

IHS Markit Ltd.(INFO)

\$69.14 (As of 05/18/20)

Price Target (6-12 Months): **\$73.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/28/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

Growth: D

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 the past five 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.

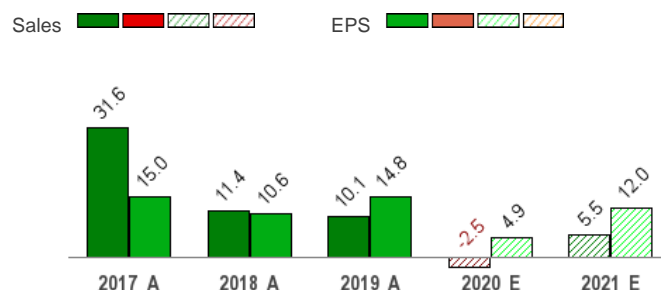
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$81.65 - \$44.81
20 Day Average Volume (sh)	2,113,572
Market Cap	\$29.4 B
YTD Price Change	-8.2%
Beta	0.95
Dividend / Div Yld	\$0.68 / 1.0%
Industry	Business - Information Services
Zacks Industry Rank	Bottom 48% (133 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	4.8%
Last Sales Surprise	-0.1%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	06/24/2020
Earnings ESP	0.0%
P/E TTM	25.7
P/E F1	25.1
PEG F1	2.1
P/S TTM	6.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,101 E	1,106 E	1,103 E	1,165 E	4,540 E
2020	1,081 A	1,048 E	1,063 E	1,098 E	4,304 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	\$0.76 E	\$0.77 E	\$0.82 E	\$3.09 E
2020	\$0.66 A	\$0.65 E	\$0.70 E	\$0.74 E	\$2.76 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 05/18/2020. The reports text is as of 05/19/2020.

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.

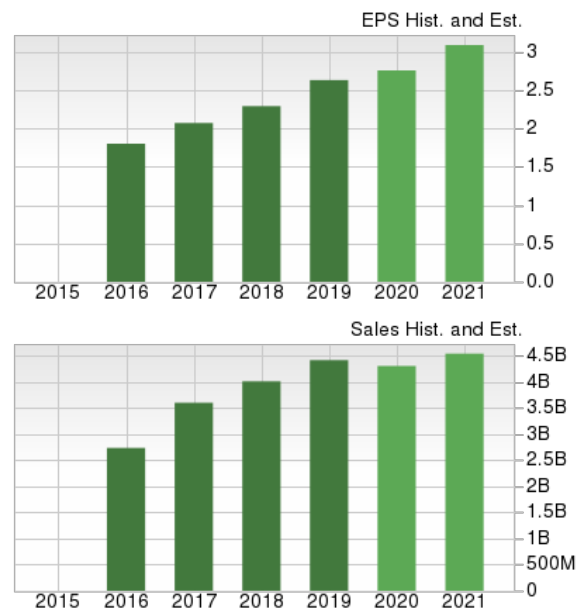
IHS Markit operates through four segments – Resources, Transportation, Consolidated Markets & Solutions (CMS) and Financial Services.

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 20.2% in the past year, outperforming the 3.8% growth of the Zacks S&P 500 composite. The **outperformance** partly reflects better-than-expected earnings performance in the past five 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 first-quarter fiscal 2020 was \$5.21 billion, up from \$5.13 billion at the end of the prior quarter. The debt-to-capital ratio of 0.38 is higher than the previous quarter's 0.37. An increase in debt to capitalization ratio indicates higher risk of insolvency in challenging times. Further, the company's cash and cash equivalent of \$144 million at the end of the first quarter 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 Q1 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 66 cents beat the consensus mark by 4.8% and increased 10% on a year-over-year basis. Total revenues came in at \$1.08 billion, marginally missing the consensus mark but improving 3% from the year-ago quarter.

