

Morningstar Inc.

NASDAQ:MORN

Analyst: Florent Polito

Sector: Consumer Disc.

BUY

Price Target: \$96

Key Statistics as of 03/17/2016

Market Price:	\$83.93
Industry:	Diversified Financial Services
Market Cap:	\$3,710M
52-Week Range:	\$71.89-86.88
Beta:	0.44

Thesis Points:

- The company is accelerating its repurchasing program, meaning it is thinking itself undervalued
- Its low beta and low volatility makes it a safe pick
- The company is outperforming the industry

Company Description:

Morningstar, Inc. is a leading provider of independent investment research in North America, Europe, Australia, and Asia. The company offers an extensive line of products and services for individual investors, financial advisors, asset managers, and retirement plan providers and sponsors. Morningstar provides data on more than 510,000 investment offerings, including stocks, mutual funds, and similar vehicles, along with real-time global market data on more than 17 million equities, indexes, futures, options, commodities, and precious metals, in addition to foreign exchange and Treasury markets. Morningstar also offers investment management services through its investment advisory subsidiaries, with more than \$180 billion in assets under advisement and management as of Dec. 31, 2015. The company has operations in 27 countries.



Thesis

Morningstar is not a skyrocketing stock but a steady increasing stock which with its low beta of 0.44 and its constant value creation with a ROIC/WACC of around 2.60 makes the company a sure buy pick for anyone who is looking for a profit. Because the founder of the company has a majority ownership in it, he is seeking to increase its value and stock price through dividends issuance and stocks repurchase. The increase in revenue and growth cumulated to the company outperforming its industry prove that the company will reach a higher price.

Industry Outlook

The Diversified Financial Services Industry in the Financials sector includes providers of a diverse range of financial services and/or with some interest in a wide range of financial services including banking, insurance and capital markets, but with no dominant business line. It also includes multi-sector holdings companies with significantly diversified holdings across three or more sectors, none of which contributes a majority of profit and/or sales. It includes as well specialized finance providers such as credit agencies, stock exchanges and specialty boutiques. Globally on the stock market, this sector has equaled the NASDAQ during the whole year, with a decrease of 2.85% where the NASDAQ lost 2.72% to date. But 2016 has given the industry a strong start, where the sector gained 5% since January while the NASDAQ lost 4.23%.

Porter Five Forces

Bargaining Power of Customers: Medium

The product can be considered very important to the customer and there is a relative large base of customers while the choice is limited, this makes the bargaining power of customers at a medium level, because as a paying data, the customers could always be tempting to look at free information on the internet.

Bargaining Power of Suppliers: Inexistent
Morningstar does not have any suppliers.

Threat of New Competition: High

Being an internet website, Morningstar is confronting to low barriers to entry, anyone can create a website, but what makes Morningstar influent is its people, because they are the one who transform information and create data and bring value to the company, so even if the threat is supposedly high, there is the requirement of a high credibility for new entrant to make it in the industry

Threat of Substitutes: Low

There is no real substitutes when it comes to targeted data providence, the customers could possibly look at free information available on internet but there are rarely free of bias, and/or verified.

Existing Rivalry: Medium

Morningstar has several big rival such as YahooFinance or SeekingAlpha when it comes to providing data, but in this industry there is almost no customer loyalty, and it is frequent to have customers checking all these sites when looking for information, therefore the rivalry does not really impact negatively the company

Management

Up to date, the company is owned at 57% by insiders, and 41% by institutions. The interesting point to notice is that 56% of the stocks are owned by the Founder, CEO and Chairman of the company Joseph D Mansueto. As a founder and major shareholder, the company is driven by a stakeholder who is focused on improving shareholder value as he said himself, increasing the likely of an increase in the stock during the incoming years. The increase of the dividends by 16% in 2015 reflects that position.

In 2014, the company introduced a performance share awards, granting the best performers shares awards, thus incenting the employees to do their best.

Product Differentiation

Morningstar is a data provider. They provide their products in 27 countries; the USA accounts for 75% of their revenue, followed by Europe, Australia, Canada and Asia. The company is selling investment researches, indexes, books, advisor, custom, and institutional software and services for redistributors,

brokerage firms, financial advisors, individual investors, insurance companies, investment banks and consultants, retirement plan providers and sponsors.

