FactSet Research Systems, Inc. (FDS)

Updated April 24th, 2024, by Yiannis Zourmpanos

Key Metrics

Current Price:	$422	**5 Year CAGR Estimate:**	10.4%	**Market Cap:**	$16.4 B
Fair Value Price:	$442	**5 Year Growth Estimate:**	8.5%	**Ex-Dividend Date:**	05/30/2024[1]
% Fair Value:	95%	**5 Year Valuation Multiple Estimate:**	0.9%	**Dividend Payment Date:**	06/17/2024[2]
Dividend Yield:	0.9%	**5 Year Price Target**	$665	**Years Of Dividend Growth:**	25
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Rating:**	Buy

Overview & Current Events

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

On March 21st, 2024, FactSet Research Systems announced Q2 2024 results, reporting non-GAAP EPS of $4.22 for the period, beating market consensus by $0.34. Revenues rose 6.0% to $545.9 million, but missed estimates by $1.43 million.

The company's Organic ASV plus professional services increased by 5.4% to $2,209.5 million, but the projected top-line growth is at the lower end of previous guidance, with ASV growth expected to be between $110 million and $150 million in fiscal 2024. Client numbers rose to 8,020, a net gain of 75, primarily in private equity, corporate, and wealth management, despite a user decline of 605 to 206,478, mainly in banking and wealth management. FactSet maintained over 95% ASV retention. The employee count reached 12,279, which is up 3.2% Y/Y, mainly in content and Centers of Excellence.

Looking forward, the fiscal 2024 expectations include GAAP revenues of $2,200 million to $2,210 million, GAAP operating margins of 32.5% to 33.0%, adjusted operating margins of 36.3% to 36.7%, an effective tax rate of 16.5% to 17.5%, and adjusted diluted EPS of $15.60 to $16.00.

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	***$15.80***	***$23.76***
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 10.3% over the last 10 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 $15.80, matching the midpoint of the management's guidance, but we have maintained our 8.5% annual earnings growth forecast for the next five years, leading to an estimated earnings-per-share of $23.76 by 2029. FactSet has increased its dividend for 25 consecutive years, making it a member of the "Dividend Champions," which could gain it greater visibility for income investors. However, we do not anticipate a significant increase in the dividend payout; instead, we forecast 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.

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[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	Now	2029
Avg. P/E	23.9	27.8	19.2	26.7	30.2	28.1	31.6	35.1	40.4	35.0	***26.7***	***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%***	***1.0%***

FactSet has traded with a relatively high valuation multiple in the last decade. The stock's 10-year average P/E ratio is around 29.0, and the five-year average is 34.1. We are using a medium-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

