MSCI (NASDAQ: MSCI) – Long
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Trading stats (as of 5/2/22)		Financials	FY18A	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E	FY26E	21-26CAGR
Share Price ($)	418	Index revenue ($M)	835	921	1,016	1,252	1,414	1,599	1,812	2,056	2,337	13%
52-week range ($)	410-680	Analytics Revenue ($M)	480	497	514	544	566	589	612	637	662	4%
Shares Outstanding (M)	81	ESG Revenue ($M)	71	91	111	166	230	319	443	613	850	39%
Market Cap ($M)	33,949	Total Revenue ($M)	1,434	1,558	1,695	2,043	2,300	2,606	2,975	3,425	3,980	14%
Less: Cash & Equiv ($M)	1,421	EBITDA ($M)	772	849	970	1,197	1,365	1,582	1,847	2,173	2,569	17%
Plus: Total Debt ($M)	4,334	% margin	54%	55%	57%	59%	59%	61%	62%	63%	65%	
Enterprise Value ($M)	**36,862**	EPS	5.83	6.66	7.19	8.70	10.49	12.54	15.05	18.14	21.88	20%
Short Interest	1%	EV / EBITDA	48	43	38	31	27	23	20	17	14	
2025E Target Price ($)	**656**	P/E	72	63	58	48	40	33	28	23	19	
Total shareholder return	60%											

Executive Summary: MSCI is a $34B market cap financial services firm that provides a variety of different solutions to investment firms across all asset classes. The majority of MSCI's revenue comes from the creation of indices in the form of subscriptions or asset-based fees. The stock currently trades at **$418** per share relative to $**680** per share in November (~40% decrease). The stock has a dividend yield of **1%** or **$4.16** annually. However, the stock still has a long runway of growth given the strong competitive advantage that it maintains in the financial services space. We set a price target of **$656** per share by the end of 2025, implying a total shareholder return of **60%** or IRR of **14%** when accounting for dividends. Our thesis is divided into five points:

1) MSCI's core business is protected by high barriers to entry and operates as part of an oligopoly

2) MSCI will continue to benefit from the shift of active management to passive management

3) Underappreciated long runway of growth for ESG in the US

4) Data providers will become increasingly critical for asset managers to navigate the ESG landscape

5) MSCI is the advantaged ESG data provider with potential for continued share capture

Company Overview: MSCI is a leading provider of indexes, portfolio construction, and risk management analytics. The company is divided into four business segments: Indexing (**~60%** of sales), Analytics (**~30%** of sales), ESG and Climate (~**7%)** and Other (**~3%** of sales). Within index, MSCI generates revenue from subscriptions, as well as from asset-based fees that are fees earned on the AUM linked to MSCI indexes. Within the index segment, ~**40%** of revenue is generated from asset-based fees with ~**50**% generated from subscriptions. Asset-based fees can further be deconstructed into ETFs, institutional passive, and futures & options. Under asset-based fees, MSCI charges **~2.5** basis points for access to its indices. For context, the Blackrock iShares MSCI World ETF has an expense ratio of **24** basis points, one of the lowest expense ratios across all ETFs on the market. Other encompasses mostly private equity and real estate products.

Thesis point 1: **MSCI's core business is protected by high barriers to entry and operates as part of an oligopoly**

MSCI is one of a few large index providers that includes S&P, NASDAQ, and FTSE and is differentiated based on its focus on global investing. Its flagship equity index is the MSCI All Country World Index, which tracks the performance of small to large cap stocks from 23 developed and 26 emerging countries. ~95% of MSCI's index revenue is recurring, a strong indicator of stability. Index providers benefit from several barriers to entry. Index creators must pass through strict licensing and legal requirements, making it difficult for new entrants. In addition, funds that use MSCI as a benchmark are not apt to switch away as this would signal benchmark cherry-picking for PMs. Finally, MSCI benefits as a one-stop shop as it can supply its analytics offering in addition to its index offering. Its analytics segment is even stickier than the index segment as it takes tremendous effort to retrain employees how to utilize a new provider's analytics service.