Recent Acquisition

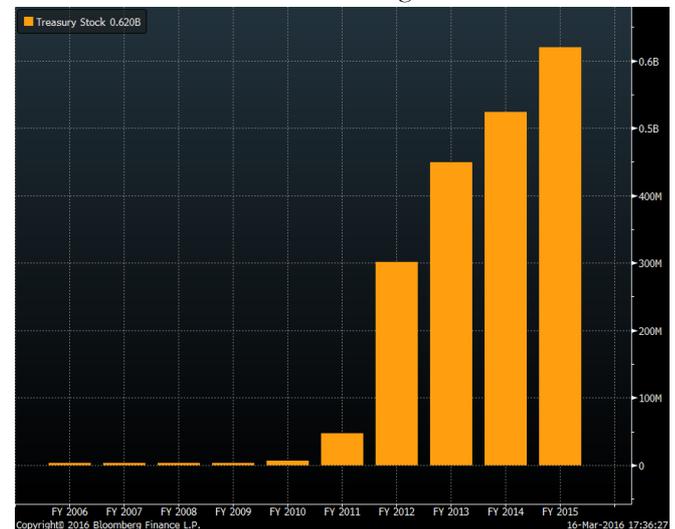
Morningstar present strategy is to acquire its franchises In November 2015, they acquired Total Rebalance Expert, an automated, tax-efficient investment portfolio rebalancing platform for financial advisors. tRx streamlines the rebalancing process for advisors and automates the complexities involved in rebalancing and managing portfolios. In June 2014, Morningstar acquired an additional 81.3% interest in HelloWallet Holdings, Inc, increasing they ownership from 18.7% to 100%. HelloWallet combines behavioral economics and the psychology of decision-making with sophisticated technology to provide personalized, unbiased financial guidance to U.S. workers and their families through their employer benefit plans. In April 2014, MORN acquired ByAllAccounts, Inc, a provider of innovative data aggregation technology for financial applications for \$27.9 million in cash. ByAllAccounts uses a knowledge-based process, including patented artificial intelligence technology, to collect, consolidate, and enrich financial account data and deliver it to virtually any platform. These acquisitions will increase the revenue of the company, and will strengthen the quality of the data provided by Morningstar, which will have for effect to solidify Morningstar credibility on the data market.

Financials

Morningstar is a stock that outperforms its industry, which are the diversified financial services: the stock does better on average on several margins. The gross margin of MORN is 58.37% which is 31% more that the industry average of 27.37%. The EBITDA margin is 32.68% whereas the industry has an average of 23.42%. The operating margin is 24.56%, a 5% premium over the 19.67% that the industry has. The ROE of MORN is significantly above average with a return of 18.92% versus 9.95%.

Moreover the company has a ROIC/WACC ratio of 2.60, which means it creates a lot of value. The Debt/Equity ratio is 0.61 and their 1yr credit has an interest rate of 2.22% which is quite low and allows the company to satisfy its financial needs.

The company is also enterprising a repurchasing program since 2011, and the buyback has been intensified over the last years, thus drifting logically the price of the stock up, the company is still allowed to repurchase for \$376 million of stocks which means they have a large margin. The company bought back 492 million worth of stocks during 2015.



Valuation

Running a proforma following the discounting of future cash flows, and after running a Monte Carlo simulation, the Intrinsic Value for MORN is \$89.98 and the target price is \$95.91, moreover there is a 94.33% of price increase, this is justified by a sensitivity analysis of the company which highlights a high sensitivity to revenue; as the revenue is constantly increasing, it verifies the fact that the stock is very likely to increase.

Conclusion

Through its increase in revenue and its values, the company is very likely to keep its employees, and therefore manage to continue to provide quality data for its increasing customer base. The company outperforming is also outperforming its industry and its benchmark on a one year basis. Its strategy to repurchase stocks is a logical price increase driver, combined to the forecasted increase in cash flows and revenue.

Morningstar Inc. (MORN)

CENTER FOR GLOBAL FINANCIAL STUDIES

NEUTRAL

Analysis by Florent POLITO
3/17/2016

Current Price: **\$83.17**
Divident Yield: **1.0%**

Intrinsic Value: **\$89.98**
Target Price: **\$95.91**

Target 1 year Return: **16.3%**
Probability of Price Increase: **94.33%**

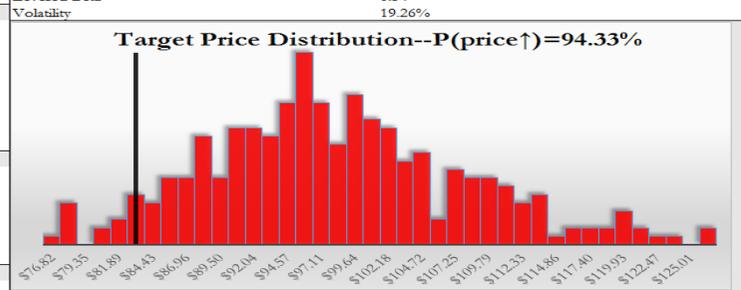


Description	
Morningstar, Inc. provides independent investment research services in North America, Europe, Australia, and Asia.	
General Information	
Sector	Financials
Industry	Diversified Financial Services
Last Guidance	November 3, 2015
Next earnings date	NM
Estimated Country Risk Premium	7.52%
Effective Tax rate	35%
Effective Operating Tax rate	34%

