

IHS Markit Ltd.(INFO)

\$55.97 (As of 03/13/20)

Price Target (6-12 Months): **\$59.00**

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:B

Value: D

Growth: A

Momentum: B

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 all four 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.

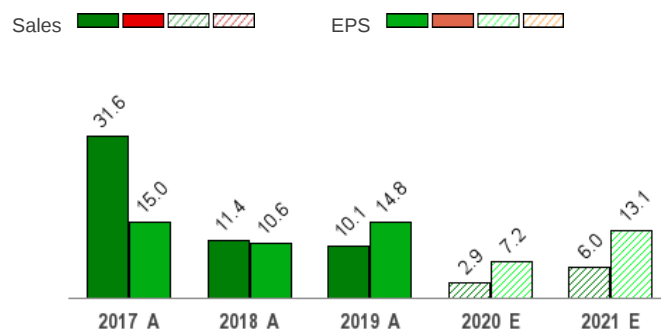
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$81.65 - \$49.00
20 Day Average Volume (sh)	3,426,371
Market Cap	\$23.8 B
YTD Price Change	-25.7%
Beta	0.87
Dividend / Div Yld	\$0.68 / 1.2%
Industry	Business - Information Services
Zacks Industry Rank	Bottom 35% (164 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	6.6%
Last Sales Surprise	0.1%
EPS F1 Est- 4 week change	-1.7%
Expected Report Date	03/24/2020
Earnings ESP	-2.3%
P/E TTM	21.3
P/E F1	19.9
PEG F1	1.9
P/S TTM	5.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,138 E	1,244 E	1,215 E	1,237 E	4,815 E
2020	1,082 E	1,158 E	1,146 E	1,164 E	4,544 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	\$0.84 E	\$0.81 E	\$0.81 E	\$3.19 E
2020	\$0.63 E	\$0.72 E	\$0.73 E	\$0.73 E	\$2.82 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 03/13/2020. The reports text is as of 03/16/2020.

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.

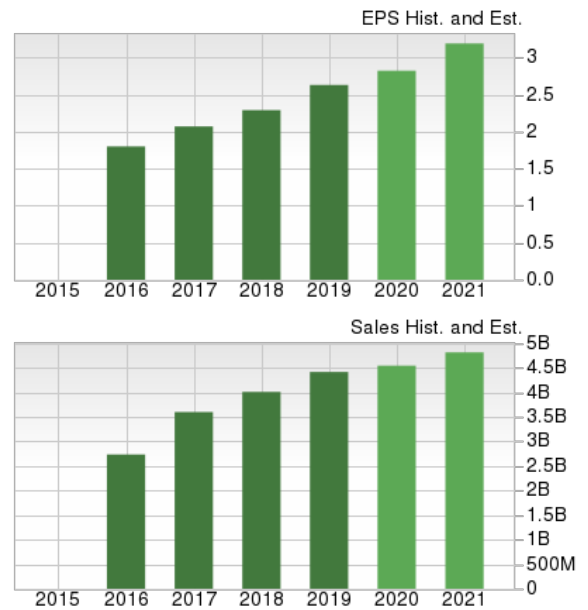
IHS Markit operates through four segments – Resources, Transportation, Consolidated Markets & Solutions (CMS) and Financial Services.

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. 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 1.5% in the past year against the 3.2% decline of the Zacks S&P 500 composite. The **outperformance** partly reflects better-than-expected earnings performance in all the four quarters of fiscal 2019.

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.
- ▼ The company has a **highly leveraged balance sheet**. Though it has a long-term debt of \$4.9 billion, its cash and cash equivalents amount to just \$111.5 million at the end of fourth-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 Q4 Earnings Estimates

IHS Markit reported strong fourth-quarter fiscal 2019 results, with earnings and revenues beating the Zacks Consensus Estimate.

Adjusted earnings per share of 65 cents beat the consensus mark by 6.6% and increased 14% on a year-over-year basis. Total revenues came in at \$1.12 billion, surpassing the consensus mark by 0.05% and improving 5% from the year-ago quarter.

Quarter Ending 11/2019

Report Date	Jan 14, 2020
Sales Surprise	0.05%
EPS Surprise	6.56%
Quarterly EPS	0.65
Annual EPS (TTM)	2.63

Quarterly Details

Revenues at the CMS segment amounted to \$127.7 million, down 8% year over year, with 1% organic growth in recurring revenues. Financial services segment's revenues increased 5% year over year to \$430.6 million, with 8% organic growth in recurring revenues. Fiscal 2020 experienced year-over-year revenue growth of 9% to reach \$324.5 million. Recurring revenues at this segment grew 12% organically.

Recurring fixed revenues of \$810.1 million rose 6% year over year on a reported basis and 7% on an organic basis. Recurring variable revenues of \$147.5 million grew 6% year over year on a reported basis and 7% on an organic basis. Non-recurring revenues totaled \$162.8 million, down 2% year over year on a reported basis but up 1% on an organic basis. Outlook

Adjusted EBITDA of \$452.9 million increased 8.6% from the year-ago quarter. Adjusted EBITDA margin improved 130 points (bps) year over year to 40.4%. Markit expects revenues of

IHS Markit ended the quarter with cash and cash equivalent balance of \$111.5 million compared with \$124.1 million in the prior quarter. Long-term debt was \$4.9 billion compared with \$5.1 billion in the previous quarter.

