

FactSet Research(FDS)

\$266.90 (As of 04/06/20)

Price Target (6-12 Months): **\$288.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 11/26/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: D

Growth: B

Momentum: D

Summary

FactSet is benefiting from high client retention, solid revenue growth and a competitive pricing strategy. The company looks strong on the back of higher organic revenues, increase in annual subscription value and robust global network. Acquisitions have helped FactSet broaden its product suite, thereby delivering innovative products and evolve as a global financial database company. Consistent share buybacks and dividend payments boost investors' confidence and positively impact earnings per share. On the flip side, pricing pressure (resulting from stiff competition) remains a major concern for FactSet. Further, acquisitions-related integration risks, risks associated with foreign currency exchange rate fluctuations and high debt are other headwinds. Due to these negatives, shares of FactSet have underperformed the industry in the past year.

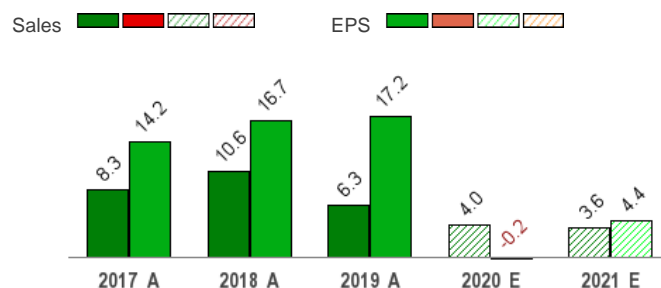
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$310.25 - \$195.22
20 Day Average Volume (sh)	534,522
Market Cap	\$10.1 B
YTD Price Change	-0.5%
Beta	0.82
Dividend / Div Yld	\$2.88 / 1.1%
Industry	Business - Information Services
Zacks Industry Rank	Bottom 25% (191 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.2%
Last Sales Surprise	-0.2%
EPS F1 Est- 4 week change	-0.5%
Expected Report Date	06/23/2020
Earnings ESP	-0.3%
P/E TTM	25.8
P/E F1	26.7
PEG F1	2.6
P/S TTM	6.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	379 E	382 E	388 E	392 E	1,546 E
2020	367 A	370 A	378 E	378 E	1,492 E
2019	352 A	355 A	365 A	364 A	1,435 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$2.59 E	\$2.59 E	\$2.63 E	\$2.63 E	\$10.42 E
2020	\$2.58 A	\$2.55 A	\$2.44 E	\$2.41 E	\$9.98 E
2019	\$2.35 A	\$2.42 A	\$2.62 A	\$2.61 A	\$10.00 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/06/2020. The reports text is as of 04/07/2020.

Overview

Headquartered in Norwalk, CT, FactSet Research Systems Inc. is a leading provider of integrated financial information, analytical applications and industry-leading service for the global investment community. Through its analytics, service, content, and technology, the company offers information to investment professionals like portfolio managers, wealth managers, research and performance analysts, risk managers, research professionals, investment research professionals, investment bankers, risk and performance analysts, wealth advisors and fixed income professionals. By integrating datasets and analytics across asset classes with client data, FactSet supports the workflow of both buy-side and sell-side clients. Through its wide application suite, FactSet offers tools and resources which includes company and industry analyses, full screening tools, portfolio analysis, risk profiles, alpha-testing, portfolio optimization and research management solutions. The company derives revenues from subscriptions to products and services such as workstations, analytics, enterprise data, research management, and trade execution.

Geographically, FactSet has three reportable segments – the U.S., Europe and Asia Pacific.

