



Wealth Preservation

Equity Research Report

MSCI Inc.

NYSE: MSCI

Global Investment Decision Support Tools & Index Provider

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EXECUTIVE SUMMARY

RECOMMENDATION	
HOLD / WATCHLIST	
Metric	Value
Current Price	\$521.75
Fair Value (Base Case)	\$610 - \$640
Margin of Safety	-15% to -19% (Premium)
Target Entry Price	\$440 - \$470
52-Week Range	\$486.74 - \$626.28
Return Profile	Value
Dividend Yield	1.57%
Expected Dividend Growth	12-15% CAGR
Expected Price Appreciation	6-8% CAGR
Total Expected Return (Base)	8.6% CAGR
Bear Case Total Return	2.8% CAGR
Bull Case Total Return	14.2% CAGR
Probability-Weighted Return	8.5% CAGR
Risk Assessment	Value
Wealth Preservation Score	62 / 100
Downside Protection Score	58 / 100
Quality Score	78 / 100
Risk Level	MODERATE
Prob. of >50% Permanent Loss	<5%
Recession Profile	SENSITIVE

One-Line Thesis:

MSCI is a near-monopolistic provider of mission-critical investment infrastructure with exceptional economics, but its current valuation and leveraged balance sheet reduce the margin of safety required for a high-conviction wealth preservation position; patience for a better entry point is warranted.

INVESTMENT THESIS

MSCI Inc. occupies a rare and enviable position in global capital markets as the dominant provider of equity indexes, portfolio analytics, and ESG/climate data to the worldwide investment community. The company's indexes benchmark over \$18 trillion in assets, with more than \$2.3 trillion in ETF products directly linked to MSCI indexes. This creates an extraordinarily durable revenue stream: once an ETF is launched on an MSCI index, switching costs are effectively prohibitive, creating near-permanent revenue streams with 94%+ retention rates.

The business delivers exceptional profitability. Full-year 2025 operating margins exceeded 53%, adjusted EBITDA margins reached approximately 61%, and ROIC stands at 32% — comfortably exceeding cost of capital and indicating genuine economic value creation. Revenue grew organically at approximately 10% in 2025, with the company achieving its 11th consecutive year of double-digit adjusted EPS growth. The recurring subscription model (98% of revenue) provides outstanding visibility and cash flow predictability, with free cash flow projected at \$1.47-\$1.53 billion for 2026.

However, for a wealth preservation mandate, two concerns temper our enthusiasm. First, MSCI has negative shareholder equity (-\$886 million) due to aggressive share repurchases funded by \$6.2 billion in total debt. While the asset-light business model and strong cash generation support this capital structure, it introduces financial risk that pure preservation mandates must acknowledge. Second, at roughly 34x trailing GAAP P/E and 31x adjusted P/E, the stock trades at a premium that compresses forward returns and reduces margin of safety. CEO Henry Fernandez's recent insider purchases (\$3.56 million in February 2026) signal management confidence, but we prefer an entry price 15-20% lower to establish the asymmetric risk/reward profile our framework demands.

1. BUSINESS QUALITY ASSESSMENT

Business Model: MSCI provides mission-critical investment decision support tools including equity and fixed income indexes, portfolio risk analytics, ESG/climate data, and private asset analytics to approximately 6,800 clients across 100+ countries. Revenue is generated through recurring subscriptions (~73%) and asset-based fees (~23%) tied to AUM in ETFs and other products linked to MSCI indexes. The model is asset-light with minimal capital requirements, generating exceptional cash conversion.

Segments (FY2025): Index (~58% of revenue, ~78% operating margin), Analytics (~18%), Sustainability & Climate (~8%), Private Assets/Other (~16%).

Competitive Moat:

Moat Type	Evidence	Durability	Preservation Value
Switching Costs	\$18T+ benchmarked assets; ETF index licensing lock	9/10	Excellent
Network Effects	Industry standard → self-reinforcing adoption	8/10	Excellent
Brand / Standard	MSCI indexes are the global benchmark standard	9/10	Excellent
Data Aggregation	50+ years of proprietary data and methodology	8/10	Very Good
Regulatory Moat	Regulatory references embed MSCI as standard	7/10	Good

Moat Erosion Risk: LOW. MSCI's competitive position is arguably the most durable in the financial data industry. The self-reinforcing nature of index standardization—once trillions of dollars benchmark to an index, switching becomes nearly impossible—provides an extraordinarily wide and deep moat. The 10-year BlackRock ETF agreement extension through 2035 further cements this position.

