and Cloud Applications businesses has accelerated. In our view, OCI is now at scale and rapidly closing the gap with leading cloud infrastructure services, such as Amazon Web Services, Microsoft Azure, and Google Cloud Platform. As OCI continues to expand, unit costs should decrease due to economies of scale; however, we don't see cost advantage becoming a moat source for Oracle, as capital expenditure going to OCI will still be materially smaller than the three largest public cloud providers.

However, OCI alone warrants a wide moat thanks to strong switching costs. Currently, OCI provides a comprehensive Infrastructure-as-a-Service and Platform-as-a-Service offering that satisfies the cloud computing demands of modern enterprises, and we believe customers will remain with OCI once they are onboarded. Despite OCI's smaller size compared with other hyperscale leaders, it has gained critical mass and is no longer a drag on profitability. Furthermore, companies are gravitating toward a multicloud strategy, where an enterprise might use two or more public cloud vendors.

Oracle's Cloud Growth Is Closing the Gap With Market Leaders and Strengthening Its Switching Costs

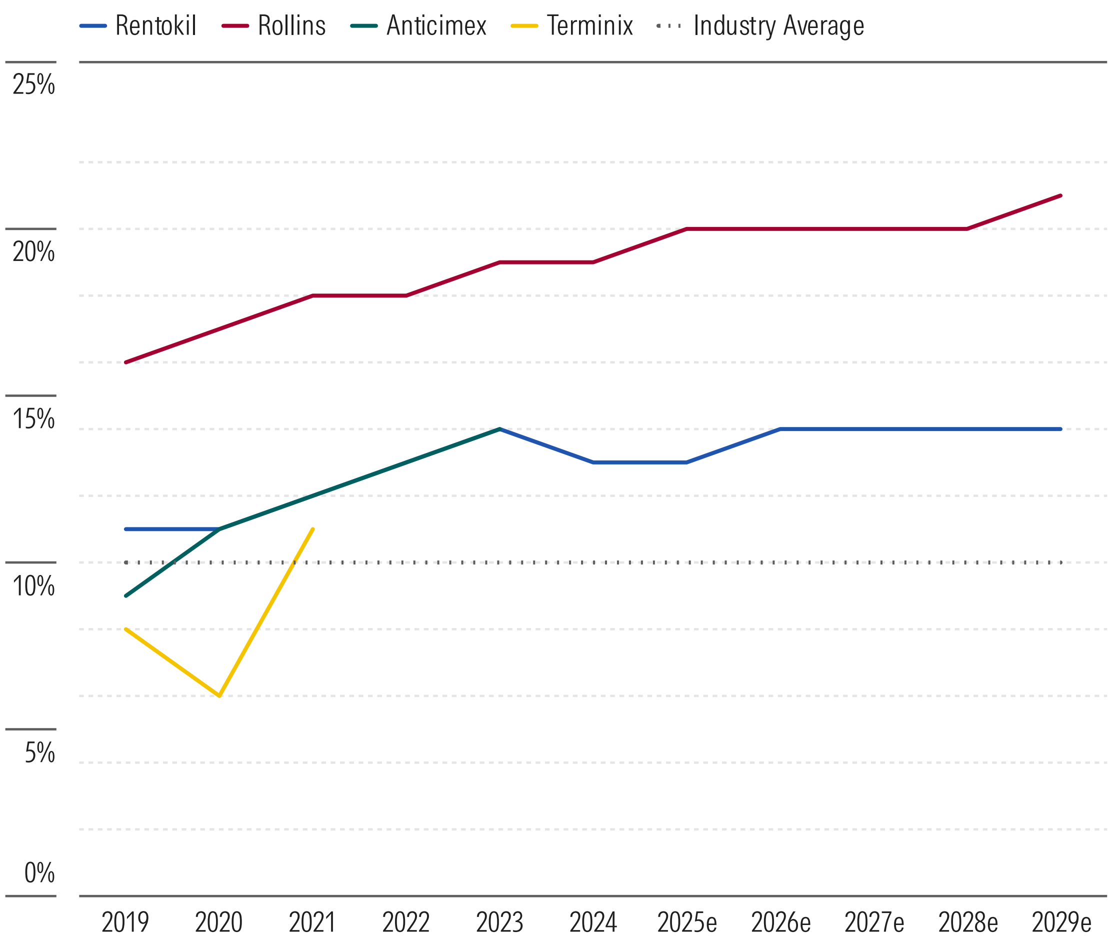
YOY growth rate of major cloud services.



