Midlincoln Research

February - 3 2025

Company: MSCI Inc.
Ticker: NYSE: MSCI
Rating: Neutral
12 m TP $580
Upside 1.6%
Analyst: Ovanes Oganisian

Metric	FY2026E
Last Price	~$571
EPS (GAAP, diluted)	**~$16.9–17.2**
EPS Growth YoY	**+7–9%**
Adjusted EPS	**~$18.5–18.8**
Adjusted EPS Growth	**+7–9%**
P/E (forward)	**~33–34x**
Market Capitalisation	~$45–46B
Revenue	**~$3.40–3.45B**
Revenue Growth (YoY)	**+8–9%**
Adj. EBITDA	**~$2.05–2.10B**
EBITDA Growth (YoY)	**~7–9%**
EV / EBITDA	**~22–23x**
Free Cash Flow	**~$1.30–1.35B**
Dividend Yield	**~1.3–1.4%**
ROE	**~16–17%**
P/B	**~5.3–5.6x**

Financials
US

MSCI is the Global Leader

Q4 2025: Solid Finish to the Year, Margins Hold Firm

MSCI reported a strong fourth quarter, closing FY2025 with results that were modestly ahead of our expectations on growth and adjusted profitability.

Q4 2025 operating revenues increased **~10.6% YoY to ~$822.5m**, supported by continued momentum in Index and Analytics, resilient subscription growth, and higher asset-based fees. Adjusted EPS of **$4.66** exceeded consensus and reflected sustained operating leverage, despite continued investment in ESG, private assets, and technology. Adjusted EBITDA margin remained robust at **~62%**, underscoring the durability of MSCI’s cost structure.

Overall, Q4 confirmed that MSCI exited the year with **strong recurring revenue momentum and stable margins**, providing a solid base for FY2026.

Full Year 2025: Actual Results vs Midlincoln Estimates

FY2025 results came in **slightly below our absolute revenue and GAAP EPS assumptions**, but **meaningfully ahead of our growth expectations**, particularly on an adjusted earnings basis.

Metric	Midlincoln Aug-25 Estimate	FY2025 Actual	Variance
Revenue	~$3.30bn	~$3.13bn	**-5.1%**
Revenue Growth	+6–7%	**+9.7%**	**Beat**
Diluted EPS (GAAP)	$16.50	$15.69	**-4.9%**
EPS Growth	~+6%	**+11.7%**	**Beat**
Adjusted EPS	~$16.5–17.0	**$17.28**	**Beat**

Key takeaways:

- Revenue growth materially exceeded our base-case assumptions, reflecting stronger pricing and asset-based fee contribution than anticipated.
- Absolute revenue and GAAP EPS were modestly below our estimates, largely due to timing and non-operational items rather than deterioration in fundamentals.
- Importantly, **adjusted EPS growth of +13.7% materially outperformed our expectations**, highlighting better-than-expected operating leverage and cost discipline.

Overall, FY2025 results reinforce MSCI's **recurring revenue model, pricing resilience, and margin durability**, while confirming that our August projections were **conservative on growth but slightly optimistic on absolute levels**.

Target Price Update

Given the stronger-than-expected FY2025 growth profile, particularly on an adjusted earnings basis, we **increase our 12-month target price to $580 (from $550)**.

The upward revision reflects:

- Higher confidence in MSCI's medium-term earnings power;
- Improved visibility on recurring revenue growth;
- Continued margin stability despite ongoing investments.

We maintain a **Neutral rating**, as valuation remains elevated relative to peers and historical ranges, limiting risk-adjusted upside despite strong fundamentals.

FY2026 Outlook and Updated Projections

Based on FY2025 exit trends and management commentary, we update our FY2026 expectations as follows:

FY2026E Projections (Updated)

- **Revenue:** ~$3.40–3.45bn (**+8–9% YoY**)
- **Adjusted EPS:** ~$18.5–18.8 (**+7–9% YoY**)
- **Operating margin:** ~50% (broadly stable)

Assumptions:

- Continued mid-to-high single-digit growth in Index and Analytics;
- ESG & Climate growth moderating but remaining above group average;
- Private Assets growth normalising following Burgiss integration;
- No material change in competitive dynamics with FTSE Russell or Solactive.

While MSCI's growth profile remains attractive, we expect **growth to gradually normalise** from

FY2025 levels as the revenue base expands and macro conditions remain mixed.

