
First-Quarter 2017 Financial Highlights



April 21, 2017

Key Operating Metrics

- ▶ Revenue for the quarter was \$209.5 million, an increase of 9.1% compared with the same period in 2016. PitchBook Data (PitchBook), which Morningstar acquired in December 2016, contributed \$13.1 million of revenue in the first quarter. Organic revenue, which excludes acquisitions, divestitures, and the effect of foreign currency translations, rose 3.1%, or \$6.0 million.
- ▶ Operating income decreased 32.8% to \$28.4 million from \$42.3 million, and operating margin was 13.6%, a decline from 22.0% in the same period in 2016. About \$18.7 million of the \$31.3 million increase in operating expense for the quarter reflects operating expense for PitchBook.
- ▶ Excluding PitchBook, Morningstar reported adjusted operating income of \$33.9 million for the quarter, a decrease of 19.7% compared with the first quarter of 2016. Adjusted operating income declined partly because of additional compensation expense from hires made during 2016. In addition, bonus expense was up \$3.5 million because the company's results were closer to the full-year targets established for the bonus plan in 2017 versus 2016; depreciation expense rose \$3.4 million related to previous capital expenditures and capitalized software development; and sales commission increased \$1.5 million because of stronger first-quarter sales growth in 2017 versus 2016, particularly in the United States.
- ▶ Cash provided by operating activities of \$46.5 million and capital expenditures of \$14.3 million resulted in free cash flow of \$32.2 million, an increase of \$34.3 million compared with the same period in 2016. The increase in free cash flow partly reflects the timing of income tax payments in 2016. First-quarter free cash flow tends to be lower than subsequent quarters because of the timing of annual bonus payments, which totaled \$38.4 million in the first quarter of 2017.

Update on Key Investment Areas

- ▶ As a group, these five areas had organic revenue growth of 9.2% in the first quarter of 2017.
- ▶ Total assets under management and advisement for Workplace Solutions rose 25.3% to \$111.6 billion as of the end of the quarter.
- ▶ Licenses for Morningstar Direct increased 9.6% to 12,928 as of March 31, 2017.
- ▶ Assets under management and advisement for Morningstar Managed Portfolios were up 22.9% to \$32.7 billion as of the end of the quarter.
- ▶ Morningstar Credit Ratings completed seven new-issue ratings, compared with 11 in the same period a year ago. Morningstar Credit Ratings offers ratings on commercial mortgage-backed securities, residential mortgage-backed securities, other asset-backed securities, and corporate and financial institutions.
- ▶ Revenue for Morningstar Data was up 7.8% to \$38.3 million for the three months ended March 31, 2017. Licenses for the PitchBook Platform rose 39.1% to 10,227 as of the same date.

