



Index business continues to perform strongly

What were the most noteworthy areas in the results statement?	MSCI's flagship Index business once again showed strong growth while sales in Analytics accelerated.
How did the result deviate from expectations?	Annualized revenue growth of the historically lagging Analytics segment was strong with 11.3% in Q4, the highest rate since 2011.
Did the Company change its guidance?	The guidance for 2018E implies a higher level of operating leverage than previously assumed. We are increasing our 2018E EBITDA margin assumption by 120bps to 53.0%.
Is there an impact on the 2Xideas Investment Case?	The investment case remains fully on track.

MSCI's largest business segment Index (56% of sales/79% of operating profits) reported sales growth of 17.2%. Index Subscriptions rose 9.8%, driven by new client wins and a client retention rate of 95.8%. Index Asset Based Fees increased 31.3%, with year-end AUM in ETFs linked to MSCI indices up 55% to USD 744bn. The increase in AUM was driven equally by net new money inflows and market appreciation. The average fee charged on these assets decreased slightly from 3.10bps to 3.04bps in FY 2017. MSCI continues to launch new factor and ESG indices that command a higher fee in order to maintain the average fee at the current level.

Strong growth in the Index segment

We believe that the ongoing trend towards tighter regulation and higher transparency standards has not changed. As a result, we expect demand for Analytics to pick up over the medium term, growing well beyond the 2.2% sales increase seen in FY 2017. We regard the 11.3% annualized growth rate in Q4 as evidence of strong demand for the Company's fixed-income and multi-asset-class analytics capabilities. Restructuring programs and above-average technology investments put pressure on margins in 2017. We expect EBITDA margins to steadily improve from the current levels of 27.4% towards the 30–35% target range over the next 2–3 years. For the Company as a whole, the adjusted EBITDA margin rose 220bps to 51.7% in 2017.

Analytics segment showing limited growth and margin pressure in 2017

MSCI's "All Other" segment continued to develop positively in 2017, resulting in a EBITDA margin of 12.2% compared to -8.2% in 2015. This was driven by an increase in ESG (Economic, Social, Governance) related revenues of 24.2% and an increase of 17.3% in Real Estate revenues.

"All Other" segment continues to perform strongly

Share buybacks slowed markedly during 2017. Management stated that the Company will continue to buy back shares opportunistically with USD 700mn remaining in the current program, equal to 5% of outstanding shares at the current market price.

Slowdown of share repurchases in 2017

Management expects a tax rate of between 21–24% for FY 2018E, down from 34.9% in FY 2017. Of the USD 503mn cash held outside the US, USD 350mn will be eligible to be repatriated.

Tax rate going down significantly

USD	February 2, 2018	2018E	2023E
Current share price (USD)	146.3		
Earnings per share		4.77	10.18
<i>Change from previous</i>		+15.8%	N.A.
Current P/E multiple		30.7 x	16.5 x
Exit P/E multiple			25.0 x
Share price 2023E			254.5
<i>Share price return %</i>			73.9%
Accumulated dividends			11.73
<i>Total return %</i>			82.0%
<i>Annualized total return %</i>			12.7%

Income Statement

in USD mn	FY 2016	FY 2017	FY 2018E	FY 2019E	FY 2020E	FY 2021E	FY 2022E	FY 2023E
Total Sales	1,151	1,274	1,406	1,545	1,695	1,859	2,040	2,239
Growth %	7.0%	10.7%	10.4%	9.9%	9.7%	9.7%	9.7%	9.8%
Index Subscriptions	403	443	487	536	589	648	713	785
Growth %	11.7%	9.8%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Index Asset Based Fees	210	276	331	381	427	478	535	600
Growth %	6.2%	31.3%	20.0%	15.0%	12.0%	12.0%	12.0%	12.0%
Analytics	448	458	481	510	546	584	625	669
Growth %	3.4%	2.2%	5.0%	6.0%	7.0%	7.0%	7.0%	7.0%
All Other	89	97	107	118	133	148	166	186
Growth %	7.4%	9.2%	10.0%	11.0%	12.0%	12.0%	12.0%	12.0%
Cost of Revenues	-252	-274	-294	-319	-350	-384	-422	-464
Selling & Marketing	-167	-177	-196	-215	-236	-259	-284	-312
Research & Development	-75	-76	-80	-83	-86	-88	-91	-93
General & Administrative	-87	-88	-91	-94	-97	-98	-100	-101
EBITDA	569	659	746	834	927	1,029	1,143	1,270
Growth %	18.2%	15.8%	13.1%	11.9%	11.1%	11.1%	11.1%	11.1%
Margin %	49.5%	51.7%	53.0%	54.0%	54.7%	55.4%	56.1%	56.7%
Index	431	522	595	668	741	822	913	1,013
Growth %	9.8%	21.0%	14.0%	12.2%	11.0%	11.0%	11.0%	11.0%
Margin %	70.3%	72.6%	72.7%	72.8%	72.9%	73.0%	73.1%	73.2%
Analytics	129	125	136	150	166	183	202	223
Growth %	34.6%	-2.5%	8.8%	9.7%	10.6%	10.5%	10.4%	10.3%
Margin %	28.7%	27.4%	28.4%	29.4%	30.4%	31.4%	32.4%	33.4%
All Other	9	12	14	17	20	24	29	34
Growth %	NM	24.4%	19.1%	19.4%	19.9%	19.4%	18.9%	18.5%
Margin %	10.7%	12.2%	13.2%	14.2%	15.2%	16.2%	17.2%	18.2%
Depreciation	-34	-35	-35	-35	-35	-35	-35	-35
Amortisation	-47	-45	-45	-45	-45	-45	-45	-45
Operating Profit (EBIT)	488	579	666	754	847	949	1,064	1,190
Growth %	20.8%	18.7%	14.9%	13.3%	12.3%	12.1%	12.0%	11.9%
Margin %	42.4%	45.5%	47.3%	48.8%	50.0%	51.1%	52.1%	53.2%
Net financial income	-102	-112	-116	-116	-116	-116	-116	-116
Income Tax	-125	-163	-124	-142	-161	-183	-206	-231
Tax Rate %	32.4%	34.9%	22.5%	22.3%	22.1%	21.9%	21.7%	21.5%
Net Profit Contin. Operations	261	304	426	496	569	651	742	843
Growth %	13.4%	16.5%	40.1%	16.4%	14.8%	14.4%	14.0%	13.7%
Margin %	22.7%	23.9%	30.3%	32.1%	33.6%	35.0%	36.4%	37.7%

Significant margin uplift...

