FactSet Research Systems, Inc. (FDS)

Updated December 23rd, 2022, by Yiannis Zourmpanos

Key Metrics

Current Price:	$397	**5 Year CAGR Estimate:**	9.8%	**Market Cap:**	$15.1 B
Fair Value Price:	$406	**5 Year Growth Estimate:**	8.5%	**Ex-Dividend Date:**	02/25/2023[1]
% Fair Value:	98%	**5 Year Valuation Multiple Estimate:**	0.4%	**Dividend Payment Date:**	03/17/2023[2]
Dividend Yield:	0.9%	**5 Year Price Target**	$610	**Years Of Dividend Growth:**	24
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 $15.1 billion market cap.

On December 20th, 2022, FactSet Research Systems announced Q1 2023 results, reporting adjusted diluted EPS of $3.99 for the quarter, beating market consensus by $0.36. In addition, the company reported revenue of $504.8 million, up 18.9% YoY from $424.7 million in the same period last year, missing estimates by $5.49 million.

The company's operating margin increased to 34.1% in Q1 2023, up 517 bps compared to 28.9% in Q1 2022. On the earnings call, management noted that the margin improvement was due to higher revenue and lower costs, especially in real estate and content expenses. Moreover, the margins during the year's first quarter tend to be seasonally higher than the rest of the year. Furthermore, FactSet increased its user count to 180,959 at the end of the quarter, up 12% from Q1 2022.

The management noted that it is essential to recognize the ongoing volatility in global markets. While things have been favorable for FDS, it is beginning to observe a more challenging environment for its customers and is keeping a watchful eye out for signals of a protracted change in conditions. The signs management looks at include decreased customer expenditures, lengthened sales cycles, layoffs, and a decline in the formation of new businesses. However, FactSet has a history of operating successfully in turbulent markets, and the management remains optimistic that the company will continue to do well regardless of the state of the economy.

The company reaffirmed its full-year 2023 guidance with full-year revenue in the range of $2,100 to $2,115 million, while diluted EPS for the year is expected to be between $14.50 to $14.90 vs. consensus of $14.82. In addition, the management expects the operating margin to be 30.0% to 31.0% for the Fiscal Year 2023. FactSet Research Systems, Inc.'s accomplishments at the end of 2022 include 42 years of revenue growth, 26 years of consecutive adjusted diluted EPS growth, and 24 years of consecutive dividend growth. In addition, 2022 was the first year for FactSet to be part of the S&P 500.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$4.53	$4.98	$5.80	$8.29	$6.55	$6.90	$9.25	$9.83	$10.56	$10.25	***$14.50***	***$21.80***
DPS	$1.32	$1.48	$1.66	$1.88	$2.12	$2.40	$2.72	$2.98	$3.18	$3.42	***$3.56***	***$5.86***
Shares[3]	43.9	42.4	41.6	40.9	39.4	38.7	38.1	37.9	37.9	37.9	***38.9***	***35.9***

FactSet has grown its earnings-per-share by an average compound growth rate of 9.5% over the last nine years. The company's investments and improved product offerings could lead to significant margin expansion in the following

[1] Estimated ex-dividend date.
[2] Estimated dividend payment date
[3] 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.

years. We maintain our forecast of 8.5% earnings growth over the next five years, which will lead to an estimated earnings-per-share of $21.80 by 2028. We have raised our EPS forecast for 2023 to match the low end of the management's guidance. FactSet has increased its dividend for 24 consecutive years. Provided this streak continues for two more years, the security could become a "Dividend Champion", gaining greater visibility for income investors. However, we do not anticipate a significant increase in the dividend payout and are instead forecasting dividend growth to align with earnings growth. In addition, the increased earnings arising from expanding margins could be a primary dividend growth driver in the following years. We also believe that the company's continued investments in its digital platforms will continue to drive user-base growth in the coming years.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Avg. P/E	22.6	23.9	27.8	19.2	26.7	30.2	28.1	31.6	35.1	*40.4*	***27.4***	***28.0***
Avg. Yld.	1.3%	1.2%	1.0%	1.2%	1.2%	1.1%	1.0%	1.0%	0.9%	*0.8%*	***0.9%***	***1.0%***

FactSet has traded with a relatively high valuation multiple in the last decade. The company's 10-year average P/E ratio is 28.6, and the 5-year average is a multiple of 33.1. Therefore, we are using the company's long-term P/E of 28.0 as a fair baseline to value it in 2028. 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