Source: Company reports, Morningstar.

Rentokil's Lack of Brand Intangible Asset Leaves It Trailing Wide-Moat Peer Rollins

Rentokil's Margins Will Continue to Lag Those of Wide-Moat Peer Rollins



Source: Company reports, Morningstar.

Rentokil Initial holds a cost advantage as its local route density and ability to spread fixed costs across a larger revenue base contribute to above-average margins. However, due to struggles integrating Terminix and its position relative to Rollins, we no longer award Rentokil a wide moat.

Rollins' and Rentokil's margins began diverging after the initiation of Rollins' Boss system, which improves back-end efficiency and route optimization. The system is a key component in Rollins' almost 7-percentage-point operating margin increase over the past 15 years.

Furthermore, its intangible brand assets have aided it in attracting customers at a lower cost. Rentokil's margin increased by 2 percentage points over the same period. Rentokil does not benefit from a brand advantage like its peer, Rollins. Rentokil and its leading North American brand, Terminix, have strong brand recognition and total brand awareness comparable with Rollins' leading brand, Orkin. The perception of downside risk to untested products makes brand recognition highly influential in the purchasing decision and keeps pricing power strong.

However, Rentokil has not shown it can capitalize on its strong brand awareness. Orkin is priced equally or at a slight premium to Terminix. Furthermore, Orkin leverages its leading awareness, with 50% of new Orkin clients not considering a competitor when purchasing. Rentokil does not see similar behavior in its clients, evidenced by its sales struggles after the acquisition.

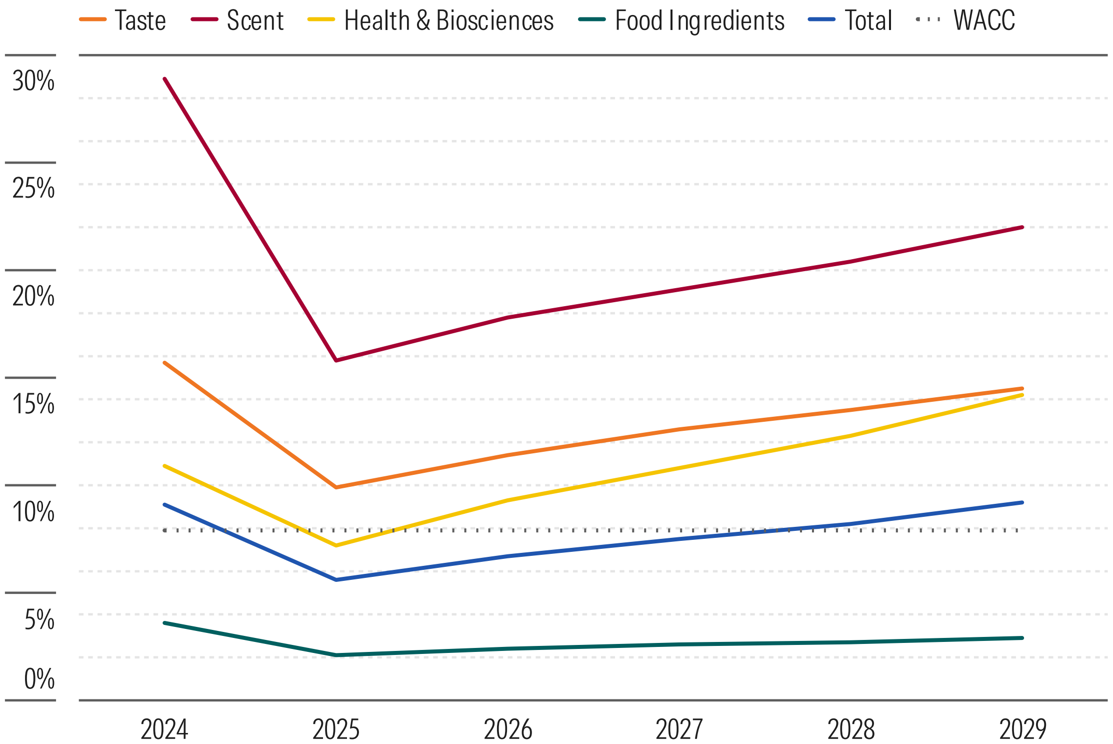
Outsize Investment in a No-Moat Segment Weighs on IFF's Returns and Results in a Moat Downgrade

Of International Flavor & Fragrances' four businesses, we view taste, scent, and health and biosciences as worthy of wide moat ratings on their own. However, we view the food ingredients business as no moat, which weighs on our companywide rating.