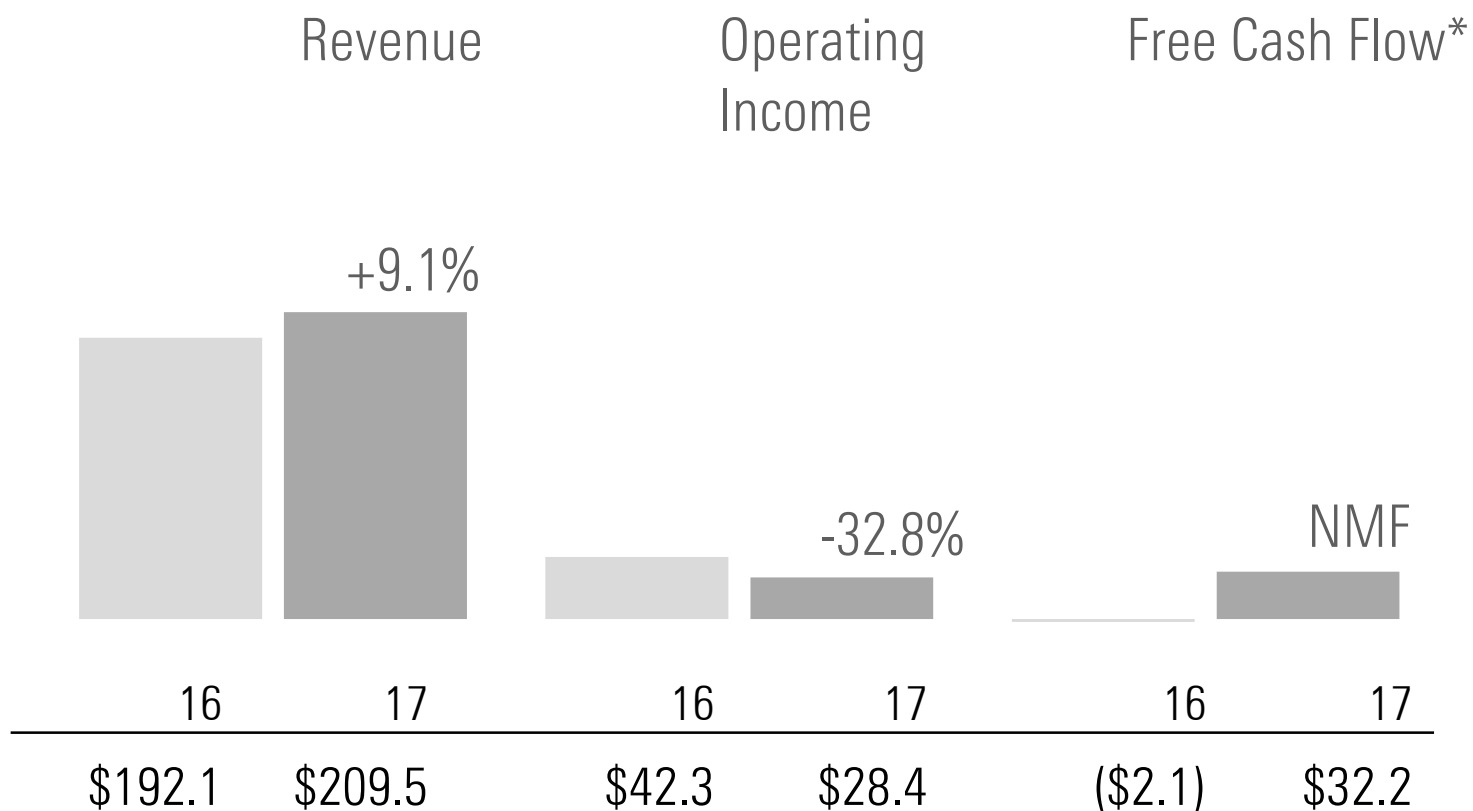
Balance Sheet and Capital Allocation

- ▶ As of March 31, 2017, the company had cash, cash equivalents, and investments totaling \$317.5 million and \$235.0 million of long-term debt, compared with cash, cash equivalents, and investments of \$304.0 million and \$250.0 million of long-term debt as of Dec. 31, 2016. The company repaid \$15.0 million of the outstanding balance on its revolving credit facility during the quarter.
- ▶ The company paid \$9.9 million for its regular quarterly dividend during the quarter.
- ▶ In the first quarter of 2017, the company repurchased approximately 2,800 shares for \$0.2 million. As of March 31, 2017, the company had \$326.8 million remaining for future repurchases under its share repurchase authorization and 42.9 million shares outstanding.

Comparability of Year-Over-Year Results

- ▶ First-quarter results included \$13.3 million in revenue and approximately \$19.6 million in operating expense from acquisitions, almost all of which was from PitchBook. PitchBook contributed \$13.1 million of revenue and approximately \$18.7 million of operating expense in the first quarter of 2017 (including \$2.6 million of amortization expense and \$1.7 million related to a management bonus plan).
- ▶ Foreign currency translations increased operating income by \$0.4 million during the quarter, including a negative effect on revenue of \$1.9 million and a favorable effect on operating expense of \$2.3 million.

