Old Republic International

Old Republic to Spin Off Troubled Operations

by Jim Ryan
Senior Analyst
Analysts covering this company do not own its stock.

Pricing data through May 24, 2012.
Rating updated as of May 24, 2012.

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

 Analyst Note  May 22, 2012
Old Republic International Corporation announced that it is divesting its mortgage insurance and consumer credit indemnity, or CCI, lines of business to a group of equity investors and current shareholders. As it previously stated in March, Old Republic has formed a new subsidiary, Republic Financial Indemnity Group, or RFIG, which will have 100% ownership of all entities related to the two insurance lines. Under the current plan, about 20% of the stock of RFIG will be sold to a group of investors that includes a few members of current Old Republic management. The balance of the shares will be granted to existing shareholders as a taxable dividend. The stock of the new entity will then trade separately, likely in over-the-counter markets. The process is expected to be completed in the next two months or so.

We think this announcement should put an end to the speculation that Old Republic will continue to be weighed down by ties to its troubled insurance lines. Once the process is completed, the remaining general and title insurance lines will be in a position to demonstrate solid profitability. Old Republic has also recently paid down a significant portion of its debt and still has substantial liquidity at the holding company. We think the path is now clear for the stock to make progress toward reaching its fair value estimate.

Old Republic boasts a collection of narrow-moat specialist insurers and a generally good underwriting record. However, a sizable chunk of its insurance operations income is exposed to a housing market that has witnessed an explosion in mortgage delinquencies.

Old Republic has three lines of insurance: general, title, and mortgage. On a premium basis, general insurance operations are the largest, accounting for about 54% of premium during the last 10 years. Although underwriting margins have beat industry averages historically, the last couple of years have been dragged down by a line of business that insured pools of loan repayments to lenders from consumer unemployment and bankruptcy. This segment also has suffered from soft premium pricing and a weak economy. In the longer term, though, we think the general insurance line will be able to perform better than most of its competitors. We think it can achieve an average 95% combined ratio over the long term, a solid performance in this segment.

Title insurance operations have benefited from industry consolidation, which has allowed Old Republic the opportunity to grab new customers. Full-year 2010 title premium was up 36% on a year-over-year basis. Although additional expense was incurred in this effort, we think it bodes well for Old Republic over the long term, especially when real estate markets begin to improve.

Old Republic’s problem child has been the mortgage insurance business. In the eight years before the housing crisis that began in 2007, Old Republic’s mortgage insurance operations earned more than $1 billion in underwriting profit, outperforming even the much larger general insurance operations. But claims from toxic mortgages that have defaulted caused the firm to increase reserves dramatically in anticipation of payouts to lenders from foreclosures. Mortgage insurers are subject to regulations limiting their ability to write new policies if their risk/capital ratio exceeds 25/1, a ratio Old Republic passed in fourth quarter 2010. Old Republic was granted a waiver by its regulatory authority to continue writing new business until the end of August 2011, but the firm announced that its legacy mortgage insurance operation has not received an extension on that waiver as its risk/capital ratio hit 45/1 at the end of the second quarter of 2011, sending the mortgage insurer into runoff. Its primary regulator, the North Carolina Department of Insurance, has placed the firm under supervision and mandated that claims be paid at $0.50 on the dollar which could help it survive, although we think the odds are stacked against it.
Old Republic International

<table>
<thead>
<tr>
<th>Last Price</th>
<th>Fair Value</th>
<th>Consider Buy</th>
<th>Consider Sell</th>
<th>Uncertainty</th>
<th>Economic Moat</th>
<th>Stewardship</th>
<th>Morningstar Credit Rating</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>10.17 USD</td>
<td>15.00 USD</td>
<td>9.00 USD</td>
<td>23.25 USD</td>
<td>High</td>
<td>Narrow</td>
<td>—</td>
<td>BBB</td>
<td>Insurance - Diversified</td>
</tr>
</tbody>
</table>

