Morningstar, Inc. (MORN)

Updated March 11th, 2024, by Josh Arnold

Key Metrics

Current Price:	$309	**5 Year CAGR Estimate:**	10.5%	**Market Cap:**	$13 B
Fair Value Price:	$218	**5 Year Growth Estimate:**	18.0%	**Ex-Dividend Date:**	04/05/24[1]
% Fair Value:	142%	**5 Year Valuation Multiple Estimate:**	-6.8%	**Dividend Payment Date:**	04/27/24
Dividend Yield:	0.5%	**5 Year Price Target**	$498	**Years Of Dividend Growth:**	13
Dividend Risk Score:	A	**Retirement Suitability Score:**	D	**Rating:**	Buy

Overview & Current Events

Morningstar was founded in 1984 as a way for investors to seek information about hundreds of popular mutual funds that was out of reach prior to the company's Sourcebook product. Since that time, Morningstar has grown tremendously, serving about nine million clients. It produces ~$2.3 billion in annual revenue and has a market capitalization of about $13 billion.

Morningstar posted fourth quarter and full-year earnings on February 22nd, 2024, and results were very strong. The company posted earnings-per-share of $1.97 for the quarter, while revenue soared more than 13% higher to $539 million. In addition, organic revenue rose 12.6%.

License-based revenue rose 12.4% year-over-year, or 10.3% on an organic basis. The company noted all of its license-based platforms posted contributions to organic revenue growth. Asset-based revenue rose 14.4% year-over-year, which included a 19.8% organic revenue gain. That big organic gain was driven by growth in Investment Management, Morningstar Retirement, and Morningstar Indexes' products. Transaction-based revenue was up 18.4%, or 18% on an organic basis, as growth in credit ratings activities across multiple asset classes contributed.

Operating expenses were up 1.1% to $444 million, which was primarily due to higher compensation costs. Operating income was $113 million, an increase of 70% year-over-year. Operating margin was 21% of revenue, which was markedly better than 14.1% a year ago.

We see potential record earnings for this year as Morningstar's revenue is growing quite strongly, in concert with much better margins from cost saving activities.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$2.54	$3.00	$3.72	$2.88	$4.25	$3.52	$5.40	$6.36	$3.87	$4.69	***$6.60***	***$15.10***
DPS	$0.38	$0.70	$0.79	$0.88	$0.92	$1.00	$1.12	$1.20	$1.44	$1.50	***$1.62***	***$2.61***
Shares[2]	44	43	43	43	43	43	43	43	43	43	***43***	***43***

Morningstar's earnings-per-share history is very strong considering the wide array of economic conditions that have existed in the past decade. The company saw a small dip in earnings at the height of the crisis in 2009 and there have been a couple of other small blips, but it has managed an average growth rate of more than 10% in the past decade. We see growth as continuing at this pace going forward on the strength of PitchBook, in particular, and are therefore forecasting 18% earnings-per-share growth for the coming years.

We think low-double digit revenue growth and a further margin growth potential make 18% earnings-per-share growth look feasible from 2024's level of earnings. This growth estimate is also dependent on the company's appetite for acquisitions moving forward. Its long-term revenue and earnings growth include many acquisitions over time, so we see this estimate as including some additional M&A that has not occurred yet. Morningstar's position in its niche is well established and we see its future as very bright looking forward. It also continues to experience tremendous success

---

[1] Estimated date

[2] Share count in millions

with its PitchBook and other licensed products, and the significant costs related to recent mergers should not recur in future years, which will also help boost margins. We note that high interest rates globally will likely crimp transaction-based revenue for the foreseeable future.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	28.2	25.8	21.4	28.1	27.2	40.2	29.8	41.1	56.0	61.0	***46.8***	***33.0***
Avg. Yld.	1.0%	1.0%	1.1%	1.1%	0.9%	0.8%	0.7%	0.5%	0.7%	0.5%	***0.5%***	***0.5%***

Morningstar's average price-to-earnings ratio has been very high in the past decade as its trough value was 21.4, set in 2016. Investors have always been willing to pay a premium for this stock and that is not going to change. Morningstar, and other businesses like it with lucrative subscription models, tend to receive premium valuations due to their high rates of recurring revenue and superior profitability. However, today's price-to-earnings ratio of 46.8 is far in excess of our estimate of fair value, which we see as 33. The stock has risen since our last update, but earnings estimates have risen even more quickly. The security could experience a sizable annual headwind to total returns as the valuation returns to more normalized levels. We see the yield remaining below 1% for the foreseeable future; Morningstar is not a high-income stock.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	27%	25%	24%	32%	24%	32%	22%	23%	39%	32%	***25%***	***17%***

