

MSCI Inc. (MSCI)

\$330.88 (As of 06/05/20)

Price Target (6-12 Months): **\$347.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 06/19/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: F

Growth: B

Momentum: A

Summary

MSCI is benefiting from strong demand for custom and factor index modules, and the increasing adoption of its ESG solution in the investment process. The company's recurring revenue business model is a key lever. Further, its analytics space breeds significant growth opportunities. Additionally, the acquisition of Carbon Delta enhances MSCI's ability to provide climate-risk assessment and assist investors with climate-risk disclosure requirements. Moreover, a strong traction from client segments like wealth management, banks and broker dealers is a positive for the company. Shares have outperformed the industry year to date. However, a buoyancy in demand for lower fee products from other index providers targeting new inflows is a headwind to the company. Moreover, the company has a leveraged balance sheet, which is a concern.

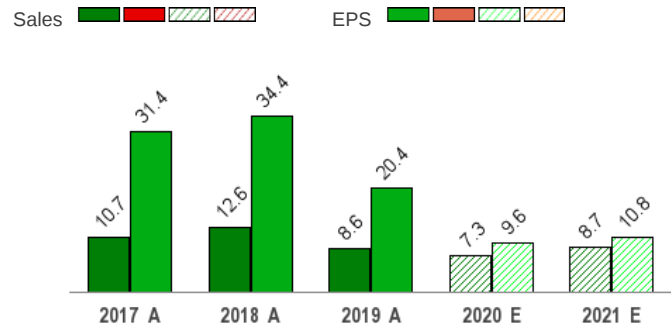
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$356.66 - \$206.82
20 Day Average Volume (sh)	563,336
Market Cap	\$27.7 B
YTD Price Change	28.2%
Beta	0.95
Dividend / Div Yld	\$2.72 / 0.8%
Industry	Business - Software Services
Zacks Industry Rank	Bottom 45% (140 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	13.1%
Last Sales Surprise	-1.0%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	48.7
P/E F1	46.9
PEG F1	4.7
P/S TTM	17.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	443 E	448 E	457 E	469 E	1,817 E
2020	417 A	410 E	414 E	427 E	1,672 E
2019	371 A	386 A	394 A	407 A	1,558 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.87 E	\$1.92 E	\$2.00 E	\$2.05 E	\$7.82 E
2020	\$1.90 A	\$1.67 E	\$1.72 E	\$1.78 E	\$7.06 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 06/05/2020. The reports text is as of 06/08/2020.

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.

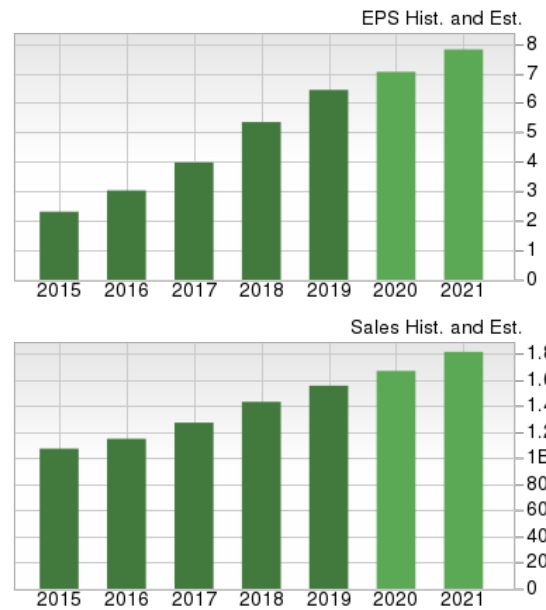
MSCI's major application offerings include RiskMetrics RiskManager, BarraOne, Barra Portfolio Manager, WealthBench & CreditManager, and MSCI Analytics Platform. Through the Analytics segment, MSCI also provides Managed Services, HedgePlatform and InvestorForce solutions.

