FactSet Research Systems, Inc. (FDS)

Updated June 26th, 2022, by Yiannis Zourmpanos

Key Metrics

Current Price:	$393	**5 Year CAGR Estimate:**	9.0%	**Market Cap:**	$14.9 B
Fair Value Price:	$387	**5 Year Growth Estimate:**	8.5%	**Ex-Dividend Date:**	05/31/2022
% Fair Value:	101%	**5 Year Valuation Multiple Estimate:**	-0.3%	**Dividend Payment Date:**	06/16/2022
Dividend Yield:	0.9%	**5 Year Price Target**	$582	**Years Of Dividend Growth:**	23
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Rating:**	Hold

Overview & Current Events

FactSet Research Systems, Inc. (FDS), a financial data and analytics firm founded in 1978, serves the investment community in the Americas, Europe, the Middle East, Africa, and the Asia Pacific with integrated financial information and analytical tools. The company provides insight and information through research, analytics, trading workflow solutions, content and technology solutions, and wealth management. FactSet currently has a $14.9 billion market cap.

On April 28th, 2022, FactSet announced an $0.89 quarterly dividend, an 8.5% increase.

On June 23rd, 2022, FactSet Research Systems announced Q3 2022 results, reporting adjusted EPS of $3.76 for the quarter, up 38.2% YoY and beating market consensus by $0.54. In addition, the company reported revenue of $488.8 million, up 22.3% YoY from $399.6 million and surpassed the market estimate by $12.2 million.

The company's operating margin declined to 19.9% in Q3 2022 compared to 29.5% in Q2 2022. Management noted that the shrinkage in margins was primarily due to non-recurring impairment and expenses relating to vacating office space in New York, as well as amortization of intangible assets and costs related to the acquisition of CUSIP Global Services. The adjusted operating margin during the quarter was reported at 36.6%, up 5% YoY as compared to 31.6% during the same period last year. CFO Linda Huber noted, "Our accelerating top-line growth and disciplined cost management drove adjusted operating margin expansion in the third quarter that exceeded guidance."

FDS also provided forward guidance for the full fiscal year 2022. Management expects FY22 revenue to be in the range of $1.80 million to $1.83 million, while the unadjusted operating margin is expected to be 25.5% to 26.5%. Moreover, the company expects diluted EPS to be in the range of $9.75 to $10.15, and adjusted diluted EPS is to be in the range of $12.75 to $13.15.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$4.22	$4.53	$4.98	$5.80	$8.29	$6.55	$6.90	$9.25	$9.83	$10.56	***$12.74***	***$19.16***
DPS	$1.16	$1.32	$1.48	$1.66	$1.88	$2.12	$2.40	$2.72	$2.98	$3.18	***$3.56***	***$5.35***
Shares[1]	44.8	43.9	42.4	41.6	40.9	39.4	38.7	38.1	37.9	37.9	***37.9***	***34.9***

FactSet has grown its earnings-per-share by an average compound growth rate of 10.7% over the last nine years, below its 5-year average of 14.2%. The company's investments and improved product offerings could lead to meaningful margins expansion in the following years. We have slightly revised our previous annual earnings growth forecast downwards to 8.5% for the next five years, leading to an estimated $19.16 in earnings-per-share by 2027.

FactSet has increased its dividend for 23 consecutive years. Provided this streak continues for two more years, the security could become a "Dividend Aristocrat", gaining greater visibility for income investors. In addition, the increased earnings arising from expanding margins could be a primary dividend growth driver in the following years. However, we do not anticipate a significant increase in the dividend payout and are instead forecasting dividend growth to align with earnings growth.

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[1] In millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Avg. P/E	22.3	22.6	23.9	27.8	19.2	26.7	30.2	28.1	31.6	35.1	***30.8***	***30.4***
Avg. Yld.	1.2%	1.3%	1.2%	1.0%	1.2%	1.2%	1.1%	1.0%	1.0%	0.9%	***0.9%***	***1.0%***

FactSet has traded with a relatively high valuation multiple in the last decade. The 10-year average P/E ratio is near 27, and the 5-year average is a multiple of 30.4. We are using 30.4 times earnings as a fair value baseline. With shares presently trading near 31 times earnings, we believe the shares are trading near a fair valuation.

While the dividend yield remains relatively low at 0.9%, the modest payout ratio and above-average expected growth rate should allow for a long dividend growth runway in the years ahead.