Close Competitors

<table>
<thead>
<tr>
<th>Currency(Mil)</th>
<th>Market Cap</th>
<th>TTM Sales</th>
<th>Oper Income</th>
<th>Net Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Old Republic International</td>
<td>USD</td>
<td>2,639</td>
<td>4,674</td>
<td>-215</td>
</tr>
<tr>
<td>American International Group Inc</td>
<td>USD</td>
<td>52,762</td>
<td>65,241</td>
<td>4,829</td>
</tr>
<tr>
<td>Travelers Companies, Inc.</td>
<td>USD</td>
<td>24,583</td>
<td>25,560</td>
<td>1,460</td>
</tr>
<tr>
<td>Fidelity National Financial Inc.</td>
<td>USD</td>
<td>4,238</td>
<td>4,898</td>
<td>443</td>
</tr>
</tbody>
</table>

Morningstar data as of May 24, 2012.

Old Republic will survive the fall of its mortgage insurance operations, but it will come at a cost. Without the healthy mortgage insurance business that helped fuel a 13% return on equity before the financial crisis, the firm will lose some of its value. However, Old Republic still will have an above-average performing commercial property-casualty business and its title insurance subsidiary also will contribute to underwriting income. Importantly, from a shareholder standpoint, we think the dividend is safe as the general insurance operations provide almost all of the support to the holding company.

Valuation, Growth and Profitability

We are raising our fair value estimate to $15 per share from $13. We think Old Republic has turned the corner and that it will begin a slow rebound to profitability beginning in 2012. In our explicit forecast over the next seven years we think revenue will grow an average of about 4% per year with underwriting margins gradually improving to about 4% per year. General insurance operations are expected to grow about 5% per year. In our model, mortgage insurance revenue gradually drops to zero as the subsidiary stays in run-off. We think title insurance can average 6% revenue growth per year through 2018. Our fair value estimate is about book value per share. Our cost of equity assumption is 12%.

Risk

General insurance still carries some degree of uncertainty from its exposure to housing, but claims from this line of insurance have continued to trend down. Title insurance is a high-uncertainty business, due to both its cyclical nature and its reliance on real estate transactions, which can be erratic. Collectively, these considerations provide the basis for our decision to assign a high uncertainty rating to our fair value estimate.

Bulls Say

• The firm’s property and liability insurance business is one of the 50 largest in the United States, and the individual subsidiaries have some of the higher financial strength ratings.
• Management employs debt sparingly, doesn’t consume capital buying back shares when market prices are too high, and doesn’t risk destroying value by acquiring other insurers with uncertain liabilities.
• Liquid, investment-grade, fixed-maturity securities comprise the majority of the firm’s investment portfolio.
• Old Republic pays an attractive dividend, which we think is sustainable.

Bears Say

• Old Republic was too reliant on mortgage insurance for income, a fact that has been demonstrated recently.
• About 40% of general insurance premiums are earned from truck insurance, which is sensitive to economic conditions.
• Management erred in investing in two mortgage insurance competitors, which calls into question its ability to allocate capital.

Financial Overview

Financial Health: The parent company’s financial health is largely dependent on dividends from the insurance
Old Republic International | ORI [NYSE] | ★★★★★

<table>
<thead>
<tr>
<th>Last Price</th>
<th>Fair Value</th>
<th>Consider Buy</th>
<th>Consider Sell</th>
<th>Uncertainty</th>
<th>Economic Moat</th>
<th>Stewardship</th>
<th>Morningstar Credit Rating</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>10.17 USD</td>
<td>15.00 USD</td>
<td>9.00 USD</td>
<td>23.25 USD</td>
<td>High</td>
<td>Narrow</td>
<td>BBB</td>
<td>Insurance - Diversified</td>
<td></td>
</tr>
</tbody>
</table>

operating subsidiaries, primarily general insurance. In 2012, Old Republic’s holding company can receive $361 million from its subsidiaries without regulatory approval, more than the approximately $215 million needed to maintain general corporate expense, including debt, and its current annual dividend of $0.71 per share.

Company Overview
Profile: Old Republic International offers a diverse range of specialized insurance products to individuals and institutions. The firm’s property-casualty business, which accounted for more than 50% of premium in 2011, offers commercial liability products for risks that include autos and general liability. The title insurance business comprises most of the remaining premium, with a minor assist from a tiny life insurance presence.