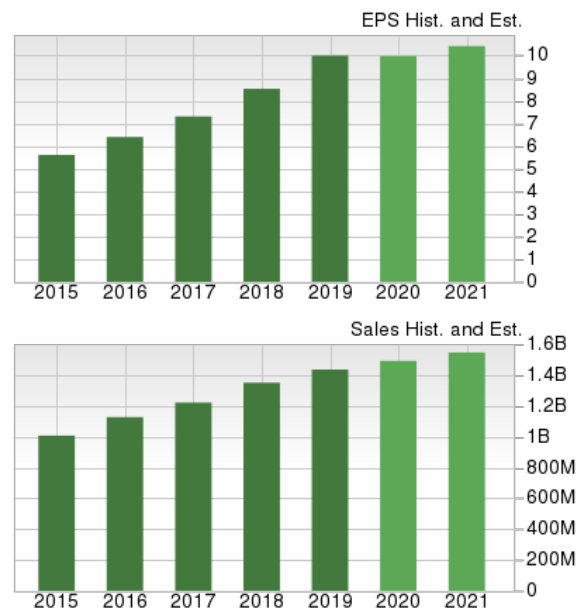
The U.S. segment (62% of total revenues in fiscal 2019) has offices in fourteen states throughout the United States, including our corporate headquarters in Norwalk, Connecticut as well as two additional offices located in Brazil and Canada.

The European segment (29%) maintains office locations in Bulgaria, Dubai, England, Finland, France, Germany, Italy, Latvia, the Netherlands, Spain, South Africa and Switzerland.

The Asia Pacific segment (9%) operates offices in Australia, China, India, Japan and Singapore.

In terms of services, FactSet has offerings – Research Solutions, Analytics Solutions, Wealth Solutions, and Content and Technology Solutions.

FactSet is part of the financial information services industry which is highly competitive. The company's big rivals are Bloomberg L.P., Thomson Reuters Inc. and S&P Global Market Intelligence. Other competitors and competitive products include online database suppliers and integrators and their applications such as MSCI Inc., Morningstar Inc., BlackRock Solutions and RIMES Technologies Corporation.



Reasons To Buy:

- ▲ FactSet's growing customer base, **high client retention rate** (89%), solid revenue growth and a competitive pricing strategy, should positively impact results over the long term. In fiscal 2019, organic revenues improved 6.2% to \$1.44 billion. The company added 432 clients in fiscal 2019, taking the total number to 5,574. The company's ASV of \$1.46 billion increased 5% year over year on a reported basis as well as organically. Region wise, FactSet's ASV generated \$909.7 million revenues from the United States, up 4.7% from the prior-year quarter. Internationally, it came in at \$548.3 million revenues, up 4.6% on a reported basis and 6.3% organically.
- ▲ FactSet is strengthening its **global presence**, especially in the Asia Pacific region. The company has opened an office in Shanghai, China in May 2018 through which it offers data and analytic solutions to an increasing number of investors and investment managers. FactSet has been working with the Chinese investment community since 1996. The company is witnessing robust growth across its European operations that includes Asia Pacific and Europe. Collectively, FactSet earned 37.7% of revenues from its international operations in fiscal 2019 that grew 6.4% year over year.
- ▲ FactSet is highly optimistic about the **integrated data-related products** and services within its analytical suite, which it offers to the investment community. With the market adapting a quantitative approach to save time, reduce operating expenses and increase work efficiency, FactSet's innovative analytical product suite should benefit. To this end, inclusion of Data Exploration (a cloud-based data platform) in July 2018 and launch of Open: FactSet Marketplace in May 2018 looks exciting. While FactSet Data Exploration is expected to help financial professionals evaluate financial datasets and generate investment applications with the help of Microsoft Azure, Open:FactSet Marketplace is a new online platform which offers core financial and alternative datasets to address the growing demand for integrated data. Such offerings raise optimism about the company's CTS suite.
- ▲ Over the years, FactSet has made several **acquisitions** to expedite growth. The most noticeable acquisitions include the buyout of BISAM, IDMS, Portware LLC, Code Red, Revere Data LLC, StreetAccount, etc. These acquisitions are aimed at helping FactSet broaden its product suite, thereby delivering innovative products and evolve as a global financial database company. It will also help FactSet to maximize value for its partners and provide customers with exclusive content sets. Notably, the acquisitions of BISAM and IDMS have increased the company's international footprint, particularly in Europe. We believe the buyouts have been boosting international ASV contribution to the company's total ASV which came in at 37.6% in fiscal 2019, in line with that of fiscal 2018 and higher than 37.3% in fiscal 2017 and 34.4% in fiscal 2016.
- ▲ We are impressed with FactSet's consistent efforts of **rewarding its shareholders** in the form of share repurchases and dividend payments. In fiscal 2019, the company repurchased shares worth \$220.4 million and paid dividend of \$100.1 million. During fiscal 2018, the company repurchased shares worth \$303.9 million and paid dividend of \$89.4 million. In fiscal 2017, the company repurchased shares worth \$260.9 million and paid dividends worth approximately \$80.9 million. Such moves indicate the company's commitment to create value for shareholders and underline its confidence in its business. These initiatives not only instill investors' confidence but also positively impact the company's earnings.