No-moat ingredients companies offer commoditized, bulk ingredients where price is the key purchasing criterion. This applies to IFF's food ingredients business, which sells plant proteins, texturants, and emulsifiers, most of which have become commoditized.

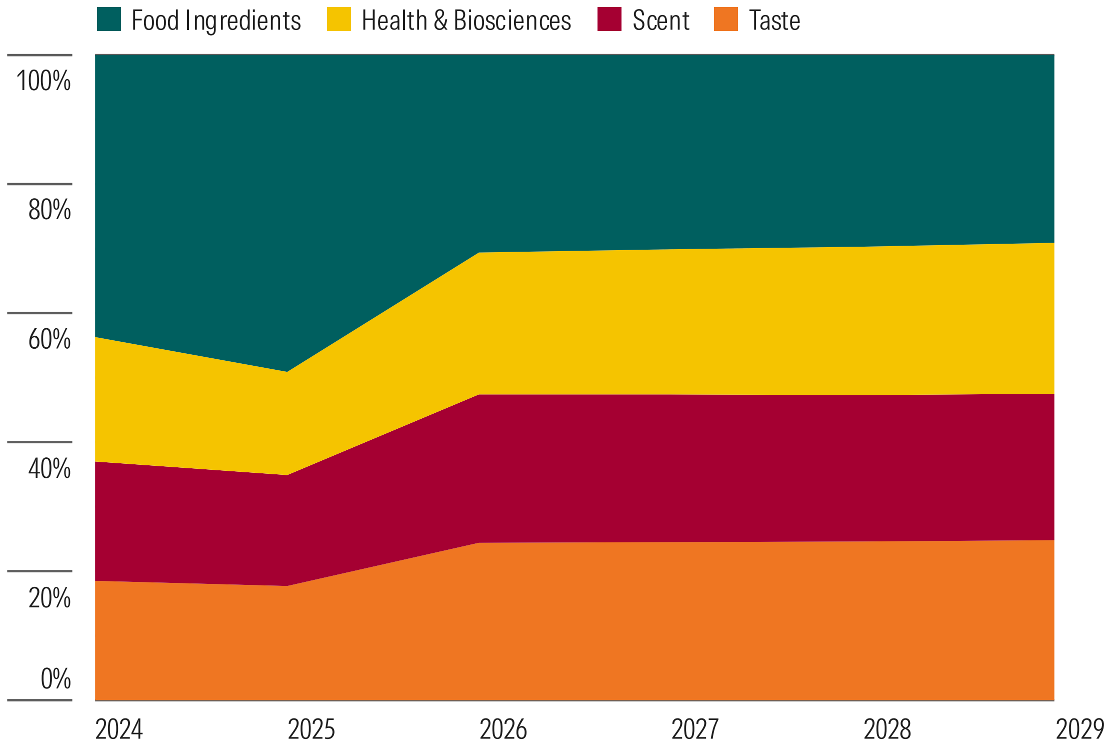
Food Ingredients' ROIC Is Well Below WACC, Dragging Down Companywide ROICs

IFF return on invested capital by segment (2025-29 = estimates).



No-Moat Food Ingredients Is Receiving an Outsize Portion of Capital Expenditures

Capital expenditures by segment as a percentage of total (2025-29 = estimates).



Source: Company reports, Morningstar.

