Morningstar 2024 Shareholders' Meeting

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Opening Comments – Joe Mansueto

Joe Mansueto, Executive Chairman, Morningstar: We'll go ahead and get started. Good morning. Good morning, everybody. Great to see all of you. I am Joe Mansueto, Chairman of Morningstar, and it's my pleasure to welcome all of you to the 2024 Annual Meeting of Shareholders. We're so glad you could join us this morning, so thank you for that. And we especially want to thank all those who traveled to be with us and all of those who come to this event year after year. We're also streaming this meeting live on the internet. So, if you're watching via the live stream, good morning to you as well.

So why don't we jump right in. And before we get started, take a look at our Safe Harbor statement. So, our format for today's meeting is the same in years prior – three parts to our meeting. The first part is a formal part of the meeting, which shouldn't take too long. We'll elect our directors, appoint our auditors. That will be followed by management presentations. This year we have Kunal Kapoor, our CEO, followed by Jason Dubinsky, our Chief Financial Officer. And then every year we do a deep dive on one part of our business. This year we're going to do our data, research, and analytics part of our business. We have James Rhodes presenting. He is the President of those lines of business, as well as Lee Davidson. Lee comes up from the analyst side, who is a quant analyst, and heads up the data and analytics part of the business. So, I think you'll enjoy hearing from James and Lee on that very core part of our business.

Then we'll take a short break. We'll come back, and it's always a highlight of the meeting, the question-and-answer portion of the meeting. As you may know, with our IR policy, we have one opportunity that we offer shareholders each year to ask questions live of our management team in person. So, we hope you've come with plenty of questions. So, we look forward to hearing what's on your mind and answering your questions.

Virtual Meeting Access Instructions

So, if you have questions that you'd like us to address during the Q&A session, you'll have an opportunity to ask them via the questions text box on the Broadridge platform, or if you're joining through the Zoom platform via chat or through audio or video participation. Anyone here in the room can simply raise their hand, and when we reach that portion of the meeting, we will bring a microphone to you. We very much look forward to your questions. I would note that if you are not here in person and would like to vote during the official part of the meeting, you must be logged on to the Broadridge platform using your control number provided with your proxy materials. The meeting is being simulcast on Zoom and the Broadridge platform, so all participants will be able to hear and watch the meeting in its entirety.

Official Business of the Meeting

Now before we get started, I'd like to introduce our directors, all of whom are in attendance today. As I call your name, I'd like each of you to stand and face the audience. Robin Diamonte, Cheryl Francis, Steve Joynt, Steve Kaplan, Kunal Kapoor, Gail Landis, Bill Lyons, Doniel Sutton, and Caroline Tsay. Our board is a strong and independent board, and it continues just to be a great resource for us. So, I'd like to thank all of you for your contributions and guidance to Morningstar.

Now, I'd like to introduce our executive officers. We have Kunal Kapoor, our CEO; Jason Dubinsky, our CFO; and Danny Dunn, our Chief Revenue Officer.

I'd also like to note that our independent auditors for 2024 KPMG are in attendance and available for any questions.

Now I'd like to get started with the official business of the meeting. Greg Malatia, a representative of Broadridge Financial Services, is here today to act as the Inspector of Elections. Robyn Koyner, our Corporate Secretary, will now report on the mailing of the notice of the meeting and the number of shares represented at today's meeting.

Robyn Koyner, Corporate Secretary & Global Head of Corporate, Legal: Thanks, Joe. We're holding this meeting pursuant to a notice mailed on March 28 to each shareholder of record on March 11. A certified copy of the list of shareholders of record has been available at our office for the last 10 days. I can report that we have established a quorum for the conduct of business properly before this meeting.

Joe Mansueto: Thank you, Robyn. The first item of business today is the election of our directors. We will elect 10 directors at today's meeting. The directors elected today will hold office until the 2025 Annual Shareholder Meeting or until their resignation or removal. The nominees for directors are Robin Diamonte, Cheryl Francis, Steve Joynt, Steve Kaplan, Kunal Kapoor, Gail Landis, Bill Lyons, Doniel Sutton, Caroline Tsay, and myself, Joe Mansueto.

The second item of business is the Say-on-Pay vote. Each year we ask our shareholders to vote on an advisory basis to approve the compensation of our named executive officers as described in our proxy statement. Our executive compensation program is designed to attract and retain talented executives and align compensation with long-term value creation for our shareholders.

The third item of business is the ratification of the appointment of KPMG as our independent auditors for 2024. The board recommends a vote for proposals one, two, and three.

Voting Instructions

There is no further business scheduled to come before this meeting. I now declare the polls are open. If you are a shareholder joining on the Broadridge platform, you may use the 'Vote Here' button on the lower right portion of the screen to vote your shares at this time. If you are here in person, please raise your hand, and our inspector of elections will bring you a paper ballot. Please remember that if you've already sent in your proxy card or voted by the internet, your shares have been voted accordingly. You do not need to vote today unless you are voting for the first time or wish to change your previous vote.

If anyone has a question or a statement related to the proposals, please raise your hand and wait to be recognized. If you're joining virtually, please utilize the 'Ask a Question' field in the lower left portion of the Broadridge window or via chat in Zoom. As I mentioned, there will also be a general Q&A session later in the meeting. So, right now, we'll take questions that are only directly related to the three proposals. Any questions on those proposals? Okay, we are seeing none. I now declare that the polls are closed. Robyn, will you report on the voting results?

Robyn Koyner: Our Inspector of Election has advised me that more than a majority of shares represented in-person or by proxy and entitled to vote at this meeting have been voted for each of the director nominees, in favor of our compensation of our named executive officers and to ratify the appointment of KPMG. We will file an 8-K with more detailed voting results no later than May 16.

Joe Mansueto: Thank you, Robyn. So, this concludes the formal portion of the meeting. I told you it would be short. But before we join the formal meeting, I just have a few final comments. First, I want to thank Kunal Kapoor, our management team, and everyone at Morningstar for all of their hard work. Over the past year, I think we've made solid progress in growing our company. After a year of investment and dealing with a higher interest rate environment, we've steadily grown our margins while maintaining good revenue growth. We've controlled costs well and realized the returns on the investments we've been making in our business that create long-term value. So, my view is that the company is in really solid shape and headed in the right direction.

Now, this year also marks our 40th anniversary of our founding. It was in 1984 that I left my job as a stock analyst here in Chicago to found Morningstar. It combined my passion for investing with my entrepreneurial aspirations. I could see that funds were growing. There weren't a lot of sources of information to make intelligent investment decisions. And moreover, I thought mutual funds were really the best vehicle for the average person to use to access the capital markets. So, it seemed an attractive opportunity to get started building our investor-focused business.

Now, the first year, we did a whopping $100,000 in revenue. The second year, $120,000. The next year, $400,000, then a million. then $2 million, then $4 million, then $11 million, then $20 million, then $30 million, on up to last year, as you know, we did over $2 billion in revenue. We've stayed laser-focused on solving investor problems and helping them make better investment decisions. So, starting from a very small base, we've grown steadily over 40 years. As Charlie Munger once said, never interrupt compounding.

Now, we've been fortunate in attracting just terrific people to work at Morningstar over the years, really thousands of them, to create our special mission-driven culture. So, a huge thank you to everyone who has worked at Morningstar over the past 40 years for everything that you've done to build the company into its leading position today. We would certainly not be where we are without all of your efforts.

Now, as proud as I am about our past, I'm even more excited about our future. We have incredible franchises with strong growth prospects, a talented and experienced global workforce, and the financial resources to pursue our mission with vigor. I'm just as excited today about our future as I was 40 years ago. These are great businesses to be in with really promising futures.

Now, it's also an appropriate time to remember and reinforce our entrepreneurial roots. Although we're much larger today with ample financial resources, we don't want to get bureaucratic, complacent, and slow. We need to stay hungry, scrappy, and have a strong sense of urgency around new product development and stay focused on solving investor problems. It's paramount to keep this entrepreneurial mindset as we look to the next 40 years.

And then finally, we are very appreciative of you, our shareholders, for all of your support and entrusting us with your capital. We strive to be good stewards of your investment and earn acceptable rates of return for you. We strive to build a great, enduring company and take a very long-term view, so it takes shareholders like you to support that vision. And it's a responsibility we take very seriously. You've been a great group of shareholders, some of whom have been here since our IPO. So, thank you for all of that trust and support.

And now, I'm going to turn the floor over to Kunal Kapoor, our CEO. Kunal is in his eighth year as our CEO and doing just an outstanding job. But before he comes up here, we have a short video to watch. So, let's roll the video.

[Video]

Empowering Investor Success – Kunal Kapoor

Kunal Kapoor, CEO, Morningstar: Good morning, everybody, and welcome to Chicago if you're here in person or thanks for joining us online if you're watching over Zoom or on the Broadridge platform. We're so thrilled as always to welcome you here, and as Joe said, it's a special day for us when you all are here, our shareholders, because obviously, we're working to grow this company and grow the value of this company on your behalf, and we take very seriously the responsibility that you've placed in us today.

So, we've got a great agenda for you as Joe was saying. Jason is going to follow me up here in a few minutes and we'll do a tag team talking about strategy and the financials and then James Rhodes, who runs our data and analytics area, will be here. James even wore a coat today, so it's a big upgrade – you know it's a serious day, James – and he will be joined by Lee Davidson, our data and analytics officer. So, we've got a great agenda for you, and I think you will enjoy what we've got planned for you.

I also just want to recognize Morningstar's management team mostly seated here in the second and third rows, my colleagues who make it awesome to come to work every day. So, thank you guys for doing a great job. It's always fun to come to work with all of you and I think hopefully many of you have had a chance to meet them out here in the cafe as well.

One of the knowledge that earlier this week too that we announced that John Gabbert, the founder and leader of Pitchbook is stepping down to take some time away, be with his family and I just want to acknowledge that John is one of a kind and has added amazing value to PitchBook and Morningstar and been a fantastic partner and friend. We're going to miss him. But what I want to tell you is we have a great team behind John at Pitchbook and they are ready to step up. We were in New York this week planning and looking forward. And so, the PitchBook part of the business is in good hands and Rod Diefendorf, the Chief Operating Officer, is here as well, and if we have some PitchBook-specific questions, I may throw Rod a question or two to include him in the mix. So, thank you all for being here and special thanks to John as well.

Okay. Now on to my presentation and what I've got planned. It is a special month for us at Morningstar. Next year marks 40 years, and Joe is never one for doing too many celebrations, but it is a good moment for us to look back, and so we have been doing that. And this is an iconic Morningstar photo from way back when two guys on the beach in Chicago dressed in suits. You know you're dealing with nerds when that is the case. But it sort of captures everything about Morningstar, the independent spirit, the sun coming up and just the hope and the vision that we have, and that's always a photo that we love. When I threw it up during a practice session, Don said to me, 'We all used to wear suits in those days, and then one day, Joe stopped wearing suits, and so we all stopped wearing suits as well.' And that's sort of how it all came to be.

But among the many things that has persevered here at Morningstar is our mission of empowering investor success. This permeates the firm when we make decisions in any part of the business, we are thinking about how we can champion the investor and do the right thing for the investor. And I can tell you it's not always the easiest thing and many of you in our industry know how challenging it can be, but we've turned away business in the past year and sometimes that means we grow a little bit slower at the start because of the things we're doing. But always in the long run, it builds a business that compounds and that has staying power, and I think that really makes people proud to come to work here. And it's seriously a very significant difference maker.

We went public in 2005 and as a part of going public we also were very much focused on creating an equitable democratic experience for all those who were Morningstar shareholders. And so, I pulled this out from our original filings, and we've persevered with this approach of making sure that everyone has equal access to us. And we don't host calls largely because we want to stay focused on the long run, but we've heard your feedback and I've tried to do things such as add that quarterly letter recently. So hopefully, you're finding that we are appropriately keeping you informed about our business.

Morningstar Today

So, Morningstar today, where are we and what does the future in fact look like? The mission is evergreen, and I think the strategy is pretty evergreen as well. Our strategy is to deliver insights and experiences that make us essential to the investor workflow. Now if I ask different people who work at Morningstar what their favorite word is in there, I'm guessing our research folks may point to the word insights, I'm guessing product folks like James may point to experiences. I go to workflow. I love workflow. And when I wake up, I think about workflow and how are we embedded in the investor workflow. Because if you're embedded in the investor workflow, you go beyond just being something that's useful reference. People come back to you and then when they think about how to grow with you, you think about all the adjacencies you can serve, that's how we've grown our business. And across our business, we think about the investor workflow and how we can grow into adjacencies so we're embedded in more and more of the workflow. And so often in meetings you'll hear Mike Holt, who runs strategy and me talking about workflow, what's going on with the workflow. And so that's a word that we think is pretty pivotal in terms of how we grow.

And what's unique about this strategy is it means we serve all kinds of investors whether you're a small investor who has just graduated from college and you're coming to our retirement team and asking for advice and how to invest your first $100 into your 401(k) plan or whether you're a large sovereign fund that's looking for data on private markets, on ESG, you come to Morningstar because we can help you do all kinds of valuable research and become integral to the workflow that you have. And that has been the reason why we have continued to grow and also why we continue to be in markets that have large secular growth opportunities to them.

We Participate in Large Markets

What I love about this slide is that it shows that even as we've grown, the markets that we participate in continue to grow. And so, the opportunity for us to grow into them remains so much more significant than it is today. So, I like to throw these numbers around sometimes in meetings and our team always responds favorably to that sense.

Financial Highlights 2019 – 2023

Revenue has grown nicely, and Jason will talk about this as well and we'll dive into our adjusted operating income growth as well. Last year, obviously at this meeting, we talked a lot about why we let the margin go down and committed to you – I ended the meeting by committing that we were going to get back on track in terms of growing the margin and hopefully you've been seeing the evidence of that coming through nicely as well as we look to earn returns on the investments that we've made.

Annual Organic Revenue Trend By Product Revenue Type

Our business is largely stacked in this fashion with about three quarters of our revenue being recurring in nature and then having about a quarter of it come through asset-based and transaction-based sources. Obviously, we love recurring revenue because you get paid upfront and you get to take that money and then invest it in the business or put it to other pieces of work, but we have large opportunities in the other places as well and those are growing opportunities with markets that are much larger than what we serve today and margin opportunities as well that are substantially above where we are today. And so, we see an opportunity to grow and be much more profitable in those parts of our business over time as well.

Key Recent Accomplishments

And so, it's leading to accomplishments that I'm not going to spend a whole lot of time on here. But one that I'm particularly excited about that I'll highlight is our Retirement Group. We're serving more than 2 million users now on the managed account side which is a very significant milestone. When you think about our mission and how we reach folks, this is a pretty critical one. Brock Johnson is smiling there. He always gets happy when I mention his team, but they do do a great job.

I also just want to acknowledge on the other side, on the institutional side, our Indexes business continues to grow from strength to strength. And if you read my shareholder letter, I talked about the fact that we did this project of bringing the calculation engine in-house. It was built on our Moorgate acquisition from a few years ago and it's been one of the most successful technology projects in Morningstar's history. I was in the offices recently of one of the three large ETF providers and the person I was talking to there said, they couldn't believe how well the project had gone relative to what else they see in the industry and only legitimized their desire to do even more business with us. And so, that team deserves a lot of credit for how we've continued to execute nicely against our plans.