FactSet looks strong on the back of higher organic revenues, increase in annual subscription value, strong global network and innovative portfolio.

Reasons To Sell:

- ▼ FactSet continues to face **stiff competition** from other players in the market providing financial market data, analytics and related services. These competitors may be able to expand their offerings and data content more effectively, price their products more aggressively or respond more rapidly to situations developing in the marketplace, to attract new clients and retain the existing ones. Despite enjoying a technological advantage, pricing pressure continues to act as a major headwind for FactSet, resulting in reduction in revenues and loss of market share, thereby weighing on the stock that has underperformed the industry in the past year, gaining 0.4% compared with the industry's rise of 4.9%.

Stiff competition, foreign currency risk, integration issues and a debt-laden balance sheet weigh on FactSet's prospects.
 - ▼ FactSet's international presence makes it vulnerable to **foreign currency exchange rate fluctuations**. The company generated 37.7% of revenues from operations outside the United States in fiscal 2019, 37.6% in fiscal 2018 and 35.8% in fiscal 2017. The increase in the proportion of revenues coming from international operations reflect the company's growing dependence in them. Internationally, FactSet's businesses transact in several currencies such as the British pound sterling, euro, Indian rupee, Japanese yen and Philippine peso. Thus, appreciation or depreciation of the dollar versus these foreign currencies impacts the company's financial results. In fiscal 2019, foreign currency exchange rate fluctuations decreased the company's European revenue growth rate by 30 basis points year over year.
 - ▼ While it is true that FactSet has grown through acquisitions, combined performance has often been below expectations due to underestimation of inter-company revenues. Apart from this, integrating newly acquired businesses is a distraction for management and also consumes financial and other resources. Since the company continues to pursue acquisitions as one of its growth strategies, it is likely to face **integration issues** in the future as well.
 - ▼ FactSet's **balance sheet is leveraged**. At the end of the last reported quarter, long-term debt was \$574.3 million while cash and cash equivalents were \$343.5 million. Such a cash position implies that FactSet needs to generate adequate amount of operating cash flow to service its debt. Also, high debt may limit the company's future expansion and worsen its risk profile.
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Last Earnings Report

FactSet Beats Q2 Earnings Estimates, Lags Revenues

FactSet reported mixed second-quarter fiscal 2020 results, wherein earnings topped the Zacks Consensus Estimate but revenues missed the same.

The company reported adjusted earnings per share of \$2.55, which surpassed the Zacks Consensus Estimate by 3.2% and increased 5.4% on a year-over-year basis driven by lower tax rate.

Quarter Ending **02/2020**

Report Date	Mar 26, 2020
Sales Surprise	-0.18%
EPS Surprise	3.24%
Quarterly EPS	2.55
Annual EPS (TTM)	10.36

Revenues in Detail

FactSet's revenues of \$369.8 million marginally missed the Zacks Consensus Estimate and increased 4.2% year over year. The uptick was driven by higher sales of analytics, content and technology solutions (CTS) as well as wealth management solutions.

Organic revenues increased 4.2% year over year to \$371 million. Region-wise, U.S. revenues increased to \$232.7 million from \$223.3 million in the year-ago quarter. International revenues were \$137.1 million compared with \$131.6 million in the year-ago quarter.

ASV Plus Professional Services

FactSet's Annual Subscription Value (ASV) plus professional services was at \$1.5 billion. Organically, it increased 4.3% year over year. Buy-side and sell-side ASV growth rates were 4.5% and 2.9%, respectively. Nearly 84.1% of organic ASV was generated by buy-side clients. The rest were derived from sell-side firms performing functions like mergers and acquisitions advisory work, equity research and capital markets services.

