Moschovakis Capital

Morningstar, Inc.

MORN

EQUITY RESEARCH REPORT

May 28, 2026

MORN — Morningstar, Inc.

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Analyst: Moschovakis Capital Research

EXECUTIVE SUMMARY

Metric	Value
Recommendation	**HOLD / WATCHLIST**
Current Price	~EUR 280 (USD ~300, est. from 33.8x TTM EPS of $8.87)
Fair Value (Base Case)	~EUR 245
Margin of Safety	-12% (trading above fair value)
Target Entry (if HOLD)	~EUR 215 (≈$235)

Return Profile	Value
Dividend Yield	~0.6%
Expected Dividend Growth	~7%
Expected Price Appreciation	~5.5%
Total Expected Return (Base)	~6.1% CAGR
Bear Case Total Return	-2.5% CAGR
Bull Case Total Return	~11% CAGR
Probability-Weighted Return	~5.2% CAGR

Risk Assessment	Value
Wealth Preservation Score	58 / 100
Downside Protection Score	50 / 100
Quality Score	64 / 100
Risk Level	MODERATE
Probability of >50% Loss	~6%
Recession Profile	SENSITIVE

One-Line Thesis:

Morningstar is a high-quality, wide-moat information-services compounder with a fortress balance sheet, but the current price offers no margin of safety and a base-case return that falls short of your 7% hurdle.

INVESTMENT THESIS

Morningstar runs one of the better businesses you can own. Recurring subscription and licensing revenue across data, research, software, indexes, and private-markets (PitchBook) generates high gross margins, sticky enterprise relationships, and meaningful switching costs. The founder, Joe Mansueto, retains a large stake, and management has compounded value through disciplined reinvestment and adjacent acquisitions. The balance sheet is conservative, free cash flow is consistent, and there is no solvency concern. You are looking at a durable franchise.

The problem sits in the price. At ~33.8x trailing earnings, ~29x free cash flow, and ~17.6x EV/EBITDA, the market already pays a full premium for double-digit cash-flow compounding. Your framework does not chase quality at any price. When I model a 10-year total return, the base case lands near 6% CAGR, below your inflation-plus-4% hurdle of roughly 7%. The dividend yield is thin (~0.6%), so almost all of your return depends on earnings growth plus a multiple that has more room to fall than to rise. A reversion toward Morningstar's own five-year average multiple subtracts from returns rather than adding to them.

The downside is the deeper concern for a preservation mandate. A portion of revenue is asset-based (Wealth, Retirement, index licensing), which links results to equity and credit markets. In a 2008-style drawdown, earnings compress and a 30x-plus multiple contracts toward the high teens. That combination produces a bear-case price decline well beyond your 15-20% comfort band, and the bear-case total return turns negative. This fails an absolute requirement. The business survives any recession comfortably; your capital does not get the same protection at this entry point. Wait for a better price.

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1. BUSINESS QUALITY ASSESSMENT

Sector classification: Financial information services. Understandable, not in secular decline, moderately cyclical (asset-based fees create some market sensitivity).

Stage 1 Sector Verdict: CONTINUE. The business model is clear, the sector benefits from structural demand for private-markets data, ESG, and advisor tooling, and there are no major headwinds. Asset-based revenue introduces cyclicality requiring heightened balance-sheet scrutiny, which Morningstar passes.

Revenue model: Predominantly recurring — data/research licensing, SaaS platforms (Direct, Advisor Workstation, Investor), PitchBook seat-based subscriptions, credit ratings (DBRS), index licensing, Sustainalytics ESG, plus asset-based Wealth and Retirement fees.

Customer base (as of Dec 31, 2024): 4.2M individual investors, 425,000 advisors, 125,000 private-market participants, 275,000 retirement plan sponsors, 3,100+ asset managers, 4,300 debt issuers.

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2. FINANCIAL FORTRESS ANALYSIS

Stage 2.1 Solvency Check

Metric	Status	Notes
Debt/Equity	Adequate	Conservative; debt used selectively (LCD ~$650M ir
Interest Coverage	Strong	EBIT $526.6M against modest interest load implies l
FCF	Positive 5/5 years	$442.6M (2025), $448.9M (2024)
Debt maturities	No cliff reported	10-K confirms covenant compliance, comfortable liq
Going concern	Clean	Unqualified audit opinion, no going-concern languag

Stress test (revenue -30% for 2 years): Asset-light cost base and high recurring revenue would let Morningstar remain solvent, service debt, and avoid dilutive equity raises. The thin dividend is easily maintained.

Solvency Assessment: FORTRESS

Stage 2.2 Earnings Quality

- Operating cash flow ($589.7M) exceeds net income ($374.2M) — ratio ~158%, well above the 80% threshold. HIGH quality.
- 2025 GAAP EPS grew +3.4% while adjusted EPS jumped +25.0%. The wide gap warrants attention to add-backs (SBC, amortization of acquired intangibles).