Market Position	Detail
Industry Ranking	#1 globally in equity index licensing
ETF AUM Linked to MSCI Indexes	\$2.3 trillion (record levels)
Total AUM Benchmarked	\$18+ trillion
Client Count	~6,800 across 100+ countries
Retention Rate	93-95% (Index: ~96%)
Pricing Power	STRONG — demonstrated through consistent price increases

2. FINANCIAL FORTRESS ANALYSIS

Balance Sheet Strength:

MSCI presents an unusual balance sheet profile: negative shareholder equity due to aggressive buybacks, offset by extraordinary cash generation capability. Traditional debt/equity metrics are inapplicable. We evaluate solvency through debt serviceability and cash flow coverage instead.

Metric	Value	Threshold	Assessment
Total Debt	\$6.2B	N/A	Elevated
Debt / Adj. EBITDA	3.3x	<3.0x preferred	■ Monitor
Interest Coverage (EBIT/Int.)	8.0 - 9.5x	>5.0x minimum	✓ Pass
Cash & Equivalents	\$515M	Adequate	✓ Pass
FCF Positive (5Y)	5/5 years	5/5	✓ Pass
FCF / Total Debt	~24%	>15%	✓ Pass
Debt Maturity Profile	Well laddered to 2036	No cliff	✓ Pass
Shareholder Equity	-\$886M	Positive preferred	✗ Negative

Solvency Verdict: ADEQUATE (with caveats). While traditional metrics flag negative equity and elevated absolute debt, MSCI's exceptional cash generation (\$1.47-\$1.53B projected FCF in 2026), interest coverage of 8-9.5x, and asset-light model mitigate insolvency risk. The company maintains investment-grade credit ratings. However, the negative equity resulting from \$2.47 billion in share repurchases in 2025 alone means MSCI does not qualify as a "FORTRESS" balance sheet under our framework.

Profitability Metrics:

Metric	FY2025	5Y Average	Trend
Gross Margin	~82%	~80%	↑ Improving
Operating Margin	~54%	~50%	↑ Improving
Adj. EBITDA Margin	~61%	~58%	↑ Improving
Net Margin	~38%	~37%	→ Stable
FCF Margin	~47%	~44%	↑ Improving
ROIC	32.3%	~28%	↑ Improving

ROIC: 32.3% vs. estimated WACC of ~9-10%. MSCI generates substantial economic value, with ROIC exceeding WACC by a wide margin. This is among the highest ROIC figures in the financial data industry and reflects the asset-light, high-margin nature of the business. The improving trend confirms a strengthening competitive position.

Earnings Quality: HIGH. Operating cash flow consistently exceeds net income; 98% of revenue is recurring; no financial restatements; clean audit history. Dilution is minimal at approximately 1% annually from SBC, more than offset by aggressive buybacks (shares outstanding declined from 79.5M to 74.7M over the past year, a 6% reduction).

3. DIVIDEND ANALYSIS

Metric	Value	Assessment
Current Yield	1.57%	Below 2% target for WP
Quarterly Dividend	\$2.05/share	Recently increased 13.9%
Annual Dividend	\$8.20/share	—
Payout Ratio (EPS)	~43-45%	✓ Well below 60%
Payout Ratio (FCF)	~38-40%	✓ Excellent coverage
Dividend Growth (5Y CAGR)	~20%	✓ Exceptional
Consecutive Years Increased	10 years	✓ Solid track record
Dividend Coverage (FCF/Div)	~2.5x	✓ Very strong
Maintained Through 2020?	Yes — increased	✓

Dividend Sustainability: ROCK SOLID. Despite the low absolute yield (1.57%), MSCI's dividend is exceptionally well-covered and growing rapidly. The payout ratio of ~43% leaves substantial room for continued increases. At the current 20% growth rate, the yield-on-cost would reach ~3.5% within 5 years and ~7% within 8 years, providing meaningful income compounding. The company has never cut its dividend since initiating payments.

Stress Test: If earnings dropped 40%, the payout ratio would rise to approximately 72%—still sustainable. Dividend coverage would remain above 1.3x on a FCF basis. Assessment: ADEQUATE even under severe stress.