Strategic Priorities

Insights

In terms of strategic priorities, these should look very familiar to those of you who have been coming to our meeting or following Morningstar. We don't like to necessarily change our strategy much because we see the long-term values sticking to the trends that we see underpinning what's going on. We do test them, but we believe strongly that if we have good long-term strategies, we want to keep executing against them. And someone outside asked me what are clients talking about and what's on their minds most heavily, and it's that first one – this notion of how do you deliver differentiated insights to both public and private market investors as that world continues to converge so meaningfully, and that's true whether it's in credit, it's true whether it's in equity. And many of you know this. Some of you are managing money in the public markets and some of your firms are taking stakes now in pre-IPO companies. And so, you have that convergence, or you have large firms that were VC or PE firms that are now trying to have public market vehicles for holdings that have gone public. And so, you're starting to see this convergence or your large sovereign fund sitting there and trying to change your reporting suddenly because you own public and private equities, and that reporting can't be as different as it used to be. And so, this is a huge opportunity for us.

We Expand our Data Universe to Meet Evolving Investor Needs

And one of the ways that we approach it, probably the most important way that we approach it is by continuing to invest in our data. And if you've been coming to our meeting, I like to throw this light up and I like to pay attention to this on an ongoing basis even when we're not at this meeting because it shows fundamentally the growth of our databases because this is what underpins everything that we do. And we want to be transparent about it and we want to make sure our users see exactly what it is that we're doing on this front.

AI

In terms of Mo and AI, it's certainly been something that's been an area of focus. I'm not going to spend a ton of time on it up here largely because James and Lee are going to be spending time on this in their presentation. But what I'll tell you is we approach this through the lens of how do we take away friction, how do we get people to the answers they're seeking sooner than they might otherwise get to those answers? And that pertains to both things we're doing internally and for our clients. So, a simple thing that I like to talk about with our teams – and Rod bought this up yesterday too – is screeners. We have lots of screeners in our products and many of you probably are used to using screeners. In my view with where technology is going, the screener is dead, at least in the way that it existed prior. You want something conversational now. You want to come into a Morningstar product, you want to say, hey, I'm looking for A or B and start giving me the answers. Or I'm in PitchBook and I'm looking for certain deals and get straight to the answers. And then maybe you toggle around to try to figure things out and narrow it down. But the starting point cannot be a grid view with the kinds of things that you need to sort through, and that oftentimes takes 5 to 10 minutes. We've got to make it easier because we know the answers our clients are trying to get to and that's a huge part of the focus in that context.

Scale

Scale is all about how do we grow from here in a way that's efficient without adding a massive amount of cost to do that. Last year Danny Dunn, our Chief Revenue Officer, was here on stage talking about that from the lens of how we go to market, how we think about serving our clients. But in every part of our business, we think about that. Last year one area we've really invested in trying to think about how we scale it up is our research area. So, Mike Holt, who leads research, what we've tried to do is bring together all our different research functions in our different businesses really put them in one area and then just make sure the best of our research is populating all our products in a uniform way versus having too many disparate ways of that happening and that's the way we are trying to drive scale in research as example.

Talent

And then there's talent. Talent is, as Joe said, what underpins the firm. We're competing for talent all the time. But I think we have a differentiated value proposition, and we lean into it pretty strongly. And if you've been coming to these meetings, you've heard me say before when I've been asked the question what keeps you up at night, the first thing I always point to is that it's the next person who's hired at Morningstar. Right, Meredith? Meredith leads our recruiting. And the reason I always say that to folks is because with a firm like ours where trust is so important, where culture is so important, where the entrepreneurial drive is so important, the next person who walks in needs to feel it, needs to believe it, and needs to act on it. And so, whether it is members of the executive team interviewing undergrads or having lengthier interviews for senior people than you might see at other firms, it is because we want to make sure we get the right people in the door who want to build their career here and not just use this as a stop on their way to another job.

Segment Area Update

I'm going to wrap my part of the presentation now by just talking about our segments and their performance. We obviously shifted our financial reporting in recent months to provide you with some more granular data in this context.

2023 Revenue Growth Drivers

This should feel familiar though because we took an old chart that we used to show you and put it into a new format, but it shows the size of our various businesses as well as their growth rates in 2023. Obviously, the credit rating business does not look as hot in 2023 given what happened there. But in general, we feel pretty good about our aggregate growth drivers.

Morningstar Data and Analytics

On data and analytics, which James will spend a lot of time on, I think the wonderful thing here continues to be that the number of use cases we have for our data and research only continues to grow. And with the advent of AI one of the things we're learning is that our content – and I'm putting data and research generally in a content bucket – is even more valuable than ever before. And we're thinking more than ever about how do you monetize that in the world that we're heading into and also how do you protect it given that more and more IP has become – used without permission, so to speak. I'll also add that while we talk a lot about the traditional use cases for asset managers and wealth managers, it's worth noting that this part of the business has also benefited from redistributors using more and more of our data as well as regulatory use cases which has been a fast-growing part of this business in Europe in particular.

PitchBook

With PitchBook, we continue to see good growth at the core. So, it's certainly been a challenging 12 to 18 months when it comes to deal volume. You've seen the industry slow meaningfully. But if you look at our core clients in the PE and VC space, they're as engaged as ever. We continue to try to figure out appropriate ways of serving the corporate market which has certainly provided some degree of volatility in this part of the business. But we feel very good about our ability to continue growing not just here in the US but in other parts of the world as well.

We're aiming to substantially be done with the LCD integration in very short order. It's been an integration that's taken a lot of work, but we see lots of good markers along the way in terms of how things are going. And one of the most important things I told you at the start is just the underlying data and we've been growing all the data that we're collecting here at double digit rates in the past year. And we can see the uptake of the research we're starting to put out. If you're an LCD user, you know the kind of email you used to get pre-ownership by us and the kinds of information and the formats you're getting it in now. It's a sea change. And in fact, last month, we distributed to nearly 15 million recipients and so it's very meaningful in that sense. It was our high for that type of research relative to what we've seen before. And so, we're optimistic and happy to dive into that a little bit more in the Q&A as well.

Morningstar Wealth

Morningstar Wealth, we made some strategic decisions in the past year in terms of how and where we wanted to focus on this part of the business. We're putting a bigger focus on third-party platforms for growth here as well as the international part of this business. As you may be aware, we've been investing behind what was the non-Australian assets of Praemium, an Australian company we bought. It's largely UK-focused, but we've been investing behind that part of the business and it's growing really nicely. And we have a desire here to continue on the path to profitability and I think we've made some really good but tough decisions to make sure that the business can get there sooner than later.

Morningstar Credit

And then on credit, I would say that obviously there's a sea change just in the past four months. What you've seen happen beginning late last year and into the first quarter of this year has been meaningful in terms of issuance. You're seeing even the structured markets in the US come back. When the team talks to me the two things that I would say that I'm particularly excited about when I look at the data is our growth in the fundamental space in Europe which has been incredibly meaningful. And then, the other thing that I'd point to is last year we talked about adjacencies in private markets in the middle market and we're growing nicely in those areas as well. If Detlef Scholz, who leads this business was here today, he would tell me, and Kunal you should be talking about the data part of the business too which while it's small has surpassed our expectations thus far in terms of what it's been able to do. So really good growth coming from that part of the business.

Morningstar Retirement

Morningstar Retirement, a steady very profitable business for us here. What we're really trying to focus on here is how do we continue to drive connections to record keepers and the like, how do we ingest more data so we can give more personalized advice, and how do we drive a tighter connection to the wealth space. There's a huge and growing opportunity for advisors, particularly in the United States, to step into the retirement space. And we are at the forefront of trying to help them figure out how to compete for those assets and effectively serve their clients in an area that candidly many of them have not touched until recently.

Corporate and All Other: Morningstar Sustainalytics

And then in our corporate and all other segment, I'll start by highlighting Morningstar Sustainalytics, which while growth has come down and many of you asked last year and in our ongoing Q&As about the political environment, there's no doubt that it provides a headwind and is an issue. But I'd point to a couple of things. One which is stating the obvious that obviously it's different outside the US, particularly in Europe. But I think the thing that's often lost about this part of the business too is just the institutional market has not slowed. And we did a voice of the investor survey and we found that asset owners in particular continue to go full tilt into finding use cases for this data. And more and more they're trying to find use cases that actually help them drive returns. And they're trying to find the efficacy of the data more so than ever versus just trying to check boxes.

Finally, while adoption in the wealth and retail spaces has been slower around the world, it's a harder, I think, thing for people to wrap their heads around. I'll end here by saying that personalization is only growing. And no one comes up to me and says I want less personalization in the future and not more. And the underlying data that will enable personalization in those channels is going to come from this part of the business. And so, we're quite excited about that long-term opportunity and are continuing to thoughtfully get behind it.

Corporate and All Other: Morningstar Indexes

Indexes I touched on a little bit earlier. It just continues to be a business that does well for us. I've said in recent meetings that I think we've started to hit true scale in this business. We're obviously one of the fastest-growing index providers around the world. And what's great is that we've gone from a mode of where I feel like it was always outbound inquiries to more inbound inquiries than ever more. And I would just expect that this business will continue to be on a strong trajectory for us, obviously somewhat subject to the whims of the markets. But when I think about who we're working with and the roster of our clients, it's quite impressive in that context.

So that's where we are at a high level. We're trying to ensure that we live our mission but execute on the strategy to drive strong value. I'm going to invite Jason up to the stage now to dive into some of the financials. And then we'll have Lee and James on stage and then follow that up with a quick break before Q&A. So, Jason, over to you.

Financial Highlights – Jason Dubinsky

Jason Dubinsky, CFO, Morningstar: Good morning, everyone. Welcome. It's great to see a packed house here in Chicago. Anyone dialing in, it's good to see you all virtually. And really appreciate your attendance today. As Kunal mentioned, 40 years of Morningstar, it's been special for me. I've been here for the past seven years. And to be part of the growth trajectory of this business over the past seven years has been really an amazing experience and looking forward to more milestones to come.

We've reached a lot of milestones over time here and many of you have been with us since our IPO. Many are new to the story. But regardless of whether you've been around for a while or you're new, we take your investments seriously. We take your engagement very seriously. We appreciate your participation in this meeting, and we look forward to a really good dialogue with you today.

Agenda and Topics

So, I'm going to cover a few topics. I'll dig a little bit deeper into our performance over recent periods. We've introduced segments, so I'll dive deep into that and talk about some trends and observations. And then I'll close with some important thoughts on capital allocation across the portfolio as well as shareholder returns.

Focused on a Path to Long-Term Sustainable Growth

So first I'm going to start with where I left off at the end of last year and that we are absolutely focused on a path to long-term sustainable growth here. And what does that mean? That means that we want to drive revenue in excess of expenses over time. We want to make sure that that margin accretion creates cash flow, that we can reinvest back into the business both organically, potentially look at inorganic opportunities, return cash to shareholders to drive returns. That's our focus. We think we've pointed the business back in the right direction as you've seen some of the actions that we've taken over the past year. And importantly, the stock price has responded, at least in the near term. This will continue to be a focus and I would say that our work is certainly not done.

2023 Financial Performance

So, if you look at our performance in 2023, first, Kunal mentioned that we reached $2 billion and that is a significant milestone for this business and Joe mentioned it as well. I think as I shared with you last year, we've gone from $1 billion to $2 billion faster than any of our peers in the public space. And that scaling very quickly has been a focus of our management team, but also the investments that we've made, both organically and inorganically, in the business to capitalize on market opportunities and set our portfolio up for success. If you look at our performance at the end of 2023, you can see that we grew the top line roughly 9%. Adjusted operating income was up by similar growth rates, so margins were flat year-over-year. Importantly, we started to see free cash flow accelerate.

As I stood up here last year and talked about 2022 being a bit of the tale of two halves. If you remember, we started the year out very strong and then the back half of the year given market headwinds and a lot of pressure in the credit markets. The second half of the year came under significant pressure. Last year, 2023, a little bit different. We started the year relatively slowly, still seeing some pressure in the markets, with credit headwinds. And as you saw in the back half of the year, we started to see the business accelerate. Had some market tailwinds, but again, some of the actions that we've taken across the business helped drive the performance and that is shown through.

Improving Trends

And what I tried to highlight is just how that trajectory has changed with improving trends. So, if we go back to 2022 and 2023, you could see that organic revenue in 2023 was double digits, that decelerated a bit in 2023. As you all know, our margins, given investments that we made in the business and some of the headwinds that we saw in the markets, led to margin decline, significantly in 2022 but flat in 2023 but down over that two-year period. And then because of the financial performance of the business and some of the inorganic investments, particularly LCD, you saw our ROIC go in the wrong direction over that period of time.

I think what's important to note is what I just mentioned that you're seeing an improvement in trend, particularly over the last three quarters. So, if you look at the back half of 2023, you can see that our growth rate started to accelerate into the first quarter of 2024. We started to see more significant improvement in margins year-over-year and about 400 basis points in the back half of 2023 and almost 1,000 basis points just here in the last quarter. And I think most importantly, the financial performance and good uses of capital, particularly we've repaid a significant amount of debt over the past year, has led to improving financial returns and you're starting to see that ROIC rebound from where we were just last year. So again, we like the performance and the trend that we're headed.

Key Actions Taken

And I think importantly, while we've had some market impacts that have certainly helped us, I would say this is largely the result of the significant actions that we have taken across the business, many of which you've seen through our results over the past few quarters. First and foremost is just refocusing the product portfolio in particularly key areas like Wealth and Sustainalytics and then accelerating and completing the integration of LCD. We've slowed headcount growth significantly across the company. We're about 1,100 heads down from where we were at this point in time last year, one, because of incredible discipline across the business but tough but important reductions that we had to take across key areas of the business just given some of the financial performance and to start to right-size those cost structures a bit better. And then in other areas making sure that we're utilizing technology and other things to help optimize performance without adding heads and we're putting a lot of focus on our shared functions as well as our corporate areas.

And outside of headcount, other cost is just being prudent across discretionary areas like travel and professional fees. And then we're taking real serious opportunities to consolidate our real estate portfolio as leases expire to bring different offices together to eliminate offices where we can and that's helping to provide important discipline and cost control in a pretty meaningful expense category for the company. So, we're going to continue to focus here. Again, our work isn't done, but hopefully, you've seen some of the deliberate actions that we've taken to point the business in the right direction.

Quarterly Performance Trends

And that has manifested itself in what I'd call a bit of an inflection point, back on a path to sustainable growth. So historically, as we've talked about heavy investments in the business, you could see that our expense growth was higher than our revenue growth over time. We invested heavily in the business. We were getting outsized revenue performance relative to peers because of that, but that wasn't the right long-term trend to get back to a path to sustainable growth.

I think what you've seen recently in the past few quarters is that those lines have crossed and that spread has widened between the revenue growth that we're reporting and the adjusted operating expense growth. And that's pretty important, again, to have margin improvement and the significant improvement in cash flow that you've seen.

What I'd say is that that's going to continue to be a focus on that spread. Quarter-to-quarter, we might have some variability in expenses inevitably as timing of certain expenses, as well as what we're lapping year-over-year. But I will tell you that we are intently focused on making sure that we maintain that spread over the long-term to drive value.

Q1 2024 Financial Performance

The trends continued into the first quarter. We published this a couple of weeks ago and you're all familiar with it, but overall, a really good start to the year. We had double-digit growth, really broad-based growth across our entire business. If you look at all of our reportable segments and product areas, we've doubled the operating income from the low point that we were last year. And importantly, we started to see some acceleration of free cash flow, even in the first quarter, which is typically a harder period for free cash flow because we pay out all of our Company bonuses. So, a great start to the year and a little bit of a different picture than we were when we're sitting here at this time last year.

Revenue and Profit Contribution

So, Kunal talked a little bit about our segment performance. I'm going to dissect it in a little bit of a different way for you in that we introduced this disclosure. Hopefully, it's helpful for all of you. And you're going to continue to see more transparency and commentary here to give you a sense of the underlying performance of our businesses that add up to the aggregate.

