FactSet Research Systems, Inc. (FDS)

Updated October 5th, 2023 by Yiannis Zourmpanos

Key Metrics

Current Price:	$437	**5 Year CAGR Estimate:**	5.6%	**Market Cap:**	$16.8 B
Fair Value Price:	$364	**5 Year Growth Estimate:**	8.5%	**Ex-Dividend Date:**	11/29/2023[1]
% Fair Value:	120%	**5 Year Valuation Multiple Estimate:**	-3.6%	**Dividend Payment Date:**	12/15/2023[2]
Dividend Yield:	0.9%	**5 Year Price Target**	$547	**Years Of Dividend Growth:**	24
Dividend Risk Score:	A	**Retirement Suitability Score:**	D	**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.

On September 21st, 2023, FactSet Research Systems announced Q4 2023 results, reporting non-GAAP EPS of $2.93 for the quarter, beating market consensus by $0.56. In the fourth quarter of fiscal 2023, GAAP revenues rose 7.3% to $535.8 million, up from $499.3 million in fiscal 2022, mainly due to increased sales in Analytics & Trading and Content & Technology solutions. Organic revenue, excluding the effects of recent acquisitions, disposals, and foreign currency fluctuations, grew by 7.2% to $535.2 million.

As of August 31st, 2023, the Annual Subscription Value (ASV) combined with professional services reached $2.2 billion, an increase from $2.01 billion the previous year. When considering organic growth alone, ASV plus professional services saw an uptick of $145.0 million, growing at a rate of 7.1%. Over the last three months, there was a $54.9 million increase in organic ASV and professional services, primarily driven by sales in the mentioned solutions.

FactSet anticipates its fiscal 2024 projections to include an expected growth of 6% to 8% in ASV combined with professional services. Additionally, the management forecasts a GAAP revenue growth of 6% to 7%, an improvement in adjusted operating margin by 10 to 50 basis points, and an adjusted diluted EPS growth ranging between 6.5% and 10%.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$4.98	$5.80	$8.29	$6.55	$6.90	$9.25	$9.83	$10.56	$10.25	$12.03	***$13.00***	***$19.55***
DPS	$1.48	$1.66	$1.88	$2.12	$2.40	$2.72	$2.98	$3.18	$3.42	$3.74	***$3.92***	***$6.46***
Shares[3]	42.4	41.6	40.9	39.4	38.7	38.1	37.9	37.9	37.9	38.9	***38.9***	***37.1***

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 years. We have increased our EPS estimate for 2024 to $13.00, but we maintained our 8.5% earnings growth forecast over the next five years, leading to an estimated earnings-per-share of $19.55 by 2029. 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.

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

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	*2024*	*2029*
Avg. P/E	23.9	27.8	19.2	26.7	30.2	28.1	31.6	35.1	40.4	35.0	***33.6***	***28.0***
Avg. Yld.	1.2%	1.0%	1.2%	1.2%	1.1%	1.0%	1.0%	0.9%	0.8%	0.9%	***0.9%***	***1.2%***

FactSet has traded with a relatively high valuation multiple in the last decade. The company's 10-year average P/E ratio is around 30.0, and the five-year average is a multiple of 34.1. Therefore, we are using a long-term P/E target of 28.0 as a fair value by 2029. 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

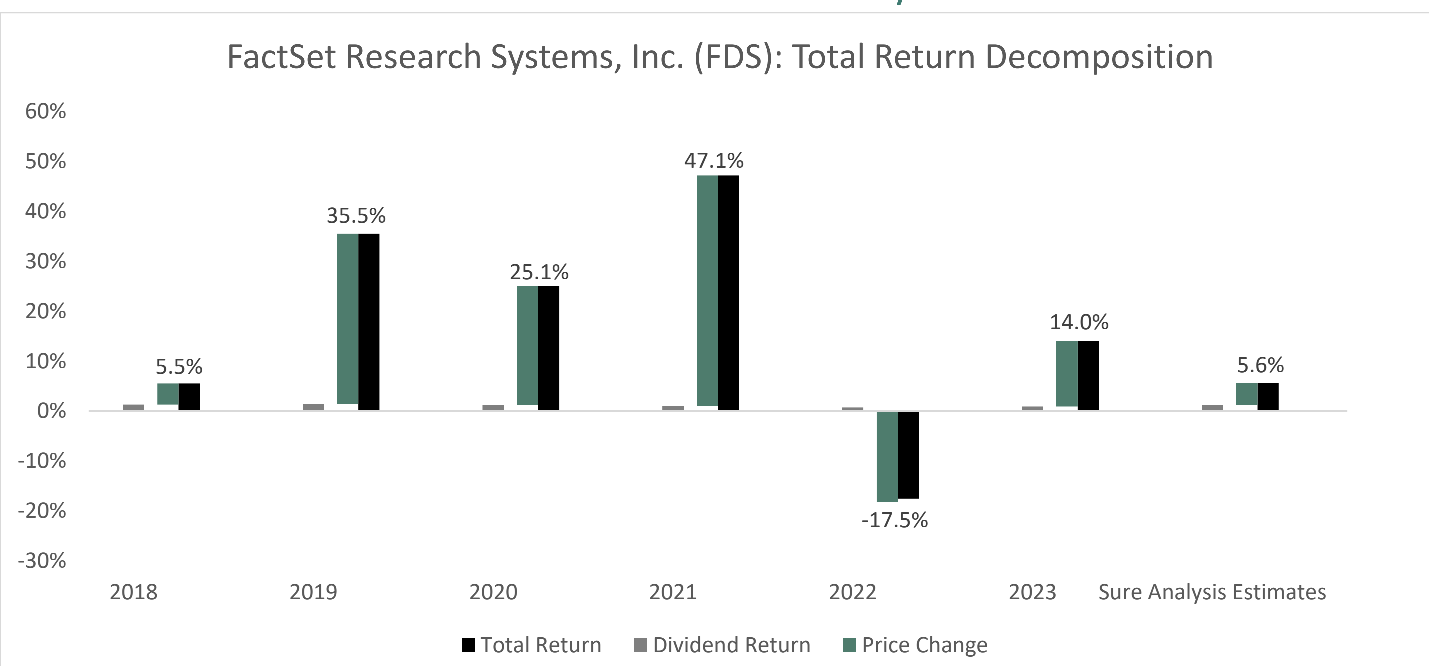
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	30%	29%	23%	32%	35%	29%	30%	30%	33%	31%	***30%***	***33%***

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 5.6% annualized total returns for the medium-term, derived from the forecasted earnings-per-share growth of 8.5% and the 0.9% dividend yield, offset by a valuation headwind. However, we maintain our hold rating on the stock, as we believe the risk/reward profile is not attractive at current levels.

Total Return Breakdown by Year



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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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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.