

MSCI Inc. (MSCI)

\$277.29 (As of 01/16/20)

Price Target (6-12 Months): **\$291.00**

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: B

Summary

MSCI is benefiting from strong demand for custom and factor index modules, and the increasing adoption of the ESG solution in the investment process. The company's ESG rating for more than 2,800 companies is now available publicly, which is further expected to drive adoption rate for the ESG solution. Additionally, the acquisition of Carbon Delta enhances MSCI's ability to provide climate risk assessment and assist investors with climate risk disclosure requirements. Moreover, strong traction in client segments like wealth management, banks and broker dealers, is a positive for the company. Shares have outperformed the industry in a year's time. However, increasing demand for lower fee products from other index providers targeting new inflows is a headwind for the company.

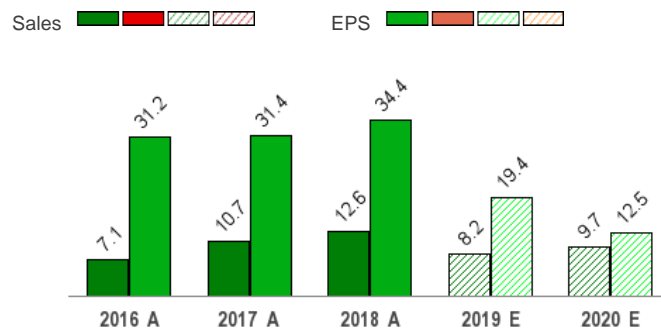
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$277.32 - \$158.51
20 Day Average Volume (sh)	345,932
Market Cap	\$23.5 B
YTD Price Change	7.4%
Beta	1.13
Dividend / Div Yld	\$2.72 / 1.0%
Industry	Business - Software Services
Zacks Industry Rank	Top 15% (38 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	5.7%
Last Sales Surprise	1.5%
EPS F1 Est- 4 week change	0.8%
Expected Report Date	01/30/2020
Earnings ESP	0.2%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	414 E	424 E	431 E	438 E	1,702 E
2019	371 A	386 A	394 A	402 E	1,552 E
2018	351 A	363 A	358 A	362 A	1,434 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.68 E	\$1.77 E	\$1.85 E	\$1.87 E	\$7.19 E
2019	\$1.55 A	\$1.54 A	\$1.68 A	\$1.61 E	\$6.39 E
2018	\$1.31 A	\$1.30 A	\$1.35 A	\$1.31 A	\$5.35 A

*Quarterly figures may not add up to annual.

P/E TTM	45.6
P/E F1	38.6
PEG F1	3.9
P/S TTM	15.5

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/16/2020. The reports text is as of 01/17/2020.

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 \$1.43 billion in 2018. The company operates under three segments — Index (58.3% of operating revenues), Analytics (33.5%) and All other (8.2%).

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.

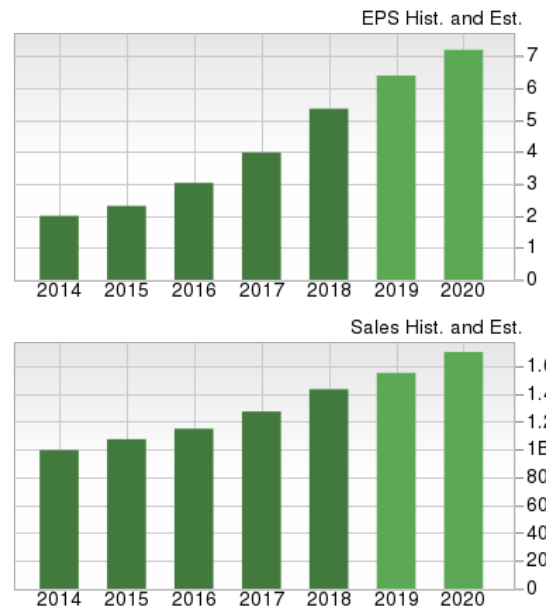
MSCI's major application offerings include RiskMetrics RiskManager, BarraOne, Barra Portfolio Manager, WealthBench & CreditManager, and MSCI Analytics Platform. Through the Analytics segment, MSCI also provides Managed Services, HedgePlatform and InvestorForce solutions.

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 95% in third-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 Sep 30, 2019, the company had long-term debt of \$2.58 billion.
- ▼ 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 42.82, which compares, unfavorably to a certain extent, with what the industry saw over the last year. The ratio is 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 Q3 Earnings Beat, Recurring Subscription Revenues Rise

MSCI reported third-quarter 2019 adjusted earnings of \$1.68 per share, which beat the Zacks Consensus Estimate by 9 cents and increased 24.4% from the year-ago quarter.