A few comments here. First and foremost, if you look at our performance in the last couple of years, you can see that both Data and Analytics and PitchBook represent an overwhelming majority of both our revenue contribution, importantly our profit contribution. So, that shouldn't be too surprising to all of you, just given the fact that these are leverageable business models, or licensed-based selling data, research or SaaS-based platforms. So, we've progressed nicely over time there and we like the profit contribution, but still think there's significant opportunity to improve that piece of the pie over time.

You note that our Morningstar Retirement segment is profitable. It's the highest margin that we have in the product portfolio and that's due to the scale and leveragability of that managed account offering that we've earned over time.

Credit, profitable segment, even despite the market headwinds that we've seen over the past couple of years. So, that's producing positive contributions to profit. I'll show you soon that we've seen some step function change in the contribution here, but we continue to believe that Credit can contribute meaningfully to our profit mix over time, and we're starting to see some good signs of improvements as the markets rebound.

On the other side, Wealth is a detractor. So, our Wealth business is not producing a profit today, although we've seen some improvement over the past year. And that's both, due to the sizable investments that we've made in the business to grow international wealth platform and our US platform to help drive assets and help those scale. As we mentioned last year, those tend to be longer-term investment cycles and horizons. But we have taken action in these areas to refine the product portfolio, as well as cut costs to get us to profitability faster.

And in that Corporate and Other segment, really two components. This is the aggregate profitability of both Sustainalytics and Index, and then we do disclose our overall corporate costs. So, we are seeing improving trends with both Sustainalytics and Index profitability, as well as our focus is to make sure we're leveraging that corporate bucket over time. So, the rate of growth slows, as well as reducing its percentage of sales on an aggregate basis and that's where you see this primarily in our G&A costs.

Segment Revenue and Margin Profile

So, trends over time and I'll start with Data and Analytics and PitchBook. Again, good growth, strong margins, highly leverageable and we've seen good progression over the past few years. One thing to note with PitchBook and it comes up in investor questions is, there's a bit of an anomaly in just the timing of the stock-based comp program there that it rewards more for achievement of three-year goals based on performance. That cycle ended in 2022 when we exceeded goals and had a large stock payment for the management team there. If we normalize for that, you'd see really a steady upward trajectory of margin over that period.

Retirement, a very stable and solid business, and you can see that stability over the course of that cycle. Even in the first quarter, you can see margin year-over-year improvement. Strongest in the portfolio, but we still believe there's more opportunity to expand adjusted operating income over time.

But the biggest detractors are both in Wealth and in Credit Ratings. And if you look at both of those charts, you could see that our performance in 2023 is lower, both our revenue and profitability than we were back in 2021. So, in 2021, we certainly had the benefits of markets rebounding out of the pandemic which helped the Wealth business, and we had higher asset levels, then we went through heavier investment cycles. And we had a record year in Credit Ratings in 2021 with credit issuance. So, those have both been a drag on our operating profit over this three-year period.

Adjusted Operating Income and Margin Walk

I think what's important to note is that we're starting to see some meaningful change in those trends. And what I tried to do here is give you a little bit of a walk between our margins from between fiscal 2022 and fiscal 2023, and then, on the right-hand side, the first quarter of 2023 compared to the first quarter of 2024. So, let me spend some time here.

So, if you direct yourselves to the top of the chart on the left, you could see that we had 16% adjusted operating income margins in fiscal year 2022 and 16% adjusted operating margins in fiscal 2023, so flat. So, if you look at the overall contribution of the portfolio, PitchBook was the biggest contributor to overall margin improvement year-over-year, Data and Analytics, Retirement, Corporate and Other generally neutral to margins. But because of what I just shared with you, Wealth and Credit were the biggest drags on margin year-over-year and really wiped out the positive performance in PitchBook if you look at the aggregate portfolio.

What's nice to see is those trends have changed pretty dramatically in the first quarter. If I showed charts in the second and third quarter of last year, the fourth quarter, you'd see similar trends. But if you look at that, you could see now that both Wealth and Credit, as well as Corporate and All Other, and I'd say that's really attributable to both Indexes and Sustainalytics, are now providing the biggest positive contribution to the year-over-year margin improvement relative to what we saw last year. And again, what I talked to you a few minutes ago, definitely because of the deliberate actions that we've taken in the business to point these areas in a better direction, and we've certainly seen some important recovery in some of the end markets, particularly in Credit Ratings and we're off to a good start this year. So, positive performance, and we definitely believe that these areas can continue to be tailwinds over time as we grow margin, and we grow the adjusted operating income pie of the company.

Delivering Revenue Growth

I talked a lot about margin but let me get back to revenue. Kunal set the stage, and we've talked about for years that we're very fortunate to be in addressable markets that are large, that we're growing, and because of our people, our IP, our products, we've got incredible opportunities to continue to expand our share over time and grow our various business areas based on the work that we're doing and the investments that we're making in the business.

So, if I look at capital allocation across these areas, we see opportunities, organic opportunities across all of them, and hopefully, you've seen over time being prudent on where we're putting our capital. What I would say is that revenue growth and margin expansion are not exclusive. We can do both. Our focus is to continue to invest back in the business with excess profit and largely self-fund our organic opportunities going forward. So, our focus is driving the top line, continuing to do that at growth rates in excess of what we've seen many of our peers over time, but do it responsibly while we continue to grow margin and invest back in the business.

Controlling Costs

We're going to grow revenue. We're a growth company. But it's also important that we're going to continue to control our cost base. And what I tried to share here is just a bit of a comparison of 2023 and where we had about 9% adjusted operating expense growth relative to the first quarter. I know it's a quarter versus a year, but about 1% adjusted operating expense growth. But what I tried to show here is just what's really changed in growth rates of some of our largest pools of cost.

First and foremost, it's just around comp and benefits. And you can see it was a significant driver. Year-over-year operating expense growth in 2023, the change in trend has been significant into the first quarter of this year, largely due to the actions that we've taken in headcount across the business. I think, as I mentioned here before, it represents roughly two-thirds of our cost base and controlling that cost, investing in the people we have versus expanding that pool over time is critically important and we believe that we can do that.

We've also been prudent in other discretionary, so around infrastructure and our cloud costs, as well as travel, and even in professional fees, you started to see those growth rates moderate, if not decline in the first quarter. I would note, in 2023, you saw a big decline in stock-based comp. That's really the reverse of what we saw in 2022 with the large payout under the PitchBook stock plan. So, 1%, I'm not suggesting that that's sustainable. Again, we want to look at the spread between revenue and expense growth, but I can assure you that we're focused in these categories and are going to make the right decisions going forward.

Path to Margin Expansion

And that's going to lead to margin expansion. And as we sat here last year and looked at the downward trends and were committed to that going up over time, hopefully you've seen that the actions that we've taken have resulted in improved operating margins, and we saw some of the changes in the last few quarters.

So, last year was about 16%. Importantly, in the last two consecutive quarters, we're about 20% on an adjusted basis, 20.4% in the last quarter. And our commitment remains the same. We believe we do have margin improvement in this business over time. Our focus is to get back to and exceed the historical peaks that we've seen in recent times in the business, and we believe we're on the trend to get there over time in a responsible way by making sure we're growing the top line, the right spread and expenses, and importantly, doing things in a way that are going to create value.

Capital Allocation & Deployment

Investing back in the business is critically important and how we allocate capital in other areas is as well. I think the nice thing is you see some of the changes and momentum in free cash flow. You can see that on a trailing basis, about $260 million. In our supplemental information, we try to adjust for some M&A earnouts and things like severance that are in that operating cash flow. If we normalize for that over the trailing 12 months, that would be about $340 million. So, pretty close to some of the historical peaks that we saw in 2021. So, cash flow is accelerating.

If you look at how we deployed capital over the last year, certainly increased the dividend, but other uses of capital primarily went to debt reduction. So, we were about $1.2 billion in total debt after the LCD acquisition. We saw a rise in interest rates. We thought it was very prudent to reduce that debt balance, to give us financial flexibility, as well as the interest burden. And you can see now that we're down below $1 billion. And our leverage ratio and how we look at it for our credit agreements and our outstanding notes is about 1.5 times. So, we've improved the balance sheet. We have significant financial flexibility.

I think the important thing is that you see that 2022 was a very strong year and we put a lot of capital to work for share repurchase. We're still going to focus on that and be opportunistic with share repurchase going forward. Last year, we just pivoted a little bit to reduce our outstanding debt. But share repurchase is an important part of the toolkit and we want to continue to be opportunistic as we look to the future, just as we have in the past to realize returns.

ROIC: Return On Invested Capital

And those returns are improving. We were at about a low last year, and we saw some declines over the past two years. I showed you the charts at the beginning of the presentation. Importantly, over the trailing 12 months, based on the improvements in cash flow and the improvements in financial performance and the debt reduction, you've seen over 12% ROIC on a trailing basis. So, back in the right direction.

What's really important is not just the trend here, is that we continue to have a comfortable spread between our return on invested capital and our weighted average cost of capital. So, we're headed in the right direction in order to do that and we still see a real good pathway here to continue to improve the business and realize returns.

MORN Total Return

We do a lot of work here. I know you all do. There's a very high correlation between ROIC and stock price performance over time, particularly increasing ROIC and that spread between ROIC and that weighted average cost of capital. This was a very different chart as we sat here last year than you're looking at today. We're pleased with the stock price performance and the reaction to our financial results. We're not done. Again, we're very focused on improving that over time, particularly, as I said, our compensation as a management team is directly tied to total shareholder return and that stock price. So, we're very focused on it. Happy to see that the shorter-term trends have improved. Importantly, the longer-term trends are getting better as well, mostly across the market. As Joe mentioned before, we want to be stewards of capital for the long-term and make the right decisions to continue to have long-term stock price appreciation and shareholder returns.

Focused on a Path to Long-Term Sustainable Growth

Finally, I'll end where I started again. Commitment to sustainable growth. We hit a lot of milestones this year – 40th anniversary; $2 billion of revenue; margins are improving. And again, over the past seven years that I've been here, I've seen many achievements and milestones at Morningstar and reiterate the fact that we have significant opportunity. And I am equally as excited sitting here today as I was when I first joined the company to continue to improve this business, to serve you, our shareholders, our stakeholders, our people, and achieve many more milestones in years to come.

So, I want to thank you for all of your support. I'm going to take a bit of a pause here, too. I think we're going to show a video, and then James and Lee are going to come up and talk about the Data business. I'm excited about the Data business, and if there's any takeaway that you have from that, along with the opportunities that we have, you'll see that we've come a long way from those binders that Joe and Don were carrying on the beach years ago. So, a big achievement, and those CD-ROMs, which you don't see as well.

So, let's show a video, and then let's welcome both James and Lee up to the stage. Thank you.

[Video]

Morningstar Data + Analytics – Lee Davidson

Lee Davidson, Chief Data and Analytics Officer, Morningstar: All right. Good morning, everybody. It's a privilege to be here today to talk to you about our Data and Analytics opportunities and our teams. Kunal talked this morning a little bit about talent. I've been here 14 years. I was actually one of those undergrads that came in one day and sat down with our C-suite and I was very nerve-wracking going through those interviews I can tell you. But ever since I walked in the doors here at 22 West Washington 14 years ago, it's been a culture of apprenticeship and mentorship. Just a wonderful place to work. I speak for the thousands of people here I know that feel the same way.

I first fell in love with our mission. We have a mission-centric culture. I was a customer support representative in my first role. There's nothing worse than an introvert talking to 50 strangers every single day. But I was talking to our financial advisor clients, and I got to see firsthand the value of our data that drives the investor workflows that they're responsible for, the outcomes of their investors. So, I fell in love with that. So, it's a privilege and an honor to be here today to talk to you about our data.

Data really does fuel our business. If you look at our family of brands, our franchises, you'll see data shining through in each and every one of them. If you listen to our leaders or employees speak, data is a key differentiator. If you log into our products, your workflows will be enriched by the data assets that we make available to you. If you read our research reports, you might be convinced by their arguments because of the data that we present. So, I'm excited today to talk to you about the state of data. The state of data is strong here at Morningstar. We're going to jump into it right now.

An Ever-Expanding Set of Databases 2019–2024

So, five years ago, my colleague Frannie Besztery gave you an update on data. Ever since then, we've been hard at work expanding our datasets globally in a way that we think is going to really enrich the investor workflow. We have one of the broadest and highest quality sets of financial data in the world. We're going to talk a little bit about how we make that come to life and also what's changed in the last five years. You can see here the cumulative growth rates from an investment point of view and entity point of view for each of these categories that we track.

A couple of things I want to highlight. First is our private market data. This is curated and delivered through our PitchBook platform. You can see there's been tremendous growth since 2019 as that VC/PE ecosystem has flourished, and we've been growing our collection efforts accordingly. If you've been following the league tables in the asset management industry, you also know that ETFs, model portfolios and collective investment trusts have been recent winners, and we've been expanding our coverage of those investment vehicles accordingly. ETFs, as you probably know, have a lot of advantages. They're low cost. They're more tradable. They're more tax efficient. They've also been buoyed by the trends in model portfolios as they're increasingly used as key building blocks. Model portfolios have been a key, if not primary, distribution mechanism for asset managers as they look forward to how to monetize their strategies. Collective investment trusts, in particular, have had cost advantages in large retirement plans.

We've also added some net new datasets in the last five years that you may or may not be familiar with, but these are critically important for the investor workflows that we've powered to give them a full picture of their portfolio and round out the edges of what we have available. So, one, we obviously acquired LCD and brought in a lot of private credit data. We've also entered into partnerships to bring in fixed income analytics and structured products analytics to really give a full picture, not just for those individual securities, but also funds that hold those products.

The Evolution of Managed Investments

I think the most important trend and the data point is 317% cumulative growth in the last five years of our strategy data. That I think is the most critical development of the future success of our data business. And the reason is because for charts like this. On the left-hand side you see, you probably know the decline of mutual funds' share of market over the last 5, 10, 15 years. It's been a decline. But at the same time, the number of vehicles that are being launched in the managed investments universe is growing. In the last five years, that's grown 28% over the last five years. We're entering into a time of increasing heterogeneity of the vehicles and the distribution mechanisms with which investment processes are delivered. That's what strategies are. They're an investment process and that's packaged up in a number of formats.

It's important that we recognize this trend and get on top of it. Not only because these things need to be compared, because if you think about an investor going – one of the most important choices is an investor going to the right vehicle in the right account at the right time. That could be the difference between a well-funded retirement and not or the difference between meeting their goals or not. And Morningstar has the premier managed investments database globally in the world.

We're going to talk a little bit about how we make this come to life, how we're going to walk the factory a little bit. But before I jump into the specifics of that, there's two things I really want to emphasize if you take away from the walk of the factory. The first is, we are made to scale. We have been scaling this operation – you'll see some statistics on this – pretty incredibly last five years, and we're ready for more. We've never met a data point that we didn't want to collect or an analytic that we didn't want to calculate. The other thing I want to mention, the second thing is AI is increasingly becoming part of how we do that and how we scale. It's not just talk, it's our philosophy. We have a human-powered AI-enabled data supply chain that's really putting us, I think, at strategic advantages.