Thesis point 2: MSCI will continue to benefit from the shift of active management to passive management

Over the next several years, passive AUM may surpass active AUM and has grown substantially over the past decade. Passive funds currently account for ~45% of combined US mutual fund and ETF assets under management, up from 14% in 2005 and 3% in 1995. ~80% of asset inflows that have gone to investment funds have been captured by Vanguard, State Street, and Blackrock over the past decade as these firms charge the lowest fees based on economies of scale with MSCI servicing State Street and Blackrock. Index investing dominates the US landscape as the average stake in S&P 500 companies by the big three has gone from ~5.2% in 1998 to more than 20% today. While Vanguard left MSCI in 2012, which caused a ~33% decline in MSCI stock, Blackrock is likely safe as the contract expires in 2030. Even if the growth of passive management slows down, MSCI is still positioned to benefit as active managers will continue to utilize MSCI's index as a benchmark.

Thesis point 3: Underappreciated long runway of growth for ESG in the US

US investors do not appreciate the global growth of ESG investing because the US is one of the last major economies to catch up to this trend. While the US does not require companies to disclose ESG metrics, many corporations choose to release ESG information in separate disclosures from annual filings and the CFA has started to focus on analyzing this information. The number of ESG mandated assets under management grew by ~20% p.a. from 2012 – 2018 and is expected to grow at the same rate over the next 5 years. The number of funds that have added ESG language to their prospectuses (no official ESG mandate) has grown from 50 in 2016 to 500 in 2020. Growth has even further upside if the Taskforce for Climate-related Financial Disclosures (TCFD) and central bank issue new compliance or the regulatory environment continues to change. Finally, the ESG landscape has greenfield opportunities with corporations who may try to issue ESG rated bonds.

Thesis point 4: Data providers will become increasingly critical for asset managers to navigate the ESG landscape

Due to the lack of uniformity in ESG disclosures in the US, data providers are essential in order to disaggregate the available information and all data vendors will benefit from this growing trend. Corporations can voluntarily disclose ESG data and report to one of several governing bodies including the Global Reporting Initiative (GRI), International Integrated Reporting Council (IIRC), or the Sustainability Accounting Standards Board (SASB). In addition, voluntary reporting favors larger companies as smaller companies cannot afford to invest in publishing these reports. The difficulty in analyzing data is evident by the fact that there is a low correlation among ESG scores of the different vendors, requiring asset managers to often purchase multiple datasets. An ESG data arms race has taken place over the last several years with M&A activity continuing to shape the space. The major competitors include MSCI, Sustainalytics (Morningstar), Moody's Corp, ISS, and S&P Global.

Thesis point 5: MSCI is the advantaged ESG data provider with potential for major share capture

Channel checks indicate that MSCI is differentiated from its competitors in the **data space** as it benefits from acting as the leading ESG **index provider** (~60% of all ESG ETFs), targets all asset classes, and can also cross-sell its ESG data offering through its index or analytics segment. Recently, MSCI split out the ESG revenue segment from Other and specifically called out Climate. MSCI's ESG offering is tailored to each individual company and places a larger focus on materiality of each ESG datapoint. MSCI looks at the 2nd most datapoints (1st is Bloomberg) and condenses these datapoint into 37 key issues. MSCI will then only apply a few issues to each individual company. The company utilizes a hybrid approach between utilizing individual analysts and data aggregation, separating it from its main competitor Sustainalytics that utilizes solely an analyst-based approach. MSCI has ~5% share of the $2.2B TAM for ESG Information Services with ~20% penetration of ~3,000 asset owners/managers that are signatories of the UN Principles for Responsible Investments. MSCI could reach penetration levels of ~90% of asset managers and investment managers by 2026 who fall under the UN categorization, making it the dominant data provider, as well as generate ~$790M in ESG-related revenue vs. ~$170M, today, implying a CAGR of 39% p.a. from 2020 to 2026. MSCI has additional upside if corporations were to start executing extensive purchases of ESG data in order to understand how they are measured by investors. The ESG ratings market should continue to become consolidated like other areas of financial ratings including bond ratings agencies, further benefiting MSCI.

