

IHS Markit Ltd.(INFO)

\$83.25 (As of 08/12/20)

Price Target (6-12 Months): **\$88.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/28/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

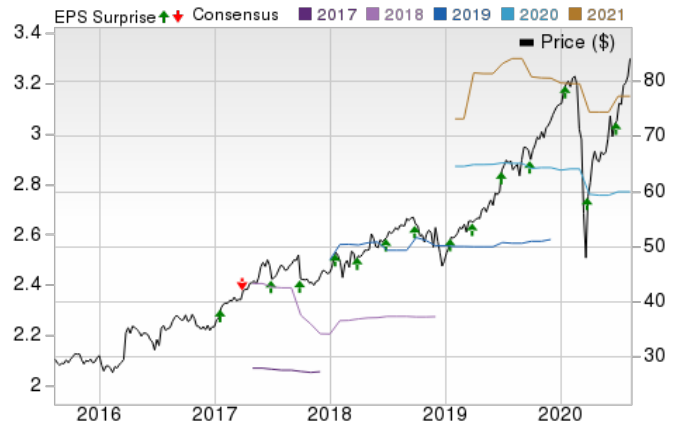
Growth: C

Momentum: C

Summary

IHS Markit has a well-diversified global customer base and solid brand recognition. The company's depth and breadth of information and analytics is a key competitive differentiator. Acquisitions act as a key growth catalyst by helping the company expand offerings and strengthen international footprint. The company's business model ensures solid recurring revenue generation capacity. Shares of IHS Markit have outperformed the S&P 500 in the past year, mainly due to earnings beat in the past four quarters. On the flip side, higher costs remain a concern as the company plans to make investments in automotive, energy and financial services. The company's business experiences event driven seasonality, causing fluctuations in revenues and profits. High debt may limit the company's future expansion and worsen its risk profile.

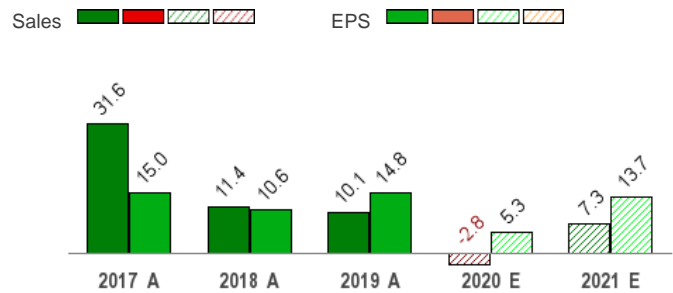
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$84.37 - \$44.81
20 Day Average Volume (sh)	1,588,537
Market Cap	\$35.1 B
YTD Price Change	10.5%
Beta	0.94
Dividend / Div Yld	\$0.68 / 0.8%
Industry	Business - Information Services
Zacks Industry Rank	Top 19% (49 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	6.2%
Last Sales Surprise	-2.1%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	09/22/2020
Earnings ESP	0.0%
P/E TTM	31.2
P/E F1	30.1
PEG F1	2.5
P/S TTM	8.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,129 E	1,147 E	1,140 E	1,184 E	4,604 E
2020	1,081 A	1,027 A	1,069 E	1,110 E	4,291 E
2019	1,046 A	1,136 A	1,112 A	1,120 A	4,415 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.72 E	\$0.80 E	\$0.79 E	\$0.84 E	\$3.15 E
2020	\$0.66 A	\$0.69 A	\$0.68 E	\$0.72 E	\$2.77 E
2019	\$0.60 A	\$0.71 A	\$0.67 A	\$0.65 A	\$2.63 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 08/12/2020. The reports text is as of 08/13/2020.

Overview

Headquartered in London, U.K., IHS Markit Ltd. is a provider of critical information, analytics and solutions to different industries. The company was formed through merger of IHS Inc., Markit Ltd. and Marvel Merger Sub, Inc. on Jul 12, 2016.

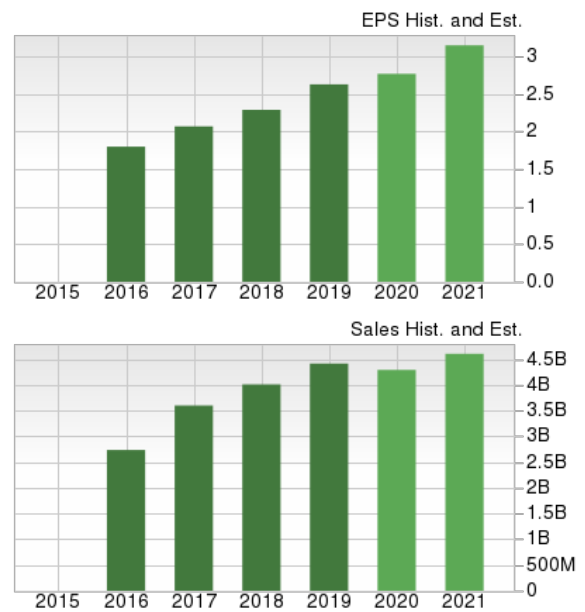
IHS Markit operates through four segments – Resources, Transportation, Consolidated Markets & Solutions (CMS) and Financial Services.