Walk the Data Factory

Sourcing

So, the first category we're going to talk about when we walk the factory is sourcing. What do we ingest? And how has that changed the last five years? It's grown pretty tremendously. You can look at this from a number of different ways. You can look at this as the number of sources or entities that send us data every day. It's more than doubled. You can look at the amount of volume we take in. It's more than doubled in the last five years. Sources alone, over 16,000 today, volume, documents, you just look at PDFs, 130 million PDFs get sent to us every year now. You look at portfolios, it's also more than doubled. We have an arsenal of machine learning classifiers that have helped us to expand this. They do a couple of different things. Number one, they tell us what these files are. Is it a portfolio? Is it a price file? Is it an annual report? A prospectus? What is it? The second question that helps us answer is, is it a source that we trust for this information? And the third thing is, is this new information?

Standardization

Once we have the answers to those questions, we move on to the second phase of our data supply chain, which is standardization. We start to put these things in a format that you understand, that you're familiar with. And that's critically important because as the universe expands, we need to expand with it. And increasingly, we're using AI to extract information from these unstructured documents.

It was really exciting last year, 2023, late in the year, we deployed our first generative AI solution in a human-in-the-loop workflow for analysts to not only review and interact with generative AI LLMs that are ingesting this data. And really, that pairing is wonderful because it really ensures the high quality is maintained but gives us a lot of scale advantages. I think we're on the verge of unlocking a pretty incredible sea change in our operating model with the introduction of LLMs given their ability for reading comprehension and data extraction. It's going to be pretty exciting stuff the next few years.

Analytics

Then, we start to enrich this data with our own proprietary analytics and IP that advisors and investors are used to seeing from us. In addition to probably all the CFA-type of analytics material that you would be familiar with, like a tracking error, an asset allocation, sector attributions, what have you, we have over 450 unique methodologies at Morningstar that have been built up over the last 40 years coming from our research team. These are things you'd be familiar with, like the Star Ratings, the Style Box, the Sustainability Ratings, and the Medalist Ratings. And we're increasingly using AI to extend and leverage the insights of our people, of our experts, of our researchers. And there's no better example of that than the Medalist Ratings, which we rolled out last year. It effectively increased the analyst throughput by 10x. We went from covering 40,000 share classes on that managed investment chart, 40,000 to now over 400,000, almost half of the total universe that's available for sale. We increasingly are seeing ways to use AI to extend the reach of our team of experts.

Delivery

And the last mile here of the supply chain is delivery. At the end of this, what we deliver to our clients every day, this is just from the managed investment's point of view, is over 117 billion data elements, unique numbers that gets fed through our data feeds and to our clients and their products. And we stand behind every single one of these numbers today. It's pretty incredible. And we're increasingly focused in using AI to help clients and investors interact with this data in a frictionless way, to explain what it means in a scalable way.

So, let's take this all with an example. We're going to walk through the factory one more time, but we're using an actual real fund here just to showcase a little bit. We're going to highlight the vehicle agnosticism with which our factory works by taking the JPMorgan Equity Premium Income ETF, which is an active ETF that was launched in 2020. It's about $33 billion of AUM today. We're going to walk through how that works. So, we're getting files every day about this fund from regulators, from clients, from JPMorgan itself, you name it, we're getting it, and we need to extract the relevant information at the right time and place.

We're starting to put these things into formats you probably are familiar with. You're interacting with our mutual fund data for a long time. We're doing the same thing with the active ETF space. Again, that vehicle agnosticism shining through because we recognize the underlying core strategy here, whether that's our factor profile, pulling out the manager names and their investment levels, the asset allocation, the Style Box.

And then, we enrich that with the core analytics that you've come to know and trust from us, the Star Ratings, in which case here is a 4-Star fund. It's been doing well against its peers recently. It's got kind of a low carbon footprint in terms of the underlying portfolio companies it invests in. It's got a moderate risk profile. And it's got a Bronze rating. Our analysts think this has the potential to outperform over the next market cycle.

And then, lastly, we're delivering that now, not just through screeners and tools, but you'll see here as this little video starts to play through our chatbots. And these are integrated into Morningstar products today. We think this is increasingly the mode through which investors will start to want the information they need when they need it. You can see right here we're asking for, hey, give us some information about this fund, and it's going to pop up with price information and our ratings information.

Looking Ahead

So, I'm excited because I think as I look ahead, this is not a new playbook for us. All right? Like, this is something we do exceedingly well, I think, here at Morningstar. We know how to drive scale. We know how to add insights, and we're increasingly focused on delivering things efficiently in a frictionless way. We're going to talk – James is going to come up here and talk about how our data is enriching investor experiences and workflows in our products. I'm excited because I think the future is very bright for us. So, thank you. James?

Morningstar Data + Analytics – James Rhodes

James Rhodes, President, Morningstar Data, Research and Enterprise Solutions, Morningstar: We're still trying to find a binder big enough to hold those 117 billion data points. No luck yet.

Morningstar Data + Analytics Product Portfolio

All right. So, let's do a little bit of a deep dive into the Data and Analytics segment. So, it's a large segment. It's roughly $750 million of Morningstar's revenue. But when you look at the segment, it's really composed of four main areas; Data, Direct and Advisor Workstation are the largest single product areas within the portfolio. Then there's this bucket of other, which essentially includes products that are at different points of their lifecycle. So, for example, our legacy components business, which we're transitioning over to an API strategy, or our commodities and energy product offering, which is complementary to what we do as a whole. But a key takeaway from this is that the product portfolio is focused on those three main areas and is consistently growing at meaningful rates over the past several years.

Morningstar Data + Analytics Revenue and Adjusted Operating Margin

In aggregate, this is a good scalable business. We've delivered consistent year-over-year revenue growth, as well as strong margins and continued margin expansion. You see that trend over the past few years, as well as in the first quarter of this year.

Building a Connected Platform

So, what are the products that we're talking about? Kunal talked about Morningstar's unique position in the financial services ecosystem. I'd like to say that we are uniquely positioned because we touch a lot of different pieces, whether it's the individual investor, the advisor, or the asset manager, we have a solution that meets their needs. So, if you're an advisor, one of the

160,000-plus advisors who are using our software over an Advisor Workstation to generate proposals, or even if you're a redistributor, and Kunal talked about redistributors and how important those relationships are, where you're building your product or your website based on our data, we have a solution, and then if you're an asset manager who's building product to deliver out to investors, we have you covered.

But where we think a lot of the power comes in with what Morningstar has to deliver is when you can connect all of these pieces together. When you can connect what the advisor is doing to what the asset manager is doing and really build not just play in the ecosystem but be at the center of the ecosystem as a platform in which the data and the information can be shared.

Essential to the Investing Workflow

So, I'm going to walk through an example here. So, say you're an asset manager, and I'll pick on a small to midsize equity-only shop, maybe runs a few ETFs. There's a big trend, and Lee talked about this big trend in model portfolios. So, now you have to play in the model portfolio space. So, now not only do you have to think through what is in your particular portfolio and product offering, but you have to round that out with the model portfolio that you can then distribute out to platforms. So, you could use Morningstar software to essentially construct your models and then publish them to our databases.

And now, let's say you're a home-office at a larger advisory firm, and your job is really to understand what's available out there in the investing universe and what do I want to make available to my advisors to offer to clients. So, maybe I take in those model portfolios and, you know, they're pretty good, but I want to do some customization. I want to maybe swap out a fund or two or change the allocation. You can use Morningstar software to do that.

The next step is that you then want to push that out to your advisors. So, your advisors out there in the field engaging with clients, providing investment advice and now they can use the product shelf that was approved by the home-office to do that in a way that's consistent with the philosophy of how the firm wants to provide advice. And the really cool thing here is that this is an ecosystem and a lifecycle that's connected.

So, when an advisor then generates that proposal, that information can feed back to the home-office. And this is where you can play with products like our enterprise analytics offering, understanding risk and compliance of what are advisors doing, are portfolios within the guidelines that we have at the firm. And then that also feeds back to the asset manager where the asset manager can say, okay, what is market demand? What are people putting money in? Where are they investing? What type of products should I be creating? Because at the end of the day, it's supply and demand, right? The asset managers want to produce the things that investors want to buy, and they could use this connected ecosystem to gain those insights.

And ultimately, who benefits at the end of the day in this workflow? The investor. Back to Kunal's opening about empowering investor success. This connected workflow that's based on Morningstar's data, calculations and methodology empowers that success.

It All Starts With the Portfolio Manager

So, I'm actually going to walk through some live demos. We'll call them pre-recorded demos that should all work with the click of a button, but kind of explaining how each of our products can service specific users at a particular firm but do it in a way that removes all of that friction from the workflow.

So, we'll start with the portfolio manager. We released Direct Lens back in July of last year. And really, the purpose of Direct Lens was to expand into the portfolio construction portion of the workflow. And this, you can see that a portfolio manager who can go in and at their fingertips has all of Morningstar's data and analytics available to understand what is going on with a particular portfolio. They can do attribution. They can customize the workstation for what they want to look at. And they can really drill into whatever details they're interested in. And maybe they've identified that, hey, there's something going on with this particular portfolio that I want to have some further information on.

The Performance Team Looks for Trends and Opportunities

So, what they might do at this point is reach out to a performance analyst. So, I'm a performance analyst on a team. Portfolio manager comes to me and says, hey, you know, I've been digging into this portfolio, would like to have a better understanding of what's going on. They can log into Direct and leverage our performance reporting capabilities, which is heavily used by over 9,000 monthly active users of Direct, are producing reports like this today for competitive and peer analysis. And so, what they're doing here is based on the portfolios that that PM had in the system, they're understanding in relation to the other portfolios that we're managing, how are these portfolios performing, and are there particular portfolios that I should be more interested in diving into.

The Data Science Team Analyzes the Portfolio for Outliers

So, now I'm at the point where I've got a portfolio. I've identified one that I wanted to dig into a little bit more. And so here I'm going to bring in my data scientist who can crunch numbers and really the goal is to find investment ideas. So, what we're able to do at this point is step out of the single portfolio that the PM was looking at and compare it to the entire universe of model portfolios that are available, which are within the Morningstar data universe. And what we can do here is do this in a way where we're providing a tool that's fit for the user's purpose. So, we're not trying to shoehorn everybody into the same user experience. We understand that a PM looks at a portfolio one way, an analyst looks at it another, and a data scientist, man, they love writing code, right? And so, the analytics lab platform is catered to that specific use case. But what you've seen here is that that data scientist can pull in that performance report that was run by that analyst, compare it against the universe of models out there. They can code, they can chart, they can create tables. And the end result of it is a list of potential investment opportunities that they believe would be beneficial to add into that portfolio.

Research Analysts Conduct Due Diligence

I like to say everybody can have an idea, but that doesn't mean it's a good idea. So now let's find out is it a good idea. This is where the power of Morningstar's research and data really come together. So, research analysts can go in, and they can look at that list of investment ideas that the data scientist has produced. And they can at their fingertips start exploring all of the data that we've produced, whether it's editorial content, research write-ups, analyst notes, style box, ratings, sustainability, all at their fingertips. They can go in, they can compare different investment vehicles, they can understand the fundamentals of what's going on with these potential options chart. And they can really go in as deep as they want to then figure out, like, yeah, we believe that this would actually be beneficial to add in. And so, the loop closes.

Back to the Portfolio Manager to Make Changes and Generate Reports

Back to the portfolio manager. So, now we've started with the PM, had some thoughts and then we've gone all the way to validate some investment ideas. Now let's make a change. So, portfolio manager can come back in leveraging those same lists and portfolios that have been stored throughout the process, and they can start making changes. And they can do it in a way where, you know, before you change something, you want to see how it performs. What's the hypothetical? Right at your fingertips, you have all the analytics and capabilities available to understand the scenario. What happens if I did do this? Do I want to? Should I switch it out? And you can, again, go in as deep as you want with understanding what that choice would do.

But the end result is I make a change, I update it, and now I have to communicate out to the world what it is that the portfolio is doing. So, here again, we have connectivity into our reporting capabilities where at the touch of a button, you can go in and you can create a template for portfolio analytics, and you can load this updated portfolio, click a button, run a report, and get a PDF that you can send out now, whether it's a fact sheet you're going to distribute out to advisors, maybe you're going to post it on your website. It's already available to go just with a click of a button. And so, we believe that connecting this entire workflow together removes a ton of friction in how everybody does their job, and it enables them to do what they need to do in the software that's fit for purpose for what they're trying to accomplish.

Sizable Market Opportunity

When we look at the overall business, there are several areas that excite us, and where we look at growth and where we'll find – Kunal talks about adjacencies – it's really about expanding our footprints in a lot of the areas we currently serve today. So, whether it's advisors where we're looking at a workflow that starts with research and ends with a proposal, so expanding into more independent RIAs or wealth advisors, we believe that's a source of growth for several of our product areas. Or portfolio managers, and specifically looking at some of those small or mid-sized portfolio managers who don't want to stitch together 10 different systems to get their job done but can use an out-of-the-box solution from Morningstar that goes end-to-end in what they need to do.

And then finally, client portfolio managers. So, this is the ultra-high-net-worth, high-net-worth wealth advisors who act a lot like asset managers and portfolio managers over there today, more complex portfolios, but again starts with a workflow of a client portfolio and then goes into changes to that portfolio.

The Future Is Bright

So, when I look at the business, I get really excited by the potential that we have here. We have a very scalable business that's shown through our strong operating income. I feel like we have a very solid product strategy for how we want to continue to develop the product and expand into those adjacencies that Kunal talked about. We have a lot of room to run. Kunal mentions that slide with the TAMs. He talks about that. I can guarantee that we're all aware of how much opportunity is out there. And so, you add those things together and the future is bright. We have a lot of potential for healthy long-term growth.

With that, I will turn it over to Kunal.

Kunal Kapoor: That was indeed James's excited face. We're going to take a quick break and then we'll be back at 10.45 and we'll do 75 minutes of Q&A at that point. And James, Jason and I will be joined by Marie Trzupek Lynch, our Chief People Office, on stage here. And we've got our management team here as well. So, we'll pass the mic around if needed as well. So, let's take a quick break and be back at 10:45. Thank you.

Questions-and-Answers

Kunal Kapoor: All right, everybody. We are going to dive right into the Q&A. So, if you don't mind taking your seats, that'd be fantastic. As always, we'll take questions here in the auditorium. And also, if you're watching via Zoom, please go ahead and feel free to submit your questions. If you're also on the Broadridge platform, please do the same as well. And we'll certainly take questions. I think Stephanie here will be reading those questions. We have folks with mics walking up and down. And so, all I would ask is just raise your hand. We'll get a mic to you. Just please introduce yourself. And just to start, I'll request two questions per person. And certainly, we can come back later if you've got more questions as well. So, I see couple of hands going up. If we can get mics to them, that would be awesome. One right there. Yeah.

Vinay Prasad, Millennium: Thanks for your time. I'm Vinay from Millennium Management. I had a question on PitchBook and growth by customer type. How far are you along in sort of saturating the PE, VC customer end market? It seems like you're still growing there. Is that right? And how are you finding incremental seats or users there, given that you've played in that space a long time? I'll ask my follow-up after.

Kunal Kapoor: Okay. Yeah, we continue to see opportunity in the core there. And certainly, if you look at the results over the past 18 months, we've been able to grow relationships in that space. What I'd point you back to is thinking about a few things from what we talked about earlier; one is embedding ourselves more fully in the workflow. That's been an important part of what we're trying to do there; two is we're expanding what we cover. And so, one way you could think about it is we have competitors in the space who are still of relative size, who cover certain niches and serve those same audiences. For example, on the LP side, we think we could be doing a lot more to gain a share sort of in the traditional part of the business. We're growing internationally. Rod just came back from a whirlwind trip to Asia, which is our fastest growing part of PitchBook today. So, we see lots of opportunities for expansion with our current set. And then obviously you add in the private credit capabilities that we've put in. And you can see where the TAM is expanding. So, we see a pretty good opportunity there. Do you have one more that you wanted to ask? Yeah.

