

MSCI Inc. (MSCI)

\$285.80 (As of 01/31/20)

Price Target (6-12 Months): **\$300.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 06/19/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:C

Value: D

Growth: B

Momentum: A

Summary

MSCI reported impressive fourth-quarter 2019 results. Both earnings and revenues increased on a year-over-year basis. The top line benefited from solid growth in recurring subscriptions, asset-based fees and non-recurring revenues. Increased sales in BarraOne and RiskManager product offerings drove the top line. MSCI is gaining from strong demand for custom and factor index modules and the increasing adoption of the ESG solution into the investment process. Strong traction in client segments, like wealth management, banks and broker dealers, is a positive. Shares have outperformed the industry in the past year. However, increasing demand for low-fee products from other index providers that are targeting new inflows is a headwind for the company.

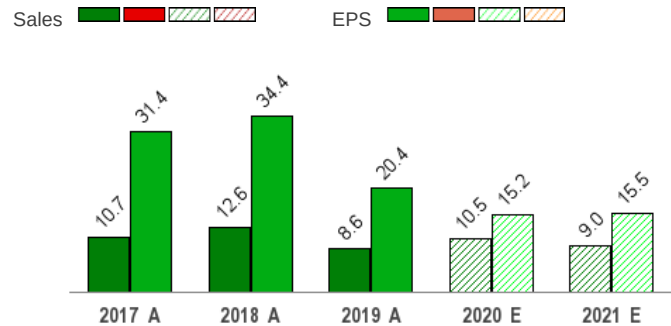
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$295.07 - \$169.40
20 Day Average Volume (sh)	396,379
Market Cap	\$24.2 B
YTD Price Change	10.7%
Beta	1.13
Dividend / Div Yld	\$2.72 / 1.0%
Industry	Business - Software Services
Zacks Industry Rank	Top 9% (22 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.5%
Last Sales Surprise	0.7%
EPS F1 Est- 4 week change	1.3%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	44.4
P/E F1	38.5
PEG F1	3.9
P/S TTM	15.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	455 E	465 E	474 E	480 E	1,876 E
2020	419 E	428 E	436 E	442 E	1,721 E
2019	371 A	386 A	394 A	407 A	1,558 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.99 E	\$2.10 E	\$2.14 E	\$2.22 E	\$8.57 E
2020	\$1.73 E	\$1.85 E	\$1.92 E	\$1.98 E	\$7.42 E
2019	\$1.55 A	\$1.54 A	\$1.68 A	\$1.67 A	\$6.44 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 01/31/2020. The reports text is as of 02/03/2020.

Overview

MSCI Inc. provides investment decision support tools, including indexes; portfolio construction and risk management products and services; Environmental, Social and Governance ("ESG") research and ratings; and real estate research, reporting and benchmarking offerings.

MSCI reported operating revenues of \$1.56 billion in 2019. The company operates under three segments — Index (59.1% of operating revenues), Analytics (31.9%) and All other (9%).

Index segment includes MSCI Global Equity Indexes, MSCI Custom Indexes, MSCI Factor Indexes, MSCI ESG Indexes, MSCI Real Assets Indexes and Thematic Indexes. Global Industry Classification Standard (GICS) and GICS Direct were developed and are maintained jointly by MSCI and Standard & Poor's Financial Services.

Analytics segment includes Equity Factor Models, Fixed Income Factor Models, Multi-Asset Class Factor Models, Multi-Asset Class Risk Analytics and Performance Analytics.

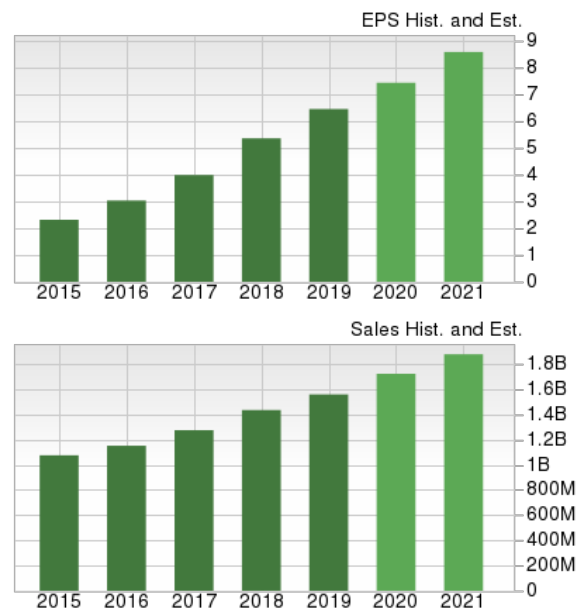
MSCI's major application offerings include RiskMetrics RiskManager, BarraOne, Barra Portfolio Manager, WealthBench & CreditManager, and MSCI Analytics Platform. Through the Analytics segment, MSCI also provides Managed Services, HedgePlatform and InvestorForce solutions.