The **Resources** segment (22% of fiscal 2018 revenues) includes Energy and Chemicals offerings. While Energy offerings comprise upstream, midstream, downstream, and power/gas/coal/renewables services, Chemicals offerings consist of data for manufacturing processes and capital expenditures, price, production, cost, trade, demand, and capacity industry analysis and forecasts.

The **Transportation** Segment (29%) includes Automotive, Maritime & Trade, and Aerospace, Defense & Security offerings. Automotive offerings comprise authoritative analysis, sales and production forecasts for light, medium and heavy commercial vehicles, powertrains, components, technology systems as well as performance measurement tools and marketing solutions for car makers, dealers, and agencies. Maritime & Trade offerings encompass comprehensive data on ships as well as monthly import and export statistics on about 90 countries. Aerospace, Defense & Security offerings consist of specifications for military vehicles, naval vessels and aircraft types.

The **CMS** segment (14%) encompasses Product Design, Technology, Media & Telecom and Economics and Country Risk offerings. Product Design offerings include content and analytics on engineering and technical standards, specifications, codes, journals, handbooks, reference books, and other scientific and technical documents as well as software-based engineering decision engines. Technology, Media & Telecom offerings comprise components and devices, performance analytics, and end-market intelligence for technology, media and telecom industries. Economics and Country Risk offerings include economic and risk data, forecasts, and analytic tools.

The **Financial Services** segment (35%) offers pricing and reference data, indices, valuation and trading services.



Reasons To Buy:

- ▲ IHS Markit is benefiting from **well diversified global customer base** and strong brand recognition. The company has a consultative product development approach, which means it works closely with its customers in introducing offerings and enhancing established ones. This, in turn, has helped it build strong customer relations over time. Currently, IHS Markit's offerings are well established across multiple industries and geographies. The company intends to continue innovating and developing new product offerings, and investment priorities primarily in automotive, energy and financial services.
- ▲ The company's **depth and breadth of information and analytics** is a key competitive differentiator. Its global team of industry experts, research analysts and economists help create intellectual wealth across several industries, thus providing customers with high quality strategic information and research. An effective data transformation process has helped the company improve information and analytics offerings over time and create a solid global customer base. Many of these offerings are core to business operations of customers and the company has long-term relationships with them.
- ▲ IHS Markit's business model ensures solid **recurring revenue generation capacity**. Its products and services are offered primarily through recurring fixed and variable fee agreements, which realizes stable revenues and cash flows. In fiscal 2018, the company generated 85% of its revenues from recurring revenue sources. Furthermore, IHS Markit's efficient utilization of business model, operational improvement and financial discipline results in solid margin expansion. The company's adjusted EBITDA margin expanded 130 basis points (bps) in fiscal 2019. Also, IHS Markit's business requires low capital requirement, which in turn boosts its cash generation capacity.
- ▲ **Acquisition** is a key growth strategy for IHS Markit. Over time, strategic acquisitions have proved conducive to the company by helping it to expand offerings and strengthen international footprint. The buyout of Catena Technologies in May is expected to strengthen the quality and efficiency of the company's trade reporting services. Likewise, the 2019 acquisition of Novation Analytics should enable the company to provide more holistic emissions modelling and simulation for automotive manufacturers and suppliers.
- ▲ IHS Markit's shares have gained 31.7% in the past year, outperforming the 6.9% growth of the Zacks S&P 500 composite. The **outperformance** partly reflects better-than-expected earnings performance in the past four quarters.

IHS Markit is benefiting from well diversified recurring revenue base, acquisitions and solid brand recognition.