Vinay Prasad: And then the second one was also in PitchBook, you've called out softness in the Corporate segment. Is that primarily referring to large corporates sort of planning to do M&A, or is it more on the startup side? And on the large corporate side, I would have thought that given that people are starting to think about M&A again, at least they're doing diligence, I would have thought that you would have started to see some improvement there. Has that been starting at all or not?

Kunal Kapoor: You're making a really important, I think, invaluable distinction. Within the Corporate segment, there are certainly users of different sizes. And we found more stickiness with larger users, because you're right, they have multiple use cases, they have multiple users within their firms. Where we've had more of a challenge tend to be the folks who come in because they're trying to do one thing, they do it, and then they don't have another use case. They tend to be smaller corporate finance departments, smaller strategy groups. And so part of the discussion we've been having on the PitchBook side, and the teams are very focused on is, is there a different model in terms of how we reach and convert those types of clients so that our cost of servicing them is much lower, because they're never likely to be as significant for us as some of the larger accounts, where they do tend to be stickier and they do have multiple use cases, and they tend to be less cyclically oriented, for sure.

Vincent DeAugustino, T. Rowe Price: Hi, good morning. Thanks for the event. Vincent DeAugustino at T. Rowe Price. I also had a question on PitchBook, which is, we've added a ton of value, and so if we just thought about, if I'm a client, price is what I pay, value is what I get. So, if we think about that as a valuation metric, it seems like we're headed in the cheaper direction. So, I'd just be curious, like, how much cheaper from a value prop are we, and should that be a margin opportunity or growth driver from a revenue standpoint?

Kunal Kapoor: Yeah, thanks for the question with Direct or PitchBook. And maybe you can also talk about Direct here a little bit, James, through the same lens. Our strategy has been to add more value to the platform, keep it at one price, and over time grow the size of the relationship. And in PitchBook, you can particularly see that manifest itself in the renewal rates, and oftentimes we're able to grow fairly meaningfully at renewal time because of the fact that people not only perceive the value, but actually know the value and use the value. And so, you're right, that is a sort of land-and-expand strategy, if you will, that has served us well. And actually, that playbook is probably further ahead on the Direct side. And so, maybe you want to talk about that because we've...

James Rhodes: Yeah, Direct, it's essentially the same thing. So, when Lee shows the slide of the ever-expanding sets of data that we've been collecting over the past several years, all of that data is available to every user of the Direct platform that comes out of the box. So, it's kind of the continued enhancement and expansion of the data sets we have, plus all of those capabilities that I walked through, whether it was the research module, direct lens, analytics lab that all comes as part of the overall Direct platform. So, it's about continuing to add value through capability expansion as well, continue to improve the quality and scope of the data sets that are available, which are just baked into the product offering.

Kunal Kapoor: I firmly believe in lack of complexity in pricing. And that is something Joe believed in on PitchBook, that's something John really drove as well. And so that philosophy really permeates how we do it. I think some of you know our competitors well, and I think if you were to talk to some of your procurement folks internally and ask them like all the various sort of ways that they bill for different databases and whatnot, it's super complicated. That's just not what we want to do.

James Rhodes: In Direct, we don't charge for additional modules, for example. We want people to use the capabilities. We want people to use the data. And so, it just increases the value of the overall platform.

Kunal Kapoor: I'm happy to bring that up with T. Rowe Price the next time.

Logan Riegel, T. Rowe Price: Logan Riegel, T. Rowe Price. Just on the Index business, it's a relatively small part of the Company today, but growing quite rapidly. And I think you're at $190 billion of AUM or AUA. As I think about large public competitors in the space just what does it take for you to get to, let's say, a trillion of AUM at some point over the next decade or however long?

Kunal Kapoor: Yeah. So, I'm going to point this question first to Ron Bundy, who leads that part of the business. Ron, if you don't mind just standing up and answering it that'll be great.

Ron Bundy, President Morningstar Indexes and Sustainalytics: So, the AUM growth that you're seeing so far has really been in two areas. Strategic beta, where we take IP from across Morningstar, and we bring it into an Index wrapper. It could be PitchBook, with private equity. It could be Sustainalytics, with ESG. It could be data from our equity analysts. There's a whole host of data, all those data elements that James was pointing to we bring data from all over and put it in there. And that's a really fast-growing segment for us. To get to the trillion-dollar mark, we needed to – continue to do more of that. But we're also seeing a lot of appetite by, in particular, institutional investors, asset managers, and asset owners to veer away from the large entrench incumbents in the Index space and really start to work more with friendlier index enterprises like Morningstar Indexes.

Our motto really is to become the easiest index provider for our clients to do business with. And that really resonates with clients. So, when you look at the growth in the segment, we're primarily benefiting from, or focusing on the growth in the Index space. And clients don't want to give those large entrenched incumbents additional opportunities. So, we're scooping a lot of those up. And you're going to see us continue to see migrations from other index providers over into our indexes. And oftentimes that brings hundreds of millions or even billions of assets with it when we make those transitions. And we'll continue to focus on that.

Kunal Kapoor: Yeah. One thing I would just add on to that answer is I think this is a space where, if you're the disruptor, it's a good spot to be. I think the incumbents have a lot of advantages by virtue of incumbency, but I think they have challenges by virtue of incumbency, given where pricing is generally headed.

Pankaj Nevatia, Fidelity: Hi, this is Pankaj Nevatia, from Fidelity. I have a question in Morningstar Wealth. As I think about business breaking even and reaching target profitability, how much of that improvement is dependent on internal actions versus sort of external factors such as gaining share? And also, could you talk about what's your target margins for the business look like?

Kunal Kapoor: So, I'm going to ask Daniel Needham who leads the Wealth business to take that question.

Daniel Needham, President, Investment Management: Yeah. So, good question. I would say that majority of the improvement that we had in Q1 2024 to Q1 2023 was from actions that we've taken, as well as growth from the end market, so increases in revenue at the underlying product level. We're continuing to focus on improving the profitability of the business, and so making deliberate actions – taking deliberate actions to manage costs and really prioritizing where we're putting the incremental resources we have in the business. So, areas that Kunal and Jason mentioned, so International Wealth platform, which is growing well, we think has got really attractive dynamics to it. So, an expanding market, we think we have an advantage there, as well as our off platform business in the US where we sit on a number of platforms. Our strategies are very competitive, very compelling, and are resonating well, and continue to focus on the US Wealth platform business to improve profitability and deliver value to the clients. But we're very focused on getting the business to profitability and continuing to deliver good revenue growth.

Jason Dubinsky: I think there we've built the real good infrastructure here. So back to the investment in the business and kind of shared some of the comparison between the Retirement business today, which is about $240 billion of assets. I think we've got close to $60 billion in Wealth, but the goal is to gain assets. I think we've got the technology, the capabilities, the platforms, and we're really gearing our salesforce now more than ever to incentivize them, bring assets, platform, off platform, and I think you've seen a good trajectory in the areas that we're focusing of strong flows, compounded by the fact that we've had good market tailwinds.

Russell Quelch, Redburn Atlantic: Hi, guys. Look, Credit for all the efforts made to improve the margin over the last 12 months.

Kunal Kapoor: Russ, quickly introduce yourself too.

Russell Quelch: Yeah, apologies. Russell Quelch from Redburn Atlantic. Yeah, credit for you guys for the efforts made on improving the margin over the last 12 months, particularly given the criticism I and others gave you last year. I wanted to talk about the reinvestment back into the business, right? Now, we've returned to a good level of profitability. Can you talk about where perhaps you would like to accelerate investments into the business now? And also, as just maybe a second question, can you talk about any areas you would consider non-core? Yeah, you've obviously got a big corporate segment. You've got products in there that maybe you have deemphasized in the last 12 months. Is there anything you may be thinking about divesting which maybe doesn't fit in the portfolio where you can sort of streamline the offering a bit more?

Kunal Kapoor: Jason, do you want to start?

Jason Dubinsky: Yeah, I'd generally say that if you look across our segments, we are committed to growth, and you've seen the growth rates, and we believe that we can still have outsized growth over time relative to our competitive set. So, you'll see continued focus on organic growth across our segments. I'd reemphasize that largely that's going to be self-funded, meaning that even in our higher margin segments, we think we can grow profitably over time. You might not see Data and Analytics get to 70% margin, but incremental improvements there on the scale of that base leads to important profit contribution. But I think the bigger opportunity, as I would say, in the areas that you see are smaller percentage of the pie today in Credit and Wealth to get back to profitability Index and Sustainalytics combined. If we were sitting here next year, I'd like to see more outsized growth in those areas, and we are still going to make sure that we're serving the market opportunities there in the right way to expand, as well as continue to control costs.

So, I would say generally we see opportunity across, but the self-funding mechanism is really important. We've taken significant step-backs in the past to drive growth. I don't think you're going to see that from us going forward. We largely think we can do that. And some higher margins over time give us more opportunity with more profit to invest back and make decisions to return capital to shareholders. So, we're not going to give margin targets, we've talked about that we want to get to historical peaks and higher. But gaining that is just not an exercise in spreadsheets, it's just to make sure we're creating value, generating cash, and so we have more opportunities to invest organically, inorganically to return cash for shareholders. That's where higher margin business has the opportunity to do. So that's the direction that we want to head in because of the value that can be created by doing that.

Kunal Kapoor: And one thing I think a lot about too is our aggregate technology spend. And James, just feel free to weigh in here too. When the transition was being made to the cloud, I think everybody went in with sort of a mentality, and not just here, but I think among our competitive set and broadly thinking cloud expenditures over time would drive down technology costs. As you all know, that generally has not been the case over time. With AI, I think there's a lot of similar questions right now about how much you need to spend to kind of be competitive in that space. And so, we are watching our tech spend very carefully because we do need to make wise investments and we're trying to be very thoughtful about measuring how those investments pay off and where we find efficiencies. That will be something that will continue to get focused because certainly when I look at where our expenses still have some pressures it's from third parties that are generally large, you all know them, and we have reliance on them. As I think about what we're spending there, I want to make sure we're putting right level of pressure on them as well as we become larger clients for some of them. So, James, I don't know if you'd add anything?

James Rhodes: No, I think you covered it pretty well.

Jason Dubinsky: Yeah, I think if you look at where we're going to focus, product development is critical, but sales and marketing. If you look at the end markets, having the right coverage models across the segments that we serve, geographies that we serve, pumping more marketing into the machine as it's earning return, like that's where you're going to see us spend product development is critical. That includes the data sets that you saw Lee develop, but sales and marketing to drive the topline, variable costs where we see those is where we're really focused on right now.

James Rhodes: Yeah, I guess, I will piggyback on that a little bit. So, I'd like to say we have a lot of the pieces to the puzzle, and we serve all of the segments that we want to be on. So, when we look at level of investment in the business and product development and what we need to serve from the Data and Analytics segment, there is very little discussion around like how do we capture the advisor, right because we have a strong footprint in there. So, a lot of the conversation is how do we leverage the capabilities we have and data and research broadly across Morningstar to add more value so we could capture more of the wallet share and expand into more of the workflow of our core current clients.

Kunal Kapoor: Stephanie, do we have anything online? Okay.

Audience Member: I had a question on Sustainalytics. Couple of questions. So, you guys have historically been bigger in ESG than in Climate, but Climate I think is where more of the growth is going forward. So, how comfortable are you that you're positioned to capture that growth in Climate? And then second question is how big of a deal is CSRD and how much of an opportunity is that for you guys?

Kunal Kapoor: So, I'll start, and I'll hand off to Ron. You're exactly right that Climate is the big growth engine right now. I shared in my shareholder letter that our solution that we launched was more complicated than what the market needed. And so, we have been going through a period of resetting it and bringing it more in line with what I'd sort of call as a regulatory workflow use case, which is sort of where the market is largely settling. We're in the process of rolling that out this quarter. I'd say the pipeline is good, but we have to execute against it. So, execution is going to be everything in that context. Ron, do you want to add anything in there and then maybe go into the second point as well?

Ron Bundy: Yeah, I think the answer is similar in both cases. When you look at Climate, we do have quite a complex and broad series of Climate deliverables we're working on with clients. But there's – and what I have asked the team to do is really focus it not on everything that clients want, but everything that clients need. If you take a look at the environment, especially in Europe today, it's around that regulatory environment. So, it's kind of the same for both elements. We really are focused right now working closely with clients to meet the needs that they have on the regulatory front. So, in June, you'll see us coming out with just the next phase of our Climate reporting element there. Just the same thing. We're focusing on that with Climate. We're focusing on that with EU taxonomy. It's really giving clients what they need to date to meet that regulatory requirement. And then from there, we'll continue to build and do more of the things that clients want in addition to that.

Kunal Kapoor: Danny, anything from a pipeline perspective you want to talk about.

Daniel Dunn, Chief Revenue Officer: Yeah. I think the big thing for me is we look at where we are, and I'll probably give a US tilt to this comment. It's a maniacal focus on the retention base. Our strongest products, for sure, in market today are core risk ratings. So, we're bringing a lot of attention to that capability so that's at the security level, how that rolls up into a fund, how that rolls up into the portfolio. So that's a critical capability. And looking at those teams in the US, we're kind of tilting the Sustainalytics team more towards the Morningstar customer success model. Maniacal focus on onboarding and I think Rod knows this very well from what he's done at PitchBook, which is that first year renewal rate is absolutely critical. So how do we do the onboarding process a little bit with little bit more rigor and repeatability and then moving into ongoing adoption and health. So, generally, where my head starts first in the US market is making sure that we are all over the existing client base and we have a pretty active sprint on that right now with various Q1, Q2 milestones on how to connect with those customers.

Generally, the pipeline, what we're kind of saying is, look, Europe, it's about regulatory need and that's a big deal for us. That'll continue to move forward with us. So, TCFD, SFDR, these regulatory solutions where we bring together core ratings, core data and research and then can actually bring in some of the capabilities from the Data and Analytics business to deliver reporting. That's key for us in Europe, certainly the need to bring in – the asset managers being able to bring in portfolios, get them compliant and push them back out to clients. That's a key solution area for us.

And then I think Ron's right on the Climate side. If we had tilted towards a bigger investment use case when we built that solution, what we're finding from clients is, help me be compliant first. So, the deliverables on the roadmap are all about simplicity and regulatory compliance and then from there we should be able to scale the base. So, heavy work going on and it varies a bit by region. So that's what I had. Thanks.

Logan Riegel: Logan Riegel again from T. Rowe Price. Just on the Wealth piece of the business, you talked about the value of getting more distribution via third-party platforms. Do you think there's value in owning some of those third-party platforms so that your connection to these advisors is direct rather than through a third-party?

Kunal Kapoor: It's certainly the case that it's valuable to have those connections and you've sort of seen that growth has concentrated on a lot of these platforms as a result. It's partly why we've had our own platform and built it since all the way back to 2001, what I will say, and you see this in our financials to the cost of maintaining that is very significant. When we think about the future, one of the reasons where I think pivoting the focus more to third-party platforms is we think it's a better way to reach more clients versus necessarily continue to try to do it ourselves. I will say too there's a reality too that some of the platforms have different arrangements to how revenue is shared and whatnot and we tend not to play those games. So that does put our platform itself at a disadvantage and I'd probably be uncomfortable owning one of those platforms for Morningstar, because it might not fit exactly with our philosophy around how we report fees and transparency and things like that. Daniel, would you add anything else?

Daniel Dunn: Nothing to add.

Kunal Kapoor: Other than we do have a different view outside the US where we are building our platform. I should have mentioned that as well, so, yeah.

