



Morningstar, Inc. (MORN)

Updated February 28th, 2025, by Josh Arnold

Key Metrics

Current Price:	\$311	5 Year CAGR Estimate:	18.0%	Market Cap:	\$13.3 B
Fair Value Price:	\$319	5 Year Growth Estimate:	17.0%	Ex-Dividend Date:	04/04/25
% Fair Value:	98%	5 Year Valuation Multiple Estimate:	0.5%	Dividend Payment Date:	04/30/25
Dividend Yield:	0.6%	5 Year Price Target	\$698	Years Of Dividend Growth:	14
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 ~\$2.5 billion in annual revenue and has a market capitalization of about \$13 billion.

Morningstar posted fourth quarter and full-year earnings on February 26th, 2025, and results were better than expected on both the top and bottom lines. Adjusted earnings-per-share came to \$2.14, beating expectations by eight cents. Revenue was up almost 10% year-over-year to \$591 million, ahead of estimates by \$10.2 million.

Revenue was up 10.6% on an organic basis year-over-year, which excludes the impact of divestitures and forex translation. Morningstar Credit and PitchBook were the largest contributors to revenue growth.

Operating income was up 7.7% on an adjusted basis year-over-year. Earnings were up 8.6% on an adjusted, per-share basis year-over-year.

Cash provided by operating activities rose 11.3% to \$153 million, and free cash flow was up 4.6% to \$113 million. Share repurchases were 33.3k for \$11.6 million.

We start the year with an estimate of \$9.10 in adjusted earnings-per-share, which would be yet another year of very strong growth. As revenue and margins continue to rise, we see a long runway ahead of earnings-per-share expansion potential.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	\$3.00	\$3.72	\$2.88	\$4.25	\$3.52	\$5.40	\$6.36	\$3.87	\$4.69	\$7.89	\$9.10	\$19.95
DPS	\$0.70	\$0.79	\$0.88	\$0.92	\$1.00	\$1.12	\$1.20	\$1.44	\$1.50	\$1.62	\$1.82	\$2.93
Shares¹	43	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 11% 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 17% earnings-per-share growth for the coming years.

We think low-double digit revenue growth and a further margin growth potential make 17% earnings-per-share growth look feasible from 2025'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 with its PitchBook and other licensed products, and the significant costs related to recent mergers should not recur in

¹ Share count 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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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, but Morningstar has been able to work through these and then some.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	25.8	21.4	28.1	27.2	40.2	29.8	41.1	56.0	61.0	42.7	34.2	35.0
Avg. Yld.	1.0%	1.1%	1.1%	0.9%	0.8%	0.7%	0.5%	0.7%	0.5%	0.5%	0.6%	0.4%

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. Today’s price-to-earnings ratio of 34.2 is just below our estimate of fair value, which we see as 35. Earnings estimates have risen since our last update, helping the valuation. With this in mind, the valuation could provide a fractional tailwind to total returns. We see the yield remaining below 1% for the foreseeable future; Morningstar is not a high-income stock and almost certainly won’t be for the foreseeable future.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	25%	24%	32%	24%	32%	22%	23%	39%	32%	21%	20%	15%