MSCI's ESG Research analyzes more than 7,800 companies worldwide. Offerings include MSCI ESG Ratings and MSCI ESG Business Involvement Screening Research.

MSCI generates revenues primarily through subscription fees, which, in most of the cases, is paid in advance. Clients using the company's indexes as the basis for index-linked investment products (ETFs) or as the basis for passively managed funds also pay license fee, typically in arrears, based on the assets under management ("AUM") in their investment products.

The company's clientele includes pension funds, endowments, foundations, central banks, sovereign wealth funds, family offices, insurance companies, mutual funds, hedge funds, ETFs, private wealth, private banks, REITs, broker-dealers, exchanges, custodians, trust companies and wealth managers.

As of Sep 30, MSCI served more than 7,000 clients across 85 countries worldwide.



Reasons To Buy:

▲ MSCI shares have massively outperformed the S&P 500 market composite in the past five years, primarily driven by consistent top and bottom-line growth, and solid execution. The company benefits from acceleration in the growth of index-based products, equity-ETFs, non-ETF passive investing, and exchange-traded futures and options products. The company is also gaining from strong traction in client segments like wealth management, and banks and broker dealers. An increasing run-rate (annualized value of the recurring revenues under client license agreements) reflects solid growth in clientele. Further, MSCI enjoys high barrier to entry in its operating market, which is a key catalyst.

Acceleration in the growth of index-based products, strong customer base, partnerships, solid ESG demand and aggressive share repurchase are key catalysts.

▲ MSCI has a diversified customer base that provides it a significant competitive advantage. As of Sep 30, 2019, the company had more than 7,000 clients. Moreover, index retention rate was a solid 92.9% in fourth-quarter 2019. Growing passive and index-based investing are driving demand for the company's Index products, which have gained strong traction among client segments like wealth management, banks and broker dealers, and hedge funds. The increasing adoption bodes well for the company's index subscription revenue business.

▲ MSCI's ESG product line has expanded over time. The ESG indexes are increasingly being used for index product creation in equity ETFs, institutional passive asset allocation and benchmarking purposes. ESG is also gaining traction among fixed income investors. MSCI has begun incorporating natural language processing (NLP) and artificial intelligence (AI) capabilities in its ESG products, which will help in smooth data extraction. This will drive productivity and improve operating leverage.

▲ MSCI's open architecture enables it to integrate content with any third party application. This expands customer choice, as they can access content from anywhere. This interoperability feature benefits top-line growth. Moreover, the company continues to actively expand the distribution for its risk and analytics content. It has partnered with Thomson Reuters to integrate its multi-asset class risk analytics within the latter's Eikon platform. The company has also collaborated with Citigroup, Donnelley and Confluence to help mutual funds streamline new SEC reporting obligations.

Reasons To Sell:

- ▼ MSCI revenues are expected to hurt from lower fee products from other index providers that are targeting new inflows. Management expects a continued decline in average basis point fee level. Moreover, higher cancellations in the Index segment don't bode well for top-line growth.
- ▼ MSCI generates more than 40% of revenues from the International markets. Hence, adverse foreign currency exchange rates, owing to the strengthening of the U.S. dollar compared with the Euro and other foreign currencies, remains a concern.
- ▼ Further, MSCI has a highly leveraged balance sheet, which adds to the risk of investing in the company. As of Dec 31, 2019, the company had long-term debt of \$3.1 billion.

Growing demand for lower fee products from other index providers and leveraged balance sheet are major concerns.

Last Earnings Report

MSCI Q4 Earnings Beat, Recurring Subscription Revenues Rise

MSCI reported fourth-quarter 2019 adjusted earnings of \$1.67 per share, which beat the Zacks Consensus Estimate by 2.5% and increased 27.5% from the year-ago quarter.

Operating revenues increased 12.4% year over year to \$406.6 million, beating the consensus mark by 0.7%. The year-over-year growth was driven by an increase of 8.4% and 18.3% in recurring subscriptions (72.4% of revenues) and asset-based fees (23.7% of revenues), respectively.

Non-recurring revenues (3.9% of revenues) surged 83% year over year to \$15.8 million. The solid growth was primarily driven by increased sales in BarraOne and RiskManager product offerings.

Organic operating revenues (excluding the impact of acquisitions, divestitures and foreign currency exchange rate fluctuations) rose 12.5% year over year.

Organic recurring subscription, asset-based fee and non-recurring revenues grew 8.5%, 18.3% and 82.3%, respectively.

At the end of the quarter, average assets under management (AUM) were \$934.4 billion in ETFs linked to MSCI indexes. Total retention rate was 92.9% in the quarter.