Management: Many years of sound stewardship were partially unwound with the purchase of stocks for the investment portfolio in mortgage insurance and title insurance competitors, costing Old Republic and its shareholders hundreds of millions of dollars. Still, we think the company has benefited from a long tenure of strong corporate governance by management, particularly CEO Aldo Zucaro. Directors and officers own about 3.3% of the shares, which we think is sufficient to align their interests with shareholders’. Executive compensation is very reasonable, incentives appropriately emphasize return on equity and profit margin goals, and performance measures stress intrinsic value growth.
Old Republic International

<table>
<thead>
<tr>
<th>Last Price</th>
<th>Fair Value</th>
<th>Consider Buy</th>
<th>Consider Sell</th>
<th>Uncertainty</th>
<th>Economic Moat</th>
<th>Stewardship</th>
<th>Morningstar Credit Rating</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>10.17 USD</td>
<td>15.00 USD</td>
<td>9.00 USD</td>
<td>23.25 USD</td>
<td>High</td>
<td>Narrow</td>
<td>—</td>
<td>BBB</td>
<td>Insurance - Diversified</td>
</tr>
</tbody>
</table>

Analyst Notes

**May 22, 2012**  
**Old Republic to Spin Off Troubled Operations**

Old Republic International Corporation announced that it is divesting its mortgage insurance and consumer credit indemnity, or CCI, lines of business to a group of equity investors and current shareholders. As it previously stated in March, Old Republic has formed a new subsidiary, Republic Financial Indemnity Group, or RFIG, which will have 100% ownership of all entities related to the two insurance lines. Under the current plan, about 20% of the stock of RFIG will be sold to a group of investors that includes a few members of current Old Republic management. The balance of the shares will be granted to existing shareholders as a taxable dividend. The stock of the new entity will then trade separately, likely in over-the-counter markets. The process is expected to be completed in the next two months or so.

We think this announcement should put an end to the speculation that Old Republic will continue to be weighed down by ties to its troubled insurance lines. Once the process is completed, the remaining general and title insurance lines will be in a position to demonstrate solid profitability. Old Republic has also recently paid down a significant portion of its debt and still has substantial liquidity at the holding company. We think the path is now clear for the stock to make progress toward reaching its fair value estimate.

**Apr. 26, 2012**  
**Break-Even Quarter at Old Republic International**

Old Republic International reported a break-even first quarter, an improvement over the loss suffered in the comparative quarter last year. Expenses were somewhat elevated as Old Republic is now reporting its Deferred Acquisition Costs, or DAC, on a current basis, which increased the expense ratio by 2%. General Insurance results were decent as the subsidiary’s combined ratio came in at 97%, which included 2% in losses from the the troubled consumer credit indemnity, or CCI, line. However, CCI claims continue to trend down and without the revenue and expense of this line General Insurance would have had a 94% combined ratio. Title insurance operations were also profitable, producing a $9 million operating profit, up 260% on a year-over-year basis. During the quarter Old Republic announced that it would be separating its mortgage insurance lines, which are in run-off, along with the CCI business, into a new and separate subsidiary. When this occurs later this year the new subsidiary will be reported as discontinued operations on the income statement.

We think management has skillfully navigated the firm through some very challenging times. As a result of their efforts, Old Republic has maintained its dividend, which currently yields about 7%. In our opinion, Old Republic will gradually begin to report better earnings in the future now that it has unburdened itself of the mortgage insurance and CCI lines of business. General insurance lines continue to increase underwriting profits and the title insurance business is gradually improving. Our fair value estimate is unchanged.

**Mar. 22, 2012**  
**Old Republic to Combine Run-off Divisions Into Separate Subsidiary**

Old Republic International announced that it will be combining its troubled mortgage insurance and consumer credit indemnity operations, both in run-off, into a newly formed subsidiary that will named the Republic Financial Indemnity Group. Further details regarding the new subsidiary are scant at this time as the firm awaits...
Jan. 26, 2012

**Encouraging Fourth Quarter at Old Republic**

Old Republic International reported fourth-quarter net income of $0.22 per diluted share driven by improved results in both general and title insurance operations and realized investment gains. Net operating income, which excludes investment gains, for general and title was $0.31 per diluted share offset by a loss of $0.42 per diluted share from mortgage insurance operations. General insurance operations reported a strong 93% combined ratio (expenses divided earned premium) in the quarter bringing the yearly combined ratio to 97% as claims from the troubled consumer credit indemnity line of business continued to fall while contribution from last year’s acquisition of PMA Capital Corporation kicked in beginning in the fourth quarter. Title insurance operations also reported favorable results as pretax operating income tripled in 2011 on a year-over-year basis.