Moat Changes and Valuation

Moat Rating Upgrades in First-Half 2025

Moat Rating Upgrades Sorted by Price/Fair Value

Name	Current Moat Rating	Previous Moat Rating	Sector	Analyst	Currency	FVE	Current Price	Price/Fair Value	Star rating
Upgrade to Wide									
Bureau Veritas SA BVI	Wide	Narrow	Industrials	Ben Slupecki, CFA	EUR	36.00	27.82	0.77	★★★★
Heineken NV HEIA	Wide	Narrow	Consumer Defensive	Verushka Shetty	EUR	92.00	75.42	0.82	★★★★
ASM International NV ASM	Wide	Narrow	Technology	Javier Correonero	EUR	635.00	531.60	0.84	★★★★
Broadridge Financial Solutions Inc BR	Wide	Narrow	Technology	Rajiv Bhatia, CFA	USD	275.00	233.75	0.85	★★★★
LY Corp 4689	Wide	Narrow	Consumer Cyclical	Pujance Chan	JPY	600.00	513.20	0.86	★★★★
WiseTech Global Ltd WTC	Wide	Narrow	Technology	Roy Van Keulen	AUD	130.00	112.65	0.87	★★★★
Intertek Group PLC ITRK	Wide	Narrow	Industrials	Ben Slupecki, CFA	GBX	5550.00	4880.00	0.88	★★★★
Zozo Inc 3092	Wide	Narrow	Consumer Cyclical	Pujance Chan	JPY	1700.00	1504.50	0.89	★★★
Airbnb Inc ABNB	Wide	Narrow	Consumer Cyclical	Dan Wasiolek	USD	154.00	136.54	0.89	★★★
BE Semiconductor Industries NV BESI	Wide	Narrow	Technology	Javier Correonero	EUR	142.00	126.30	0.89	★★★
SGS AG SGSN	Wide	Narrow	Industrials	Ben Slupecki, CFA	CHF	90.00	82.88	0.92	★★★
SAP SE SAP	Wide	Narrow	Technology	Rob Hales, CFA	EUR	265.00	259.80	0.98	★★★
Woolworths Group Ltd WOW	Wide	Narrow	Consumer Defensive	Johannes Faul, CFA	AUD	30.50	31.33	1.03	★★★
Hubbell Inc HUBB	Wide	Narrow	Industrials	Nicholas Lieb, CFA	USD	383.00	414.86	1.08	★★★
ITT Inc ITT	Wide	Narrow	Industrials	Nicholas Lieb, CFA	USD	141.00	155.93	1.11	★★
W.W. Grainger Inc GWW	Wide	Narrow	Industrials	Nicholas Lieb, CFA	USD	910.00	1039.38	1.14	★★
Epiroc AB EPI A	Wide	Narrow	Industrials	Matthew Donen, CFA	SEK	188.00	215.40	1.15	★★
Oracle Corp ORCL	Wide	Narrow	Technology	Luke Yang, CFA	USD	205.00	234.96	1.15	★★★
Sandvik AB SAND	Wide	Narrow	Industrials	Matthew Donen, CFA	SEK	198.00	229.10	1.16	★★★
Booking Holdings Inc BKNG	Wide	Narrow	Consumer Cyclical	Dan Wasiolek	USD	4800.00	5675.53	1.18	★★
The Goldman Sachs Group Inc GS	Wide	Narrow	Financial Services	Sean Dunlop, CFA	USD	580.00	702.51	1.21	★★
Interactive Brokers Group Inc IBKR	Wide	Narrow	Financial Services	Sean Dunlop, CFA	USD	42.00	59.63	1.42	★★
Upgrade to Narrow									
Name	**Current Moat Rating**	**Previous Moat Rating**	**Sector**	**Analyst**	**Currency**	**FVE**	**Current Price**	**Price/Fair Value**	**Star rating**
Akamai Technologies Inc AKAM	Narrow	None	Technology	Samuel Siampaus	USD	135.00	76.80	0.57	★★★★★
Yageo Corp 2327	Narrow	None	Technology	Kazunori Ito	TWD	670.00	500.00	0.75	★★★★
Meituan 03690	Narrow	None	Consumer Cyclical	Chelsey Tam	HKD	164.00	126.20	0.77	★★★★
Scentre Group SCG	Narrow	None	Real Estate	Yingqi Tan, CFA	AUD	3.80	3.71	0.98	★★★
The Trade Desk Inc TTD	Narrow	None	Communication Services	Mark Giarelli	USD	82.00	80.40	0.98	★★★
Carlsberg AS CARL B	Narrow	None	Consumer Defensive	Verushka Shetty	DKK	890.00	891.60	1.00	★★★
Tenet Healthcare Corp THC	Narrow	None	Healthcare	Julie Utterback, CFA	USD	160.00	172.78	1.08	★★★
Sigma Healthcare Ltd SIG	Narrow	None	Healthcare	Shane Ponraj, CFA	AUD	2.40	2.74	1.14	★★
Siemens Energy AG ENR	Narrow	None	Industrials	Tancrede Fulop, CFA	EUR	80.00	93.22	1.17	★★

Source: Morningstar.