First-Quarter 2017 Key Metrics (\$mil)

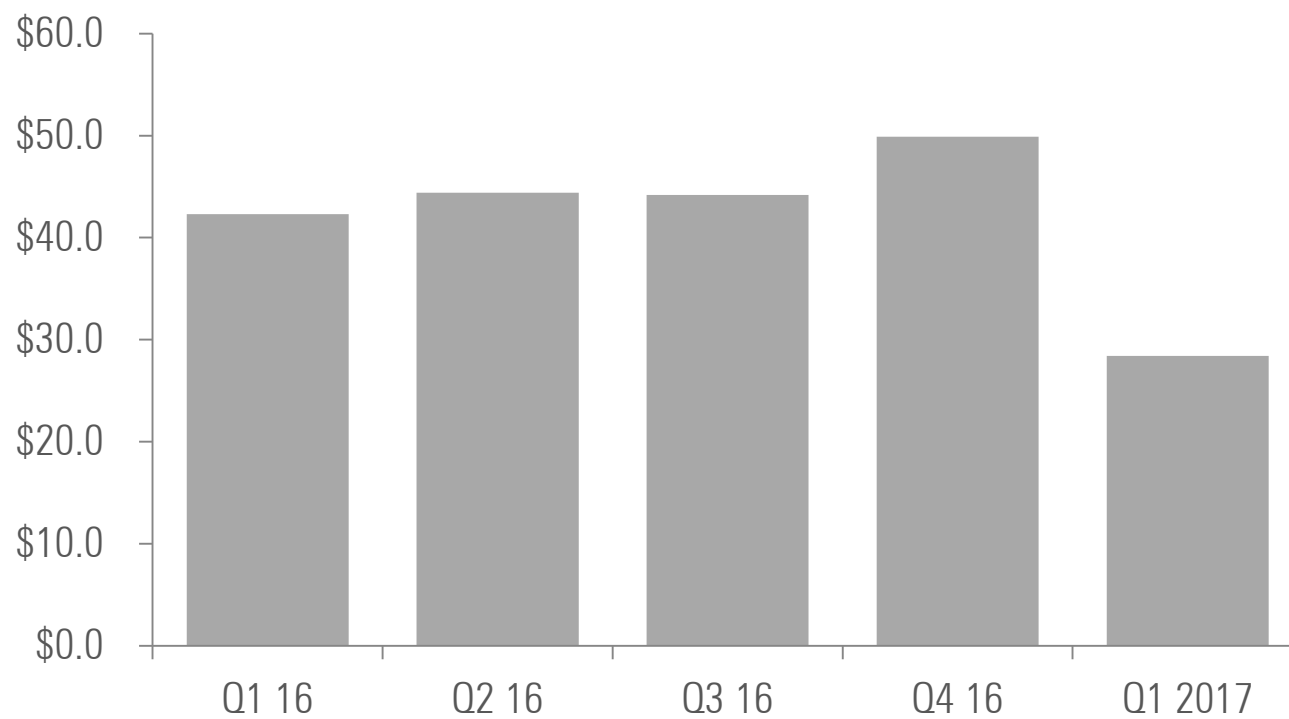


*Free cash flow is a non-GAAP financial measure.