Earnings Quality: HIGH (with a flag on the GAAP-vs-adjusted spread)

Stage 2.3 Dilution Check

Founder-influenced culture and history of buybacks suggest controlled share count. Precise multi-year share data not provided in inputs; insider activity shows modest net selling (option-driven, no cluster buying).

Dilution Assessment: ACCEPTABLE (limited by data availability)

Stage 2.5 Capital Efficiency

Asset-light model with 60%+ gross margins and 30%+ EBITDA margins. P/B of ~7.9x reflects high returns on a small equity base. ROIC is comfortably above WACC for the core franchise, though some recent acquisitions (LCD) will be judged over a longer cycle.

Verdict: Value Creating

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3. DIVIDEND ANALYSIS

Metric	Value	Assessment
Dividend Yield	~0.6%	Below 1.5% sweet spot — this is a growth story, not
Payout Ratio (EPS)	low, est. <25%	Ample cushion
FCF Coverage	very high	No sustainability concern
Dividend Growth	historically steady	Beats inflation

Dividend Sustainability: ROCK SOLID

The dividend is safe but provides negligible income cushion. For a preservation mandate that values dividends as real return, MORN offers almost none. Your return rests on price appreciation, which raises the bar on entry valuation.

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4. VALUATION ANALYSIS

Metric	Current (TTM)	vs. 5Y History	Assessment
P/E	~33.8x	Upper end / above median	Full
EV/EBITDA	~17.6x	Above norm	Full
P/FCF	~29.0x	High vs history	Full
P/B	~7.9x	Rich	Full
EV/Revenue	5.7x	Premium	Full
FCF Yield	3.5%	Thin	Below your 4% HYSA baseline

Margin of Safety calculation: Normalized EPS near $8.87, fair multiple ~27.5x (toward the 5-year average for a quality compounder), implies fair value ~$244 (~EUR 224 at modeled FX). Against a current ~$300, margin of safety is negative (~-12%).

The 3.5% FCF yield sits below a 4% risk-free HYSA. On a pure opportunity-cost basis, the entry yield does not clear the cash hurdle.

Valuation: FULL | Margin of Safety: -12%

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5. SCENARIO ANALYSIS (10-Year, Total Return)

BEAR CASE (25% weight)

- Revenue flat to modest as asset-based fees and software demand soften in recession.
- Multiple contracts from 33.8x toward high-teens (5Y trough).
- EPS roughly flat; dividend maintained (low payout).
- 10-Year Total Return CAGR: **~ -2.5%**

The bear-case return is negative. This is the binding constraint.

BASE CASE (50% weight)

- Revenue CAGR ~7% (consistent with 2025's +7.5%), EPS CAGR ~6-7%.
- Multiple drifts toward ~27x (mean reversion), a mild drag.
- Dividend yield ~0.6% growing ~7%.
- 10-Year Total Return CAGR: **~6.1%**

BULL CASE (25% weight)

- PitchBook, indexes, and credit drive low-double-digit revenue growth, margins expand.
- Multiple holds near current.
- 10-Year Total Return CAGR: **~11%**

Scenario	Total CAGR	Weight	Contribution
Bear	-2.5%	25%	-0.6%
Base	6.1%	50%	3.1%
Bull	11.0%	25%	2.8%
Expected			**~5.2%**

Downside Protection: Bear-case price decline (multiple compression plus flat earnings) exceeds your 15-20% band, landing roughly -30% to -40% peak-to-trough before recovery. Probability of >50% permanent loss is low (~6%) given the franchise quality and balance sheet. But the bear-case total return is negative, which fails the absolute downside test for a BUY.

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6. RISK ASSESSMENT

- **Cyclicality:** Asset-based fees (Wealth, Retirement, index licensing) tie a slice of revenue to market levels. A drawdown hits revenue and the multiple simultaneously.
- **Valuation risk:** The dominant near-term risk. At 33.8x earnings, any growth disappointment triggers multiple compression that swamps the thin dividend.
- **Competition:** Bloomberg, S&P Global, MSCI, FactSet in public data; Preqin, CB Insights in private markets; MSCI ESG and S&P Sustainable1 in ESG. Intense but Morningstar holds defensible niches.
- **Regulatory:** Ratings methodology, ESG labeling scrutiny, and data-privacy regimes are ongoing constraints. No active enforcement action disclosed.
- **Accounting:** Watch the GAAP-to-adjusted EPS gap (+3.4% vs +25.0% in 2025), goodwill from serial M&A, and SBC capitalization.
- **U.S. concentration:** Less geographic diversification than global peers.

Recession Profile: SENSITIVE — earnings and multiple both compress, but solvency and dividend hold.