Moat Rating Downgrades in First-Half 2025

Moat Rating Downgrades Sorted by Price/Fair Value

Name	Current Moat Rating	Previous Moat Rating	Sector	Analyst	Currency	FVE	Current Price	Price/Fair Value	Star rating
Downgrade to Narrow									
International Flavors & Fragrances Inc IFF	Narrow	Wide	Basic Materials	Seth Goldstein, CFA	USD	95	73.65	0.78	★★★★
Rentokil Initial PLC RTO	Narrow	Wide	Industrials	Ben Slupecki, CFA	GBX	490	344.10	0.70	★★★★

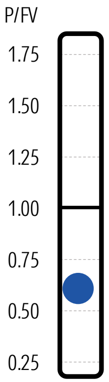
Name	Current Moat Rating	Previous Moat Rating	Sector	Analyst	Currency	FVE	Current Price	Price/Fair Value	Star rating
Downgrade to None									
Perpetual Ltd PPT	None	Narrow	Financial Services	Shaun Ler	AUD	19.5	21.00	1.08	★★★
Skyworks Solutions Inc SWKS	None	Narrow	Technology	Brian Colello, CPA	USD	70	72.97	1.04	★★★
Incyte Corp INCY	None	Narrow	Healthcare	Rachel Elfman	USD	71	68.25	0.96	★★★
Win Semiconductors Corp 3105	None	Narrow	Technology	Phelix Lee	TWD	100	83.40	0.83	★★★★
Continental AG CON	None	Narrow	Consumer Cyclical	Rella Suskin, CFA	EUR	93	76.06	0.82	★★★★
CVS Health Corp CVS	None	Narrow	Healthcare	Julie Utterback, CFA	USD	86	63.94	0.74	★★★★
Altice USA Inc ATUS	None	Narrow	Communication Services	Michael Hodel, CFA	USD	4	2.68	0.67	★★★★
Ubisoft Entertainment UBI	None	Narrow	Communication Services	Matthew Dolgin, CFA	EUR	18	9.35	0.52	★★★★
Centene Corp CNC	None	Narrow	Healthcare	Julie Utterback, CFA	USD	77	30.00	0.39	★★★★★

Source: Morningstar.

Recently Upgraded Bureau Veritas and Heineken Are Undervalued

Undervalued After Moat Rating Upgrade

Bureau Veritas (BVI)

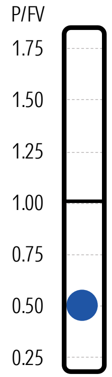


Market Cap	Moat Rating	Last Close	Fair Value Est.	Rating
12b EUR	Wide	26.84	36.00	★★★★

We upgraded our moat rating for Bureau Veritas to wide from narrow. Multinational clients often prefer to do business with TIC firms that can offer the breadth of testing services needed globally. A fourth firm with similar capabilities and offerings has not emerged over the past 30 years, and we do not anticipate one to emerge over the next 20 years given how hard it is for new companies to enter new areas due to lack of experience, the increased difficulty from smaller firms to make acquisitions, and the fact that global expansion has only happened once in the past 30 years.

Bureau Veritas shifted its strategy in 2024, focusing on expanding leadership positions in its existing strongholds and creating new ones for its certification and consumer product services segments in industry, building, and infrastructure. We support the strategy as Bureau Veritas is investing in its strengths. Management is also guiding for incremental margin increases due to operational leverage, functional scalability from digital, and changes in the portfolio mix, a goal we anticipate will be met.

Heineken (HEIA)



Market Cap	Moat Rating	Last Close	Fair Value Est.	Rating
38b EUR	Wide	67.52	92.00	★★★★

Present in almost 200 countries, the Heineken brand has become the top-selling premium beer globally. We expect premiumization to remain the firm's growth engine. We expect volume declines of beer in developed markets to be offset by value growth, with consumers trading up to foreign from domestic beer. Heineken may have a tougher time holding share during downcycles compared with brewers with larger subpremium offerings. However, Heineken's industry-leading gross margin and per-unit profitability make us confident the firm can weather volatile periods.