Valuation: Based on a revenue build across MSCI's four segments, MSCI can grow revenue at **14%** p.a. over the next five years. Index revenue can grow at **13%** p.a. over the next five years with recurring subscriptions growing at **10% p.a.**, and asset-based fees growing at **15%** p.a. Growth for these two categories within index is primarily driven by inflows to ETFs linked to MSCI indices with market appreciation as a tailwind and modest fee compression as a headwind. Analytics will experience growth of **4% p.a**. over the next five years, mostly driven by pricing growth and in-line with historical growth. ESG can grow at **40% p.a**. as outlined above. Finally, Other should grow at **10% p.a.** driven by increased focus on alternative asset classes.

We forecast gross margin expansion of 200 basis points from 83% in 2020 to 85% in 2026. In addition, R&D expense should remain constant at 5% of revenue with SG&A expansion of ~300 basis points from 18% in 2020 to 15% in 2026. MSCI can achieve EBITDA margin of 65% by 2026 and net income margin of 46%. Based on our projections, MSCI can reach EPS of $21.88 by 2026 or growth of 20% p.a. from 2020 to 2026. If we apply a Forward P/E multiple of **30x** (today trades at **40x** on 2022 consensus EPS) on 2026 EPS, we reach a price target of **$656** per share by the end 2025. We maintain a constant dividend of **$4.16** per share per annum. This implies a total shareholder return of **60%** or IRR of **14%** over the next 4 years.

Additional Sources Used and Analyzed: Canalyst, Substack, Analyst Reports, Company Filings, Seeking Alpha, US SIF Foundation

Appendix

Revenue Build	2018	2019	2020	2021E	2022E	2023E	2024E	2025E	2026E	CAGR (18-20)	CAGR (21-26)
Index											
Recurring subscriptions	478	531	580	651	716	787	866	953	1,048	10%	10%
Asset-based fees	337	362	400	554	637	733	843	969	1,114	9%	15%
Non-recurring	21	28	36	47	61	79	103	134	175	31%	30%
Total - Index	835	921	1,016	1,252	1,414	1,599	1,812	2,056	2,337	10%	13%
Analytics	480	497	514	544	566	589	612	637	662	3%	4%
ESG & Climate	71	91	111	166	230	319	443	613	850	25%	39%
Other	47	49	54	81	89	98	108	119	131	7%	10%
Total Revenue	1,434	1,558	1,695	2,043	2,300	2,606	2,975	3,425	3,980	9%	14%

ESG revenue build	2020E	2021E	2023E	2026E	20-26 CAGR
Content ($M)	74	111	145	675	45%
Index ($M)	37	55	92	112	20%
Total ($M)	**111**	**166**	**238**	**787**	39%
MSCI ESG ETF ($B)	62	76	92	112	10%
Total ESG ETF ($B)	101	121	145	175	10%
MSCI ESG ETF share	61%	62%	63%	64%	
UN Signatories	3,000	3,000	3,000	3,000	
MSCI ESG research share	15%	20%	27%	90%	35%
Implied signatories	450	607	818	2,700	35%
Implied spend ($M)	0.16	0.17	0.18	0.25	7%
Content revenue ($M)	74	104	145	675	45%

Income statement	2018	2019	2020	2021E	2022E	2023E	2024E	2025E	2026E
Revenue	1,434	1,558	1,695	2,043	2,300	2,606	2,975	3,425	3,980
GM (%)	80%	82%	83%	82%	83%	83%	84%	84%	85%
Gross Profit	1,147	1,270	1,404	1,685	1,905	2,167	2,485	2,874	3,383
SG&A	293	322	332	377	414	443	476	514	597
R&D	81	98	101	112	126	142	162	187	217
SG&A	20%	21%	20%	18%	18%	17%	16%	15%	15%
R&D	6%	6%	6%	5%	5%	5%	5%	5%	5%
EBITDA	772	849	970	1,197	1,365	1,582	1,847	2,173	2,569
margin	54%	55%	57%	59%	59%	61%	62%	63%	65%
D&A	31	30	30	29	29	29	29	29	29
Amortization of intangibles	46	49	57	65	65	65	65	65	65
Other		15	0	1	5	5	5	5	5
EBIT	695	755	883	1,102	1,267	1,484	1,748	2,075	2,470
Net Interest Expense	(113)	(132)	(151)	(158)	(158)	(158)	(158)	(158)	(158)
Other	49	(20)	(46)	(85)	0	0	0	0	0
EBT	630	603	686	858	1,108	1,326	1,590	1,917	2,312
Taxes	122	40	84	132	233	278	334	402	486
rate					21%	21%	21%	21%	21%
Net Income	508	564	602	726	876	1,047	1,256	1,514	1,826
margin	35%	36%	36%	36%	38%	40%	42%	44%	46%
Shares Oustanding	87	85	84	83	83	83	83	83	83
Diluted EPS	5.83	6.66	7.19	8.70	10.49	12.54	15.05	18.14	21.88