MSCI's ESG Research analyzes more than 8,500 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 Mar 31, 2020, MSCI served more than 7,700 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.
- ▲ MSCI has a diversified customer base that provides it a significant competitive advantage. As of Mar 31, 2020, the company had more than 7,700 clients. Moreover, index retention rate was a solid 95% in first-quarter 2020. 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. The acquisition of Carbon Delta AG in 2019 enhanced MSCI's existing ESG offerings with expert climate change scenario analysis. This also allowed the company to expand its climate risk assessment and reporting offerings.
- ▲ 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 reporting obligations of the Securities and Exchange Commission (SEC).
- ▲ MSCI plans to use share repurchase opportunistically. In first quarter and through Apr 24, 2020, MSCI repurchased 1.4 million shares for a total value of \$356.8 million. Notably, \$1.1 billion is outstanding under the share repurchase authorization as of Apr 24, 2020. MSCI also paid out dividend worth \$57.8 million in the first quarter. The company's aggressive share buyback will result in lower share count, which will boost the bottom line.

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

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.
- ▼ The company 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.
- ▼ MSCI also has a leveraged balance sheet. As of Mar 31, 2020, the company's net debt was \$2.10 billion compared with \$1.57 billion as of Dec 31, 2019. Total debt to adjusted EBITDA ratio (based on trailing twelve-month-adjusted EBITDA) was 3.6X, higher than management's target range of 3-3.5X. Moreover, the company expects 2020 cash flow from operating activities to decline year over year due to the negative impact of coronavirus. These increases risks for MSCI's share repurchase program and dividend payout.
- ▼ MSCI has outperformed the broader industry over the last one year. However, we note that the stock currently has a trailing 12-month P/E ratio of 45.89, which compares, unfavorably to a certain extent, with what the industry saw over the last year. The ratio is closer to the high end of the valuation range over this period. Hence, valuation looks slightly stretched from a P/E perspective.

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

Last Earnings Report

MSCI Q1 Earnings Beat, Recurring Subscription Revenues Rise

MSCI first-quarter 2020 adjusted earnings of \$1.90 per share beat the Zacks Consensus Estimate by 13.1% and also increased 22.6% from the year-ago quarter.

Operating revenues improved 12.2% year over year to \$416.8 million but lagged the consensus mark by 1%. This year-over-year growth was driven by a 7.8% and 22.5% rise in recurring subscriptions (73% of revenues) and asset-based fees (24% of revenues), respectively.

Non-recurring revenues (2.9% of revenues) surged 68.7% year over year to \$12.2 million.

Organic operating revenues (excluding the impact of acquisitions, divestitures and foreign currency exchange rate fluctuations) rose 12.3% year over year.

Organic recurring subscription, asset-based fee and non-recurring revenues grew 8%, 22.5% and 67.8% each.

At the end of the quarter, average assets under management (AUM) were \$709.5 billion in ETFs linked to MSCI indexes. Total retention rate was 95% in the quarter under review.

Index Revenue Details

In the first quarter, Index operating revenues (59.8% of operating revenues) improved 16.1% year over year to \$249.3 million, primarily driven by strong growth in recurring subscriptions (up 9.5%) and asset-based fees (up 22.5%).

Higher recurring subscriptions were driven by growth in custom and specialized index products, core products and factor and ESG index products.

Index net new recurring subscription sales increased 7.5%.

Analytics Revenue Details

Analytics operating revenues (30.1% of operating revenues) improved 3.4% year over year to \$125.5 million. While recurring subscription revenues increased 3.3%, non-recurring revenues were up 8.9%. Multi-Asset Class and Equity Analytics products also witnessed growth in the quarter.

Analytics net new recurring subscription sales plunged 40.4%.

All Other Segment Revenue Details

All Other operating revenues (10.1% of operating revenues) rose 19.5% from the year-ago quarter to \$42 million, primarily driven by recurring subscriptions (up 17.2%).

All Other organic operating revenue growth was 20.7% with ESG organic operating revenues increasing 17.2% and Real Estate organic operating revenues rising 26.2%.

All Other net new recurring subscription sales grew 3%.

Operating Details

Adjusted EBITDA grew 15.9% year over year to \$229.2 million in the reported quarter. Moreover, adjusted EBITDA margin expanded 180 basis points (bps) on a year-over-year basis to 55%.

Total operating expenses were flat on a year-over-year basis at \$209 million, primarily due to higher compensation and benefit costs.

Research & Development (R&D) and general & Administrative (G&A) expenses rose 14.6% and 12.1%, respectively. Selling & Marketing (S&M) expenses slid 0.9%.