Quarter Ending **02/2020**

Report Date	Mar 24, 2020
Sales Surprise	-0.08%
EPS Surprise	4.76%
Quarterly EPS	0.66
Annual EPS (TTM)	2.69

Quarterly Details

Revenues at the Resources segment totaled \$226 million, up 4% year over year, with 1% organic growth. The Transportation segment experienced year-over-year revenue growth of 3% to reach \$297 million and included organic growth of 9%.

Revenues at the CMS segment amounted to \$122 million, down 8% year over year, with 3% organic growth. Financial services segment's revenues increased 7% year over year to \$436 million, with 7% organic growth.

Recurring fixed revenues of \$8.4 million rose 5% year over year on a reported basis and 7% on an organic basis. Recurring variable revenues of \$147 million grew 8% year over year on a reported as well as organic basis. Non-recurring revenues totaled \$130 million, down 9% year over year on a reported basis and 5% on an organic basis.

Adjusted EBITDA of \$431.6 million increased 5.8% from the year-ago quarter. Adjusted EBITDA margin improved 90 points (bps) year over year to 39.9%.

IHS Markit ended the quarter with cash and cash equivalent balance of \$143.9 million compared with \$111.5 million in the prior quarter. Long-term debt was \$5 billion compared with \$4.9 billion in the previous quarter.

Cash flow from operations and free cash flow amounted to \$119.5 million and \$117.4 million, respectively, in the quarter. CapEx was \$78 million. The company repurchased \$500 million of shares in fiscal 2019.

Recent News

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.

On **Apr 13, 2020**, IHS Markit's automotiveMastermind announced that it has developed a virtual Business Development Center (BDC) program to support its dealer partners during the coronavirus pandemic.

On **Feb 27, 2020**, IHS Markit's CARFAXannounced 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 down 8.2% in the year-to-date period but up 20.2% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 2.8% while those in the Zacks Business Services sector are down 8.4% in the year-to-date period. Over the past year, the Zacks sub-industry are up 19.9%, those in the Zacks Business Services sector are down 3%.

The S&P 500 index is down 8.2% in the year-to-date period and 3.8% in the past year.

The stock is currently trading at 23.76X forward 12-month price-to-earnings, which compares to 27.45X for the Zacks sub-industry, 26.96X for the Zacks sector and 20.83X for the S&P 500 index.

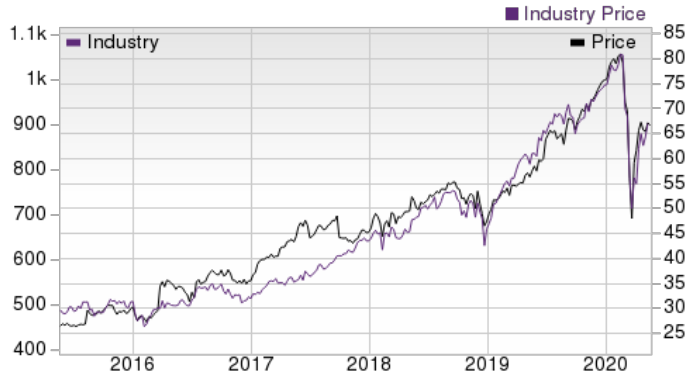
Over the past five years, the stock has traded as high as 34.05X and as low as 18.33X, with a 5-year median of 24.85X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$73.00 price target reflects 25.09X price-to-earnings.

The table below shows summary valuation data for INFO.

Valuation Multiples - INFO					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	23.76	27.45	26.96	20.83
	5-Year High	34.05	27.45	26.96	20.87
	5-Year Low	18.33	19.42	18.68	15.23
	5-Year Median	24.85	22.19	20.69	17.49
P/S F 12M	Current	6.66	5.29	3.84	3.24
	5-Year High	13.06	6.35	3.94	3.44
	5-Year Low	3.9	3.34	3.05	2.53
	5-Year Median	4.88	4.67	3.57	3.01
P/B TTM	Current	3.51	8.87	3.96	4.03
	5-Year High	3.87	9.36	6.69	4.56
	5-Year Low	1.75	4.29	3.19	2.83
	5-Year Median	2.43	6.21	5.18	3.65