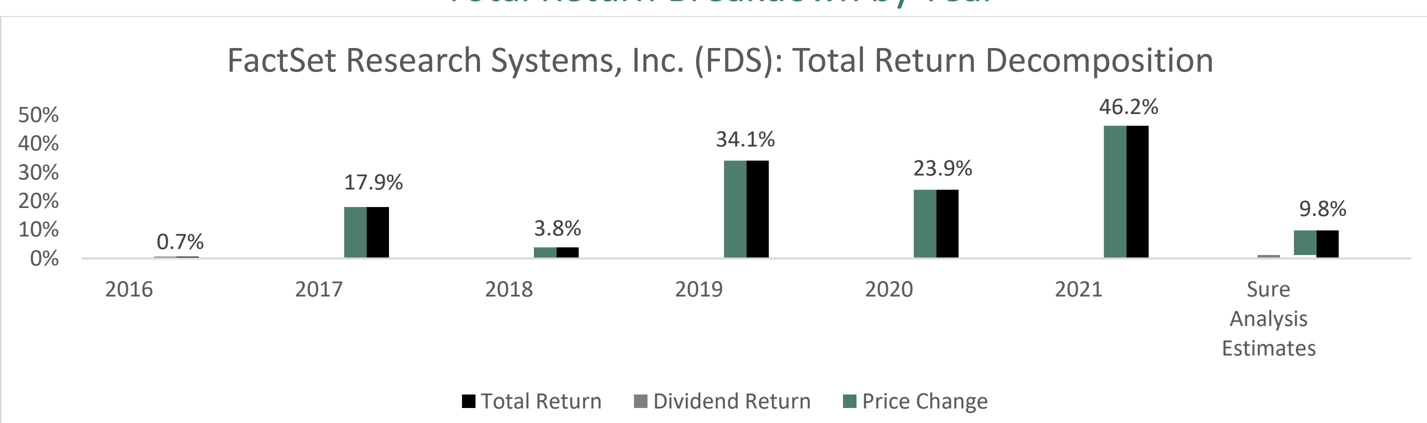
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	29%	30%	29%	23%	32%	35%	29%	30%	30%	*33%*	***25%***	***27%***

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 9.8% 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



[Click here to rate and review this research report. Your feedback is important to us.]

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.

FactSet Research Systems, Inc. (FDS)

Updated December 23rd, 2022, by Yiannis Zourmpanos

Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	920	1,007	1,127	1,221	1,350	1,435	1,494	1,591	1,844
Gross Profit	567	601	640	655	691	772	799	805	973
Gross Margin	61.6%	59.7%	56.8%	53.6%	51.2%	53.8%	53.5%	50.6%	52.7
SG&A Exp.	264	270	290	302	325	334	359	331	433
D&A Exp.	34	31	38	48	57	60	101	107	
Operating Profit	302	332	350	352	366	438	440	474	540
Op. Margin	32.8%	33.0%	31.0%	28.8%	27.1%	30.5%	29.4%	29.8%	29.3%
Net Profit	212	241	339	258	267	353	373	400	397
Net Margin	23.0%	23.9%	30.1%	21.1%	19.8%	24.6%	25.0%	25.1%	20.1%
Free Cash Flow	247	281	283	284	352	368	428	494	
Income Tax	92	93	122	86	85	69	54	68	47

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	663	737	1,019	1,413	1,419	1,560	2,083	2,225	4,014
Cash & Equivalents	116	159	228	195	209	360	586	682	503
Acc. Receivable	90	95	98	148	157	146	155	151	204
Goodwill & Int.	327	348	546	881	851	810	831	889	2,862
Total Liabilities	152	205	502	854	894	888	1,187	1,209	2,683
Accounts Payable	27	34	46	59	72	80	82	86	108
Long-Term Debt	---	35	300	575	575	574	574	575	1,982
Total Equity	511	532	517	560	526	672	896	1,016	1,331
LTD/E Ratio	---	0.07	0.58	1.03	1.09	0.85	0.64	0.57	1.48

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	31.3%	34.4%	38.6%	21.2%	18.9%	23.7%	20.5%	18.5%	12.7%
Return on Equity	40.2%	46.2%	64.6%	48.0%	49.2%	58.9%	47.5%	41.8%	33.8%
ROIC	40.2%	44.7%	49.0%	26.5%	23.9%	30.1%	27.5%	26.1%	16.2%
Shares Out.	42.4	41.6	40.9	39.4	38.7	38.1	37.9	37.9	38.7
Revenue/Share	21.42	23.84	27.25	30.81	34.29	36.92	38.66	41.26	47.69
FCF/Share	5.75	6.65	6.85	7.16	8.94	9.46	11.08	12.81	12.58

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