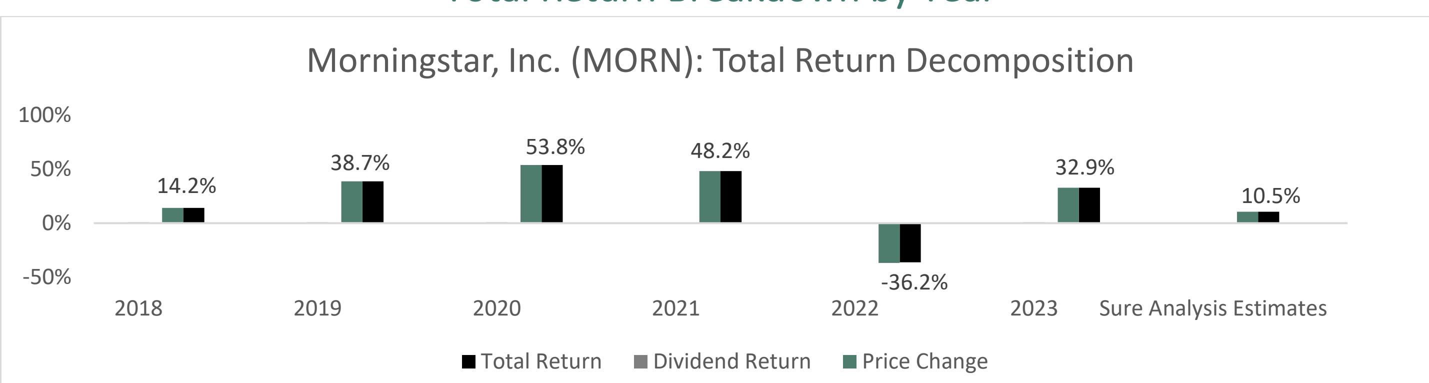
Morningstar's payout ratio is not likely to be above 40% of earnings anytime soon, barring a major shift in capital allocation strategy, so we see the yield as staying quite low for the foreseeable future. Certainly, management has been more interested in investing for future growth, and that strategy isn't going to change anytime soon. We also see rapidly rising earnings as a way to reduce the payout ratio.

Morningstar's competitive advantage is in its very long operating history in a niche of the investment world it helped create. The company's subscription service, particularly with its PitchBook product, is a key differentiator and we see it powering future growth for many years to come.

Final Thoughts & Recommendation

Overall, we see Morningstar as a stock with a strong moat but also one that is excessively overvalued. We are forecasting 10.5% total annual returns moving forward, as 18% growth and the 0.5% yield could be partially offset by a 6.8% valuation headwind. Despite the overvaluation, we see the stock as a buy heading into 2024.

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.

Morningstar, Inc. (MORN)

Updated March 11th, 2024, by Josh Arnold

Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	760	789	799	912	1,020	1,179	1,390	1,699	1,871	2,039
Gross Profit	442	459	454	525	609	696	833	1,001	1,091	1,195
Gross Margin	58.1%	58.2%	56.9%	57.6%	59.7%	59.0%	60.0%	58.9%	58.3%	58.6%
SG&A Exp.	220	204	203	264	296	389	478	593	757	780
D&A Exp.	55	64	71	91	97	118	140	151	167	185
Operating Profit	167	191	181	170	216	190	215	257	168	231
Operating Margin	21.9%	24.2%	22.6%	18.6%	21.2%	16.1%	15.5%	15.1%	9.0%	11.3%
Net Profit	78	133	161	137	183	152	224	193	71	141
Net Margin	10.3%	16.8%	20.2%	15.0%	17.9%	12.9%	16.1%	11.4%	3.8%	6.9%
Free Cash Flow	78	184	151	184	239	254	308	348	168	197
Income Tax	36	63	64	43	48	46	60	63	57	33

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	1,010	1,029	1,351	1,406	1,454	2,371	2,696	2,863	3,475	3,403
Cash & Equivalents	185	207	259	308	369	334	423	484	377	338
Accounts Receivable	137	139	146	148	172	189	205	269	308	344
Goodwill & Int. Ass.	466	438	678	660	631	1,373	1,585	1,535	2,120	2,063
Total Liabilities	356	388	654	601	519	1,287	1,425	1,447	2,268	2,076
Long-Term Debt	30	35	250	180	70	513	449	359	1,110	972
Shareholder's Equity	654	640	697	805	935	1,084	1,271	1,416	1,207	1,328
LTD/E Ratio	0.05	0.05	0.36	0.22	0.07	0.47	0.35	0.25	0.92	0.73

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	7.7%	13.0%	13.5%	9.9%	12.8%	7.9%	8.8%	7.0%	2.2%	4.1%
Return on Equity	11.7%	20.5%	24.1%	18.2%	21.0%	15.1%	19.0%	14.4%	5.4%	11.1%
ROIC	11.4%	19.5%	19.8%	14.2%	18.4%	11.7%	13.5%	11.1%	3.4%	6.1%
Shares Out.	44	43	43	43	43	43	43	43	43	43
Revenue/Share	16.93	17.81	18.44	21.20	23.72	27.29	32.16	39.15	43.60	47.52
FCF/Share	1.74	4.16	3.49	4.27	5.55	5.89	7.12	8.02	3.92	4.60

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