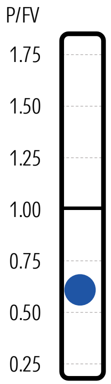
We upgraded our moat rating for Heineken to wide from narrow. The firm has one of the strongest premium beer portfolios globally and is well-positioned to take share in strategic markets. In addition, Heineken has built up regional cost advantages across markets and invested in relationships throughout its value chain, establishing high barriers to entry.

Source: Morningstar.

Recently Upgraded ASM International and Broadridge Financial Solutions Are Undervalued

Undervalued After Moat Rating Upgrade

ASM International (ASM)

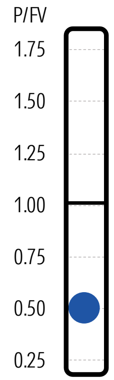


Market Cap	Moat Rating	Last Close	Fair Value Est.	Rating
20b EUR	Wide	418.50	635.00	★★★★

We upgraded ASM to wide moat and raised our fair value estimate to EUR 635 per share. As semiconductor transistors adopt new 3D structures, demand for atomic layer deposition will increase, resulting in a long-term tailwind for ASM. Although ALD is still a small part of the overall deposition market, it's the fastest-growing area, with ASM enjoying more than 50% market share.

We expect advanced deposition will become increasingly important for leading-edge semiconductor applications as the road map evolves during the next decade, serving as a key enabler for better chip performance and supporting above-average growth. We model a 13% sales CAGR over the next decade supported by fab expansions and increased deposition intensity, with EPS growing faster due to modest margin expansion. ASM is trading in 4-star territory, offering 40% upside.

Broadridge Financial Solutions (BR)



Market Cap	Moat Rating	Last Close	Fair Value Est.	Rating
31b USD	Wide	265.33	275.00	★★★★

Broadridge's wide-moat regulatory business has an outsize impact on the firm's profitability and the key driver is position growth, particularly equity position growth. We believe the rise of direct indexing, which is supported by lower fees and lower account minimums, shows no signs of slowing down and can propel position growth faster than the market expects. We point out that in the firm's most recent quarter, we saw accelerating position growth and we believe the strong market recovery in the second calendar quarter should support retail position growth.

We also point out Broadridge's financial results are recession-resistant and because of our Morningstar Uncertainty Rating of Low, we think investors should look at this name amid a topsy-turvy market.

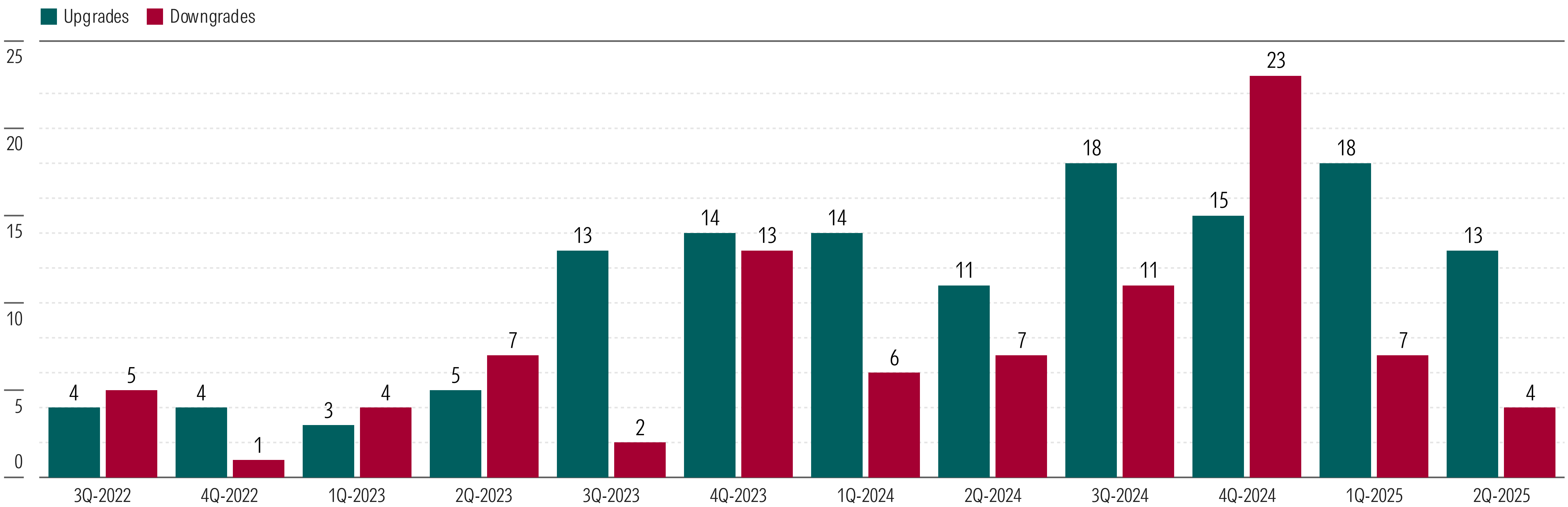
Source: Morningstar.