Cash flow from operations and free cash flow amounted to \$225.7 million and \$147.5 million, respectively, in the quarter. CapEx was \$78.2 million. The company \$4.52 repurchased \$500 million of shares in fiscal 2019. billion to \$4.59

billion, including organic growth of 5% to 6%. Adjusted EBITDA is expected in the range of \$1.86 billion to \$1.89 billion. Adjusted EPS of \$2.82 to \$2.88 is anticipated.

Recent News

On **Feb 27, 2020**, IHS Markit's CARFAX announced expansion of its vehicle history. As part of CARFAX Vehicle History, insurers are now able to access information on more than 530 OEM vehicle attributes.

On **Feb 26, 2020**, IHS Markit's CARFAX stated that it has been recognized as one of the 'Best Places to Work in Virginia' for 2020.

Valuation

IHS Markit shares are up 1.5% over the trailing 12-month period. Over the past year, the Zacks sub-industry is up 6.9% but the sector is down 2.6%. The S&P 500 index is down 3.2% in the said time frame.

The stock is currently trading at 19.11X forward 12-month price-to-earnings, which compares to 22.89X for the Zacks sub-industry, 20.99X for the Zacks sector and 15.74X for the S&P 500 index.

Over the past five years, the stock has traded as high as 34.05X and as low as 17.69X, with a 5-year median of 24.72X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$59.00 price target reflects 20.14X 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	19.11	22.89	20.99	15.74
	5-Year High	34.05	27.42	25.27	19.34
	5-Year Low	17.69	19.42	18.79	15.18
	5-Year Median	24.72	22.05	20.59	17.42
P/S F12M	Current	5.13	6.37	3.33	2.9
	5-Year High	13.06	6.37	4	3.44
	5-Year Low	3.9	3.34	3.09	2.54
	5-Year Median	4.85	4.63	3.63	3
P/B TTM	Current	2.83	7.15	4.17	3.65
	5-Year High	3.87	9.18	6.71	4.56
	5-Year Low	1.75	4.29	3.83	2.85
	5-Year Median	2.41	6.22	5.24	3.63

As of 03/13/2019

Industry Analysis Zacks Industry Rank: Bottom 35% (164 out of 253)



Top Peers

CBIZ, Inc. (CBZ)	Outperform
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	B	-	-	C	F	A
Market Cap	23.79 B	9.56 B	19.05 B	1.36 B	9.47 B	3.53 B
# of Analysts	10	9	13	3	6	3
Dividend Yield	1.21%	0.74%	2.31%	0.78%	0.00%	2.03%
Value Score	D	-	-	B	D	B
Cash/Price	0.00	0.03	0.05	0.00	0.03	0.04
EV/EBITDA	18.12	18.12	11.57	12.62	20.22	8.34
PEG Ratio	1.79	2.26	1.68	1.74	2.55	NA
Price/Book (P/B)	2.67	6.04	2.56	1.90	10.10	2.72
Price/Cash Flow (P/CF)	15.72	19.53	10.18	12.50	16.53	10.80
P/E (F1)	19.11	24.31	14.94	17.45	27.18	13.76
Price/Sales (P/S)	5.39	6.61	2.02	0.92	2.23	1.16
Earnings Yield	5.04%	4.12%	6.67%	5.74%	3.68%	7.26%
Debt/Equity	0.58	1.04	0.70	0.40	3.06	0.00
Cash Flow (\$/share)	3.56	3.61	7.01	5.76	6.43	5.11
Growth Score	A	-	-	B	C	A
Hist. EPS Growth (3-5 yrs)	15.68%	15.68%	10.85%	13.01%	14.89%	13.33%
Proj. EPS Growth (F1/F0)	7.30%	7.34%	5.99%	-0.56%	0.30%	7.88%
Curr. Cash Flow Growth	5.92%	6.86%	6.15%	8.66%	-7.30%	13.97%
Hist. Cash Flow Growth (3-5 yrs)	24.83%	13.46%	8.52%	9.89%	18.55%	10.95%
Current Ratio	0.66	1.10	1.24	1.29	0.71	1.95
Debt/Capital	36.75%	53.97%	42.57%	28.49%	75.40%	0.00%
Net Margin	11.39%	12.98%	11.64%	4.66%	5.50%	8.01%
Return on Equity	10.95%	22.54%	16.74%	11.65%	38.63%	20.54%
Sales/Assets	0.27	0.42	0.54	1.06	0.62	1.71
Proj. Sales Growth (F1/F0)	2.93%	3.02%	3.54%	8.30%	8.08%	12.24%
Momentum Score	B	-	-	F	F	A
Daily Price Chg	5.82%	4.67%	8.21%	4.26%	3.88%	4.58%
1 Week Price Chg	-2.70%	-0.80%	-0.67%	8.58%	-7.13%	2.68%
4 Week Price Chg	-30.27%	-23.87%	-22.67%	-17.15%	-29.54%	-25.34%
12 Week Price Chg	-25.10%	-15.27%	-20.46%	-20.79%	-31.07%	-25.54%
52 Week Price Chg	3.40%	3.86%	-10.79%	-7.40%	-26.24%	-22.21%
20 Day Average Volume	3,426,371	83,131	3,061,271	168,730	1,174,206	520,855
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-3.02%	0.00%
(F1) EPS Est 4 week change	-1.67%	-0.19%	-0.32%	-10.03%	-3.89%	0.17%
(F1) EPS Est 12 week change	-1.25%	-0.77%	-0.65%	-11.25%	-3.42%	-0.25%
(Q1) EPS Est Mthly Chg	-4.87%	0.00%	-0.62%	-14.03%	-20.35%	-3.20%

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	A
Momentum Score	B
VGM Score	B

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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