Raymond Stochel, DF Dent: Hi, Ray Stochel with DF Dent. Could you talk about the cloud transition that you've gone through in some of your products and the general level of tech that has been solved and still exists within Morningstar. And then could you further talk about some areas of the business that you are either sunsetting or deemphasizing and what the impact of that is on the financials?

Kunal Kapoor: James, perfect question for you.

James Rhodes: Yeah. So, on the cloud front I'll tackle that in two ways. First is in the product and moving away from desktop-installed product to web-based delivery. As you notice in the demos that we went through in the presentation, several of the components that we demoed are all web-based delivery. We've taken for the core Direct platform what I would call an inside out perspective to it where we've been modernizing the components of the core system using modern web-based components, but still delivered through the desktop-installed software. The goal is to continue that migration of legacy components into modern scalable web-based components and eventually what you'll wind up with is a system that is performing the same capabilities and functions that our users love today within our software but can be delivered via web channel. So, all development that happens within our product is done within a modern web-based stack. The legacy pieces are continually being migrated over to that stack but delivered out through the same channel that our users use today.

On the corporate cloud infrastructure side, I can say like, for example, we used to have a data center here in Chicago on the sixth floor that has been eliminated and we continued to kind of migrate the – and not in like a lift and shift fashion. It's been more of a rearchitecting of some of the core legacy platforms to take advantage of the scalable modern cloud platforms that allow us to control costs plus as Lee walked through the giant data factory that's all hosted up in a cloud provider. It's a capability that we wouldn't have been able to do on an on-prem system. So, it's kind of the continual looking at and evaluating what are the core systems that run our products today, what needs to call it transformation to an architecture that's cost effective up in the cloud and being very methodical about moving the data center footprint over to the cloud providers.

Kunal Kapoor: Does that answer your question fully?

Raymond Stochel: (Question Inaudible)?

Kunal Kapoor: Yeah, so talk about sunsetting the products and the impact on financials, maybe you and Jason can tag team it.

James Rhodes: Yeah, we have over the past year and a half sunset several products. So, we've done I'd call it a thorough evaluation looking at the revenue of the product line, the potential market opportunity and the cost to support it and have made decisions to sunset several of our products. One example I'll give is a equity fundamental tool that was available up in the Canadian market, which was sunset last year. And essentially kind of the sunset process there was how do you continue to support the clients that are using it versus how do we get the benefit of what we want to do as a business. It was a non-core offering, the market size was small, it was legacy technology and in that instance, we partnered with a third-party who wanted to kind of take over the relationship with the clients and that became a data feed opportunity for us.

Jason Dubinsky: Yeah, I think that's what we're generally doing as you kind of look to our reporting now, we've got large, large products and platforms. So, we're calling some that might be unique to specific client segment or geography that the cost to maintain isn't worthwhile. But I'd say the other thing is that some products are basically our capabilities, and we want to incorporate that in platforms versus having to charge separate and manage those differently. So, a lot of we're trying to do is to aggregate things that are natural, adjacencies into like Direct, PitchBook does that very well versus have separate product set, separate sales and product codes and it creates a lot of distraction. But I'd say we're having most success is just on the margin. What's unique to maybe its specific geography that's not going to grow. But we want to manage that the right way because sometimes these are profitable and create cash but if there is too much of a distraction and taking away from the opportunities to focus on the bigger picture, that's where you've seen us doing on the margin and that was exactly what we did in Canada. It wasn't worth the future effort and we had better – bigger things to focus on in Data and Analytics.

James Rhodes: And some of them, and I briefly mentioned our legacy components business in my presentation, but that's another one. It's more aligned with our core to deliver our Data and Analytics via APIs than custom software development. So, our components business was essentially custom software that users could plug into their existing websites. So, we've been transitioning that into APIs where the clients are no longer buying the widgets from us, but they're buying the APIs from us. So that's more of a product line that doesn't necessarily go away, but it's transitioning to where we want to focus as a business and what we would consider our core capabilities.

Isaac Bowman, Langdon Partners: Hi, Isaac Bowman from Langdon Partners. Just curious how much of the TAM for PitchBook would be international and where are you in terms of the build out of infrastructure to service that TAM?

Kunal Kapoor: Great question. And, Rod, maybe this is an opportunity to bring you in a little bit. Do you have a mic here on this side? Thanks. So, Rod is the COO of PitchBook and...

Rod Diefendorf, COO, PitchBook: Yeah, and I think when we look at TAM, I don't know who asked the question, I can't see where you are, but – over there, yeah, sorry. We look at it in a lot of different ways. We look at it from the perspective of what's our addressable market with firms, as well as with users within those firms. And we've been a long ways to go with just simply with firms. And I think you asked a question earlier on the core of VC/PE core. We've got a lot of room to go with firms, but also a lot of room to move – to grow with the users within them. And Kunal mentioned that adding things like LCD is a great example of how we can grow within those firms pretty significantly and grow within those addressable markets pretty significantly. And couple of examples of that are – and I'll get to your international question in just a second. But the good example of that is, we – when we first acquired LCD, we made it as easy as possible for PitchBook users to understand the LCD dataset and for LCD users to understand the PitchBook dataset. And as a result of that, we are seeing a one plus one equals three type of result in net renewal rates with those customers. So, a lot of room to grow by bringing in an additional dataset like LCD.

On the international side, I'll just give an example of Asia. It's our fastest growing in terms of leads. We do very little marketing in Asia, yet one of the fastest growing areas of leads for us is in Asia. We've grown a team over there pretty significantly. Our highest conversion rate with new customers is in Asia. So, we see a big opportunity in Asia. That does not diminish the fact that we've still got a lot of room to grow in North America as well as Europe. Does that answer your question?

Isaac Bowman: Outside of the US?

Rod Diefendorf: Yeah, I don't know that I've got that. Maybe we can follow-up with that exact data. I don't know that I have that data that I wanted to just share if it's incorrect, but we can probably follow-up with it.

Jason Dubinsky: Yeah, I think, we've tended to disclose that by customer type and not looked at it by region, but we can see if we can provide something. But it is sizable, and as Rod said, some of our highest performing sales teams in PitchBook right now are sitting in continental Europe, they're sitting in the U.K. and in Asia Pac because of the opportunities. And that's probably – we talk about investing when I said in product development sales and marketing. Sales and marketing outside the US is definitely accelerating for PitchBook because we're seeing strong pipelines and high conversion rates.

Russell Quelch: Yeah, Russell Quelch again just from Redburn Atlantic. Just as a follow-up, so last year I think you had a slide that talked about account sales where you were kind of rather than setting up product level, kind of targeting multiple products at an account level. Can you maybe update us on progress there? Are you seeing that you're able to sell more products to each customer? Are you increasingly focused on enterprise sales rather than per head sales, particularly in products like PitchBook? And can you talk about future potential areas for greater product integration across the whole portfolio?

Kunal Kapoor: Sounds good. Danny, why don't you start?

Daniel Dunn: Yeah, I'm going to kind of go through that sequentially, but I might have missed a part of it, so I'll come back here a bit. Yeah, so the integrated sales motion is really critical to us and it's most critical today in the Wealth Management/Advisor segment and then the Asset Management segment. And that's where if you look at across our segments and our different product lines, that's where you're going to have the most intersection not just within a segment, not just within a logo, but all the way down to an actual persona or a buyer. And so, what we've done, we've often had, at least since I've been here, we've had a degree of integrated coverage which pulled together the most relevant capabilities for our clients. And so, that was sort of at the intersection of the different assets that today live in the Data and Analytics business which have lived in other parts of the Company. The Index business, kind of the growing startup within which is now reaching some real scale, Sustainalytics as it's coming in, that's where we really had those teams most focused.

But what we're seeing increasingly, and you're probably referring to some slides I had, I think the likes of large integrated financial institutions where there are capabilities coming in from PitchBook. We have some very significant clients where the PitchBook book of business is – could be north of $3 million or $4 million and that's a big part of what might be a $30 million book. So, what we've done is we really ran an integrated pilot last year on these top 15 clients. And we're in effect doing it without the same level of enablement incentives in other structures. And we are seeing enhanced collaboration and really solid growth in those clients.

In fact, if you're at our board meeting later today, we'll be talking about that. But in terms of what I can disclose here today, I think the really important things for us within those clients, there has to be an integrated account plan and strategy that filters down into a shared account, a global account relationship map as they extend from what might be a Capital Markets team and Asset Management team, a Wealth team. And then into specific buying personas within Compliance or Data Science. That is a key asset for us, right? Because we might have an aggressive, solid sales rep in Pitchbook who's been more software kind of focused now into a much bigger complex selling environment, same with Sustainalytics team. So that's really important.

Pursuit planning and opportunity management, we don't want to bottleneck. That's the worst thing that happens in companies like Microsoft or others. We're not looking for a new first line manager over sales team, no way. But that coordination and quarterbacking on opportunity development and then opportunity progression is critical. It's not just the sales motion. We've done things that are around the marketing side of that, which I'd say are just as critical. The marketing tactics you do for new logo acquisition are dramatically different than how we try and communicate with top buyers at say a JPMorgan and Morgan Stanley, global HSBC. So, that looks at different tactics like within Steve Bendt's team where we're looking at portfolio marketing. I think even that data story video you saw earlier, we know that data is bigger than a single business segment here, right. It comes from DBRS, it comes from Index. And so, we have to be able to bring together these narratives for clients so they're not thinking within their siloed groups.

So, there are bunch of strategies like that. We've started rolling that out further into other regions, primarily Europe and then parts of Canada, particularly around the large five banks in Canada and how we pull together teams there. The question always be is, what's that right clip level of where does a current spend, a propensity to spend, and other metrics and leading indicators tell us that we should have really strong integrated coverage. So that generally – that program will keep moving forward, but at the right pace. At the same time, you have to understand we very much believe in business segment focus, a product team, a product marketer, a sales rep and SDR, and a CS rep from the same group waking up and thinking the same way, in that same way as how to delight customers and how to squash competitors. They can't get distracted. We need those people doing that. So, then it's this other team's job to make sense for larger strategic clients.

Now the other parts started going into product offering maybe? Go ahead.

Kunal Kapoor: Squash means taking share.

Russell Quelch: Noted. Yeah, just wondering if there's sort of opportunities for further product integration when I look across the portfolio.

Daniel Dunn: Yeah, sure. Maybe I'll start with one aspect and then I could share it with Kunal or others or James. From my perspective, where I sit and think about our clients and think about our company, we do see capabilities that need to come across the different business segments and even different products within. We've got to be thoughtful about how we do that. Sometimes it might be many things coming together as one, sometimes it might be one asset in one business segment against another segment, right? So, bringing together, say, fundamental equity, public equity data and bringing that into a PitchBook platform. So, we have a team that sits with me that we refer to as our solution segment leads. They're half client facing to go out and engage as – excuse me, as segment experts, and the other part of their role is to come back in the organization and spot opportunities.

And I think the best example of this, which I might have referenced was starting last year is within the Institutional and Asset Owner segment. We brought in a really talented gentleman from the outside. And so, you think about we have PitchBook business in Institutional, we have Index business, we have Sustainalytics ESG business, and then several things from the Data and Analytics business. We want this individual to help these teams think about the messaging, the targeting, and how we execute within those business lines in that segment, because it's expertise that he has. And then the next wave is what sort of integrations and capabilities can come across those to solve a problem for a pension, a foundation, an investment consultant advising them, or indoor asset managers in the institutional space.

So that kind of starts with voice of the customer, ideation, and they bring it to those teams to come together. And we've seen some of those efforts work pretty well, and there's a pretty substantial list of things we want to get after in the future, including even some focused private equity stuff out of just PitchBook, but where private equity meets index meets benchmarking some other capabilities. So, it's pretty exciting, but it's important for us to bridge across those business segments, which is not an unusual challenge for, I'd say, multi-product tech firms.

James Rhodes: I guess, I'll add some product specific. We do a fair job today integrating kind of across the segments, but it's really targeted at what are the use cases for the users we service. So, Ron mentioned regulatory reporting for ESG data within EMEA. That's really a partnership between Sustainalytics and the Data and Analytics segment, where we've ingested the Sustainalytics data, and they leverage our reporting capabilities to service that need. There's other examples such as our work with PitchBook. The center of our world over in Direct is the portfolio. People are adding private funds to portfolio. So, how do we enable private fund data to be available within Direct for that particular purpose? And then that extends into our analytics. So, Kunal talks about the secular trend around private and public markets. How can we create analytics that go on top of portfolios which contain both private and public investment vehicles?

Kunal Kapoor: Let's go to some online questions, Stephanie?

Stephanie: We'll start with two questions, and I know Ron Bundy is going to be excited.

Kunal Kapoor: Engine roaring as you get going.

Stephanie: He's going to be excited to answer. The first is – these are from Oliver Hinsch in Denmark. The first is what opportunities and adoption do we see or expect to see for private market and private capital benchmarks? In 5 or 10 years, how attractive can this business become? How do we expand our moat in this category? The second question also for Ron is what demand are you seeing for custom indexes?

Kunal Kapoor: Great questions. Ron, I would love to know your answer. I'm always bothering Ron about the first one.

Ron Bundy: I can't find the microphone. On the benchmarking front for private markets, there's a real opportunity there. If you take a look at the existing providers in that space, the approach they take is often at a portfolio level and not at an individual company level. And so, if you take a look at the work that we've been doing with PitchBook, they've got excellent data that we can start to now really bring into an index wrapper and create benchmark products based on that. The first iteration of that is our unicorn indexes that are on the market today. There's a whole family of late-stage companies that we think are tracked extensively by large investors. So, we've put together series of benchmark products in that space. And every client we talk to is interested in more depth on those products, but also expanding that family. And so, you'll see us continue to expand our private equity or private markets indexes in conjunction with PitchBook, and the unicorns are the first part of that. It's a huge market, so we're excited about that one.

And then the second question was…

Kunal Kapoor: Custom indexes…

Jason Dubinsky: Demand for custom indexes.

Ron Bundy: Custom indexes. So, just as Kunal mentioned earlier, we just launched a new platform, our new index calculation platform. And it's really a robust industrial strength platform. Almost every new index that we create as a basis of an investable product has some customization to it. And so, clients like the plain vanilla off-the-shelf version, because it gives them a lot of insights into a segment or into a specific category, but at the end of the day, most clients want, especially if you're building an investable product, their own views also incorporated into that product. And so, you're going to see us coming out with some custom AI indexes, for example, that could be used as a basis for investable product. And so, I would characterize that a small number of our overall indexes on our platform are custom, but a large amount of our revenue that we attach to those come from custom indexes. And so, that's why we built a robust capability. We can do basket calculations, hundreds at a time for clients, or we can do very specialized single indexes or small families of indexes that incorporate our views and our data and our insights with the client view to customize that.

Kunal Kapoor: And one final thing I'll just add is that the PitchBook team is working to create a better landing experience for our private market indexes, and you'll see that rolled out within the product more meaningfully as the year kind of wears on. So, that's clearly something that's on our minds. I view it as a very significant long-term opportunity. Steve Kaplan on our board is always looking at the Indexes too and providing feedback on whether they're usable, so we have that benefit too. Yes. Go ahead.

Peter Uddo, Praesidium Investment Management: Peter Uddo with Praesidium Investment Management. It's great to see, I think, the focus on profitability that you talked about and the spread between revenue and OpEx, and I think that's obviously the focus of shareholders and what we'll be watching going forward. At the same time, to target profitability, getting back to historical levels doesn't really challenge the organization in a meaningful way. Do you think it would be better to target peer level profitability and really to demonstrate closing the margin gap with your peers?

Kunal Kapoor: Jason?