Historical Moat Rating Changes

Rating Changes Have Become More Frequent but Remain a Relatively Small Portion of Our Entire Coverage

Moat rating changes are relatively rare, but do occur as analysts are continually evaluating each company's competitive position as new information becomes available. A rating may change in response to a significant corporate event, such as a large acquisition, or if the analyst's view on the company's outlook changes. Moat reviews by the moat committee are also required if a new analyst initiates coverage of a company, although the rating might not necessarily change. Also, ratings are reviewed by the moat committee at least every five years.

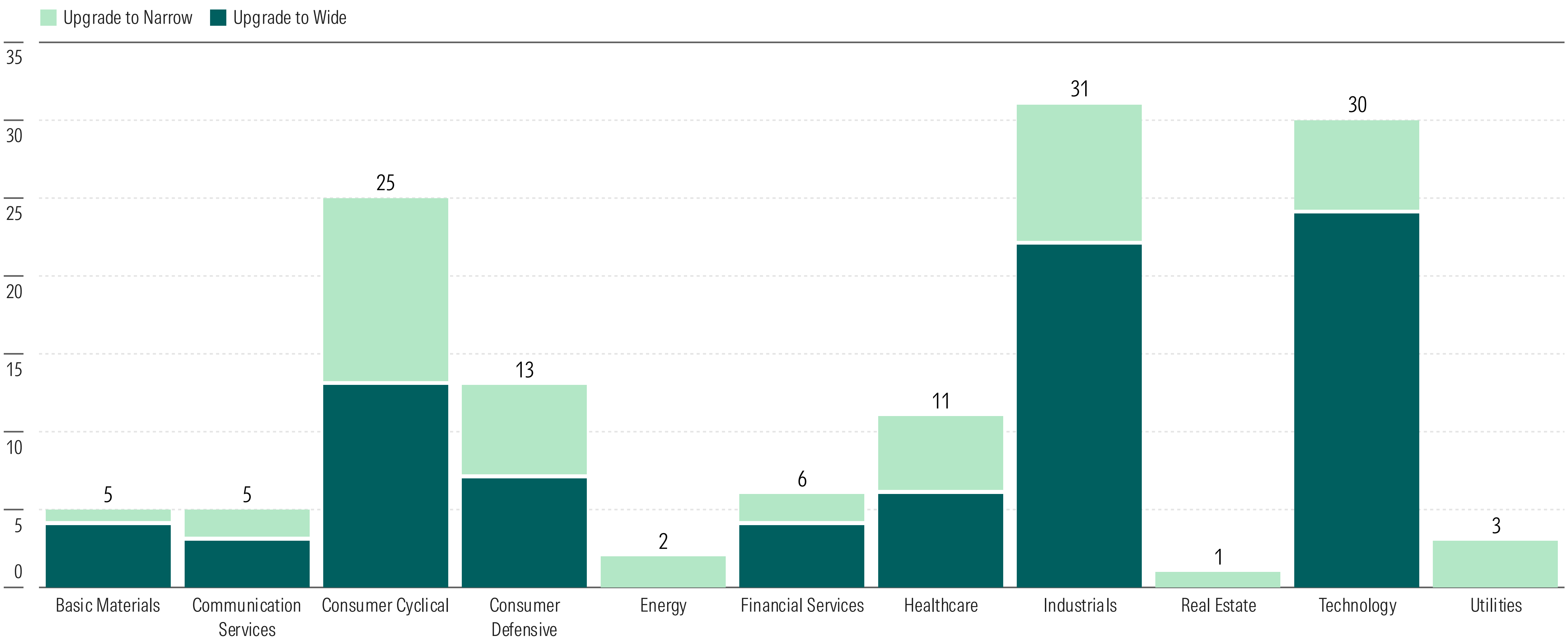
Moat Rating Changes During the Last Three Years