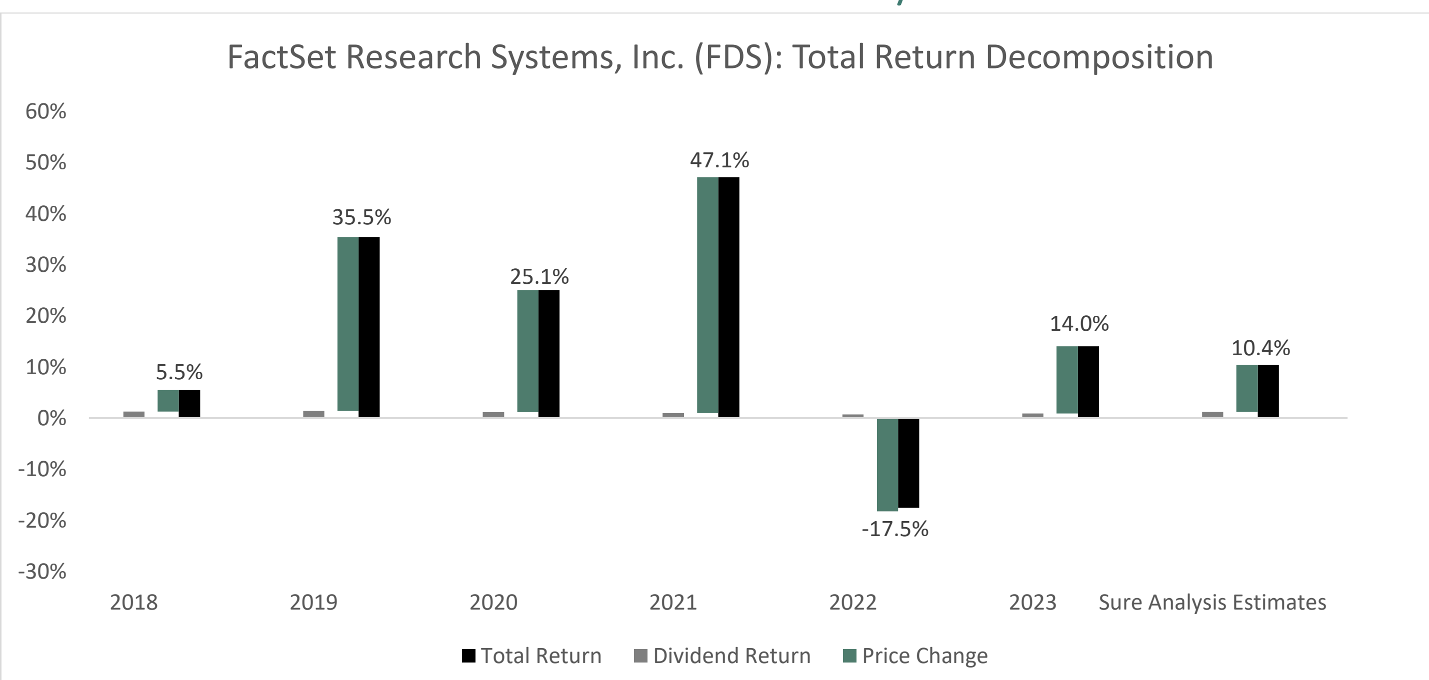
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	30%	29%	23%	32%	35%	29%	30%	30%	33%	31%	***25%***	***27%***

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 with some protection and visibility over its cash flow because of its subscription-based offerings. However, the company remains exposed to fluctuations in 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 10.4% 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. Therefore, we upgrade FDS with a buy rating, as we believe the risk/reward profile is attractive at current levels.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	1,007	1,127	1,221	1,350	1,435	1,494	1,591	1,844	2,086
Gross Profit	601	640	655	691	772	799	805	973	1,112
Gross Margin	59.7%	56.8%	53.6%	51.2%	53.8%	53.5%	50.6%	52.7%	53.3%
SG&A Exp.	270	290	302	325	334	359	331	433	457
D&A Exp.	31	38	48	57	60	101	107		138
Operating Profit	332	350	352	366	438	440	474	540	655
Op. Margin	33.0%	31.0%	28.8%	27.1%	30.5%	29.4%	29.8%	29.3%	31.4%
Net Profit	241	339	258	267	353	373	400	397	468
Net Margin	23.9%	30.1%	21.1%	19.8%	24.6%	25.0%	25.1%	20.1%	22.4%
Free Cash Flow	281	283	284	352	368	428	494		585
Income Tax	93	122	86	85	69	54	68	47	116

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	737	1,019	1,413	1,419	1,560	2,083	2,225	4,014	3,963
Cash & Equivalents	159	228	195	209	360	586	682	503	425
Acc. Receivable	95	98	148	157	146	155	151	204	238
Goodwill & Int.	348	546	881	851	810	831	889	2,862	2,864
Total Liabilities	205	502	854	894	888	1,187	1,209	2,683	2,343
Accounts Payable	34	46	59	72	80	82	86	108	122
Long-Term Debt	35	300	575	575	574	574	575	1,982	1,613
Total Equity	532	517	560	526	672	896	1,016	1,331	1,620
LTD/E Ratio	0.07	0.58	1.03	1.09	0.85	0.64	0.57	1.48	1.00

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	34.4%	38.6%	21.2%	18.9%	23.7%	20.5%	18.5%	12.7%	11.7%
Return on Equity	46.2%	64.6%	48.0%	49.2%	58.9%	47.5%	41.8%	33.8%	31.7%
ROIC	44.7%	49.0%	26.5%	23.9%	30.1%	27.5%	26.1%	16.2%	14.3%
Shares Out.	41.6	40.9	39.4	38.7	38.1	37.9	37.9	38.7	39.9
Revenue/Share	23.84	27.25	30.81	34.29	36.92	38.66	41.26	47.69	53.61
FCF/Share	6.65	6.85	7.16	8.94	9.46	11.08	12.81	12.58	15.03

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