Mortgage insurance continues to be the thorn in the side of Old Republic. The subsidiaries’ primary regulator, the North Carolina Department of Insurance, recently announced that appropriate regulatory approvals that may affect various alternative approaches to implementation. We think it likely that management is attempting to restructure the reporting relationship between the holding company and the subsidiaries in run-off so that future financial reports emphasize the strong operating performance of its remaining general and title insurance operations. It could also be possible that Old Republic has found a buyer for these distressed companies, which requires restructuring the subsidiaries. Regardless, the announced changes appear to be more form over substance and do not change our take on the stock. Our fair value estimate is unchanged.

Jan. 24, 2012

**Credit Rating Downgrade: Old Republic International**

Morningstar is lowering the credit rating for Old Republic International by one notch, to BBB from BBB+. The new rating is driven by the company’s recent announcement that its subsidiary, Republic Mortgage Insurance Company, or RMIC, has been ordered into supervision by the North Carolina Department of Insurance, NCDOI. The action by the North Carolina insurance regulator brings up the possibility that an event of default has been triggered with respect to ORI’s existing debt obligations. If an event of default were deemed to have occurred, then potentially the company’s $550 million of convertible notes due 2018 and its $316 million of convertible notes due 2012 would...
old republic international  **ori**  [NYSE]  ★★★★★

<table>
<thead>
<tr>
<th>Last Price</th>
<th>Fair Value</th>
<th>Consider Buy</th>
<th>Consider Sell</th>
<th>Uncertainty</th>
<th>Economic Moat</th>
<th>Stewardship</th>
<th>Morningstar Credit Rating</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>10.17 USD</td>
<td>15.00 USD</td>
<td>9.00 USD</td>
<td>23.25 USD</td>
<td>High</td>
<td>Narrow</td>
<td>—</td>
<td>BBB</td>
<td>Insurance - Diversified</td>
</tr>
</tbody>
</table>

**Analyst Notes** (continued)

immediately become due and payable. While it is likely that the company will be able to pay off these notes without requiring significant refinancing, we expect that the company would execute some sort of refinancing event subsequent to redeeming the notes. Overall, we think the long-term credit outlook for ORI remains the same, and our downgrade reflects the near-term uncertainty surrounding the possible redemption of the convertible notes and how that redemption is executed.

**Jan. 20, 2012**

**Credit Rating Placed Under Review: Old Republic**

Morningstar is changing the credit rating for Old Republic to Under Review. The new rating is driven by today’s announcement from the company that its subsidiary, Republic Mortgage Insurance Company, or RMIC, has been ordered into supervision by the North Carolina Department of Insurance, or NCDOI. At this time, we are reviewing the implications of today’s events on not only Old Republic’s long-term credit outlook, but also on the possibility that a collateral event of default has been triggered.

**Jan. 20, 2012**

**Old Republic Reports Mortgage Insurance Subsidiary Ordered Into Supervision**

Old Republic International announced today that its primary mortgage insurance subsidiary, Republic Mortgage Insurance Company (RMIC), has been ordered into supervision by the North Carolina Department of Insurance. Under the terms of the order, all RMIC claims payments will be reduced by 50% on all claim payments after January 19 for a period not to exceed one year. The balance will remain in the statutory capital of RMIC to be paid at a future date.

Old Republic has two outstanding convertible notes totaling about $865 million that may, under certain conditions, be accelerated. It is unclear at this time as to whether this event is one that would allow the bondholders, if they so desired, to accelerate payment. According to Old Republic, acceleration of payment is less likely due to the supervision order, as it slows down claim payments, allowing capital to be preserved at RMIC. However, if this is an event that triggers payment, we believe that Old Republic has enough cash at the holding company to satisfy most of the payment demands and the ability to raise additional debt to pay the balance. At the end of the third quarter of last year, the most recent information available, Old Republic reported that it had $3.9 billion in common shareholders’ equity and total debt of $913 million. If they are called upon to pay off the referenced convertible notes, the outstanding debt will fall to about $50 million, and given the financial status of the firm, we think Old Republic would be able to secure new debt to satisfy the noncash covered portion of the existing debt. We will monitor this development closely and report any new relevant information as it becomes available. Our fair value estimate and our high uncertainty rating are unchanged.

