

IHS Markit Ltd.(INFO)

\$79.93 (As of 01/13/20)

Price Target (6-12 Months): **\$89.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 01/17/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM: C

Value: D

Growth: B

Momentum: 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 industry in the past year, mainly due to earnings beat in the first three quarters of fiscal 2019. However, 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.

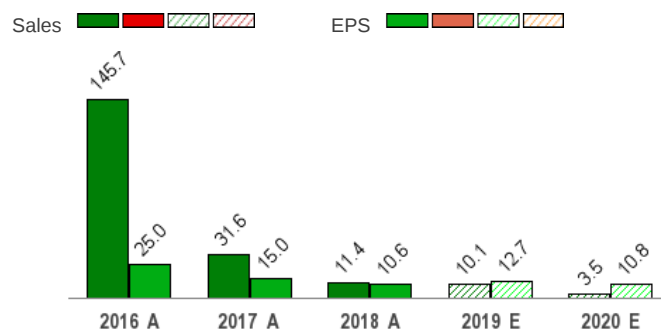
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$79.96 - \$61.68
20 Day Average Volume (sh)	1,575,059
Market Cap	\$32.1 B
YTD Price Change	6.1%
Beta	0.79
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Business - Information Services
Zacks Industry Rank	Top 36% (91 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	6.4%
Last Sales Surprise	-1.4%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	01/14/2020
Earnings ESP	0.0%
P/E TTM	31.3
P/E F1	28.0
PEG F1	2.6
P/S TTM	7.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	1,079 E	1,174 E	1,144 E	1,167 E	4,568 E
2019	1,046 A	1,136 A	1,112 A	1,120 E	4,414 E
2018	932 A	1,008 A	1,001 A	1,068 A	4,009 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.63 E	\$0.76 E	\$0.74 E	\$0.72 E	\$2.86 E
2019	\$0.60 A	\$0.71 A	\$0.67 A	\$0.61 E	\$2.58 E
2018	\$0.53 A	\$0.61 A	\$0.58 A	\$0.57 A	\$2.29 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 01/13/2020. The reports text is as of 01/14/2020.

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.

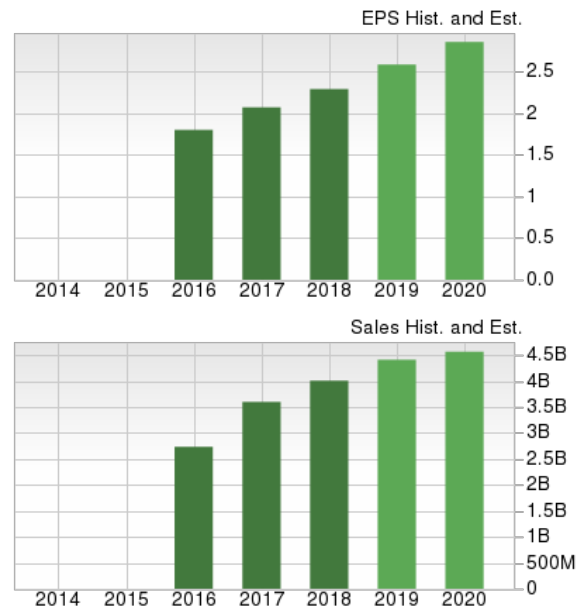
IHS Markit operates through four segments – Resources, Transportation, Consolidated Markets & Solutions (CMS) and Financial Services.

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.

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

▲ 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 84% 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 the first nine months of fiscal 2019, on a year-over-year basis. 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. In fiscal 2018, the company acquired Ipreo, DeriveXperts and PetroChem Wire. While DeriveXperts enhances the company's derivatives data and valuations products, PetroChem Wire complements its OPIS product offerings. Ipreo is aimed at boosting the Financial services segment. In fiscal 2017, it acquired automotiveMastermind Inc. ("aM") and Macroeconomic Advisers ("MEA"). While the aM acquisition helped IHS Markit to improve buyer experience in the car dealer market, the MEA buyout increased its macroeconomic offerings, especially in the policy and financial markets. Overall, strategic acquisitions have proved conducive the company by helping it to expand offerings and strengthen international footprint.