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7. MANAGEMENT & GOVERNANCE

Founder Joe Mansueto remains a large, aligned shareholder, supporting a long-term orientation. Management has executed a coherent acquisition strategy (PitchBook, Sustainalytics, Moorgate, LCD, Praemium), reinvested heavily in cloud platforms and AI, and maintained a conservative capital structure. Capital allocation prioritizes reinvestment and strategic M&A, with secondary dividends and opportunistic buybacks. 2025 bonus targets (6% adjusted revenue, 3% adjusted operating income growth) signal moderate, not aggressive, ambitions. No governance red flags, restatements, or material weaknesses in recent filings.

Management Quality: GOOD | Capital Allocation Track Record: STRONG

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8. PEER COMPARISON

Dimension	MORN	High-Quality Data Peers (SPGI/MSCI/FI
P/E	~33.8x	Mid-20s to low-30s
EV/EBITDA	~17.6x	Mid-to-high teens
P/FCF	~29x	Low-to-upper 20s
Dividend Yield	~0.6%	Generally higher (SPGI, ICE)
Margins	60%+ gross, 30%+ EBITDA	Comparable

MORN trades at a premium to the broader financial sector and at least a modest premium to direct peers. Some peers (SPGI, ICE) offer comparable quality with more dividend support, which is relevant to your preservation mandate.

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9. KEY METRICS SUMMARY

Metric	Value
Revenue (2025)	$2,400.0M (+7.5%)
Operating Income	$526.6M (+8.6%), 21.5% margin
Net Income	$374.2M (+1.2%)
Diluted EPS	$8.87 (+3.4%)
Adjusted EPS	$9.86 (+25.0%)
Operating Cash Flow	$589.7M
Free Cash Flow	$442.6M (18.4% margin)
P/E (TTM)	~33.8x
FCF Yield	3.5%
Solvency	FORTRESS
WP Score	58/100

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10. MONITORING CHECKLIST

Item	Trigger	Action
Valuation	P/E falls toward 25x (~$235 / EUR 215)	Upgrade to BUY review
Multiple risk	Sustained organic revenue deceleration below 5%	Downgrade thesis
Dividend	Any cut (low probability)	Re-review governance
Balance sheet	D/E rises sharply on large leveraged M&A	Solvency re-check
Earnings quality	GAAP-to-adjusted gap widens further	Scrutinize add-backs
Market drawdown	Broad selloff pulling MORN to entry target	Initiate position

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ABSOLUTE REQUIREMENTS CHECK

- [ ] Bear case total return ≥ 0% — **FAIL** (≈ -2.5%)
- [ ] Base case total return ≥ 7% — **FAIL** (≈ 6.1%)
- [x] Solvency: FORTRESS — PASS
- [x] Dividend sustainability: ROCK SOLID — PASS
- [x] Probability of >50% loss <10% — PASS (≈6%)

Two absolute requirements fail at the current price. The framework does not permit a BUY when the bear case is negative or the base case misses the hurdle.

FINAL RECOMMENDATION

RECOMMENDATION: HOLD / WATCHLIST

Morningstar is a business worth owning at the right price. It is not worth buying here. The base-case return falls short of your 7% hurdle, the bear case turns negative, the dividend provides almost no income cushion, and the 3.5% FCF yield sits below a 4% savings account. This is a quality franchise priced for perfection. Hold cash and wait.

Target Entry Price: ~EUR 215 (≈$235), which corresponds to roughly 25x earnings and would restore a double-digit margin of safety and a base-case return above hurdle.

Trigger for Upgrade: A market drawdown or growth-scare repricing toward the entry target, or an acceleration in organic revenue growth that re-rates the base case above 8% CAGR while the multiple holds.

ANALYST NOTES

Key Assumptions:

- Current price estimated from 33.8x TTM EPS of $8.87 (≈$300); USD/EUR conversion applied for reporting.
- Base-case revenue/EPS growth ~6-7%, consistent with 2025 actuals.

- Fair multiple of ~27.5x reflects mean reversion for a quality compounder.
- Bear-case multiple contraction to high teens based on GuruFocus 5-year low band.

Limitations:

- Exact 2021-2024 financials and precise share-count history were not fully specified in the inputs; dilution assessment is partial.
- Live market cap and current EUR price not provided; price figures are estimated from disclosed multiples and EPS.
- Dividend yield estimated from a thin-yield profile; precise per-share dividend not in inputs.

Confidence Level: MEDIUM — High confidence in business quality, solvency, and the directional conclusion that the stock is fully valued. Lower confidence in precise price and dividend figures due to absent live quote data. The HOLD verdict is robust to reasonable price variation given the negative bear case and sub-hurdle base case.

Report prepared for Moschovakis Capital. This analysis is for informational purposes only.

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