Reasons To Sell:

- ▼ IHS Markit could see escalation in its **costs**, which are already high. A major portion of its incurred costs are acquisition related. The company incurred \$70 million acquisition related costs in fiscal 2019 and \$135 million in fiscal 2018. Over the next several years, it expects additional acquisition-related costs associated with the aM buyout as well as remaining integration costs related to the merger. Moreover, costs might escalate further as the company plans to make significant investments in automotive, energy and financial services.
- ▼ IHS Markit's business experiences event driven **seasonality**. The company's first quarter generally witnesses lowest revenue and profit levels, which then increases driven by events such as CERAWeek, an annual energy conference that is held in the second quarter of every year, and biennial release of the Boiler Pressure Vessel Code ("BPVC") engineering standard that generates revenue for the company predominantly in the third quarter of every other year. Seasonality causes considerable fluctuations in revenues and profits, thus making prediction difficult.
- ▼ IHS Markit has a **debt-laden balance sheet**. Total debt at the end of second-quarter fiscal 2020 was \$5.39 billion, up from \$5.21 billion at the end of the prior quarter. The debt-to-capital ratio of 0.40 is higher than the previous quarter's 0.38. An increase in debt to capitalization ratio indicates higher risk of insolvency in challenging times. Further, the company's cash and cash equivalent of \$208 million at the end of the secondquarter was well below this debt level, underscoring that the company doesn't have enough cash to meet this debt burden. Also, the cash level, can't meet the short-term debt of \$251 million.

Increase in costs, seasonal variations in revenues and profit and weakness in balance sheet are areas of concern.

Last Earnings Report

IHS Markit Tops Q2 Earnings Beat Estimates, Revenues Lag

IHS Markit reported mixed first-quarter fiscal 2020 results, with earnings beating the Zacks Consensus Estimate but revenues missing the same.

Adjusted earnings per share of 69 cents beat the consensus mark by 6.2% but decreased 3% on a year-over-year basis. Total revenues came in at \$1.03 billion, missing the consensus mark by 2.1% and declining 10% from the year-ago quarter on a reported basis. Revenues declined 7% organically.

Quarter Ending **05/2020**

Report Date	Jun 23, 2020
Sales Surprise	-2.07%
EPS Surprise	6.15%
Quarterly EPS	0.69
Annual EPS (TTM)	2.67

Quarterly Details

Revenues at the Resources segment totaled \$219 million, down 12% year over year on a reported basis and 14% organically. The Transportation segment witnessed year-over-year revenue decline of 24% on a reported basis and 18% organically to reach \$243 million.

Revenues at the Consolidated Markets & Solutions segment amounted to \$121 million, down 10% year over year on a reported basis but up 2% organically. Financial services segment's revenues increased 2% year over year to \$444 million, with 3% organic growth.

Recurring fixed revenues of \$755.2 million were down 4% year over year on a reported basis and 1% on an organic basis. Recurring variable revenues of \$158 million grew 9% year over year on a reported basis and 10% on an organic basis. Non-recurring revenues totaled \$113 million, down 45% year over year on a reported basis and 40% on an organic basis.

Adjusted EBITDA of \$454 million declined 2% from the year-ago quarter. Adjusted EBITDA margin improved 320 points (bps) year over year to 44.2%.

IHS Markit ended the quarter with cash and cash equivalent balance of \$207.8 million compared with \$143.9 million in the prior quarter. Long-term debt was \$5.1 billion compared with \$5 billion in the previous quarter.

Cash flow from operations and free cash flow amounted to \$278.2 million and \$208.6 million, respectively, in the quarter. CapEx was \$69.6 million. The company repurchased \$250 million of shares and paid out \$67.7 million in dividends in the quarter.

Recent News

On **Jul 14, 2020**, IHS Markit announced quarterly cash dividend of 17 cents per share payable to its shareholders on Aug 14 as of record date Jul 31.

On **May 4, 2020**, IHS Markit announced that it has completed the acquisition of Catena Technologies, a Singapore-based global regulatory trade reporting firm.

On **Apr 20, 2020**, IHS Markit announced the appointment of Jacques Esculier to its board of directors as an independent director, effective Apr 16. He is joining the company's audit committee as well.

Valuation

IHS Markit shares are up 10.5% in the year-to-date period and 31.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Business Services sector are up 18.1% and 2.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the Zacks Business Services sector are up 23.5% and 6.9%, respectively.

The S&P 500 index is up 4.8% in the year-to-date period and 6.9% in the past year.

The stock is currently trading at 27.42X forward 12-month price-to-earnings, which compares to 30.32X for the Zacks sub-industry, 30.05X for the Zacks sector and 22.92X for the S&P 500 index.

Over the past five years, the stock has traded as high as 34.05X and as low as 18.53X, with a 5-year median of 25.04X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$88.00 price target reflects 28.95X price-to-earnings.

The table below shows summary valuation data for INFO.