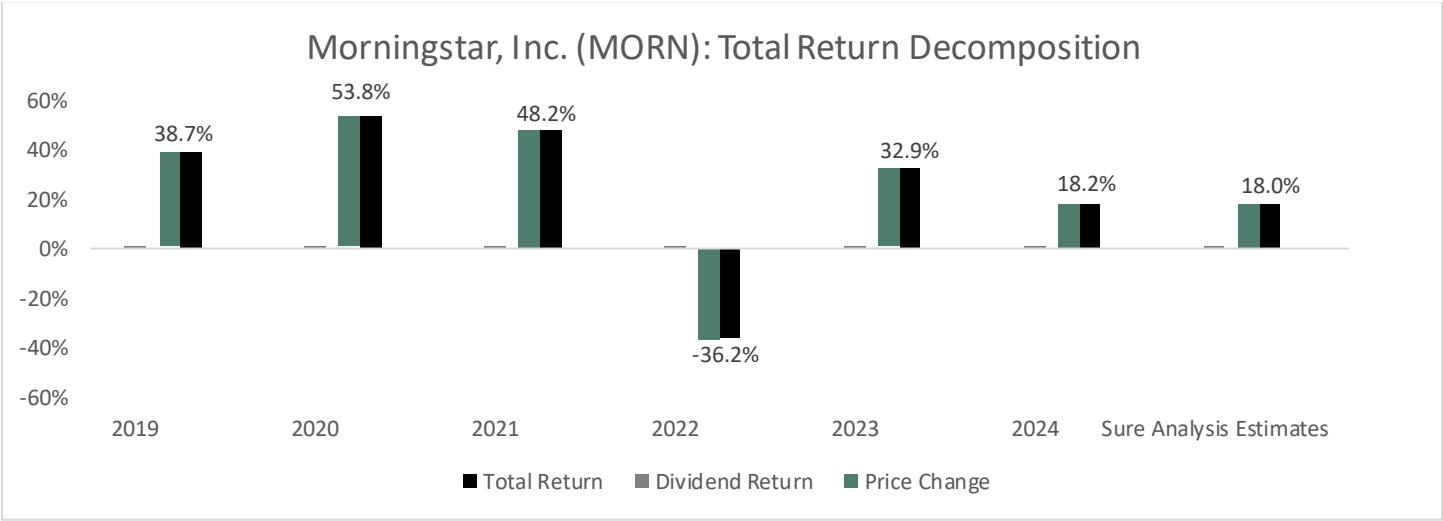
Morningstar’s payout ratio is not likely to be above 20% of earnings anytime soon, barring a major shift in capital allocation strategy, so we see the yield as staying quite low for the foreseeable future. Certainly, management has been more interested in investing for future growth, and that strategy isn’t going to change anytime soon. We also see rapidly rising earnings as a way to reduce the payout ratio. Share repurchases are quite rare as well.

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 that is now fairly valued for the first time in a long time. We are forecasting 18% total annual returns moving forward, as 17% growth and the 0.6% yield could be aided by a fractional tailwind from the valuation. With the sizable returns forecast currently, we reiterate the stock at a buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	789	799	912	1,020	1,179	1,390	1,699	1,871	2,039	2,275
Gross Profit	459	454	525	609	696	833	1,001	1,091	1,195	1,379
Gross Margin	58.2%	56.9%	57.6%	59.7%	59.0%	60.0%	58.9%	58.3%	58.6%	60.6%
SG&A Exp.	204	203	264	296	389	478	593	757	780	768
D&A Exp.	64	71	91	97	118	140	151	167	185	190
Operating Profit	191	181	170	216	190	215	257	168	231	421
Operating Margin	24.2%	22.6%	18.6%	21.2%	16.1%	15.5%	15.1%	9.0%	11.3%	18.5%
Net Profit	133	161	137	183	152	224	193	71	141	370
Net Margin	16.8%	20.2%	15.0%	17.9%	12.9%	16.1%	11.4%	3.8%	6.9%	16.3%
Free Cash Flow	184	151	184	239	254	308	348	168	197	449
Income Tax	63	64	43	48	46	60	63	57	33	104

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	1,029	1,351	1,406	1,454	2,371	2,696	2,863	3,475	3,403	3,549
Cash & Equivalents	207	259	308	369	334	423	484	377	338	503
Accounts Receivable	139	146	148	172	189	205	269	308	344	358
Goodwill & Int. Ass.	438	678	660	631	1,373	1,585	1,535	2,120	2,063	1,971
Total Liabilities	388	654	601	519	1,287	1,425	1,447	2,268	2,076	1,930
Long-Term Debt	35	250	180	70	513	449	359	1,110	972	699
Shareholder's Equity	640	697	805	935	1,084	1,271	1,416	1,207	1,328	1,619
LTD/E Ratio	0.05	0.36	0.22	0.07	0.47	0.35	0.25	0.92	0.73	0.43

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	13.0%	13.5%	9.9%	12.8%	7.9%	8.8%	7.0%	2.2%	4.1%	10.6%
Return on Equity	20.5%	24.1%	18.2%	21.0%	15.1%	19.0%	14.4%	5.4%	11.1%	25.1%
ROIC	19.5%	19.8%	14.2%	18.4%	11.7%	13.5%	11.1%	3.4%	6.1%	16.0%
Shares Out.	43	43	43	43	43	43	43	43	43	43
Revenue/Share	17.81	18.44	21.20	23.72	27.29	32.16	39.15	43.60	47.52	52.79
FCF/Share	4.16	3.49	4.27	5.55	5.89	7.12	8.02	3.92	4.60	10.42

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

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