EBITDA Outlook:
MSCI generated approximately **$1.9–1.95bn of adjusted EBITDA in FY2025**, implying **~13–15% YoY growth**, driven by strong operating leverage and resilient margins (~60–62%). For FY2026, we forecast adjusted EBITDA of **~$2.05–2.10bn**, representing **~7–9% YoY growth**, as revenue growth normalises and margin expansion moderates amid continued strategic investment. We expect adjusted EBITDA margins to remain broadly stable at **~60–61%**, reflecting MSCI's pricing power and disciplined cost structure.

Conclusion

FY2025 results modestly exceeded our growth expectations and support a higher earnings base heading into FY2026. We upgrade our target price accordingly, while maintaining a Neutral rating given valuation considerations. MSCI remains a high-quality, wide-moat compounder, but upside from current levels appears balanced against multiple risk.

Business Overview

MSCI operates a diversified, data- and subscription-driven business model across four primary segments:

- **Index** – Benchmark licensing and asset-based fees linked to equity, factor, thematic, and futures indices. This segment represents MSCI's core franchise and benefits from deep client embedment and recurring ETF-linked AUM.
- **Analytics** – Portfolio and risk analytics, including Barra risk models, factor and optimizer tools, and performance attribution, primarily sold on a subscription basis to institutional investors.
- **Sustainability & Climate** – ESG ratings, screening, and climate risk analytics (including climate VaR), supporting regulatory compliance, investment decision-making, and risk management.
- **All Other – Private Assets** – Private market performance measurement, benchmarking, and datasets (including Burgiss), serving asset owners and managers across private equity, private credit, and real assets.

MSCI's client base spans **global asset managers, asset owners, banks and brokers, insurers, sovereign institutions, and wealth platforms**, with a high degree of cross-sell across Index, Analytics, and Sustainability products.

Geographic Revenue Mix (FY2025 run-rate)

Region	Americas	EMEA	APAC
Revenue Mix	**45%**	**39%**	**16%**

Note: Mix based on recent investor presentation run-rate and broadly stable versus prior periods.

Revenue by Segment (FY2024 GAAP)

Segment	Revenue ($m)	Mix
Index (derived)	1596.1	56%
Analytics	675.1	24%
Sustainability & Climate	326.6	11%
All Other – Private Assets	258.3	9%

Note: Total operating revenue FY2024 was $2,856m. Index revenue is derived as the residual after disclosed segments.

Client Type Mix (Qualitative Snapshot)

Asset Managers represent the **largest client cohort**, followed by Banks/Brokers, Asset Owners, and Wealth & Other platforms.

- **Index revenues** are driven primarily by flagship ETFs and institutional mandates via asset-based fees.
- **Analytics and Sustainability** revenues are predominantly subscription-based, characterised by high retention and recurring billing.

Key KPIs & Unit Economics

- **Assets benchmarked to MSCI equity indices:** ~$16.9 trillion
- **Recurring revenue:** >70% of total revenues; consistently high gross retention and positive price/mix
- **Asset-based fee sensitivity:** Primarily linked to equity AUM (ETF and non-ETF); basis-point realisations trend modestly lower over time but are offset by AUM growth and product expansion
- **Adjusted EBITDA margin:** High-60s to low-70s at the group level;
  - Index remains the highest-margin segment
  - Private Assets is lower-margin but faster-growing and strategically important

Cost Framework & Assumptions

MSCI's cost base reflects its data-intensive, people-driven operating model.

- **Cost of revenues** primarily includes data acquisition, content ingestion, and market-data royalties.
- **Operating expenses** are dominated by personnel costs (R&D, sales & marketing, and G&A) and technology infrastructure.

For forecasting, we assume:

- **Personnel cost inflation** of ~4–5% in FY2025, moderating to ~3–4% thereafter
- **Net hiring** focused on Climate, Private Assets, and engineering capabilities
- **Vendor and data costs** rising with product breadth, partially offset by AI-enabled productivity initiatives
- **Capitalised software investment** broadly consistent with prior years

Overall, MSCI's cost framework continues to support **margin stability**, even as the company reinvests in growth areas and product innovation.

Forecasts

We update our base-case forecasts to reflect FY2025 actual results and improved near-term visibility, while maintaining a conservative medium-term growth profile.

- **Revenue CAGR (FY2025–FY2029):** ~7–8%
    - **Index:** ~7% (AUM beta, pricing, and incremental futures monetisation)
    - **Analytics:** ~8% (risk, factor, and performance tools)
    - **Sustainability & Climate:** ~8–9% (growth moderating but remaining above group average)
    - **Private Assets:** ~9–10% (normalising following the Burgiss integration)
- **Group EBIT margin:** ~50% on a mid-cycle basis, broadly stable as pricing and scale offset continued investment
- **Tax rate:** ~20%
- **Net share count:** ~79–80m, assuming ongoing buybacks broadly offset share-based compensation

Overall, we expect growth to **normalise from FY2025 levels**, but remain supported by MSCI's recurring revenue base, pricing discipline, and cross-sell across products.