Cash Flow Statement		2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Net Income		564	602	726	876	1,047	1,256	1,514	1,826
D&A		30	30	29	29	29	29	29	29
Amortization of intangibles		49	57	65	65	65	65	65	65
Stock-based Comp		41	51	55	62	70	80	92	107
NWC				60	39	65	78	96	117
Other		1	20	2	0	0	0	0	0
CFO				936	1,070	1,276	1,508	1,795	2,144
Capex				(969)	(29)	(22)	(30)	(30)	(30)
Other				(67)	0	0	0	0	0
CFI				(1,036)	(29)	(22)	(30)	(30)	(30)
FCF				(33)	1,040	1,254	1,478	1,765	2,114
Debt Issuance				1,804	0	0	0	0	0
Debt Paydown				(1,052)	(300)	(300)	(300)	(300)	(300)
Stock issuance (buybacks)				(198)	0	0	0	0	0
Dividend				(302)	(302)	(302)	(302)	(302)	(302)
Other				(22)	0	0	0	0	0
CFF				230	(602)	(602)	(602)	(602)	(602)
					1,421	1,859	2,511	3,387	4,550
					438	652	876	1,163	1,511
					1,859	2,511	3,387	4,550	6,061

Balance Sheet	2018	2019	2020	2021E	2022E	2023E	2024E	2025E	2026E
Cash + equiv.	904	1,507	1,301	1,421	1,859	2,511	3,387	4,550	6,061
A/R	473	499	559	665	750	850	971	1,118	1,299
Prepaid Exp.	38	44	46	51	62	70	80	92	107
Other	19	32	21	6	6	6	6	6	6
Total Current Assets	1,435	2,082	1,926	2,143	2,678	3,438	4,444	5,765	7,473
PP&E	276	426	415	397	426	448	478	508	538
Accumulated Dpreciation	(186)	(169)	(181)	(186)	(215)	(244)	(273)	(302)	(331)
Goodwill	1,546	1,563	1,566	2,236	2,172	2,107	2,043	1,978	1,914
Other	316	303	473	916	916	916	916	916	916
Total Assets	3,388	4,204	4,199	5,507	5,977	6,665	7,607	8,866	10,510
A/P	4	6	14	13	12	13	15	17	18
Accrued Exp.	251	305	283	330	402	455	520	599	696
Deferred Revenue	538	575	676	825	889	1,007	1,150	1,324	1,539
Other	16	14	49	83	83	83	83	83	83
Total Current Liabilities	809	901	1,022	1,251	1,386	1,559	1,768	2,022	2,335
Long-Term Debt	2,576	3,072	3,367	4,161	3,861	3,561	3,261	2,961	2,661
Other	170	308	253	258	258	258	258	258	258
Total Liabilities	3,554	4,281	4,642	5,670	5,505	5,378	5,287	5,242	5,255
Retained Earnings	1,857	2,199	2,554	2,977	3,550	4,295	5,249	6,460	7,984
Other	(2,023)	(2,276)	(2,998)	(3,140)	(3,078)	(3,008)	(2,928)	(2,836)	(2,729)
Total Equity	(167)	(77)	(443)	(163)	472	1,286	2,320	3,624	5,255