Jason Dubinsky: Well, maybe first on the profitability front. We set plans and incentive plans to motivate our folks to get to the internal targets that we have. We don't share those externally, but our focus is on growing margin over time. So, we think we are motivating the teams in the right way in our planning process to drive top line growth as well as margin expansion in the right way. So, we're set up that way in our incentive plan, let's start there. We look at peer profitability. And I think you can see at least with our segments how those comparisons look and maybe give you all a sense and us a sense too of what opportunities that are out there to expand relative to our peer sets.

Now that we have segments and I said the same thing we did before, it's tricky sometimes to compare peers because business models are different, size and scales are very different. You compare our index business relative to MSCI and S&P, very different scale and adoption in the market. So, while peer margins are good barometers, sometimes those targets aren't necessarily comparable or achievable, but I would say that we do look to them for another data point for how our businesses can grow and scale. And we have been doing that over time and now hopefully you have some of the transparency in our segment information to do that in an accurate way too.

Kunal Kapoor: Yeah, I think, particularly if you look at the lifecycle of some of our businesses, as we start to get them to scale, we really start to push on the margin. And so, even if you take the Index business or you take the Credit Ratings business, they are smaller than some of their larger peers. But over time as they grow, we would absolutely start to push to try to drive it in that direction. That is the goal for certain. And then you have certain businesses like in the retirement area where we've obviously got leading margins as well and the intent is to maintain that. So, if your question is are we motivated by trying to close the gap, the answer is, yes.

Jason Dubinsky: My point was just getting 70% EBITDA margins like MSCI or 50% in the Credit Ratings business for our peers those require different size and scale, but they do present the data point, a barometer for us to continue to push. That was my point.

Peter Uddo: No, that's fair, but you guys have a great set of assets. And so, my point was when you challenge an organization to hit a target that's not very meaningful versus setting a challenging target, you'll think differently, you'll approach the business differently and you'll empower people to do great things. And if you are setting targets that are lower like getting back to historical levels versus maybe stretch goals, you will see a difference in performance from the organization.

Kunal Kapoor: Completely agree and aligned and we do have compensation plans that both adhere to kind of ongoing annual sort of bonus and then stretch targets that do exactly what you are highlighting and that's always the goal. Completely hear you on that.

David Shepley, Windancer Holdings: David Shepley at Windancer Holdings. I'd love to dig in on your M&A strategy, particularly the last 12 months and looking forward. Just maybe if you could give some context on with the margin expansion focus, did that change your posture at all in M&A? Were you a little bit more defensive? Were you less likely to do a deal? I think you guys have a great track record on M&A and would hate to see you pass up opportunity with maybe a little more focus that you've had on margin expansion. And so, I am curious if that did maybe influence some decisions in the last 12 months and where you are at today looking forward?

Kunal Kapoor: When we look at M&A opportunities, we're generally looking at them from their perspective to create enterprise value over the long haul. And so, if there was a situation where we felt it was appropriate to engage in that activity to create value over the long haul, we would make the trade-off that you suggested. It is fair to say though that we have not done anything in the recent past because there has not necessarily been anything that we feel was additive. And I think an important message here is we feel really good about the assets that we have. And if you were to ask me, am I excited about investing back in the assets we have today over something that's an unknown, I'd say, it is to invest back in our assets.

Acquisitions are tough to do. They are distracting, they take time. And so, the bar has to be really high. We look at things such as what's the distraction factor here? One question that I always lean into is like, what are we going to give up if we are doing an acquisition from our current road maps?

And if I go back to the last significant acquisition we did which was LCD, we really tested that hypothesis like what comes off the PitchBook road map if we do LCD? And it's got to be enough to do that. There is just not enough in the sense to really excite us in that sense relative to the internal opportunities that we have. And so, we don't necessarily wake up and think about it from the lens of we got to do an acquisition. I know other firms tend to have more aggressive M&A strategies than perhaps we do. We really sort of are thinking about it is like, what capabilities would enhance the value of the firm? And we just haven't seen those opportunities. And if you go back post-LCD too, I think while we did not participate in many of the processes that maybe ultimately resulted in some firms being bought or sold, we were surprised by the prices people were paying relative to the revenue. And so, we tend not to be pulled into some of those types of discussions, but we'll see. I don't know if you want to add anything. It's definitely not top of mind.

Jason Dubinsky: No, but sort of core point with the margins, if something is dilutive upfront but has the opportunity to realize longer terms, we are not going to make a bad short-term decision for a long-term outcome. We look at M&A assuming it is the right strategic fit, cultural fit, and the returns are there. So, I wouldn't read into anything than what Kunal said, we are good with the portfolio but haven't seen good value creating opportunities over the past year while we work to expand margins.

Pankaj Nevatia: Hi, this is Pankaj Nevatia from Fidelity again. You talked about the benefits from AI. Would this require a significant investment phase? And would that be a headwind to margin improvement? Also, as I think about AI, are there parts of the business where AI is a threat? I'm specifically thinking maybe it makes it easier for competition to catch up.

Kunal Kapoor: James, why don't you start?

James Rhodes: So, as Lee pointed out, we've been investing in AI technology for years. It is actually the core underpinning of how we have been able to scale our business. In Kunal's video that he showed where we talked about Mo getting to market, the reason we were able to get that out so quickly was because we actually had the capabilities and technology and the people who knew that. So, I'd say by and large, from a – do we have the right skills? Do we have the right understanding of the technology? Do we have the right relationships with key vendors to be able to enable us to do this? That's kind of already been in place and is a key piece of how we operate our business today. And what we've been really focused on is now that technology has been advancing so rapidly and there are more and more use cases where this technology can be used. How do we scale that across the business?

And the scaling factor doesn't necessarily take additional investment either. And I'd say that comes back to how we've implemented it within the organization. The goal around how we build things is to make sure that they are reusable across multiple different use cases, multiple different functions, and multiple different opportunities. So, for example, we have a capability that uses large language models to help our sales force engage with our clients that is using the same backend engine and technology that Mo is using to answer research questions. So, I think, from our perspective, those investments be able to get benefit from the technology, we've largely made that investment and it has already kind of baked into how we operate as an organization.

Jason Dubinsky: I think the other thing to note is that there are things that we build and also things that we buy. And I think what we are seeing in the marketplace is a lot of the software applications that we use today in various parts of our business and business process are embedding that too, which will help us. So, that's a limited cost that a lot of our vendors are baking into the things that they do that help business process. And that could be HR process, it could be finance process, we're seeing a lot of that that can improve the efficiencies of our teams that we don't have to build. Others are doing for us and that helps us scale.

James Rhodes: I do also think that there are some vendors out there who are missing the mark on what the value of their capabilities are to us. And so, whether you are looking at productivity tools for emails or code creation, I think, the general – there are a lot of vendors out there who have put a very high price points and value on those things. And we do a lot of work to understand is it actually worth the investment to do that? Are we going to see the return on that? Are we going to see the value that that produces before we jump in and make those investments?

Kunal Kapoor: Pankaj, to your other point there are threats. And if I was to oversimplify it, which I will now do, the threat is that we need to raise our game everywhere as a result of what's happening with technology. And so, it can be at the level of everyone doing their jobs. Like every job needs to be upped in some capacity or other, because efficiency is going to grow, the ability to automate is going to grow, and we're going to look at that and we are going to expect more from those who are working on collecting data, for example, and what they are doing in that context. And then, when I think about it from collecting data, does it lower the barrier to collect data? It probably does.

However, what it doesn't do is it doesn't increase the probability that people know how to enrich the data and how to put quality on the data and how to build long-standing databases. And so, for us, it's like just keep raising the bar in that context, and then how do you plug it into the workflow? I am going to go back to that workflow point that I made earlier. If it's in the workflow, it's stickier. If it's out of the workflow, it's a reference point. People aren't going to use it as much or you could be displaced more easily. And so, to me the bar just keeps going up in that context. And I think that's good. We challenge our teams with that. I think we are going to be a lot more productive and so we're going to have to find ways to make sure that that productivity gain is translated back to our financials as well.

James Rhodes: I wouldn't discount the opportunity. All of these technologies that are out there today, the key underpinning of them is data. The data and the content that's needed to train a model or produce a result. And so, when we look at it from both the competitive side, but we also look at it from an opportunity side, it's a really good place to be in when you own the data and the IP.

Kunal Kapoor: From Zoom, let's do one more.

Stephanie: Our next virtual question is from Kenta Suzuki. Has the introduction of segment level disclosure changed your internal approach to cost management and growth investments in any way? Could we expect margin control in a narrower range for each segment going forward?

Kunal Kapoor: Maybe Jason, you can start and then Marie maybe talk about it through the lens of hiring in people and how we think about that.

Jason Dubinsky: I would just say it's evolving, and I think the one nice thing about the way we report our segments is it's really the same way we manage the business internally. There's parity between our internal management reporting and external. So, that has always been our process and continues to be. I think the one thing that if you look at our segment reporting that we really are definitely focusing on is that there are a lot of shared costs across Morningstar. Roughly 20% of the costs across our segments are allocated, but they're allocated because we have shared functions like research, like central IT. There are costs that we don't allocate that we're focused on, it's a large bucket. But I think that's creating the right focus and internal pressure on serving internal customers and being reliant on others in the organization to help you succeed and bring a more intent focus on cost and productivity in those areas. So, there's a parallel to internal-external reporting that was really important to us. The cost focus has always been there. But I would say that shared mentality and the shared costs outside of just the costs that are embedded in the segment are something that we continue to be focused on and want to get leverage and scale out.

Marie Trzupek Lynch, Chief People & Culture Officer: Yeah, I would just add in terms of your question about cost. I think the discipline has always been there in terms of the business units and how we look at it in terms of looking at cost control. And in particular related to hiring, if you look at our last year's, Jason shared, we reduced the workforce by about 9%, both with a combination of some of the intentional restructuring, but then also some controls on hiring. So, I think as we're looking forward, what we're continuing to do is with the sustainable growth focus, we're going to be very intentional and selective in that hiring and be very focused on the individual BU's and where that may or may not make sense.

Kunal Kapoor: Some questions right there in the middle. I think…

Sanjeev Math, Baron Capital: Hi, Sanjeev Math, Baron Capital. So, couple of questions. Just firstly on the margins, Kunal, you've talked about, you said you can see in the segmentation row of Data and Analytics and Retirement, the more mature businesses you are running for profit. So just as we look at the growth curve for less mature products like PitchBook and Credit and the like, what are some signposts as investors that we can look to? Almost as an accountability metric for you guys where, as growth does start to slow, or those markets do start to get more penetrated, that we should look to and start sort of expecting more margin expansion from those products, especially now in the segments that we can see them and report to them every quarter. The second question is just about looking at learnings from other companies. It sounds like, especially with the segmentation, you are able to look at other businesses and, Jason, it sounds like you can obviously see long-term targets for margins. It sounds like you are looking at these companies more closely at the Board level too. So, maybe just beyond sort of long-term targets any other learnings you see from peers that you would perhaps like to absorb into Morningstar over time, things that they do well that you'd like to operationalize in the business as well?

Kunal Kapoor: Why don't you start, Jason, then I'll take it up?

Jason Dubinsky: Yeah, so I guess maybe I'll start with the second question. We can look at the financial performance of the companies, but obviously you don't have a lot of insights ultimately how they operate, but we do bring in people from other organizations as well as acquire businesses too that we learn things all the time in terms of how they go to market, how they sell, how they develop products in some ways, how they operate different support functions. So, those are really important to gain. But I think what I want to make sure, and I think back to the question that you had on margin and we're running businesses for profit is that we still have high rates of growth in a lot of areas that we have high margin. I don't want people to confuse of running for profit means low growth. We can have profitable business that still grow at high levels of growth that we're ultimately going to invest in. And Morningstar Retirement is a good example. It's just over $100 million business, but we have significant opportunity to continue to grow here and penetrate the US retirement market with managed accounts even in a business that's got 50% margin.

So, I just don't want to confuse the two that we're starting business for capital, eking out every last dollar of profit. Our high margin business have large addressable markets and run rate for growth. It doesn't mean we can take that 50% to 60%, but incremental improvements in high growth areas and profitable areas are going to really generate a lot of incremental profit, which we can deploy elsewhere.

Marie Trzupek Lynch: I'll just add one piece as well. Just in terms of competitors, you heard Jason talk about two-thirds of our costs are people. And so, we have to be really aware of what our competitors are doing in regards to grabbing talent, retaining talent, hiring talent. And so just as a comment on that is from the human resource perspective, while that may not have been your direct question, that is an area that we're constantly looking at because we're in the same competition boat to grab folks.

Jason Dubinsky: And we are looking at some metrics to give us insight. Well, we don't know how they operate, but if you look at revenue per employer, cost per employer, things that we can garner from some of the public, it's good ways to benchmark, to challenge ourselves in terms of the operating models that we have and ultimately what's unique. So, whatever public disclosure is out there, we try to use the best of our ability to benchmark. Get back to the earlier question. No peer is perfect, but there's enough information out there to do some work to say, you know, are we as operationally efficient as we can be? And if we're not, what are the reasons in terms of business model, delivery model, will we operate to suggest why? So, we've been doing that over time, and I think back to the earlier point, now that we have a little bit more disclosure out there, I think there's more you all can do to continue to dive into our segments and do those comparisons on your own, too.

Kunal Kapoor: There's also a lot of lessons to your second question about what people do well and what they do differently. Positive and negative, I'd say, clearly, you're continuing to hear from us the importance of focusing on a few of our key platforms. And when I look at some of our competitors who I admire the most, the reality is that they have relatively simple platform strategies, whatever you want to call it, and they've been able to scale that quite successfully. And so, we are continuing to try to make sure that we are getting after our most significant platforms and scaling them. And for example, getting out of the custom tools business is a perfect example of one where – while we had a sizable business, it was not something that was lending us any particular scale even as we grew it.

I'd also sort of add that from a competitive perspective, you also learn where to go at your competitors a little bit. So, for example, we're not going to win in public market data indexes in general, given what's happened there. So that's not the core of our strategy. When Ron thinks about where we're going to go at our expansion opportunities, it's in strategic beta. It's in private markets. It's in ESG. It's in the developing areas where people don't have to go in and do all the rewiring. Certainly, we get inbound opportunities on the public beta side as well, but they tend to be a lot of work to go out and win ourselves. And so, we're not necessarily as focused from where the sales teams are going at it. And so, you think about that in the Credit space, taking an adjacencies approach and go into the private markets where you have these firms that are increasingly doing lending and don't necessarily have the relationships that corporate lenders would have had with some of the established legacy, kind of, three players. And so, we're trying to go at it from that perspective. So those things matter.

I would say that the other thing that I just sort of point out from my perspective is we have an opportunity which Danny got to as well to increase the size of our enterprise relationships. And when I look at our competitive set and see some that have grown really large, they have made that transition successfully. And it's a fine balance because we don't want to lose the focus on core customers and be able to sell in directly where we need to, but we have a huge revenue opportunity if we can be better enterprise sellers. And earlier when we were at breakfast, I was giving an example of being in a private equity shop and, we were talking through our relationships today with the firm. And the CEO of the firm basically said to me, like, imagine if we wrapped it up, how much larger this would be if we could look at it from an enterprise perspective because we've largely been coming at them today with PitchBook and Credit Ratings. We have all this other stuff we could be offering them. And so, I really do see that as a huge opportunity and learning from some of our competitors who've done it well. I also see who hasn't done it well, because it's hard to do and you can lose your focus, but that's something that I think about a lot.