DCF Valuation (10-Year Explicit Forecast)

Our DCF framework is unchanged in structure, but now anchored to a higher FY2025 earnings base:

- **Top-line growth:** Fades from ~9% in FY2026 to ~5% in the terminal period
- **EBIT margin:** ~50%
- **WACC:** 8%
- **Terminal growth:** 3%
- **Net debt:** ~$4.0bn

Implied equity value: ~**$30–31bn**, or **~$390/share**

Sensitivity Analysis

- **+50bps WACC:** ~$350/share
- **–50bps WACC:** ~$425/share
- **Terminal growth ±50bps:** ±~$25/share

While the DCF continues to point to valuation below the current share price, we believe the market continues to ascribe a premium for MSCI's franchise quality, recurring revenues, and index leadership.

Comparables (FY2026E / Next-12-Months)

Company	Ticker	P/E	EV / EBITDA	Sales Growth
MSCI	MSCI US	**33–35x**	**22–23x**	**7–9%**
S&P Global	SPGI US	29–31x	21–23x	6–8%
Moody's	MCO US	28–30x	20–22x	6–8%
LSEG (FTSE Russell)	LSEG LN	24–26x	17–19x	5–7%

MSCI continues to trade at a **premium to peers**, though forward multiples compress modestly into FY2026 as earnings grow.

Competitive Landscape & Vanguard / FTSE Angle

FTSE Russell (LSEG) remains the most credible large-scale competitor, with strong franchises in U.S. small-cap (Russell 2000), UK equities, and fixed income. The use of FTSE benchmarks by Vanguard and other asset managers demonstrates **client willingness to alternate benchmark families**, particularly where cost and multi-asset bundling are priorities.

Solactive continues to compete aggressively on **cost and customisation** in thematic and long-tail indices. While this constrains pricing at the margin, it has **limited impact on MSCI's flagship global and EM indices**, which remain deeply embedded in institutional mandates.

S&P Global overlaps with MSCI across indices and analytics and competes via bundled data offerings, though MSCI retains leadership in global equity benchmarking and ESG analytics.

Risks & Upside Scenarios (Refreshed)

Downside risks

1. Valuation multiple compression in a weaker equity market
2. Incremental benchmark share shifts toward FTSE Russell or low-cost providers
3. Regulatory or reputational disruption to ESG methodologies
4. Slower-than-expected growth in Private Assets post-Burgiss

Upside scenarios

1. Stronger equity and ETF inflows supporting asset-based fees
2. Greater pricing power in Climate, factor, and futures products
3. Successful cross-sell between Index, Analytics, and Private Assets
4. Value-accretive M&A or faster-than-expected private-market adoption

Conclusion & Rating

MSCI remains a **high-quality, wide-moat financial infrastructure platform** with durable cash generation and strong recurring revenues. FY2025 results exceeded our growth expectations, supporting a modest increase in our valuation assumptions.

We therefore **upgrade our 12-month target price to $580 (from $550)**, while maintaining a **Neutral** rating given limited implied upside and MSCI’s premium valuation relative to peers. A more constructive stance would require evidence of sustained double-digit organic growth, materially higher futures monetisation, or a more attractive entry point.

Index & Research Franchise: Thought Leadership in Market Structure and Investment Decision-Making

MSCI's index and research business sits at the intersection of **market structure, regulation, and portfolio construction**, giving the firm influence well beyond traditional data provision. Its indices are not only benchmarks, but **decision frameworks** that shape capital allocation across global equity markets.

Index Leadership

MSCI's flagship indices (ACWI, World, Emerging Markets, factor and thematic families) are deeply embedded in institutional mandates, ETFs, and derivatives. This embeddedness creates significant **switching costs**, as benchmark changes often require client approvals, mandate amendments, and portfolio rebalancing. As a result, MSCI's index business exhibits **high client stickiness, long product lifecycles, and durable pricing power**, even as headline index fees face gradual compression over time.

Importantly, MSCI's role extends beyond index calculation. Through **index construction rules, rebalancing methodologies, and classification frameworks**, MSCI effectively defines how markets are segmented and accessed by global investors. Decisions around country classification, factor definitions, and index inclusion criteria can materially influence cross-border capital flows, reinforcing MSCI's strategic importance to asset owners and regulators alike.