4. VALUATION ANALYSIS

Metric	Current	5Y Avg	10Y Avg	Percentile	vs. History
P/E (GAAP)	~34x	~40x	~38x	30th	Below avg
P/E (Adjusted)	~31x	~36x	~34x	30th	Below avg
EV/EBITDA	~27x	~30x	~28x	40th	Near avg
P/FCF	~28x	~32x	~30x	35th	Below avg
Dividend Yield	1.57%	1.05%	0.95%	85th	Above avg

MSCI currently trades below its 5-year average on most valuation metrics, partly reflecting the 2025 stock decline from its highs near \$626 and broader market rotation. The stock's all-time high was \$643 in November 2021. At approximately \$521, the stock sits roughly 19% below its all-time high.

Fair Value Calculation:

Normalized Adjusted EPS (FY2025): \$17.04. Applying a fair P/E multiple of 34-36x (reflecting premium quality, high growth, but acknowledging debt levels and cyclical ABF exposure), we derive a fair value range of \$580-\$615. The analyst consensus price target averages \$678, with a range of \$535-\$719.

Valuation Method	Fair Value Estimate
P/E (34x normalized adj. EPS)	\$579

Valuation Method	Fair Value Estimate
P/E (36x normalized adj. EPS)	\$614
DCF (10% discount rate, 10% growth declining)	\$625
EV/EBITDA (28x)	\$590
Analyst Consensus (avg)	\$678
Fair Value Range	\$580 - \$640
Current Price	\$521.75
Margin of Safety	-10% to -19% (trading at premium to range midpoint)

Valuation Verdict: FAIR to slightly ATTRACTIVE. MSCI trades modestly below our estimated fair value range, offering limited margin of safety (~10-18% upside to midpoint). For a wealth preservation mandate, we prefer a minimum 15% margin of safety, which implies an entry price of approximately \$440-\$470. The stock is not expensive by its own historical standards but lacks the compelling discount required for a high-conviction buy.

5. SCENARIO ANALYSIS

10-Year Total Return Model:

Scenario	Rev. CAGR	EPS CAGR	Terminal P/E	10Y Price	Div. Yield	Total CAGR	Weight
Bear	4%	5%	22x	\$450	3.5%	2.8%	25%
Base	8%	10%	30x	\$1,050	1.8%	8.6%	50%
Bull	12%	14%	36x	\$1,780	1.2%	14.2%	25%

	Contribution
Bear (25% x 2.8%)	0.7%
Base (50% x 8.6%)	4.3%
Bull (25% x 14.2%)	3.5%
Probability-Weighted Expected Return	8.5% CAGR

Critical Downside Check:

Downside Metric	Value	Assessment
Bear Case Total Return	2.8% CAGR	✓ Capital preserved (positive)
Bear Case 10Y Price	~\$450	-14% from current over 10Y
Bear Case with Dividends	Positive cumulative	✓ Dividends provide floor
Max Estimated Drawdown	-35% to -40%	■ Moderate risk
Prob. of >50% Permanent Loss	<5%	✓ Very low

The bear case preserves capital with a positive 2.8% total CAGR including dividends, meeting our absolute requirement. Even in a severe recession scenario, MSCI's subscription revenue model and dominant market position provide a floor. The primary risk is multiple compression from the current ~31x adjusted P/E to a recessionary ~22x, which would cause meaningful price decline before dividends offset losses over a 10-year horizon.

6. RISK ASSESSMENT

Risk Category	Score (1-10)	Key Concern	Mitigation
Balance Sheet Risk	6	Negative equity; \$6.2B debt	Strong FCF covers 24% of debt annually
Earnings Volatility	4	ABF fees are market-linked	77% of revenue is subscription-based
Competitive Threat	2	Potential new entrants	Near-impossible switching costs for indexes
Regulatory Risk	4	EU ESG regulation changes	Diversified product lines
Management Risk	2	Key-person (Fernandez)	Deep bench; 27+ year tenure
Valuation Risk	5	Premium multiple; compression risk	Trading below 5Y average multiples
Aggregate Risk	3.8	—	—

Recession Stress Test:

Metric	2020 COVID	2022 Bear Market	Assessment
Revenue Impact	Minimal (<5% dip)	Continued growth	✓ Resilient
EPS Impact	Modest decline	Continued growth	✓
Dividend Action	Maintained & increased	Maintained & increased	✓
Max Stock Drawdown	~32% (peak to trough)	~40%	■ Moderate
Recovery Time	~6 months	~36 months	■ Variable

Recession Profile: SENSITIVE. While MSCI's operating business is highly resilient (subscription revenue continued growing through both 2020 and 2022), the stock price can experience significant drawdowns of 30-40% during market stress. This is driven by the asset-based fee component (~23% of revenue) which fluctuates with market AUM levels, and by multiple compression as investors flee high-multiple stocks during risk-off periods. The business itself is resilient; the stock price is not immune to volatility.