Index Revenue Details

In the fourth quarter, Index operating revenues (59.8% of operating revenues) improved 15.6% year over year to \$243.2 million, primarily driven by strong growth in recurring subscriptions (up 11.5%) and asset-based fees (up 18.3%).

The increase in recurring subscriptions was driven by growth in factor and ESG index products, core developed market modules and index level products.

Index net new recurring subscription sales increased 14%.

Analytics Revenue Details

Analytics operating revenues (31.5% of operating revenues) improved 5.1% year over year to \$128.2 million. While recurring subscription revenues increased 2.2%, non-recurring revenues jumped 162.5%. Multi-Asset Class Analytics products also witnessed growth in the quarter.

Analytics net new recurring subscription sales grew 50.1%.

All Other Segment Revenue Details

All Other operating revenues (8.7% of operating revenues) rose 20.1% from the year-ago quarter to \$35.2 million, primarily driven by recurring subscriptions (up 20.8%).

All Other organic operating revenue growth was 19.9%, with ESG organic operating revenues increasing 29.8% and Real Estate organic operating revenues 1.3%.

All Other net new recurring subscription sales grew 33.7%.

Operating Details

Adjusted EBITDA grew 16% year over year to \$220.2 million in the reported quarter. Moreover, adjusted EBITDA margin expanded 170 basis points (bps) on a year-over-year basis to 54.2%.

Total operating expenses increased 12.4% year over year to \$406.6 million, primarily due to higher compensation and benefit costs.

Selling & Marketing (S&M) and General & Administrative (G&A) expenses rose 12.3% and 19.1%, respectively. Research & Development (R&D) expenses were up 33.4%.

Operating income improved 17.4% from the year-ago quarter to \$199.4 million. Operating margin expanded 210 bps to 49%.

Balance Sheet & Cash Flow

Total cash and cash equivalents, as of Dec 31, 2019, were \$1.51 billion compared with \$881.2 million, as of Sep 30, 2019.

Total debt was \$3.1 billion, as of Dec 31. Total debt to adjusted EBITDA ratio (based on trailing twelve months adjusted EBITDA) was 3.6x, which was higher than management's target range of 3.0x-3.5x.

Net cash provided by operating activities was \$243.6 million in fourth-quarter 2019 compared with \$188.5 million in the previous quarter. Free cash flow was \$225.2 million compared with \$173.8 million in the prior quarter.

On Jan 29, MSCI declared a cash dividend of 68 cents per share for first-quarter 2020, payable on Mar 6 to shareholders of record as of Feb 21.

Guidance

Quarter Ending **12/2019**

Report Date	Jan 30, 2020
Sales Surprise	0.71%
EPS Surprise	2.45%
Quarterly EPS	1.67
Annual EPS (TTM)	6.44

For 2020, MSCI expects total operating expenses of \$840-\$860 million. Adjusted EBITDA expenses are expected between \$750 million and \$770 million.

Capex is expected to be \$60-\$70 million.

Moreover, net cash provided by operating activities and free cash flow is expected to be \$650-\$700 million and \$580-\$640 million, respectively.

Recent News

On Jan 21, MSCI announced that it has entered into a strategic relationship with The Burgiss Group in order to accelerate and expand the use of data, analytics and other investment decision support tools for investors in private assets globally. Per the agreement, MSCI will invest \$190 million in Burgiss for a significant minority interest.

On Jan 7, MSCI announced the launch of 15 Fixed Income Indexes to meet investor demand for innovative indexes to support their ESG and Factor based fixed income investment strategies.

On Nov 25, MSCI announced that its MSCI ESG Ratings of more than 2,800 companies in the MSCI ACWI Index is now available publicly. Moreover, it plans to make the MSCI ESG Ratings for 7,500 constituents of MSCI ACWI Investable Markets Index available in 2020. Notably, MSCI ESG Research rates companies on a "AAA to CCC" scale, according to their exposure to ESG risks and how well they manage those risks relative to the peers.

On Oct 2, MSCI announced that its subsidiary, MSCI Barra (Suisse) Sàrl, completed acquisition of Zurich-based environmental fintech and data analytics firm, Carbon Delta. The agreement was originally announced on Sep 9, 2019.

Valuation

MSCI shares are up 36.6% in the six months period and 65.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 12% and 19% in the six months period, respectively. Over the past year, the Zacks sub-industry and sector are up 7.7% and 23.7%, respectively.

The S&P 500 index is up 14% in the six months period and 17.5% in the past year.

The stock is currently trading at 37.98X forward 12-month earnings, which compares to 21.90X for the Zacks sub-industry, 21.99X for the Zacks sector and 18.51X for the S&P 500 index.

Over the past five years, the stock has traded as high as 41.6X and as low as 22.33X, with a 5-year median of 26.7X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$300 price target reflects 39.84X forward 12-month earnings.