Research & Methodology as a Competitive Advantage

MSCI's research capabilities underpin its index, analytics, and sustainability offerings. The firm's methodology-driven approach—covering factor research, risk models, climate scenarios, and ESG frameworks—allows MSCI to position itself as an **independent arbiter of market structure**, rather than a purely commercial data vendor.

This research-led positioning supports:

- Credibility in index consultations and methodology changes
- Adoption of new products (e.g., climate, factor, and custom indices)
- Cross-sell into analytics and sustainability solutions

Over time, this reinforces a **virtuous cycle**: research informs index innovation, index adoption drives data usage, and data usage strengthens research relevance.

Balancing Innovation and Standardisation

A key challenge—and opportunity—for MSCI is balancing **innovation with standardisation**. Clients increasingly demand customisation (thematic indices, tailored benchmarks, private asset analytics), while regulators and asset owners value transparency and consistency. MSCI's scale allows it to innovate at the margin while preserving the **core standard-setting role** of its flagship indices.

In this context, competition from lower-cost providers primarily affects bespoke and thematic products, while MSCI's leadership position in global and emerging market benchmarks remains structurally intact.

Strategic Implications

Looking ahead, MSCI's index and research franchise positions the company to:

- Benefit from continued growth in passive and rules-based investing
- Shape the evolution of market classification, sustainability standards, and factor investing
- Act as a strategic partner to asset managers navigating regulatory and structural market change

We view this **thought-leadership dimension** as a critical, and often underappreciated, component of MSCI's moat—supporting long-term relevance even as growth normalises.

Artificial Intelligence and the Evolution of Index Construction

Artificial intelligence is increasingly reshaping how indices are designed, maintained, and consumed, moving the industry beyond static benchmarks toward more **adaptive, data-rich frameworks**. For MSCI, AI is not a disruptive threat to the core index business, but rather a **force multiplier** that enhances research depth, scalability, and product innovation.

At a foundational level, AI enables MSCI to process **vast, unstructured datasets**—including corporate disclosures, regulatory filings, news flows, satellite data, and alternative data sources—at a speed and consistency that would be impractical using traditional methods. This capability strengthens the analytical backbone of index construction, particularly in areas such as factor definition, corporate classification, and market segmentation.

From Static Benchmarks to Adaptive Index Frameworks

Historically, indices have been rules-based and largely static, changing only at predefined rebalancing intervals. AI introduces the possibility of **more dynamic index frameworks**, where signals such as liquidity, risk concentration, sustainability metrics, or factor exposures can be monitored continuously and incorporated more efficiently into index methodologies.

While MSCI remains cautious about preserving transparency and replicability—critical attributes for benchmark adoption—AI allows for **more nuanced rule design**, improved anomaly detection, and faster stress-testing of methodology changes. This improves index robustness without compromising standardisation, a key requirement for institutional investors and regulators.

AI as an Enabler of Customisation at Scale

One of the most significant implications of AI is its ability to support **mass customisation**. Asset managers increasingly demand tailored benchmarks aligned with specific objectives—climate alignment, factor tilts, regulatory constraints, or risk budgets. AI-driven research and automation allow MSCI to design, test, and maintain customised indices **at scale**, while preserving economic viability.

This capability strengthens MSCI's competitive position against lower-cost index providers. While competitors may offer cheaper bespoke products, MSCI's combination of AI-driven research, trusted methodologies, and global coverage enables it to deliver **customisation with institutional-grade governance**, a key differentiator for large asset owners.

AI and the Integrity of Index Methodologies

AI also plays a critical role in safeguarding the **integrity and credibility** of indices. Automated anomaly detection, pattern recognition, and consistency checks can identify data quality issues, corporate action irregularities, or classification inconsistencies more effectively than manual processes. This is increasingly important as indices incorporate complex datasets, particularly in ESG and climate-related products.

By embedding AI into quality control and methodology oversight, MSCI enhances confidence among clients that its indices remain **objective, repeatable, and resilient**, even as the underlying data universe grows more complex.

Strategic Implications for MSCI's Index Franchise

From a strategic perspective, AI reinforces MSCI's position as both a **standard-setter and an innovator**. Rather than eroding pricing power, AI-driven capabilities support premium positioning by enabling faster innovation, deeper research, and stronger client engagement. Over time, this may allow MSCI to expand monetisation beyond traditional licensing into **analytics-enhanced index solutions**, blurring the line between benchmarks and decision-support tools.

We view AI as a **structural tailwind** for MSCI's index and research business—supporting efficiency, product breadth, and long-term relevance—while preserving the core attributes that underpin the firm's moat: trust, transparency, and methodological discipline.

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