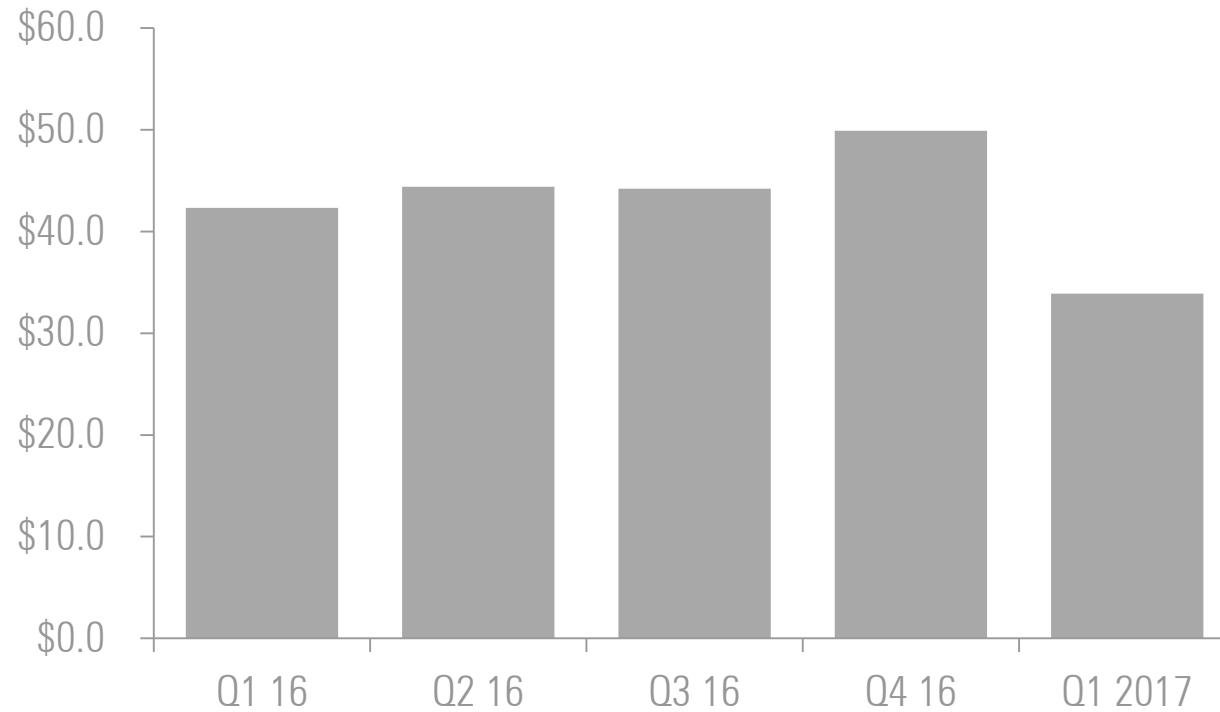
Revenue for Top Five Products (\$mil)

| | Three months ended March 31 | | |
|-----------------------------------|--------------------------------|---------|--------|
| | 2017 | 2016 | change |
| Morningstar Data | \$ 38.3 | \$ 36.6 | 4.7% |
| Morningstar Direct | 29.1 | 27.1 | 7.4% |
| Morningstar Investment Management | 24.9 | 24.6 | 1.3% |
| Morningstar Advisor Workstation | 19.8 | 20.6 | (3.9%) |
| Workplace Solutions | 18.0 | 16.3 | 10.5% |

Quarterly Operating Income (\$mil)

