

<b>MSCI, Inc</b> <b>Ticker: MSCI</b> <b>Sector: Industrials</b> <b>Industry: Business Services</b>	<b>Intrinsic Value: \$57.13</b> <b>Current Price: \$41.46</b> <b>Stop Loss: \$35.24</b> <b>Upside Review: \$47.68</b>	<b>TTM P/E: 22.66</b> <b>Forward P/E: 16.1</b> <b>FV Imp. P/E: 37.36</b> <b>Beta: 1.13</b>	<b>Market Cap: \$4.9 BN</b> <b>Dividend Yield: 0%</b> <b>52 Wk Range: \$31.63 - \$45.42</b>
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### Industry Trends:

The industry continues to grow as ETFs become more popular and are based on reputable indices. Furthermore, there is increasing demand for additional services (outsourcing reporting on indices). As investors increasingly use indexes to track equity returns and benchmark performance, indexes get deeply entrenched in investors' processes and become more indispensable, resulting in high switching costs. Vanguard broke this loop in late 2012 when it de-emphasized its use of MSCI in its indexes, but so far this is the exception to the rule.

### Investment Thesis:

MSCI has well-established customer relationships, strong barriers to entry, recurring revenue streams through subscriptions, and potential for improvements in operating margins through both price increases and cost reductions. The company calculates more than 160,000 indexes daily and is the leader in international equity indexing, with a market share of roughly 90%. In the index and ESG products business, an estimated retention rate of over 90% through renewal of subscriptions provides strong backbone from which to grow.

In the analytics businesses, revenue growth is achievable as the firm raises prices and cross-sells to existing customers, while winning new customers with its evolving product suite.

### Business Overview:

MSCI Inc. is a provider of investment decision support tools, including indices and portfolio risk and performance analytics for use by institutions in managing equity, fixed income and multi-asset class portfolios. Typical customers include pension funds, endowments, foundations, central banks, insurances companies, asset managers and corporate clients. Based on revenues, its business can be divided into Americas: 52.4%; Europe, Middle East and Africa: 35.9%; Asia and Australia: 11.7%

### Pros:

- MSCI maintains a 90% retention rate on its annual subscriptions that make up 85% of revenue.
- Long-term trends towards passive investing and growth of ETFs presents continued growth opportunities.
- Increasing growth of data analytics and performance/risk tools among institutional investors.

### Risk Factors:

- 15% of revenues come from licensing fees based on assets under management. This will fluctuate with global asset markets.
- Moderate risk of a large client such as Blackrock de-emphasizing use of MSCI as its index provider (Vanguard did this in 2012-2013).

### 5-year stock performance



### Total Return Estimates:

3 Yr FV Reversion\*: 11.3%  
5 Yr FV Reversion\*: 6.6%  
(\* - From limit order price of \$0)

### Key Valuation Assumptions:

Est. Revenue Growth: 4.5%  
WACC: 8.3%  
Expected Inflation: 3.0%  
Terminal Growth Rate: 3.0%  
10 yr. Risk Free Rate: 2.82%  
Equity Risk Premium: 5.9%  
Effective Tax Rate: 35%

### Key Financial Data:

Est. 2013 EPS: 1.76  
Est. 2014 EPS: 1.83  
Credit Quality: BB+  
ROE: 15.37%  
ROA: 7.49%  
Price /Book: 3.2  
Current Ratio: 1.11  
Quick Ratio: 0.87

### CSR Scores vs. Industry Average:

Human Rights: 0/0  
Business Ethics Policy: 1/1  
ESG Disclosure: 11.16 / 18.75  
Equal Opportunity: 0 / 0  
Emission Reduction: 0 / 0  
Environmental Disclosure Score: NA / 16.47

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### Competitor Comparison

	Market Cap	Net Income	P/B	P/E	Div.	Op. Mar.	D/E
<b>MSCI</b>	4,816	229	3.2	21.6	—	36.1	0.5
Auto. Data Proce.	35,973	1,415	5.7	25.6	2.4	18.4	0
McGraw Hill	21,791	1,376	16.8	27.7	1.4	27.2	0.6
SCS	18,240	583	8.1	28.3	0.7	16.8	0.6
Experian	18,170	775	6.5	27.6	2	22.4	1.2
Moody's	17,100	757	60.6	23.6	1.1	39	7.5
Nielsen	17,022	634	3	48.1	1.6	14.2	1.2
<b>Average</b>	<b>21,383</b>	<b>923</b>	<b>16.8</b>	<b>30.2</b>	<b>1.5</b>	<b>23.0</b>	<b>1.9</b>