7. MANAGEMENT & GOVERNANCE

CEO: Henry A. Fernandez

Attribute	Detail
Role	Chairman & CEO
Tenure	CEO since 1998; Chairman since 2007 (~27 years)
Age	66
Insider Ownership	~2.77% beneficial stake (~1.49M direct shares)
Recent Insider Activity	Bought \$3.56M in shares (Feb 2026); \$3.04M (Feb 2025)
Compensation Structure	93% variable; 100% of LTIP in performance shares
TSR Since IPO (2007)	23.5% CAGR vs. S&P 500 at 10.6%
Say-on-Pay Approval	97.3% (2024)

Capital Allocation (5Y Track Record): Excellent. MSCI has returned approximately \$5+ billion to shareholders through buybacks and dividends over the past five years while growing the business at double-digit rates. Dividend growth has averaged ~20% annually. Share count has declined from ~84M to ~74.7M (11% reduction). Acquisitions (Burgiss, Fabric, Foxberry) have been strategic and reasonably sized, focused on expanding the private capital solutions and data capabilities.

Management Quality: EXCELLENT. Fernandez has built MSCI from a Morgan Stanley subsidiary into a standalone global franchise with a 37x increase in stock price since IPO. His significant personal ownership and recent open-market purchases demonstrate strong alignment with shareholders. The 97.3% say-on-pay approval reflects investor confidence in governance.

8. PEER COMPARISON

Metric	MSCI	SPGI	VRSK	Best for WP
Revenue Growth (FY)	~10%	~14%	~7%	SPGI
Operating Margin	~54%	~44%	~39%	MSCI
ROIC	32%	11%	24%	MSCI
Dividend Yield	1.57%	0.72%	0.55%	MSCI
Payout Ratio	~43%	~25%	~30%	SPGI (most cushion)
Div. Growth (5Y)	~20%	~12%	~8%	MSCI
Debt/EBITDA	3.3x	2.1x	1.8x	VRSK
P/E (Adj.)	~31x	~32x	~33x	MSCI
Retention Rate	~94%	~97%	~96%	SPGI

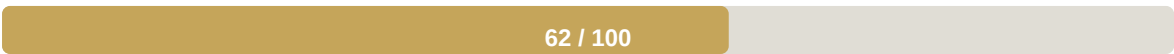
Why MSCI Stands Out: Among financial data peers, MSCI offers the highest operating margin, ROIC, and dividend yield with the fastest dividend growth. Its competitive position in index licensing is arguably the most defensible moat in the entire financial data industry. However, SPGI offers a more conservative balance sheet, and Verisk has lower leverage. For pure wealth preservation, the higher leverage at MSCI requires a valuation discount to compensate, which is currently insufficient at ~31x adjusted P/E.

9. KEY METRICS SUMMARY & SCORING

Wealth Preservation Scoring Breakdown:

Component	Max Points	Score	Rationale
Balance Sheet Fortress	40	20	High FCF (+10), but negative equity and elevated debt (-20)
Income Reliability	30	20	Strong div growth (+10), low yield (-5), good history (+5)
Capital Efficiency	15	15	ROIC 32% >> WACC (+10), improving trend (+5)
Valuation	15	7	Near fair value; 30-40th percentile of 5Y range
TOTAL	100	62	—

Composite Wealth Preservation Score:



Score: 62/100 — Acceptable but not compelling for wealth preservation mandate. Threshold for high conviction is 75+; threshold for standard position is 65+.