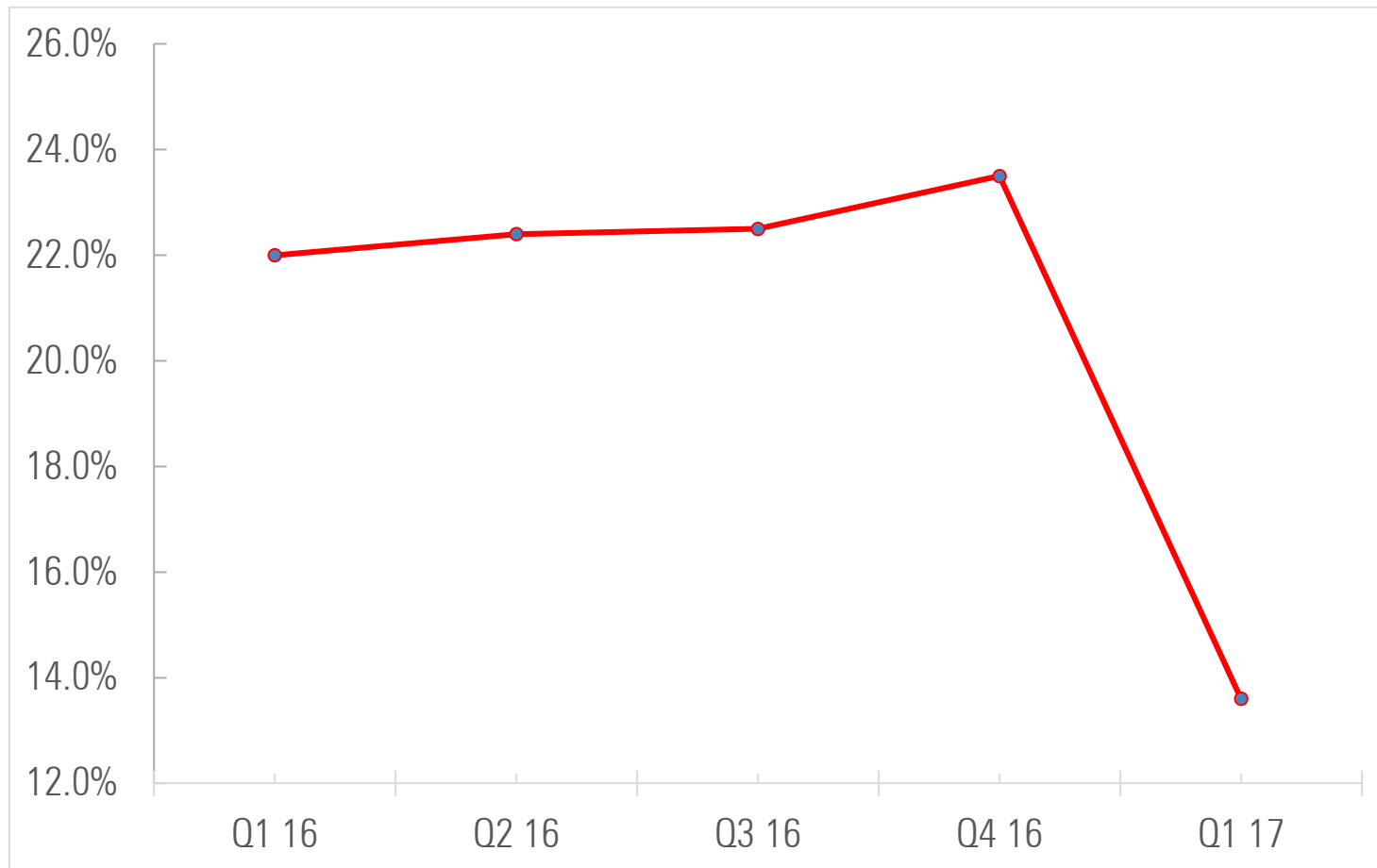


Adjusted Operating Income (excluding PitchBook)* (\$mil)