Market Data	
Market Capitalization	\$3,568.94
Daily volume (mil)	0.10
Shares outstanding (mil)	42.91
Diluted shares outstanding (mil)	44.30
% shares held by institutions	55%
% shares held by investments Managers	41%
% shares held by hedge funds	5%
% shares held by insiders	58.66%
Short interest	0.43%
Days to cover short interest	1.67
52 week high	\$86.88
52-week low	\$71.89
Levered Beta	0.54
Volatility	19.26%

Past Earning Surprises	
Quarter ending	Revenue
12/31/2014	-0.10%
3/31/2015	-4.95%
6/30/2015	1.61%
9/30/2015	-5.47%
12/31/2015	-1.32%
Mean	-2.05%
Standard error	1.4%

Peers	
FactSet Research Systems Inc.	
Lee Enterprises, Incorporated	
Market Ltd.	
MSCI Inc.	
SINA Corporation	
The McClatchy Company	
New Media Investment Group Inc.	
Financial Engines, Inc.	



Management		Position	
Mansueto, Joe	Founder, Executive Chairman		
Biehler, Stéphane	Chief Financial Officer		
Desmond, Bevin	Head of Global Markets and H		
Idzorek, Thomas	Head of Investment Methodolo		
Kapoor, Kunal	President		
Miller, Heidi	Associate General Counsel an		

Profitability		MORN (LTM)		MORN (5 years historical average)		Industry (LTM)	
ROIC	18.9%	17.79%	12.98%	17.79%	12.98%	24.7%	0.52
NOPAT Margin	22%	20.26%	24.7%	20.26%	24.7%	20.15%	21.9%
Revenue/Invested Capital	0.88	0.88	0.52	0.88	0.52	0.92	0.92
ROE	17.4%	14.36%	20.15%	14.36%	20.15%	0.70	0.70
Adjusted net margin	21%	20.01%	21.9%	20.01%	21.9%	4.17%	4.17%
Revenue/Adjusted Book Value	0.82	0.72	0.92	0.72	0.92	0.82	0.82

Invested Funds		MORN (LTM)		MORN (5 years historical average)		Industry (LTM)	
Total Cash/Total Capital	23.4%	30.3%	29%	30.3%	29%	N/A	66%
Estimated Operating Cash/Total Capital	10.2%	12.2%	N/A	10.2%	12.2%	4.17%	4.17%
Non-cash working Capital/Total Capital	-10.2%	-10.2%	-4%	-10.2%	-10.2%	0.82	0.82
Invested Capital/Total Capital	84.6%	79.6%	66%	79.6%	66%	8.52%	8.52%

Capital Structure		MORN (LTM)		MORN (5 years historical average)		Industry (LTM)	
Total Debt/Common Equity (LTM)	0.07	0.06	0.70	0.06	0.70	0.82	0.82
Cost of Existing Debt	2.09%	1.88%	4.17%	1.88%	4.17%	B	B
Estimated Cost of new Borrowing	2.41%	1.79%	4.17%	1.79%	4.17%	0.82	0.82
CGFS Risk Rating	2.09%	AAA	B	2.09%	AAA	0.82	0.82
Unlevered Beta (LTM)	0.00%	0.92	0.82	0.00%	0.92	8.52%	8.52%
WACC	2.09%	9.92%	8.52%	2.09%	9.92%		

Porter's 5 forces (scores are out of 100)	
Bargaining Power of Suppliers	31
Bargaining Power of Customers	57
Threat of New Competition	13
Intensity of Existing Rivalry	58
Threat of Substitutes	67
Overall	40

Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	3.8%	21.5%	2.83
12/31/2016	3.0%	19.9%	2.70
12/31/2017	3.0%	19.9%	2.29
12/31/2018	3.0%	20.0%	2.33
12/31/2019	3.0%	20.1%	2.37
12/31/2020	3.0%	20.1%	2.41
12/31/2021	3.0%	20.2%	2.46
12/31/2022	3.0%	20.3%	2.50
12/31/2023	3.0%	20.4%	2.54
12/31/2024	3.0%	20.4%	2.58
12/31/2025	3.0%	20.5%	2.63
Continuing Period	3.0%	20.6%	2.67

Period	Invested Capital	Net Claims	Price per share
Base Year	\$774.11	\$69.83	\$90.11
12/31/2016	\$791.44	\$121.60	\$96.03
12/31/2017	\$749.41	\$5.56	\$101.98
12/31/2018	\$762.84	-\$111.90	\$108.01
12/31/2019	\$899.31	-\$230.80	\$114.14
12/31/2020	\$898.99	-\$352.47	\$120.40
12/31/2021	\$1,104.40	-\$474.27	\$126.71
12/31/2022	\$1,129.20	-\$597.59	\$133.11
12/31/2023	\$1,154.95	-\$722.46	\$139.59
12/31/2024	\$1,181.69	-\$848.91	\$146.15
12/31/2025	\$1,209.43	-\$976.96	\$152.78
Continuing Period			