Valuation Multiples - INFO					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	27.42	30.32	30.05	22.92
	5-Year High	34.05	30.37	30.05	22.92
	5-Year Low	18.53	19.56	18.68	15.25
	5-Year Median	25.04	22.6	20.96	17.58
P/S F12M	Current	7.79	6.91	4.19	3.7
	5-Year High	13.06	6.91	4.19	3.7
	5-Year Low	3.94	3.43	3.07	2.53
	5-Year Median	4.95	4.76	3.6	3.05
P/B TTM	Current	4.33	7.06	4.8	4.71
	5-Year High	4.37	9.18	6.72	4.71
	5-Year Low	1.75	4.29	3.28	2.83
	5-Year Median	2.47	6.21	5.22	3.74

As of 08/12/2020

Industry Analysis Zacks Industry Rank: Top 19% (49 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
CBIZ, Inc. (CBZ)	Outperform	2
FTI Consulting, Inc. (FCN)	Outperform	2
Huron Consulting Group Inc. (HURN)	Outperform	3
ICF International, Inc. (ICFI)	Neutral	2
Gartner, Inc. (IT)	Neutral	3
Maximus, Inc. (MMS)	Neutral	3
Verisk Analytics, Inc. (VRSK)	Neutral	3
Charles River Associates (CRAI)	Underperform	3

Industry Comparison Industry: Business - Information Services				Industry Peers		
	INFO	X Industry	S&P 500	ICFI	IT	MMS
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	2	3	3
VGM Score	D	-	-	F	B	B
Market Cap	35.13 B	11.97 B	23.75 B	1.38 B	11.66 B	4.68 B
# of Analysts	9	5	14	3	5	3
Dividend Yield	0.82%	0.34%	1.68%	0.77%	0.00%	1.47%
Value Score	D	-	-	C	C	B
Cash/Price	0.01	0.03	0.07	0.04	0.03	0.02
EV/EBITDA	25.43	21.70	13.35	14.53	23.53	11.70
PEG Ratio	2.52	3.20	2.98	2.00	4.09	NA
Price/Book (P/B)	4.33	7.05	3.20	1.95	11.77	3.92
Price/Cash Flow (P/CF)	23.39	23.28	12.97	12.69	20.34	14.94
P/E (F1)	30.25	35.20	22.17	19.98	40.92	23.36
Price/Sales (P/S)	8.10	9.28	2.54	0.93	2.78	1.42
Earnings Yield	3.33%	2.76%	4.31%	5.01%	2.45%	4.28%
Debt/Equity	0.63	0.72	0.77	0.80	2.76	0.12
Cash Flow (\$/share)	3.56	3.94	6.94	5.76	6.43	5.11
Growth Score	C	-	-	F	A	C
Hist. EPS Growth (3-5 yrs)	14.04%	16.10%	10.41%	11.95%	14.24%	11.01%
Proj. EPS Growth (F1/F0)	5.32%	1.51%	-6.32%	-11.81%	-18.05%	-12.10%
Curr. Cash Flow Growth	5.92%	7.63%	5.22%	8.66%	-7.30%	13.97%
Hist. Cash Flow Growth (3-5 yrs)	24.83%	12.63%	8.55%	9.89%	18.55%	10.95%
Current Ratio	0.73	1.36	1.33	1.56	0.70	1.95
Debt/Capital	38.84%	41.86%	44.59%	44.39%	73.43%	10.83%
Net Margin	18.43%	11.78%	10.13%	4.27%	5.70%	6.41%
Return on Equity	10.73%	23.04%	14.59%	11.02%	41.19%	17.29%
Sales/Assets	0.27	0.45	0.51	0.97	0.61	1.70
Proj. Sales Growth (F1/F0)	-2.81%	0.00%	-1.40%	-0.81%	-7.98%	17.91%
Momentum Score	C	-	-	F	C	A
Daily Price Chg	0.54%	0.54%	0.67%	-3.20%	-0.60%	0.28%
1 Week Price Chg	4.00%	1.25%	2.30%	6.55%	5.54%	4.54%
4 Week Price Chg	6.53%	2.36%	4.87%	14.32%	3.20%	5.69%
12 Week Price Chg	22.07%	12.48%	13.54%	23.79%	10.64%	9.41%
52 Week Price Chg	31.70%	9.97%	6.06%	-9.77%	2.98%	0.79%
20 Day Average Volume	1,588,537	79,603	2,006,991	106,415	442,729	280,548
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.46%	0.00%	5.71%
(F1) EPS Est 4 week change	0.00%	1.56%	1.95%	2.04%	3.50%	5.71%
(F1) EPS Est 12 week change	0.45%	0.58%	2.72%	2.04%	4.62%	8.76%
(Q1) EPS Est Mthly Chg	0.00%	1.76%	0.84%	-10.11%	-8.98%	-0.36%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	C
Momentum Score	C
VGM Score	D

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.

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