Audience Member: (Indiscernible) SEG. I have a question for Rod. In terms of the PitchBook renewal rates, could you just talk about the health of the underlying core investor, so VCPE in terms of like-for-like renewal rates combined with the LCD platform? And then your expectations for the business with LCD and particularly the limited partner space. So, what are the opportunities that you have to improve and accelerate the renewal rate from here?

Rod Diefendorf: So, we track renewal rates in a number of different ways. Our overall net renewal rate is one that we track consistently. That has dropped off last year and that's largely because of some of those corporates that Kunal was mentioning earlier, those single use case corporates or limited-use case corporates. When we talk about our core VC/PE, those M&A groups, those net renewal rates have not dropped off. Those are pretty steady. In fact, those are growing. We are not worried about that group at all in terms of when we look at our growth going forward. So, when we look at LPs, that's our highest converting in terms of new customers. It's also highest converting – not highest converting, but it's a very high converting on the renewal rate as well.

Credit, when you look at LCD and the Credit side, those are really high renewal rates. I don't think we've maximized that number yet. We went into the acquisition with LCD saying this is a long-term play, so we're not going to try and maximize every dollar today, we're going to do it over the long-term. And so, we have seen really high renewal rates on the LCD side, but I don't think we've topped out where we will be with them. What was your last question?

Kunal Kapoor: Rod, can you just repeat the question?

Rod Diefendorf: Yes, so the question was more on the LP side, what's our opportunity there? And I think that there's a big opportunity for us on the LP side. We've got to do more work on the product, I think, and we're doing some more of that work on both product and the data side. But we see that as a big area of opportunity for us. And the LPs we've got, I think, have a very high net renewal rate as well. So, I think we feel very good about LPs. We've got a lot more work to do, but we see it as a really big area of opportunity for us.

Jason Dubinsky: I've been losing – if we look at that, our net renewal rate is definitely on a revenue basis, but we haven't really lost customers through these cycles, which really talks to the workflow and the stickiness of that. The environment is getting harder to expand, maybe a little bit, but I think we also look at renewal rates, but customer retention, and it's incredibly strong. It just speaks to the how embedded (PitchBook) is in the workflow of VCs, PE firms, LPs, and that's a good testament to where we are in this market, which is a little bit different from what you've seen from some of the tail use cases in the corporates.

Imran Halani, Praesidium: Imran Halani at Praesidium. You guys talked about capital allocation in the 8-K last night. I wanted to follow-up. You guys done a good job paying down debt, and you talked about being opportunistic with share repurchases. What does that really mean to be opportunistic? Why not be more aggressive with that, just given all the opportunities you talk about today? It seems like the intrinsic value of the stock is much higher. And then Kunal talked about having a high bar with M&A. So, just curious what that means. And then my second question is on PitchBook, actually. Were you guys surprised with John leaving? And you talked about the convergence of margins there over time with Data and Analytics. Does that mean you see growth converging to where the Morningstar core business grows as well, or is there an opportunity for acceleration?

Kunal Kapoor: Why don't you start with the first question, and I'll take the second question?

Jason Dubinsky: Yeah, I guess on share repurchase, I would just say that you've seen periods where we've been very aggressive. And we believe in share repurchase as a way to increase returns for shareholders over time. And I would say by opportunistic, we definitely shifted a bit more of our focus on debt reduction over the past year and a half for good purposes. Interest rates went up. Look at our variable debt, over 6.5%. We wanted to bring leverage a bit down. But by opportunistic, I think we've leaned-in heavily at certain times versus being more programmatic. And that's probably what I mean. And it's still an important tool in the toolkit. And just because we've been out of the market in favor of debt repayment, it doesn't mean we're not going to get back in when it makes sense for us, but we don't have more of a programmatic buying. We tend to lean in at different periods of time when we have the capital to do it. So, that's what I would generally mean, but I wouldn't say that it's not in the toolkit. It's important use of capital when we see the right time and opportunity.

Kunal Kapoor: In terms of PitchBook, we continue to think that that should grow at above average growth rates. And the opportunities there, and certainly Rod and I both talked about expanding into adjacencies, expanding into markets that we're only scratching the surface in today. And so, I would not expect it to do anything other than continue on a robust growth trajectory based on what we see as the opportunity.

In terms of the other question about John, he's certainly been laying the groundwork for his departure. And it's one of those things I would say surprise, not surprise. John is a founder, has been here almost eight years and candidly PitchBook is getting big. Morningstar is a bigger organization. And I think John ultimately was ready to pass the baton on to someone who wanted to operate a larger business. And so, that's kind of where we are. And he's going to take some time, but we're parting on good terms if that's your question.

We're almost at noon. And I want to make sure though that if there are a few more questions, we get them in. So, why don't we go to 12:15 if that's okay on the Q&A? Because I want to make sure everyone has a chance to ask a few more questions and we'll keep going. One here and one there may be in whatever order.

Audience Member: On PitchBook, what's your philosophy on pricing? There is other financial data providers out there that charge more on a per seat basis than you guys. Do you feel like you're underpriced relative to the value that you're providing? And then second question on PitchBook was you guys have PE fund performance data. Currently, what gives you guys the right to win in that space structurally versus competitors like Burgiss and Cambridge?

Kunal Kapoor: I'll take the first question, Rod. Maybe you take the second question or even add to the first if you'd like. I think we have a very compelling value proposition when it comes to pricing. If PitchBook over time – we certainly have the opportunity to increase pricing. We are so very focused on ensuring that we can grow in our accounts. And what we tend to do is we tend to add value every year to what we're doing with PitchBook even the addition of LCD data into PitchBook is to that. And so over time what you see is it shows up in renewal rates. It shows up in expansion of number of users in a firm. It's a strategy that's similar to what we did on Direct as well. And over time, we have the opportunity to increase pricing as well. But right now, if we can get renewal rates up, get more users, I think, over time the result there is it creates more value than a short-term increase in pricing in and off itself deliver. Can Rod have the mic here too?

Rod Diefendorf: Thankfully, none of our sales folks are here to hear you think that we under charge because they feel like we overcharge. But I think that we look at what pricing we think makes sense. And from a pricing perspective, I think some could argue that we didn't charge as much with the LCD and PitchBook combination. That was by design. It was to introduce both user sets to the other sets of data. And we're seeing that come back significantly better on the net renewal side. So, I think we always look at pricing. I think we maximize the price that we can by firm and by firm type. And we look at it all the time. So, I think pricing is something that we constantly evaluate relative to what we're providing.

On the PE side in terms of funds, I think we've got more work to do on, I'd say, fund returns and where we are in terms of providing that in a more user-friendly way, but we've got the data. We're going to do it. And I think there's a lot of opportunity ahead of us for that.

Kunal Kapoor: Yeah, I consider it low-hanging fruit for us to win in this space if we can really build out that data.

Raymond Stochel: Ray Stochel from DF Dent again. Could you talk through how you are incentivizing your strategic account sales team when you go into the strategic accounts? And can you talk to what extent you are agnostic as to where you are upselling, where you are cross-selling, and whether you all have a preference between selling more seats or selling more raw data?

Kunal Kapoor: Got it. Danny?

Daniel Dunn: I thought you'd like to quote a construction question or something. No, that's a really good question. I would say, if I had it my way and we had a single revenue model here, that would be an easier thing to deploy because it would all be as a service, ACV, and you could spread that. But we have different business models. We also have regulated businesses too. So, we have to be really thoughtful about how we do that. Without giving you all the details, because I feel like some of this is competitive, but in our alike revenue models, we can actually distribute quota and create duplicate quota. We don't pay people unless they carry the quota. So, we'll distribute the quota, we'll duplicate quota, and spread it across those businesses so that there's a sense of align at the top, at the AE, as well as in each of the specialist organizations. And this is on existing clients.

As we get into other parts of the business that maybe have a regulatory matter we have to deal with or a different revenue model, I don't want an AE running around, say, getting paid on market appreciation, in retirement managed accounts or on the platform. We care about flows and how do we think about flows and how do we think about access points.

So, in other parts of the business, we have to do it a bit differently on like activity-based quota. Things that I believe, and we believe, and compliance believes are measurable and that we can execute against those. So, it's going to be something that evolves because additional assets will be built internally, organically, and will acquire other things and we have to slot it in. I'll just say it's slightly different than what you might see at an all-license-based firm because we have these different revenue models. So, I think that was question one. Is there another part to it?

Raymond Stochel: The other part was with, I guess, you have the ability to sell more seats potentially or more data and that would be less regulated, right? So, do you have a way that you push some of your larger accounts into saying, hey, take more Direct raw data from us to solve your needs or seats to solve your needs?

Daniel Dunn: Yeah, and actually I'm remembering a question you asked in between that which is, does that AE have the right to go where they need to go or where they want to go or are they tied to an individual right to drive incentives? Generally, there's a bunch of theory in go-to-market on what you do here. If you granularize quota, it gives them very difficult line of sight to figure out what to do, and in fact, they can over-achieve in one element and under-achieve in another and actually net out to about the same. So, you try and have clarity in line of sight. You try and have it go. The whole point of that role, while you have transactional teams, both marketers, success and sales teams going after their offering, that AE is understanding where's the client going and they are sort of the voice of the client to drive choice, right? And there should be constructive tension in there as we do that. Not for the client, for the teams and what's right for the client.

As it relates to what's our preference seats versus data, it's a really important thing. Whether you look at say James and how he thinks about Direct and Data or Rod how he thinks about Direct platform versus data feeds – I'm sorry, PitchBook platform versus the data feeds. Look, there are two different use cases. We know the platform is pre-built with use cases to accelerate individuals' work and we have to keep pioneering there, right? And we can monetize that, we know how to monetize that. And then there's the data feed piece which some clients have a bigger internal capability to develop their own platforms or feed their own platforms. We need to serve that need.

We haven't seen cannibalization there in either of those businesses, which is where we see it the most, or see this kind of platform versus data, but we have to pay attention to that. There's another dynamic which is we have choice in who we redistribute our data to. Big names in fintech, small names in fintech. We have to make choices about what offerings and capabilities do they have that we might not have, what access to certain segments might they major in where we minor in, and we make those decisions thoughtfully.

We have an alliance in redistribution team that does a strategic intake on each of those deals, not just at new logo, but as well as at renewal, so that we're looking like are we introducing cannibalization or are we accelerating an opportunity. So, we've got to be really smart about that, but we've got a pretty good framework in place, and I think that will continue to evolve.

Kunal Kapoor: We got comfortable with competition many years ago. It's a fact of life in this business and the way we got comfortable with it is by being sure that when we are feeding other platforms, we are pricing appropriately and getting the value that we would even if it was on our platform. And that has been a really important exercise over the past five, seven years that Danny has led.

The other thing on Data and Direct or Data and PitchBook, every client can have both, every client should have both and I care about that, and we look at that.

James Rhodes: Yeah, I was going to say from a KPI perspective we're looking at both. The biggest pipeline generator for data is the seats of our software. People in the software getting value of the use case that they're using today and sitting there saying, I want to use this more broadly within the organization. So, we're hyper-focused on growing seats partly because that generates pipeline for data.

Kunal Kapoor: Let's maybe do – I see two hands, let's do two more questions and then we'll wrap it up.

Bruce Kennedy, DF Dent: I am Bruce Kennedy with DF Dent. On the topic of long-term revenue growth and margins, there's a bit of a two-part related question but do you all see the potential out of sustained growth rates at the levels over the last 5 to 10 years while also raising margins – or while also expanding margins on a company wide basis? And then the second question is you all have mentioned a goal of returning margins to the high watermark you've achieved in the past. And would you say that is that point a point at which as you grow revenues in the future once you get margins to that level then that will be a point where it's difficult to expand and beyond that due to a need to reinvest to sustain the revenue growth?

Jason Dubinsky: Two good questions and without providing guidance, I would reemphasize the fact that we are a growth business, and we are not giving up on growth. And while I won't project what the historical rates are relative to the past, even our largest areas have significant opportunity to grow with large TAMs but if you look at the size, certain of our areas, you talked about competitors compared to the addressable market where competitors are, whether it's index, whether it's Credit, whether it's ESG and Sustainalytics and even in parts of the Wealth segment, we've got lot of runway. And we feel excited about the growth opportunity across the business without letting what the future holds relative to the past, but I would just look at our track record over the past few years and being able to generate outsized growth, and we think those opportunities are still there. It does require us to make sure to your point investing appropriately in the business to serve market needs. That means product development, sales marketing, but again I think we generally think we can do that with self-funding, self-funding the business.

With the margin targets we've got runway and it's hard to – I don't want to project us to the future where we're going to have to make decisions on where we're headed when we reach the peaks but I would just let's focus on getting to those peaks and the runway that we have while we're creating value along the way, but we do think we've got meaningful runway and we're going to attack that first growing the business, expanding margin, creating value and continuing to be what we think is on a trajectory that peers in the market are not on and we're excited about that.

Vincent DeAugustino: Vincent DeAugustino with T. Rowe Price again. Just thinking about the entrepreneurial spirit of the Company, so taking risk in course correcting is part of that. And so, I'd be curious just from the course correction here recently anything from a lessons learned standpoint is the next opportunity comes up where we'll apply some of those lessons. And then I guess just lastly to finish on a positive note just on behalf of our clients thank you for the strong stock performance.

Kunal Kapoor: Thank you. There's always many lessons learned. I think if I look back on it, I would probably have fewer simultaneous, significant things going together. I think we were in a unique position coming out of the pandemic and I said some of this last year where we were seeing startups getting funded in areas we were competing in, we were seeing money being raised by fintechs, we were seeing some of our competitors trying to come into our space and there was sort of a land grab going on and certainly, for example, in the ESG space and the Wealth space we really felt an important need to accelerate. But historically, Morningstar has been a firm that tries to grow this much and grow expenses this much and maintain that, and I think that's an important way that we will continue to grow the business.

I'd also say that the other lesson is just continuing to ensure that there's total alignment on how we measure and hold ourselves and our leaders accountable and I think we've done a good job of that in general, but just continuing to be more sophisticated and doubling down on that as well is incredibly important. So, I think those are things that come top of mind.

Now, Steph, I know you're looking at me because there's another Zoom question, so I'm going to do one just because you're giving me that look and then I've got the Board looking at me because the Board meeting is supposed to start. So, go ahead.

Stephanie: We had a few that we've covered.

Kunal Kapoor: We can cover a lot of them in the Q&A as well, but why don't you just one?

Stephanie: We had a few we've covered related to margins but one quick one is has John expressed interest in joining our Board?

Kunal Kapoor: John Gabbert?

Stephanie: Yeah.

Kunal Kapoor: He's out in the wilds of Alaska right now and he told me that I'm not going to hear from him till the 22nd, so that is as far as the discussion has gone. It's been a very emotional couple of weeks with the announcement and John is taking some time off and he remains a significant shareholder in Morningstar, and I know he is cheering for our success. So, actually that thought had crossed my mind too, but he'd be an interested party in the short-term. So, anyway, I'll stop on that, and I want to thank everybody for being here and enjoying us. We love seeing you.

Sanjeev just to come back to the question you asked about lessons learned. The one thing our competitors look at us and always say is how come clients always want you to win? It's because we really do a great job servicing them, being transparent with them and we want to keep doing that and so one of our edges I think I hope you take away is how we compete and we compete hard, but we compete in a way that I think never leaves our clients feeling like we're putting them in a tough spot and I really do see that as an edge in an environment where I think pricing of financial data and analytics has become somewhat more edgy, if you will, and I think we have some great opportunities because of that.

But I want to thank everyone for being here and as always please do send in – Gail is trying to get me to wrap up. Please do send in any questions and we value your feedback about this meeting as well and so if there's things we could be doing to improve it, please do let us know. So, thank you everyone and safe travels home.