Operating income improved 27.8% from the year-ago quarter to \$207.9 million. Operating margin expanded 610 bps to 49.9%.

Balance Sheet & Cash Flow

Total cash and cash equivalents as of Mar 31, 2020 were \$1.07 billion compared with \$1.51 billion as of Dec 31, 2019.

Total debt was \$3.2 billion as of Mar 31. Total debt to adjusted EBITDA ratio (based on trailing twelve-month-adjusted EBITDA) was 3.6X, higher than management's target range of 3-3.5x.

Net cash provided by operating activities was \$112.8 million in the first quarter compared with \$243.6 million in the sequential quarter. Free cash flow was \$102 million compared with \$225.2 million in the prior-reported quarter.

In first quarter and through Apr 24, 2020, MSCI repurchased 1.4 million shares for a total value of \$356.8 million. Notably, \$1.1 billion is outstanding under the share repurchase authorization as of Apr 24, 2020.

MSCI also paid out dividend worth \$57.8 million in the first quarter.

Quarter Ending 03/2020

Report Date	Apr 28, 2020
Sales Surprise	-0.95%
EPS Surprise	13.10%
Quarterly EPS	1.90
Annual EPS (TTM)	6.79

Guidance

For 2020, MSCI expects total operating expenses of \$790-\$840 million, down from the previous guided range of \$840-\$860 million. Adjusted EBITDA expenses are expected between \$700 million and \$750 million, down from the past projection of \$750-\$770 million.

Capex is expected to be \$50-\$60 million, down from the earlier forecast of \$60-\$70 million.

Moreover, net cash provided by operating activities and free cash flow are expected to be \$600-\$650 million (down from \$650-\$700 million) and \$540-\$600 million (down from \$580-\$640 million), respectively.

Recent News

On May 27, MSCI and Hong Kong Exchanges and Clearing Limited (HKEX) announced that the latter's subsidiary Hong Kong Futures Exchange Limited has signed an agreement with the former to license a suite of MSCI indexes in Asia and Emerging Markets for the introduction of futures and options contracts in Hong Kong.

On May 26, MSCI announced successful completion of its private offering of \$1 billion aggregate amount of its 3.875% senior unsecured notes due 2031. The notes will mature on Feb 15, 2031.

On May 13, MSCI announced the expansion of its megatrend index suite with the launch of five indexes focused on disruptive innovation. The indexes track the performance of companies in autonomous technologies, genomics, fintech, and next generation internet. The new thematic indexes will leverage insights based on collaboration with ARK Investment Management LLC.

On Mar 4, MSCI announced successful completion of its private offering of \$400 million aggregate amount of its 3.625% senior unsecured notes due 2030. The notes will mature on Sep 1, 2030.

On Feb 11, MSCI and Bloomberg announced the expansion of the Bloomberg Barclays MSCI ESG Fixed Income Index suite with the global launch of nine environmental, social and governance (ESG) high-yield indices.

On Feb 5, MSCI launched a solution to help investors assess their exposure to climate-related risks and opportunities. The MSCI Climate Value-At-Risk (Climate VaR) provides forward looking and return-based valuation assessments to measure the potential impact of climate change on company valuations.

Valuation

MSCI shares are up 28.2% in the year-to-date period and 35.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 7.2% and 8.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are up 8.9% and 23.5%, respectively.

The S&P 500 index is down 0.9% in the year-to-date period but up 10.5% in the past year.

The stock is currently trading at 44.8X forward 12-month earnings, which compares to 25.39X for the Zacks sub-industry, 25.07X for the Zacks sector and 23.08X for the S&P 500 index.