Source: Morningstar.

Industrials and Technology Lead Rating Upgrades During the Last Three Years

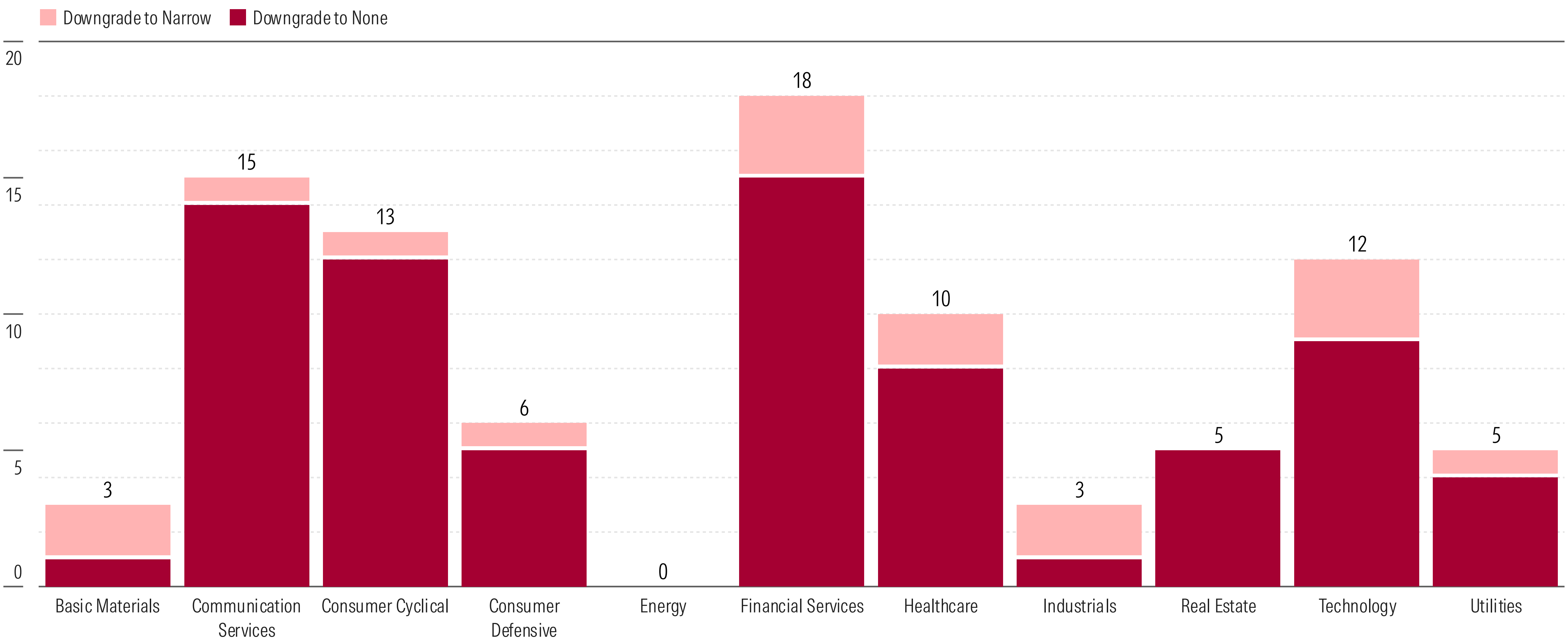
Moat Rating Upgrades During the Last 12 Quarters



Source: Morningstar

Financial Services, Communication Services and Consumer Cyclical Were Downgraded Most Often

Moat Rating Downgrades During the Last 12 Quarters



Source: Morningstar.

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