The table below shows summary valuation data for MSCI

Valuation Multiples - MSCI					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	37.98	21.9	21.99	18.51
	5-Year High	41.6	24.54	22.03	19.34
	5-Year Low	22.33	7.29	16.87	15.18
	5-Year Median	26.7	21.86	19.28	17.46
P/S F12M	Current	13.95	9.97	3.59	3.43
	5-Year High	14.52	9.97	3.59	3.43
	5-Year Low	5.56	6.88	2.3	2.54
	5-Year Median	7.51	8.39	3.01	3
EV/EBITDA TTM	Current	31.59	46.87	12.68	12.25
	5-Year High	32.96	48.89	12.68	12.86
	5-Year Low	13.27	33.69	7.68	8.48
	5-Year Median	17.36	40.86	10.52	10.7

As of 01/31/2020

Industry Analysis Zacks Industry Rank: Top 9% (22 out of 255)



Top Peers

CME Group Inc. (CME)	Neutral
FactSet Research Systems Inc. (FDS)	Neutral
Guidewire Software, Inc. (GWRE)	Neutral
IHS Markit Ltd. (INFO)	Neutral
Moodys Corporation (MCO)	Neutral
ePlus inc. (PLUS)	Neutral
Tyler Technologies, Inc. (TYL)	Neutral
WisdomTree Investments, Inc. (WETF)	Neutral

Industry Comparison Industry: Business - Software Services				Industry Peers		
	MSCI Neutral	X Industry	S&P 500	CME Neutral	SPGI Neutral	TYL Neutral
VGM Score	C	-	-	F	C	C
Market Cap	24.21 B	8.19 B	23.55 B	77.80 B	71.79 B	12.62 B
# of Analysts	5	4	13	6	8	5
Dividend Yield	0.95%	0.00%	1.81%	1.38%	0.78%	0.00%
Value Score	D	-	-	F	D	F
Cash/Price	0.04	0.08	0.04	0.02	0.03	0.02
EV/EBITDA	30.59	24.71	13.97	25.25	24.28	57.18
PEG Ratio	3.85	2.63	1.97	4.88	2.81	NA
Price/Book (P/B)	NA	4.82	3.21	2.89	178.58	8.30
Price/Cash Flow (P/CF)	38.42	24.33	13.36	29.88	30.97	59.35
P/E (F1)	38.52	30.44	18.42	29.58	28.15	55.00
Price/Sales (P/S)	15.54	3.32	2.60	15.67	11.04	12.14
Earnings Yield	2.60%	3.29%	5.43%	3.38%	3.55%	1.82%
Debt/Equity	-18.54	0.24	0.72	0.14	8.91	0.01
Cash Flow (\$/share)	7.44	1.99	6.92	7.27	9.49	5.45
Growth Score	B	-	-	C	B	B
Hist. EPS Growth (3-5 yrs)	29.26%	19.05%	10.68%	16.70%	21.28%	19.08%
Proj. EPS Growth (F1/F0)	15.25%	6.90%	7.59%	7.94%	11.00%	10.87%
Curr. Cash Flow Growth	10.66%	15.42%	10.81%	41.54%	20.06%	18.90%
Hist. Cash Flow Growth (3-5 yrs)	10.43%	21.71%	8.78%	15.56%	17.16%	29.87%
Current Ratio	1.86	1.59	1.22	1.04	1.10	1.20
Debt/Capital	NA%	21.18%	42.99%	12.62%	93.31%	1.18%
Net Margin	36.18%	4.52%	11.69%	40.93%	32.22%	12.63%
Return on Equity	-237.36%	9.76%	17.33%	9.54%	448.14%	11.51%
Sales/Assets	0.46	0.73	0.55	0.07	0.66	0.54
Proj. Sales Growth (F1/F0)	10.49%	6.20%	4.12%	4.80%	6.67%	11.16%
Momentum Score	A	-	-	D	C	C
Daily Price Chg	-2.38%	-1.66%	-1.98%	-0.76%	-2.04%	0.70%
1 Week Price Chg	-1.06%	0.00%	-1.09%	1.15%	-0.66%	0.28%
4 Week Price Chg	7.42%	1.52%	-2.11%	7.56%	5.72%	5.69%
12 Week Price Chg	15.86%	5.18%	2.15%	9.10%	14.92%	18.07%
52 Week Price Chg	67.85%	19.48%	14.15%	19.11%	53.26%	71.09%
20 Day Average Volume	396,379	272,653	1,808,632	1,227,716	983,959	207,341
(F1) EPS Est 1 week change	0.67%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	1.34%	0.00%	0.00%	-0.07%	0.80%	0.00%
(F1) EPS Est 12 week change	1.60%	0.00%	-0.09%	-2.00%	0.88%	0.00%
(Q1) EPS Est Mthly Chg	1.80%	0.00%	0.00%	-0.56%	1.00%	0.00%

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	A
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

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.