EPV

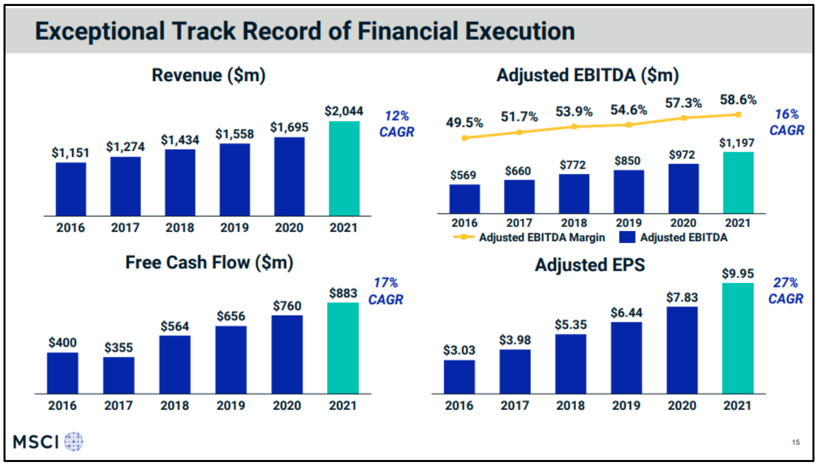
$ in mm	Current	Steady-State	T+1 SS
Total revenues	**$2,044**	**$2,044**	**$3,980**
Total cost of revenues	(359)	(359)	(359)
Gross profit	**$1,685**	**$1,685**	**$3,621**
margin	82%	82%	91%
Research and development	(112)	(22)	
Marketing and sales	(243)	(99)	
General and administrative	(148)	(111)	
Over/Under Depreciation	$0	0	
Normalized EBIT	**$1,182**	**$1,452**	**$2,786**
% margin	58%	71%	70%
Tax Rate		21%	21%
Adj. Steady-State NOPAT		**$1,147**	**$2,201**
% margin		56%	55%
NOPAT		$1,147	$2,201
r		6.0%	6.0%
EPV		**$19,123**	**$36,681**
Estimated Churn	5%		
Churned Gross Profit	**84**		
Sales Efficiency	0.85		
Replacement Marketing Spend	**$99**		