▲ IHS Markit's shares have gained 57.5% in the past year, outperforming the 41.5% growth of the industry. The **outperformance** partly reflects better-than-expected earnings performance in the first three quarters of fiscal 2019.

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 \$135 million acquisition related costs in fiscal 2018 and \$113 million in fiscal 2017. 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.
- ▼ The company has a **highly leveraged balance sheet**. Though it has a long-term debt of \$5.05 billion, its cash and cash equivalents amount to just \$124.1 million at the end of third-quarter fiscal 2019. The weakness in its balance sheet is an area of concern. High debt may limit the company's future expansion and worsen its risk profile.

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

Last Earnings Report

IHS Markit Surpassess Q3 Earnings Estimates

IHS Markit reported mixed third-quarter fiscal 2019 results with earnings beating the Zacks Consensus Estimate but revenues missing the same.

Adjusted earnings per share of 67 cents beat the consensus mark by 4 cents and increased 16% on a year-over-year basis. Total revenues came in at \$1.11 billion, missing the consensus mark by \$17 million but improving 11% from the year-ago quarter.

Quarter Ending 08/2019

Report Date	Sep 24, 2019
Sales Surprise	-1.44%
EPS Surprise	6.35%
Quarterly EPS	0.67
Annual EPS (TTM)	2.55

Quarter Details

Revenues at the Resources segment totaled \$230 million, up 9% year over year, with recurring revenues rising 5% organically. The Transportation segment experienced year-over-year revenue growth of 6% to reach \$314.9 million. Recurring revenues at this segment grew 10% organically.

Revenues at the CMS segment amounted to \$138.6 million, up 1% year over year, with no organic growth in recurring revenues. Financial services segment's revenues increased 21% year over year to \$428.8 million with 6% organic growth.

Recurring fixed revenues of \$799.9 million rose 11% year over year on a reported basis and 7% on an organic basis. Recurring variable revenues of \$144.4 million grew 16% year over year on a reported basis and 5% on an organic basis. Non-recurring revenues totaled \$168 million, up 6% year over year on a reported basis and 4% on an organic basis.

Adjusted EBITDA of \$452.9 million increased 16% from the year-ago quarter. Adjusted EBITDA margin improved 170 points (bps) year over year to 40.7%.

IHS Markit ended the quarter with cash and cash equivalent balance of \$124.1 million compared with \$109.5 million in the prior quarter. Long-term debt was \$5.05 billion compared with \$4.9 billion in the previous quarter.

Cash flow from operations and free cash flow amounted to \$412.9 million and \$342.9 million, respectively, in the quarter. CapEx was \$70 million. The company repurchased \$200 million of shares in the quarter.

Fiscal 2019 Outlook

IHS Markit expects revenues in the range of \$4.40 billion to \$4.42 billion, including organic growth of 5% to 6% (including lpreo). Adjusted EBITDA is expected in the range of \$1.75 billion to \$1.78 billion. Adjusted EPS is anticipated in the range of \$2.52 to \$2.57.

Recent News

On **Dec 10, 2019**, IHS Markit's automotiveMastermind announced that it has selected global, independent marketing agency Mindgruve to lead its marketing efforts.

On **Oct 21, 2019**, IHS Markit announced the appointment of Deborah Orida as an independent director to its board of directors and the retirement of Richard Roedel from the board.

On **Oct 17, 2019**, IHS Markit announced that it has completed the sale of Data Logic Services to Access.

Valuation

IHS Markit shares are up 57.5% over the trailing 12-month period. Over the past year, the Zacks sub-industry and sector are up 41.5% and 27.5%, respectively. The S&P 500 index is up 24.2% in the past year.

The stock is currently trading at 27.59X forward 12-month price-to-earnings, which compares to 27.17X for the Zacks sub-industry, 25.28X for the Zacks sector and 18.87X for the S&P 500 index.