Operating revenues increased 10.1% year over year to \$394.3 million, better than the consensus mark of \$388 million. The year-over-year growth was driven by an increase of 7.8% and 17.1% in recurring subscriptions (73.1% of revenues) and asset-based fees (24.4% of revenues), respectively. Non-recurring revenues (2.6% of revenues) increased 18.5% year over year.

Organic operating revenues (excluding the impact of acquisitions, divestitures and foreign-currency exchange rate fluctuations) rose 11.8% year over year. Organic recurring subscription revenues grew 9.8% from the year-ago quarter.

At the end of the quarter, average assets under management (AUM) were \$815 billion in ETFs linked to MSCI indexes. Total retention rate was 95% in the quarter.

Index Revenue Details

In the third quarter, Index operating revenues (60.2% of operating revenues) improved 13% year over year to \$237.4 million, primarily driven by strong growth in recurring subscriptions (up 10.5%) and asset-based fees (up 13%).

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

Index new recurring subscription sales increased 12.9%. Subscription cancellation also grew 14.4%.

On Oct 30, MSCI and BlackRock executed an "amendment" to the two license agreements that cover all existing BlackRock ETFs based on MSCI equity indexes, extending the terms of these agreements by 10 years through Mar 17, 2030.

Analytics Revenue Details

Analytics operating revenues (31.4% of operating revenues) improved 3.1% year over year to \$123.6 million, primarily driven by non-recurring revenues (up 42.5%). Both Equity and Multi-Asset Class Analytics products witnessed growth in the quarter.

Analytics new recurring subscription sales decreased 9%. Subscription cancellation increased 10.4%.

All Other Segment Revenue Details

All Other operating revenues (8.4% of operating revenues) rose 19.3% from the year-ago quarter to \$33.2 million, primarily driven by recurring subscriptions (up 19.6%).

All Other organic operating revenue growth was 23%, with ESG organic operating revenues increasing 26.1% and Real Estate organic operating revenues 17.8%.

All Other new recurring subscription sales grew 16%. Subscription cancellation decreased 35.4%.

Operating Details

Adjusted EBITDA grew 12.9% year over year to \$220.8 million in the reported quarter. Moreover, adjusted EBITDA margin expanded 140 basis points (bps) on a year-over-year basis to 56%.

Total operating expenses increased 6.3% year over year to \$193 million.

Selling & Marketing (S&M) and General & Administrative (G&A) expenses rose 12.9% and 7.3%, respectively. Research & Development (R&D) expenses were up 18.1%.

MSCI's compensation and benefit costs increased 4.9%, primarily due to higher incentive compensation, wages and salaries. Non-compensation costs grew 11.6%, primarily driven by higher professional fees, marketing costs, recruiting costs and occupancy costs.

Operating income improved 14.1% from the year-ago quarter to \$201.2 million. Operating margin expanded 180 bps to 51%.

Balance Sheet & Cash Flow

Total cash and cash equivalents as of Sep 30, 2019, were \$881.2 million compared with \$771.1 million as of Jun 30, 2019.

Long-term debt was \$2.58 billion as of Sep 30. Total debt to adjusted EBITDA ratio (based on trailing twelve months adjusted EBITDA) was 3.2x, which was within management's target range of 3.0x-3.5x.

Net cash provided by operating activities was \$188.5 million in third-quarter 2019 compared with \$189.5 million in the previous quarter. Free cash flow was \$173.8 million compared with \$177.1 million in the prior quarter.

On Oct 29, MSCI's board declared a cash dividend of 68 cents per share for fourth-quarter 2019 payable on Nov 27, 2019, to shareholders of record as of Nov 15.

Quarter Ending **09/2019**

Report Date	Oct 31, 2019
Sales Surprise	1.50%
EPS Surprise	5.66%
Quarterly EPS	1.68
Annual EPS (TTM)	6.08

Guidance

For 2019, MSCI expects total operating expenses toward the high end of the \$775-\$800 million guidance range. Adjusted EBITDA expenses are also expected toward the high end of the \$685-\$705 million guidance range.

Capex is expected to be at the high end of the \$45-\$55 million guidance range. Moreover, net cash provided by operating activities and free cash flow are expected to be at or slightly above the high end of \$600-\$630 million and \$545-\$585 million, respectively.

Recent News

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 12.9% in the six months period and 67.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 3.6% and 14.6% in the six months period, respectively. Over the past year, the Zacks sub-industry and sector are up 13.6% and 30.4%, respectively.