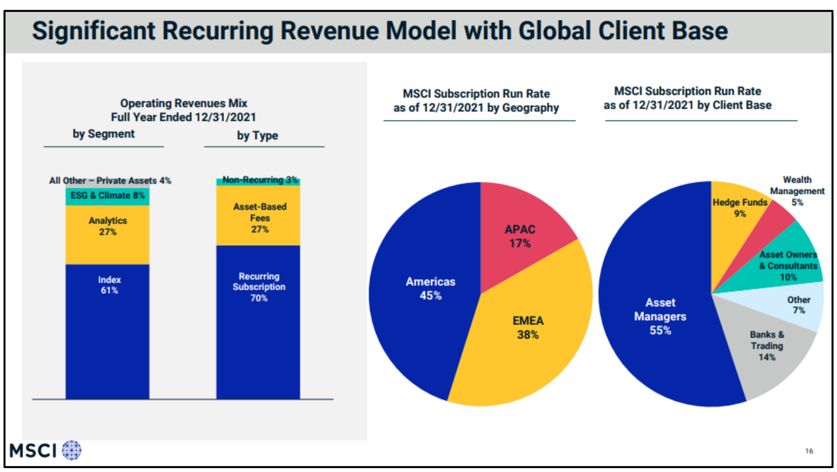
EPV + Franchise Value

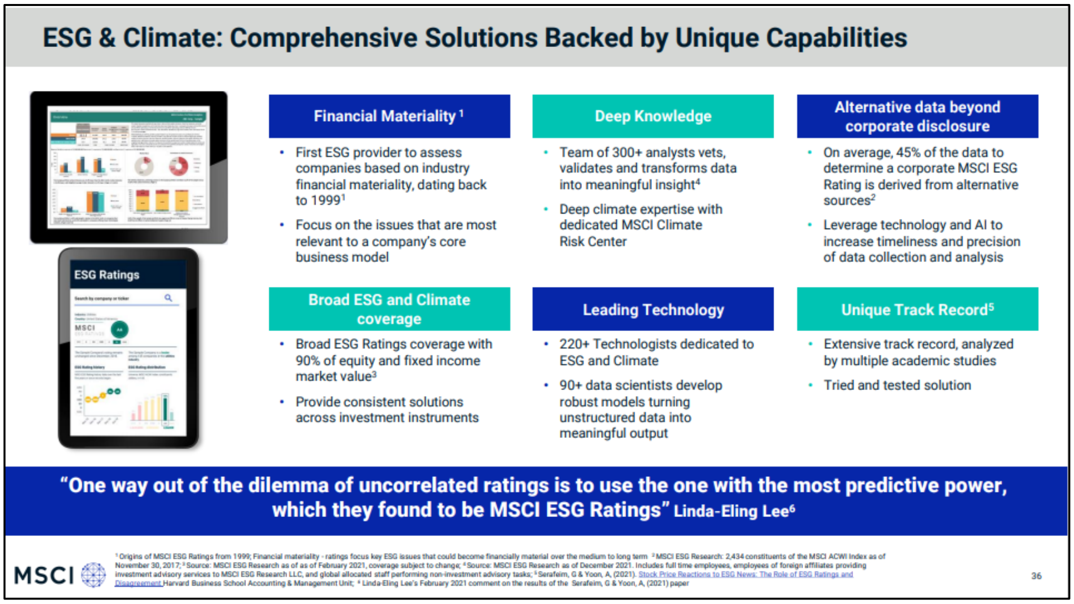
Value of Franchise Growth	Base	Bear	Bull
EPV	**$36,681**	**$36,681**	**$36,681**
g	5.0%	4.0%	5.0%
ROIIC	40.0%	20.0%	50.0%
r	6.0%	6.0%	6.0%
Franchise Value Multiple	**4.25**	**1.40**	**4.40**
Franchise Value	**$155,893**	**$51,353**	**$161,395**
Enterprise Value	**$192,573**	**$88,033**	**$198,075**

Expected Returns Approach		
Current EV/EBIT	27.00	
Distribution Yield	1.0%	
Inorganic Growth	7.4%	<-- IC * ROIIC
Organic Growth	5.0%	
Earnings Growth	**12.4%**	
multiple expansion/contraction rate	-2.0%	
Distributions Yield	1.0%	
earnings growth rate	12.4%	
multiple impact	-2.0%	
Expected Annual Returns	**11.15%**	

Company Name	Share Price ($)	Market Cap ($M)	LTM Net Debt ($M)	EV ($M)	Revenue ($M)	EBITDA ($M)	GM (%)	EBITDA Margin (%)	NTM TEV/Forward EBITDA	NTM TEV/Forward EPS
S&P Global (SPGI)	$377	$130,656	($1,536)	$132,624	$8,297	$4,710	74%	57%	20	29
FactSet (FDS)	$403	$15,291	$30	$15,321	$1,667	$563	52%	34%	24	31
Thomson Retuers (TRI)	$100	$48,805	$3,161	$52,035	$6,348	$1,593	35%	25%	23	41
Moody's (MCO)	$316	$58,668	$6,479	$64,951	$6,140	$2,922	73%	48%	21	27
MSCI (MSCI)	**$421**	**$34,173**	**$3,646**	**$37,819**	**$2,125**	**$1,216**	**82%**	**57%**	**29**	**37**
Mean	$324	$57,519	$2,356	$60,550	$4,915	$2,201	63%	44%	23	33
Median	$377	$48,805	$3,161	$52,035	$6,140	$1,593	73%	48%	23	31