Over the past five years, the stock has traded as high as 34.05X and as low as 17.68X, with a 5-year median of 24.55X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$89.00 price target reflects 30.72X 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	27.59	27.17	25.28	18.87
	5-Year High	34.05	27.32	25.28	19.34
	5-Year Low	17.68	19.42	18.76	15.17
	5-Year Median	24.55	21.85	20.56	17.44
P/S F 12M	Current	6.97	6.05	3.98	3.5
	5-Year High	13.06	6.16	5.13	3.5
	5-Year Low	3.9	3.34	3.09	2.54
	5-Year Median	4.81	4.49	3.63	3
P/B TTM	Current	3.89	8.72	4.92	4.46
	5-Year High	3.89	8.82	6.73	4.47
	5-Year Low	1.75	4.28	4.13	2.85
	5-Year Median	2.39	6.21	5.32	3.61

As of 01/13/2020

Industry Analysis Zacks Industry Rank: Top 36% (91 out of 254)



Top Peers

CBIZ, Inc. (CBZ)	Neutral
Charles River Associates (CRAI)	Neutral
FTI Consulting, Inc. (FCN)	Neutral
ICF International, Inc. (ICFI)	Neutral
Gartner, Inc. (IT)	Neutral
Maximus, Inc. (MMS)	Neutral
Resources Connection, Inc. (REC�)	Neutral
Verisk Analytics, Inc. (VRSK)	Neutral

Industry Comparison Industry: Business - Information Services				Industry Peers		
	INFO Neutral	X Industry	S&P 500	ICFI Neutral	IT Neutral	MMS Neutral
VGM Score	C	-	-	B	C	A
Market Cap	32.05 B	10.00 B	24.31 B	1.77 B	14.40 B	4.84 B
# of Analysts	10	8	13	3	6	3
Dividend Yield	0.00%	0.33%	1.76%	0.59%	0.00%	1.48%
Value Score	D	-	-	B	D	C
Cash/Price	0.00	0.02	0.04	0.00	0.02	0.02
EV/EBITDA	31.04	24.32	14.12	17.91	29.30	11.66
PEG Ratio	2.58	2.50	2.05	2.03	3.12	1.88
Price/Book (P/B)	3.89	8.06	3.34	2.58	15.66	3.86
Price/Cash Flow (P/CF)	23.38	23.16	13.66	17.82	23.34	14.78
P/E (F1)	27.60	28.77	18.82	20.28	39.82	18.79
Price/Sales (P/S)	7.35	7.35	2.64	1.22	3.48	1.68
Earnings Yield	3.58%	3.48%	5.29%	4.93%	2.51%	5.32%
Debt/Equity	0.61	1.12	0.72	0.54	3.08	0.00
Cash Flow (\$/share)	3.42	3.61	6.94	5.29	6.89	5.11
Growth Score	B	-	-	B	B	A
Hist. EPS Growth (3-5 yrs)	NA%	14.82%	10.56%	13.00%	15.14%	13.15%
Proj. EPS Growth (F1/F0)	10.49%	8.75%	7.49%	10.80%	14.23%	8.15%
Curr. Cash Flow Growth	13.25%	20.06%	14.83%	14.24%	11.86%	13.97%
Hist. Cash Flow Growth (3-5 yrs)	28.98%	15.15%	9.00%	10.36%	22.55%	10.95%
Current Ratio	0.71	1.20	1.23	1.51	0.68	2.17
Debt/Capital	38.09%	53.97%	42.99%	35.05%	75.46%	0.00%
Net Margin	8.74%	14.61%	11.08%	4.68%	6.04%	8.34%
Return on Equity	10.35%	22.75%	17.16%	11.87%	40.06%	21.09%
Sales/Assets	0.27	0.42	0.55	1.08	0.63	1.70
Proj. Sales Growth (F1/F0)	3.49%	5.14%	4.23%	5.34%	10.51%	11.89%
Momentum Score	C	-	-	D	D	B
Daily Price Chg	2.13%	0.18%	0.73%	1.15%	0.97%	1.18%
1 Week Price Chg	3.22%	1.20%	0.39%	0.64%	2.19%	-0.33%
4 Week Price Chg	6.70%	4.63%	1.84%	3.89%	1.89%	2.51%
12 Week Price Chg	13.96%	8.39%	6.48%	17.61%	10.93%	-3.08%
52 Week Price Chg	60.99%	39.35%	23.15%	48.67%	26.42%	10.93%
20 Day Average Volume	1,575,059	60,874	1,578,594	66,212	517,748	315,756
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-0.33%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.00%	-0.33%	0.00%
(F1) EPS Est 12 week change	-0.36%	0.05%	-0.48%	0.36%	0.39%	-1.69%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

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	B
Momentum Score	C
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.

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