As of 05/18/2020

Industry Analysis Zacks Industry Rank: Bottom 48% (133 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
CBIZ, Inc. (CBZ)	Neutral	4
Charles River Associates (CRAI)	Neutral	3
FTI Consulting, Inc. (FCN)	Neutral	3
Huron Consulting Group Inc. (HURN)	Neutral	4
ICF International, Inc. (ICFI)	Neutral	3
Gartner, Inc. (IT)	Neutral	3
Maximus, Inc. (MMS)	Neutral	4
Verisk Analytics, Inc. (VRSK)	Neutral	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	-	-	3	3	4
VGM Score	D	-	-	C	B	B
Market Cap	29.38 B	9.20 B	20.09 B	1.12 B	10.59 B	4.29 B
# of Analysts	9	9	14	3	4	3
Dividend Yield	0.98%	0.68%	2.1%	0.94%	0.00%	1.60%
Value Score	D	-	-	C	D	B
Cash/Price	0.01	0.02	0.07	0.05	0.02	0.03
EV/EBITDA	21.71	21.71	12.13	13.07	22.14	10.63
PEG Ratio	2.09	2.91	2.72	1.65	3.89	NA
Price/Book (P/B)	3.51	6.28	2.75	1.62	11.92	3.93
Price/Cash Flow (P/CF)	19.42	21.93	10.86	10.28	18.48	13.68
P/E (F1)	25.03	29.85	20.10	16.52	38.89	23.27
Price/Sales (P/S)	6.60	6.60	2.05	0.75	2.47	1.37
Earnings Yield	3.99%	3.35%	4.77%	6.06%	2.58%	4.30%
Debt/Equity	0.59	0.79	0.76	0.92	3.20	0.13
Cash Flow (\$/share)	3.56	3.58	7.01	5.76	6.43	5.11
Growth Score	D	-	-	D	A	B
Hist. EPS Growth (3-5 yrs)	15.20%	15.32%	10.87%	12.65%	14.99%	11.99%
Proj. EPS Growth (F1/F0)	4.78%	-0.23%	-10.31%	-13.57%	-21.67%	-19.17%
Curr. Cash Flow Growth	5.92%	6.76%	5.51%	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	0.70	1.26	1.28	1.65	0.70	1.97
Debt/Capital	37.28%	49.20%	44.46%	47.94%	76.19%	11.65%
Net Margin	19.74%	15.47%	10.59%	4.30%	6.70%	6.71%
Return on Equity	10.94%	23.51%	16.29%	11.43%	44.23%	17.09%
Sales/Assets	0.28	0.42	0.55	1.01	0.63	1.69
Proj. Sales Growth (F1/F0)	-2.52%	0.00%	-2.49%	-0.32%	-9.44%	10.73%
Momentum Score	B	-	-	B	C	F
Daily Price Chg	3.88%	2.80%	5.21%	2.92%	6.52%	6.87%
1 Week Price Chg	-0.76%	-0.76%	-4.56%	-10.52%	-9.01%	-4.74%
4 Week Price Chg	6.39%	6.03%	4.12%	-11.78%	14.04%	8.36%
12 Week Price Chg	-10.73%	-13.75%	-16.39%	-30.69%	-20.37%	0.68%
52 Week Price Chg	20.24%	6.54%	-5.84%	-22.95%	-22.07%	-3.21%
20 Day Average Volume	2,113,572	163,714	2,651,378	145,984	629,898	473,163
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	-1.50%	-4.48%	-8.50%	-3.99%	-18.07%
(F1) EPS Est 12 week change	-7.76%	-6.68%	-16.39%	-21.80%	-24.94%	-25.08%
(Q1) EPS Est Mthly Chg	0.00%	-6.53%	-9.90%	-22.10%	5.87%	-22.90%

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	D
Momentum Score	B
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.

Disclosures

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