**Disclaimers & Disclosures**

No Morningstar employees are officers or directors of this company. Morningstar Inc. does not own more than 1% of the shares of this company. Analysts covering this company do not own its stock. The information contained herein is not represented or warranted to be accurate, correct, complete, or timely. This report is for information purposes only, and should not be considered a solicitation to buy or sell any security.
Old Republic International offers a diverse range of specialized insurance products to individuals and institutions. The firm’s property-casualty business, which accounted for more than 50% of premium in 2011, offers commercial liability products for risks that include auto and general liability. The title insurance business comprises most of the remaining premium, with a minor assist from a tiny life insurance presence.

307 North Michigan Avenue
Chicago, IL 60601
Phone: 1 312 346-8100
Website: www.ORI.com

Financial Position
Grade: C
12-11 USD Mil (03-12 USD Mil)
Total Investments 10486 10510
Cash 93 117
Receivables 1323 1401
Def Policy Acquisition Cost 198 190
Accrued Inv Income 97 101
Other Assets 3853 3848
Total Assets 16650 16165
Claims Reserve 8787 8725
Unearned Premiums 1269 1332
Debt 913 910
Other Liabilities 1369 1425
Total Liabilities 12276 12392
Total Equity 3773 3773

Valuation Analysis
Current 5 Yr Avg Ind Mkt
Price/Earnings — — 8.1 14.1
Forward P/E 18.5 — — 13.3
Price/Cash Flow — — 8.1 6.6
Dividend Yield % 6.9 — — 2.1
Price/Book 0.7 0.7 1.8
Price/Sales 0.6 0.7 1.0
PEG Ratio 1.9 — — 1.6

Quarterly Results
Revenue USD Mil Jun 11 Sep 11 Dec 11 Mar 12
Most Recent Period 1094.9 1113.5 1307.5 1158.0
Prior Year Period 1088.1 986.5 1175.4 1129.5
Rev Growth % Jun 11 Sep 11 Dec 11 Mar 12
Most Recent Period 8.6 12.9 11.2 2.5
Prior Year Period 10.5 3.0 11.4 21.1
Earnings Per Share USD
Most Recent Period -0.26 -0.46 0.22 0.00
Prior Year Period 0.23 -0.16 -0.05 -0.05

Industry Peers by Market Cap
Mkt Cap USD Mil
Travelers Companies, 24583 25560 18.6 5.6
American Internation, 52762 65241 2.7 20.9
Old Republic Interna, 2639 4674 — 3.3

Major Fund Holders
% of shares

© 2012 Morningstar. All Rights Reserved. Unless otherwise provided in a separate agreement, you may use this report only in the country in which its original distributor is based. Data as originally reported: the information contained herein is not represented or warranted to be accurate, correct, complete, or timely. This report is for informational purposes only, and should not be considered a solicitation to buy or sell any security. Redistribution is prohibited without written permission. To order reprints, call +1 312-696-6100. To license the research, call +1 312-696-6869.
Our Key Investing Concepts

- Economic Moat™ Rating
- Discounted Cash Flow
- Discount Rate
- Fair Value
- Uncertainty
- Margin of Safety
- Consider Buying/Consider Selling
- Stewardship Grades

At Morningstar, we evaluate stocks as pieces of a business, not as pieces of paper. We think that purchasing shares of superior businesses at discounts to their intrinsic value and allowing them to compound their value over long periods of time is the surest way to create wealth in the stock market.

We rate stocks 1 through 5 stars, with 5 the best and 1 the worst. Our star rating is based on our analyst’s estimate of how much a company’s business is worth per share. Our analysts arrive at this “fair value estimate” by forecasting how much excess cash—or “free cash flow”—the firm will generate in the future, and then adjusting the total for timing and risk. Cash generated next year is worth more than cash generated several years down the road, and cash from a stable and consistently profitable business is worth more than cash from a cyclical or unsteady business.