ASV generated from the United States was \$925.6 million, up 3.9% from the prior-year quarter's level. Internationally, ASV was \$554 million, up 4.5% year over year. FactSet added 87 clients in the reported quarter, taking the total number to 5,688. Annual client retention was 89%. At the end of the quarter, total employee count was 9,892, up 3.8% year over year.

Operating Results

Adjusted operating income came in at \$117.9 million, down slightly from the year-ago quarter's figure. Adjusted operating margin decreased to 31.8%, from 33.2% in the year-ago quarter. Selling, general and administration expenses increased 7.7% to \$87.3 million. Total operating expenses increased 7% to \$263.5 million.

Balance Sheet and Cash Flow

FactSet exited second-quarter fiscal 2020 with cash and cash equivalents of \$343.5 million compared with \$336.2 million in the previous quarter. Long-term debt of \$574.3 million was roughly flat year over year. In the quarter, the company generated \$99.7 million of cash from operating activities and capital expenditure was \$25.1 million. Free cash flow was \$74.6 million.

FactSet repurchased 267,500 shares for \$74.2 million during the reported quarter. As of Mar 26, 2020, the company had \$300 million available for share repurchases. A quarterly dividend of \$27.1 million was paid out on Mar 19.

Fiscal 2020 Outlook

FactSet reaffirmed its revenue, operating margin and EPS outlook for fiscal 2020. The company continues to expect adjusted EPS between \$9.85 and \$10.15.

Revenues are expected between \$1.49 billion and \$1.5 billion. Adjusted operating margin is anticipated to be in the range of 31.5%-32.5%. Anticipated annual effective tax rate is expected between 17% and 17.5%.

The company trimmed its organic ASV plus professional services expectation in response to the coronavirus led changes in business conditions. The metric is now projected to increase in the range of \$50-\$75 million, compared with the previous projection of \$65-\$85 million.

Recent News

On **Feb 19, 2020**, FactSet announced the expansion of its content offering in Canada. The expansion includes the launch of Canadian-specific coverage from StreetAccount and investment fund information from Fundata Canada, Inc.

On **Feb 18, 2020**, FactSet announced that its board of directors approved a regular quarterly cash dividend of 72 cents per share. The dividend will be paid out on Mar 19, 2020, to holders of record at the close of business on Feb 28, 2020.

On **Jan 29, 2020**, FactSet announced the launch of US statutory insurance content from AM Best. The latest launch is expected to bring enhanced insurance-specific content to investment professionals.

Valuation

FactSet shares are up 0.4% in the year-to-date period and 5.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Business Services sector are down 11.1% and 18.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is up 4.9% but the sector is down 11.8%, respectively.

The S&P 500 index is down 17.2% in the year-to-date period and 8.2% in the past year.

The stock is currently trading at 25.77X forward 12-month price-to-earnings, which compares to 23.77X for the Zacks sub-industry, 21.66X for the Zacks sector and 15.73X for the S&P 500 index.

Over the past five years, the stock has traded as high as 30.02X and as low as 19.09X, with a 5-year median of 23.38X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$288.00 price target reflects 27.8X price-to-earnings.

The table below shows summary valuation data for FDS

Valuation Multiples - FDS					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	25.77	23.77	21.66	15.73
	5-Year High	30.02	27.35	25.13	19.34
	5-Year Low	19.09	19.42	18.67	15.19
	5-Year Median	23.38	22.07	20.52	17.44
P/S F12M	Current	6.6	5.82	3.29	2.72
	5-Year High	7.71	6.35	3.94	3.44
	5-Year Low	4.54	3.34	3.05	2.54
	5-Year Median	5.74	4.66	3.56	3
P/B TTM	Current	14.12	7.59	3.69	3.54
	5-Year High	18.1	9.36	6.68	4.55
	5-Year Low	10.12	4.29	3.1	2.84
	5-Year Median	13.17	6.21	5.18	3.63

As of 04/06/2020

Industry Analysis Zacks Industry Rank: Bottom 25% (191 out of 253)