Over the past five years, the stock has traded as high as 47.39X and as low as 22.33X, with a 5-year median of 26.98X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$347 price target reflects 47.04X 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	44.8	25.39	25.07	23.08
	5-Year High	47.39	25.39	25.07	23.08
	5-Year Low	22.33	7.29	16.72	15.23
	5-Year Median	26.98	21.75	19.26	17.49
P/S F12M	Current	15.94	10.43	3.82	3.59
	5-Year High	16.84	10.43	3.82	3.59
	5-Year Low	5.56	6.88	2.32	2.53
	5-Year Median	8.24	8.45	3.11	3.02
EV/EBITDA TTM	Current	32.06	46.75	12.32	11.82
	5-Year High	36.14	51.42	12.71	12.86
	5-Year Low	13.14	33.43	7.57	8.26
	5-Year Median	18.23	42.33	10.73	10.82

As of 06/05/2020

Industry Analysis Zacks Industry Rank: Bottom 45% (140 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
CME Group Inc. (CME)	Neutral	2
FactSet Research Systems Inc. (FDS)	Neutral	3
Guidewire Software, Inc. (GWRE)	Neutral	3
IHS Markit Ltd. (INFO)	Neutral	3
Moodys Corporation (MCO)	Neutral	4
ePlus inc. (PLUS)	Neutral	4
Tyler Technologies, Inc. (TYL)	Neutral	4
WisdomTree Investments, Inc. (WETF)	Neutral	2

Industry Comparison Industry: Business - Software Services				Industry Peers		
	MSCI	X Industry	S&P 500	CME	SPGI	TYL
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	2	3	4
VGM Score	C	-	-	D	B	C
Market Cap	27.66 B	7.68 B	23.09 B	68.90 B	80.32 B	14.25 B
# of Analysts	4	4	14	7	8	4
Dividend Yield	0.82%	0.00%	1.82%	1.77%	0.80%	0.00%
Value Score	F	-	-	D	D	F
Cash/Price	0.04	0.08	0.06	0.01	0.02	0.02
EV/EBITDA	35.85	13.31	13.17	21.40	24.89	58.89
PEG Ratio	4.61	1.74	3.13	4.74	3.30	4.62
Price/Book (P/B)	NA	5.10	3.15	2.58	NA	8.32
Price/Cash Flow (P/CF)	44.19	24.67	12.43	23.62	31.80	57.35
P/E (F1)	46.11	33.38	22.80	24.92	33.02	69.29
Price/Sales (P/S)	17.25	3.11	2.52	13.22	11.62	12.77
Earnings Yield	2.13%	2.67%	4.19%	4.01%	3.03%	1.44%
Debt/Equity	-9.40	0.28	0.76	0.13	-23.46	0.01
Cash Flow (\$/share)	7.49	2.23	7.01	8.13	10.48	6.25
Growth Score	B	-	-	D	A	A
Hist. EPS Growth (3-5 yrs)	29.67%	16.78%	10.87%	16.67%	21.37%	16.78%
Proj. EPS Growth (F1/F0)	9.55%	-14.07%	-10.79%	13.36%	5.94%	-2.41%
Curr. Cash Flow Growth	11.37%	9.60%	5.48%	12.13%	8.40%	15.08%
Hist. Cash Flow Growth (3-5 yrs)	14.85%	14.18%	8.55%	16.24%	16.19%	25.59%
Current Ratio	2.03	1.62	1.29	1.01	1.24	1.60
Debt/Capital	NA%	22.97%	44.75%	11.74%	92.73%	0.90%
Net Margin	33.28%	4.35%	10.59%	45.79%	34.02%	14.94%
Return on Equity	-286.63%	9.99%	16.26%	10.15%	758.90%	10.69%
Sales/Assets	0.43	0.74	0.55	0.06	0.66	0.53
Proj. Sales Growth (F1/F0)	7.30%	-2.97%	-2.61%	10.52%	2.22%	5.34%
Momentum Score	A	-	-	D	A	B
Daily Price Chg	6.19%	1.45%	2.89%	4.14%	1.83%	-3.54%
1 Week Price Chg	-2.70%	2.33%	4.60%	2.13%	4.22%	4.24%
4 Week Price Chg	-0.96%	8.31%	15.60%	7.65%	12.79%	7.77%
12 Week Price Chg	28.90%	30.48%	29.34%	11.51%	50.53%	30.48%
52 Week Price Chg	39.27%	11.26%	2.76%	-4.36%	50.16%	64.09%
20 Day Average Volume	563,336	563,336	2,537,324	1,647,069	1,228,051	394,156
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.26%	0.22%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	-0.08%	-0.55%	0.54%	0.00%
(F1) EPS Est 12 week change	-4.97%	-21.49%	-16.19%	3.35%	-4.01%	-9.70%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	-1.85%	3.31%	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	F
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.

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