Stocks trading at meaningful discounts to our fair value estimates will receive high star ratings. For high-quality businesses, we require a smaller discount than for mediocre ones, for a simple reason: We have more confidence in our cash-flow forecasts for strong companies, and thus in our value estimates. If a stock’s market price is significantly above our fair value estimate, it will receive a low star rating, no matter how wonderful we think the business is. Even the best company is a bad deal if an investor overpays for its shares.

Our fair value estimates don’t change very often, but market prices do. So, a stock may gain or lose stars based just on movement in the share price. If we think a stock’s fair value is $50, and the shares decline to $40 without much change in the value of the business, the star rating will go up. Our estimate of what the business is worth hasn’t changed, but the shares are more attractive as an investment at $40 than they were at $50.

Because we focus on the long-term value of businesses, rather than short-term movements in stock prices, at times we may appear out of step with the overall stock market. When stocks are high, relatively few will receive our highest rating of 5 stars. But when the market tumbles, many more will likely garner 5 stars. Although you might expect to see more 5-star stocks as the market rises, we find assets more attractive when they’re cheap.

We calculate our star ratings nightly after the markets close, and issue them the following business day, which is why the rating date on our reports will always be the previous business day. We update the text of our reports as new information becomes available, usually about once or twice per quarter. That is why you’ll see two dates on every Morningstar stock report. Of course, we monitor market events and all of our stocks every business day, so our ratings always reflect our analyst’s current opinion.

Economic Moat™ Rating

The Economic Moat™ Rating is our assessment of a firm’s ability to earn returns consistently above its cost of capital in the future, usually by virtue of some competitive advantage. Competition tends to drive down such
Morningstar’s Approach to Rating Stocks (continued)

Economic profits, but companies that can earn them for an extended time by creating a competitive advantage possess an Economic Moat. We see these companies as superior investments.

Discounted Cash Flow
This is a method for valuing companies that involves projecting the amount of cash a business will generate in the future, subtracting the amount of cash that the company will need to reinvest in its business, and using the result to calculate the worth of the firm. We use this technique to value nearly all of the companies we cover.

Discount Rate
We use this number to adjust the value of our forecasted cash flows for the risk that they may not materialize. For a profitable company in a steady line of business, we’ll use a lower discount rate, also known as “cost of capital,” than for a firm in a cyclical business with fierce competition, since there’s less risk clouding the firm’s future.

Fair Value
This is the output of our discounted cash-flow valuation models, and is our per-share estimate of a company’s intrinsic worth. We adjust our fair values for off-balance sheet liabilities or assets that a firm might have—for example, we deduct from a company’s fair value if it has issued a lot of stock options or has an under-funded pension plan. Our fair value estimate differs from a “target price” in two ways. First, it’s an estimate of what the business is worth, whereas a price target typically reflects what other investors may pay for the stock. Second, it’s a long-term estimate, whereas price targets generally focus on the next two to 12 months.

Uncertainty
To generate the Morningstar Uncertainty Rating, analysts consider factors such as sales predictability, operating leverage, and financial leverage. Analysts then classify their ability to bound the fair value estimate for the stock into one of several uncertainty levels: Low, Medium, High, Very High, or Extreme. The greater the level of uncertainty, the greater the discount to fair value required before a stock can earn 5 stars, and the greater the premium to fair value before a stock earns a 1-star rating.

Margin of Safety
This is the discount to fair value we would require before recommending a stock. We think it’s always prudent to buy stocks for less than they’re worth. The margin of safety is like an insurance policy that protects investors from bad news or overly optimistic fair value estimates. We require larger margins of safety for less predictable stocks, and smaller margins of safety for more predictable stocks.

Consider Buying/Consider Selling
The consider buying price is the price at which a stock would be rated 5 stars, and thus the point at which we would consider the stock an extremely attractive purchase. Conversely, consider selling is the price at which a stock would have a 1 star rating, at which point we’d consider the stock overvalued, with low expected returns relative to its risk.

Stewardship Grades
Our corporate 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.