Top Peers

Broadridge Financial Solutions, Inc. (BR)	Neutral
Equifax, Inc. (EFX)	Neutral
FactSet Research Systems Inc. (FDS)	Neutral
Fidelity National Information Services, Inc. (FIS)	Neutral
Gartner, Inc. (IT)	Neutral
Paychex, Inc. (PAYX)	Neutral
TransUnion (TRU)	Neutral
Alliance Data Systems Corporation (ADS)	Underperform

Industry Comparison Industry: Business - Information Services				Industry Peers		
	FDS Neutral	X Industry	S&P 500	EFX Neutral	FIS Neutral	PAYX Neutral
VGM Score	C	-	-	C	D	D
Market Cap	10.12 B	8.91 B	18.06 B	13.89 B	75.82 B	23.42 B
# of Analysts	10	9	13	11	14	12
Dividend Yield	1.08%	0.73%	2.34%	1.37%	1.14%	3.80%
Value Score	D	-	-	D	D	D
Cash/Price	0.04	0.02	0.06	0.03	0.02	0.04
EV/EBITDA	21.23	19.00	11.15	1,054.04	28.10	13.16
PEG Ratio	2.68	2.06	1.87	2.81	1.41	3.09
Price/Book (P/B)	14.11	5.07	2.46	5.26	1.53	8.49
Price/Cash Flow (P/CF)	22.72	18.78	9.59	13.48	15.13	16.30
P/E (F1)	27.69	24.00	15.66	20.34	20.03	21.61
Price/Sales (P/S)	6.90	6.90	1.92	3.96	7.34	5.70
Earnings Yield	3.74%	4.18%	6.30%	4.92%	4.99%	4.63%
Debt/Equity	1.16	1.03	0.70	1.29	0.35	0.33
Cash Flow (\$/share)	11.74	3.61	7.01	8.45	8.13	4.01
Growth Score	B	-	-	C	D	C
Hist. EPS Growth (3-5 yrs)	15.32%	15.32%	10.92%	6.64%	18.44%	10.95%
Proj. EPS Growth (F1/F0)	-0.19%	5.84%	0.33%	-0.39%	9.50%	6.40%
Curr. Cash Flow Growth	14.30%	6.81%	5.93%	0.48%	57.47%	10.82%
Hist. Cash Flow Growth (3-5 yrs)	12.63%	12.63%	8.55%	8.37%	26.53%	12.37%
Current Ratio	2.63	0.95	1.24	0.89	0.84	1.19
Debt/Capital	53.71%	53.71%	42.36%	56.30%	25.84%	24.63%
Net Margin	25.01%	15.16%	11.64%	-11.37%	2.88%	26.98%
Return on Equity	58.78%	22.54%	16.74%	26.42%	9.60%	41.68%
Sales/Assets	0.88	0.42	0.54	0.47	0.18	0.46
Proj. Sales Growth (F1/F0)	3.97%	2.13%	1.00%	4.24%	28.92%	8.24%
Momentum Score	D	-	-	B	C	C
Daily Price Chg	5.45%	4.30%	7.93%	6.78%	6.77%	9.64%
1 Week Price Chg	-0.63%	-0.63%	-4.40%	-10.82%	-4.06%	-1.03%
4 Week Price Chg	1.92%	-7.77%	-6.89%	-19.65%	-5.40%	-9.90%
12 Week Price Chg	-0.03%	-19.34%	-24.81%	-23.38%	-13.81%	-24.31%
52 Week Price Chg	4.32%	1.49%	-17.63%	-7.64%	8.24%	-19.22%
20 Day Average Volume	534,522	257,051	4,147,873	1,347,257	6,679,700	4,960,501
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-0.46%	0.00%
(F1) EPS Est 4 week change	-0.48%	-1.08%	-4.97%	-1.97%	-2.41%	-2.74%
(F1) EPS Est 12 week change	-0.48%	-2.36%	-6.79%	-3.13%	-2.53%	-2.74%
(Q1) EPS Est Mthly Chg	-2.17%	-2.17%	-7.32%	-5.36%	-3.31%	-14.07%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	B
Momentum Score	D
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

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