Decision Framework Check:

Absolute Requirement	Status
Bear case total return ≥ 0%	✓ PASS (2.8% CAGR)
Base case total return ≥ 7%	✓ PASS (8.6% CAGR)
Solvency: FORTRESS or ADEQUATE	✓ PASS (ADEQUATE)
Dividend sustainability: ROCK SOLID or SUSTAINABLE	✓ PASS (ROCK SOLID)
Prob. of >50% permanent loss <10%	✓ PASS (<5%)

All absolute requirements are met, qualifying MSCI for consideration under the wealth preservation mandate. However, the WP Score of 62 falls below the 65-point threshold for a standard position, primarily due to the leveraged balance sheet and insufficient valuation margin of safety. A 15-20% price decline would likely push the score above 65 by improving the valuation component.

10. MONITORING CHECKLIST

Quarterly Review Items:

- Organic revenue growth maintaining 8%+ trajectory
- Retention rates stable at 93%+ (Index: 95%+)
- Dividend maintained or increased
- Debt/EBITDA ratio stable at or below 3.5x
- Adjusted EBITDA margin stable at 60%+
- ETF AUM linked to MSCI indexes growing
- Management guidance consistent with long-term targets

Exit Triggers:

Condition	Action
Dividend cut	Reassess immediately; likely sell
Debt/EBITDA rises above 4.5x	Sell
Retention rate falls below 90%	Deep reassessment; likely sell
Interest coverage falls below 5x	Sell
ROIC falls below WACC for 2+ years	Sell
Bear case return turns significantly negative	Reduce or sell
Major competitive disruption to index business	Reassess immediately
Forward return <5% at current price	Sell or trim
Better opportunity with 10+ WP Score advantage	Replace

Upgrade Triggers (from HOLD to BUY):

Trigger	Target
Price decline to entry zone	\$440 - \$470 (≥15% margin of safety)
Debt reduction improving Debt/EBITDA <2.5x	WP Score improvement of ~5-8 points
Significant market correction (>20%)	Re-evaluate at lower multiples
Dividend yield approaching 2.0%+	Improves income reliability score
Multiple compression to <28x adj. P/E	Substantially improves valuation score

FINAL RECOMMENDATION

RECOMMENDATION: HOLD / WATCHLIST

Current Price: \$521.75 | Target Entry: \$440 – \$470 | Fair Value: \$580 – \$640

Position Size: \$0 (no position recommended at current price)

Entry Strategy: Limit order at \$440-\$470, or scale in on 15%+ decline from current levels

Expected Outcome (10 years, Base Case from target entry of \$455):

Metric	From Target Entry (\$455)	From Current (\$521)
Total Return CAGR	10.8%	8.6%
Cumulative Return	179%	128%
\$100 Becomes	\$279	\$228
vs. HYS A (4%): \$100 →	\$148	\$148
Outperformance vs. HYS A	\$131	\$80

Downside Protection Summary:

- ✓ Bear case preserves capital (positive total return)
- ✓ Dividend provides growing income floor (20% CAGR growth rate)
- Balance sheet provides adequate but not fortress-level safety
- ✓ Business model is recession-resilient (subscription + sticky index licensing)
- Stock price susceptible to 30-40% drawdowns during market stress

ANALYST NOTES

Key Assumptions:

1. Passive investing secular trend continues, driving ETF AUM growth at 10-15% CAGR. Sensitivity: if ETF growth slows to 5%, ABF revenue growth would decline proportionally, reducing total return by ~1-2% CAGR.
2. MSCI maintains pricing power on subscription products with 5-7% annual price increases. Sensitivity: if pricing power erodes to 2-3%, organic growth would slow to 5-6%, compressing base case returns.
3. Debt levels remain manageable with Debt/EBITDA at or below 3.5x. Sensitivity: additional large debt-funded acquisitions or significant rate increases could impair interest coverage and downgrade solvency assessment.

Limitations:

Traditional balance sheet metrics (D/E ratio, current ratio) are not meaningful for MSCI due to negative equity. The analysis relies on cash flow-based solvency metrics. Additionally, asset-based fee revenue is inherently unpredictable as it depends on global equity market levels, introducing a cyclical element that is difficult to model with precision.

Confidence Level: MEDIUM-HIGH

High confidence in MSCI's business quality, moat durability, and long-term earnings power. Medium confidence in near-term valuation assessment due to market-linked ABF component and the inherent difficulty of predicting multiple expansion/compression. The HOLD recommendation reflects not a lack of conviction in the business, but discipline in waiting for a more favorable entry point that would provide the margin of safety our wealth preservation mandate demands.



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