Safety, Quality, Competitive Advantage, & Recession Resiliency

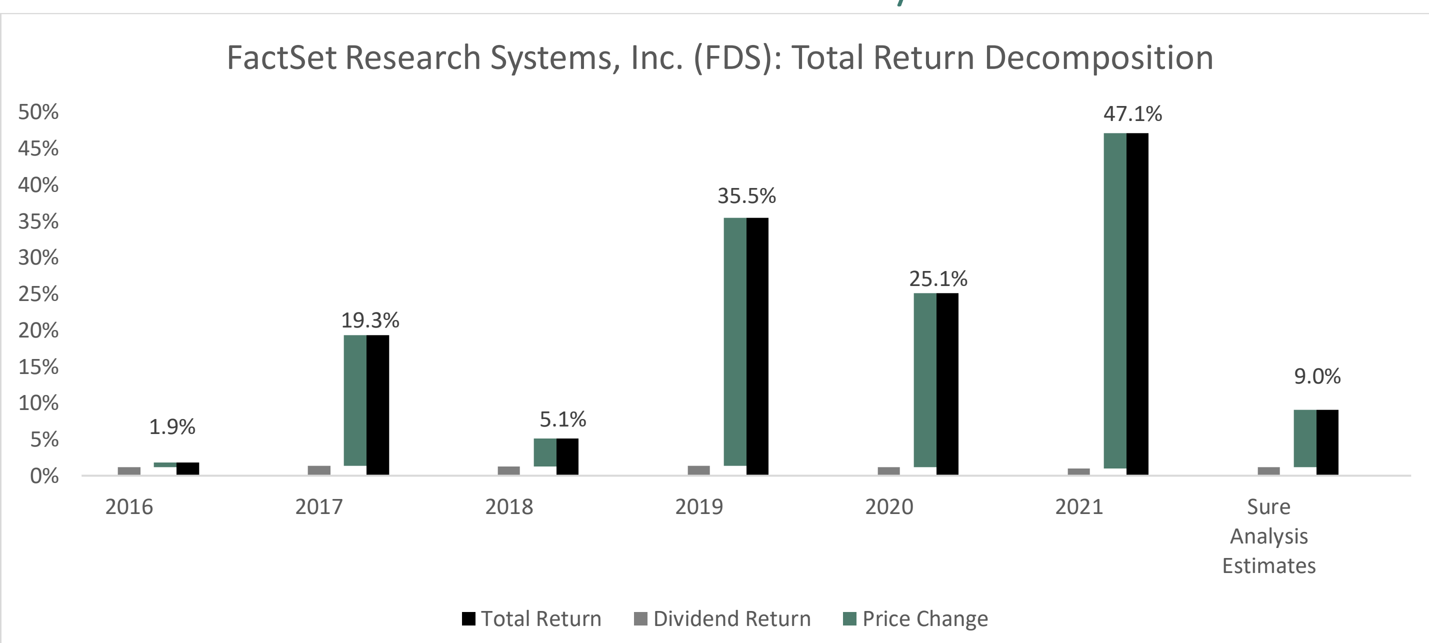
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	27%	29%	30%	29%	23%	32%	35%	29%	30%	30%	***28%***	***28%***

FactSet faces competition from Axioma, MSCI, Aladdin, S&P Capital IQ, Refinitiv, and Bloomberg. The company's proprietary data offerings differentiate the company in the marketplace, but alternative solutions by the other providers will dilute this competitive advantage over time. The high switching costs tied to changing providers provide the company some protection and visibility over its cash flow because of its subscription-based offerings. However, the company remains exposed to the fluctuations of the financial-services industry, and any economic downturn that may lead to staffing contraction in the investment management industry will deteriorate FactSet's performance.

Final Thoughts & Recommendation

FactSet offers a safe, consistent, and steady long-term dividend growth record. We forecast 9.0% annualized total returns for the medium term, derived from the forecasted earnings-per-share growth of 8.5% and the 0.9% dividend yield. Accordingly, we maintain our hold rating on the stock.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	806	858	920	1,007	1,127	1,221	1,350	1,435	1,494	1,591
Gross Profit	530	552	567	601	640	655	691	772	799	805
Gross Margin	65.8%	64.3%	61.6%	59.7%	56.8%	53.6%	51.2%	53.8%	53.5%	50.6%
SG&A Exp.	257	282	264	270	290	302	325	334	359	331
D&A Exp.	34	36	34	31	38	48	57	60	101	107
Operating Profit	273	269	302	332	350	352	366	438	440	474
Op. Margin	33.9%	31.4%	32.8%	33.0%	31.0%	28.8%	27.1%	30.5%	29.4%	29.8%
Net Profit	189	199	212	241	339	258	267	353	373	400
Net Margin	23.4%	23.1%	23.0%	23.9%	30.1%	21.1%	19.8%	24.6%	25.0%	25.1%
Free Cash Flow	209	251	247	281	283	284	352	368	428	494
Income Tax	86	72	92	93	122	86	85	69	54	68

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	694	690	663	737	1,019	1,413	1,419	1,560	2,083	2,225
Cash & Equivalents	189	197	116	159	228	195	209	360	586	682
Acc. Receivable	74	73	90	95	98	148	157	146	155	151
Goodwill & Int.	289	281	327	348	546	881	851	810	831	889
Total Liabilities	142	148	152	205	502	854	894	888	1,187	1,209
Accounts Payable	28	30	27	34	46	59	72	80	82	86
Long-Term Debt	---	---	---	35	300	575	575	574	574	575
Total Equity	552	542	511	532	517	560	526	672	896	1,016
LTD/E Ratio	---	---	---	0.07	0.58	1.03	1.09	0.85	0.64	0.57

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	27.9%	28.7%	31.3%	34.4%	38.6%	21.2%	18.9%	23.7%	20.5%	18.5%
Return on Equity	35.4%	36.3%	40.2%	46.2%	64.6%	48.0%	49.2%	58.9%	47.5%	41.8%
ROIC	35.4%	36.3%	40.2%	44.7%	49.0%	26.5%	23.9%	30.1%	27.5%	26.1%
Shares Out.	44.8	43.9	42.4	41.6	40.9	39.4	38.7	38.1	37.9	37.9
Revenue/Share	17.59	19.23	21.42	23.84	27.25	30.81	34.29	36.92	38.66	41.26
FCF/Share	4.57	5.63	5.75	6.65	6.85	7.16	8.94	9.46	11.08	12.81

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.