ESG & Climate: Comprehensive Solutions Backed by Unique Capabilities
ESG Ratings
Financial Materiality 1
First ESG provider to assess companies based on industry financial materiality, dating back to 1999[1]
Focus on the issues that are most relevant to a company's core business model
Deep Knowledge
Team of 300+ analysts vets, validates and transforms data into meaningful insight[4]
Deep climate expertise with dedicated MSCI Climate Risk Center
Alternative data beyond corporate disclosure
On average, 45% of the data to determine a corporate MSCI ESG Rating is derived from alternative sources[2]
Leverage technology and AI to increase timeliness and precision of data collection and analysis
Broad ESG and Climate coverage
Broad ESG Ratings coverage with 90% of equity and fixed income market value[3]
Provide consistent solutions across investment instruments
Leading Technology
220+ Technologists dedicated to ESG and Climate
90+ data scientists develop robust models turning unstructured data into meaningful output
Unique Track Record[5]
Extensive track record, analyzed by multiple academic studies
Tried and tested solution
"One way out of the dilemma of uncorrelated ratings is to use the one with the most predictive power, which they found to be MSCI ESG Ratings" Linda-Eling Lee[6]
MSCI
[1] Origins of MSCI ESG Ratings from 1999; Financial materiality - ratings focus key ESG issues that could become financially material over the medium to long term [2] MSCI ESG Research: 2,434 constituents of the MSCI ACWI Index as of November 30, 2017; [3] Source: MSCI ESG Research as of as of February 2021, coverage subject to change; [4] Source: MSCI ESG Research as of December 2021. Includes full time employees, employees of foreign affiliates providing investment advisory services to MSCI ESG Research LLC, and global allocated staff performing non-investment advisory tasks; [5] Serafeim, G & Yoon, A, (2021). Stock Price Reactions to ESG News: The Role of ESG Ratings and Disagreement Harvard Business School Accounting & Management Unit; [6] Linda-Eling Lee's February 2021 comment on the results of the Serafeim, G & Yoon, A, (2021) paper
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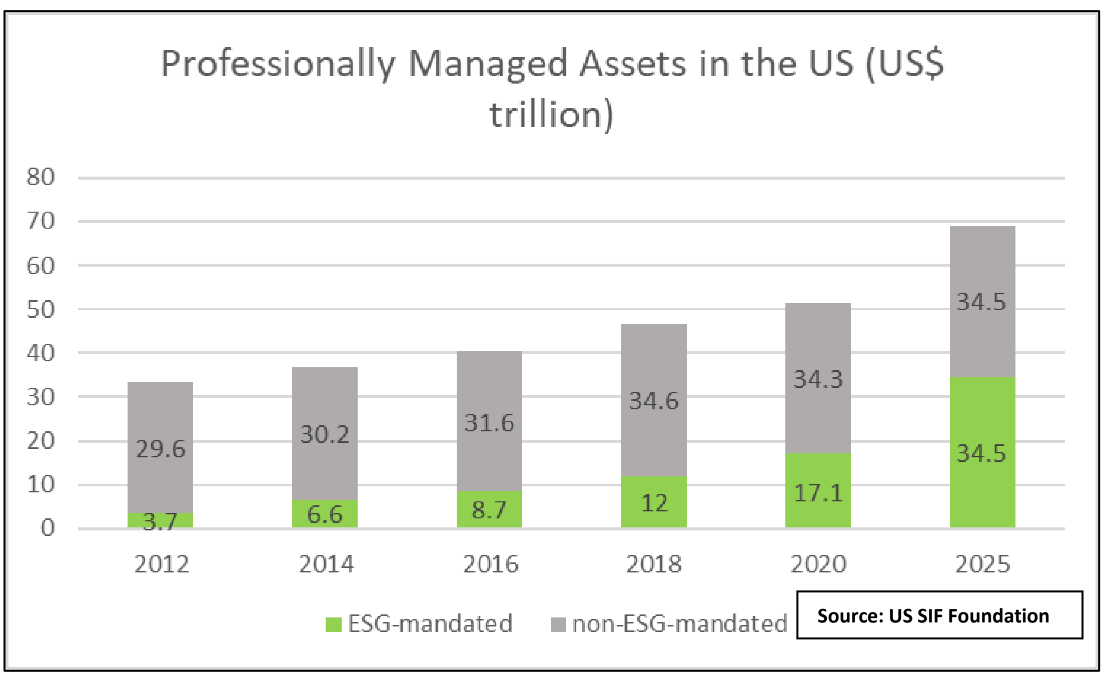
Professionally Managed Assets in the US (US$ trillion)
80
70
60
50
40
30
20
10
0
2012
2014
2016
2018
2020
2025
3.7
29.6
6.6
30.2
8.7
31.6
12
34.6
17.1
34.3
34.5
34.5
ESG-mandated
non-ESG-mandated
Source: US SIF Foundation