...mainly provided by Analytics and "All Other" segments.

Impact of US tax reform

Strong earnings growth

Deleveraging

Balance Sheet

in USD mn	FY 2016	FY 2017	FY 2018E	FY 2019E	FY 2020E	FY 2021E	FY 2022E	FY 2023E
Cash & equivalents	792	890	1,028	1,225	1,482	1,804	2,199	2,675
Total debt	-2,100	-2,100	-2,100	-2,100	-2,100	-2,100	-2,100	-2,100
Net financial position	-1,308	-1,210	-1,072	-875	-618	-296	99	575
PP&E	94	94	94	94	94	94	94	94
Goodwill & intangibles	1,946	1,907	1,875	1,843	1,811	1,779	1,747	1,715
Net working capital	105	199	221	242	262	285	309	336
Shareholder's equity	291	535	564	637	759	934	1,167	1,467

Cashflow Statement

in USD mn	FY 2016	FY 2017	FY 2018E	FY 2019E	FY 2020E	FY 2021E	FY 2022E	FY 2023E
Operating cash-flow	435	404	584	667	753	847	951	1,067
Capex, net	-42	-48	-48	-48	-48	-48	-48	-48
Free cash-flow	393	356	536	619	705	799	903	1,019
Acquisitions	0	0	0	0	0	0	0	0
Divestitures	0	0	0	0	0	0	0	0
Dividends	-97	-121	-148	-172	-198	-226	-258	-293
Iss. / repur. of stock	-759	-137	-250	-250	-250	-250	-250	-250
Issu. / repay. of debt	500	0	0	0	0	0	0	0

Share buybacks to continue

Valuation

		FY 2016	FY 2017	FY 2018E	FY 2019E	FY 2020E	FY 2021E	FY 2022E	FY 2023E
Share price	USD	78.8	126.5	146.3	146.3	146.3	146.3	146.3	146.3
Market Capitalisation	USD m	7,146	11,401	12,940	12,724	12,532	12,358	12,199	12,040
Enterprise Value	USD m	8,454	12,611	14,012	13,600	13,150	12,653	12,100	11,465
Earnings per share	USD	2.72	3.36	4.77	5.65	6.60	7.65	8.84	10.18
Growth %		28.9%	23.8%	41.8%	18.5%	16.7%	16.0%	15.5%	15.1%
Dividend per share	USD	1.00	1.42	1.67	1.98	2.31	2.68	3.09	3.56
Payout ratio %		36.8%	42.2%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
Book value per share	USD	3.2	5.9	6.4	7.3	8.9	11.1	14.0	17.8
Growth %		-62.8%	85.5%	7.3%	15.0%	20.9%	24.8%	26.7%	27.4%
EV / EBITDA		14.8	19.1	18.8	16.3	14.2	12.3	10.6	9.0
EV / NOPAT		23.9	30.6	27.9	23.0	19.0	16.3	14.0	11.9
EV / Sales		7.3	9.9	10.0	8.8	7.8	6.8	5.9	5.1
P/E		29.0	37.6	30.7	25.9	22.2	19.1	16.5	14.4
EV / IC		4.18	6.42	7.56	7.86	8.25	8.74	9.41	10.33
RoAIC		17.1%	20.7%	26.3%	33.0%	41.7%	50.9%	63.3%	80.7%
Net Debt / EBITDA		2.30 x	1.84 x	1.44 x	1.05 x	0.67 x	0.29 x	net cash	net cash
Net cash in % of market capitalisation	net debt	net debt	net debt	net debt	net debt	net debt	net debt	0.8%	4.8%
Capex / Depreciation		122.5%	135.6%	135.6%	135.6%	135.6%	135.6%	135.6%	135.6%
Capex as % of average PP&E		44.7%	51.1%	51.1%	51.1%	51.1%	51.1%	51.1%	51.1%
Operating cash-flow yield		6.1%	3.5%	4.5%	5.2%	6.0%	6.9%	7.8%	8.9%
Free cash-flow yield		5.5%	3.1%	4.1%	4.9%	5.6%	6.5%	7.4%	8.5%
Unlevered free cash-flow yield on EV		5.0%	3.0%	4.0%	4.8%	5.6%	6.5%	7.7%	9.1%
Average cash conversion cycle		64.3	75.1	85.8	86.0	86.1	86.1	86.1	86.1
Net working capital in % of sales		9.2%	15.6%	15.7%	15.7%	15.5%	15.3%	15.2%	15.0%
Dividend yield		1.4%	1.1%	1.1%	1.4%	1.6%	1.8%	2.1%	2.4%
Repurchase yield		10.6%	1.2%	1.9%	2.0%	2.0%	2.0%	2.0%	2.1%
Total cash back yield		12.0%	2.3%	3.1%	3.3%	3.6%	3.9%	4.2%	4.5%

Significant EPS growth expected

valuation leaves room for further performance

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