The S&P 500 index is up 10.5% in the six months period and 22.2% in the past year.

The stock is currently trading at 38.52X forward 12-month earnings, which compares to 21.99X for the Zacks sub-industry, 22.78X for the Zacks sector and 18.96X 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 26.67X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$291 price target reflects 40.4X 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	38.52	21.99	22.78	18.96
	5-Year High	41.6	24.54	22.78	19.34
	5-Year Low	22.33	7.29	16.87	15.17
	5-Year Median	26.67	21.86	19.24	17.44
P/S F12M	Current	13.75	9.94	3.68	3.53
	5-Year High	14.52	9.94	3.68	3.53
	5-Year Low	5.51	6.88	2.3	2.54
	5-Year Median	7.43	8.38	3.01	3
EV/EBITDA TTM	Current	32.9	46.18	12.41	12.12
	5-Year High	32.96	48.89	12.6	12.86
	5-Year Low	13.27	33.64	7.68	8.48
	5-Year Median	17.33	40.75	10.52	10.67

As of 01/16/2020

Industry Analysis Zacks Industry Rank: Top 15% (38 out of 254)



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	23.49 B	8.52 B	24.61 B	74.23 B	72.88 B	12.17 B
# of Analysts	5	4	13	6	8	5
Dividend Yield	0.98%	0.00%	1.74%	1.45%	0.76%	0.00%
Value Score	D	-	-	F	D	F
Cash/Price	0.04	0.09	0.04	0.02	0.03	0.02
EV/EBITDA	29.74	24.25	14.24	24.12	24.64	55.12
PEG Ratio	3.86	2.67	2.07	3.52	2.87	NA
Price/Book (P/B)	NA	4.75	3.38	2.76	181.29	8.01
Price/Cash Flow (P/CF)	42.86	24.12	13.75	28.50	31.44	57.24
P/E (F1)	38.57	29.31	19.09	28.28	28.71	53.05
Price/Sales (P/S)	15.53	3.41	2.68	14.95	11.21	11.71
Earnings Yield	2.59%	3.41%	5.24%	3.53%	3.48%	1.89%
Debt/Equity	-18.54	0.24	0.72	0.14	8.91	0.01
Cash Flow (\$/share)	6.47	1.99	6.94	7.27	9.49	5.45
Growth Score	B	-	-	C	B	B
Hist. EPS Growth (3-5 yrs)	29.26%	19.05%	10.56%	16.70%	21.28%	19.08%
Proj. EPS Growth (F1/F0)	12.62%	6.90%	7.57%	7.72%	10.57%	10.87%
Curr. Cash Flow Growth	26.71%	22.81%	14.73%	41.54%	20.06%	18.90%
Hist. Cash Flow Growth (3-5 yrs)	10.43%	21.71%	9.00%	15.56%	17.16%	29.87%
Current Ratio	1.86	1.59	1.24	1.04	1.10	1.20
Debt/Capital	NA%	21.18%	42.99%	12.62%	93.31%	1.18%
Net Margin	39.20%	4.52%	11.14%	40.93%	32.22%	12.63%
Return on Equity	-243.52%	9.76%	17.16%	9.54%	448.14%	11.51%
Sales/Assets	0.45	0.72	0.55	0.07	0.66	0.54
Proj. Sales Growth (F1/F0)	9.64%	6.45%	4.16%	4.80%	6.21%	11.16%
Momentum Score	B	-	-	D	C	C
Daily Price Chg	2.80%	0.59%	0.89%	1.04%	1.29%	0.28%
1 Week Price Chg	1.91%	0.20%	0.39%	0.26%	4.34%	1.16%
4 Week Price Chg	6.74%	3.43%	2.65%	1.19%	9.44%	5.32%
12 Week Price Chg	24.58%	10.46%	7.55%	1.92%	20.04%	18.79%
52 Week Price Chg	72.52%	19.18%	22.12%	14.28%	60.90%	68.85%
20 Day Average Volume	345,932	275,200	1,536,375	1,210,457	822,478	225,617
(F1) EPS Est 1 week change	0.56%	0.00%	0.00%	-0.18%	0.00%	0.00%
(F1) EPS Est 4 week change	0.78%	0.00%	0.00%	-0.99%	0.34%	0.00%
(F1) EPS Est 12 week change	1.68%	-1.03%	-0.40%	-2.09%	2.40%	-5.32%
(Q1) EPS Est Mthly Chg	0.90%	0.00%	0.00%	-1.17%	0.33%	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	B
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

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