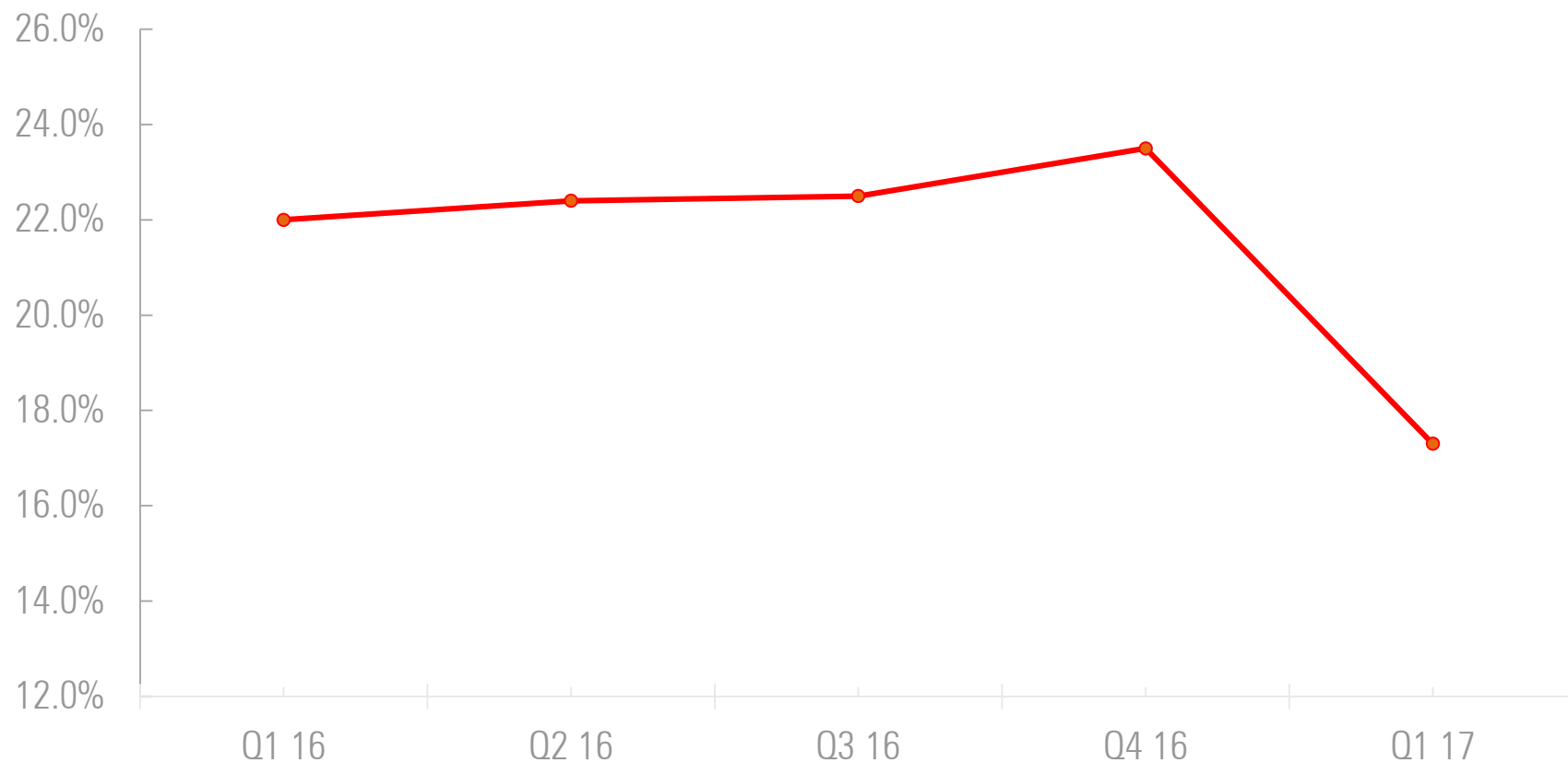


*Adjusted operating income is a non-GAAP financial measure.

Quarterly Operating Margin



Adjusted Operating Margin* (excluding PitchBook)



*Adjusted operating margin is a non-GAAP financial measure.

Balance Sheet (\$mil)

| | March 31 2017 | Dec. 31 2016 |
|---|--------------------------|-------------------------|
| Cash, cash equivalents, and investments | \$ 317.5 | \$ 304.0 |
| Working capital | 186.2 | 177.1 |
| Total assets | 1,355.6 | 1,350.9 |
| Deferred revenue | 187.9 | 165.4 |
| Long-term debt | 235.0 | 250.0 |
| Total equity | 718.7 | 696.8 |

Reconciliation of Non-GAAP Measure with the Nearest Comparable GAAP Measure (\$mil)

| | Three months ended | | |
|---|---------------------------|-------------|---------------|
| | March 31, | | |
| | 2017 | 2016 | change |
| Consolidated revenue | \$ 209.5 | \$ 192.1 | 9.1% |
| Less: divestitures | -- | -- | -- |
| Less: acquisitions | (13.3) | -- | NMF |
| Unfavorable effect of foreign currency translations | 1.9 | -- | NMF |
| Revenue excluding acquisitions, divestitures, and the effect of foreign currency translations (organic revenue) | \$ 198.1 | \$ 192.1 | 3.1% |

Reconciliation of Non-GAAP Measure with the Nearest Comparable GAAP Measure (\$mil)

| | Three months ended | | |
|---|---------------------------|-------------|---------------|
| | March 31, | | |
| | 2017 | 2016 | change |
| Consolidated operating income | \$ 28.4 | \$ 42.3 | (32.8%) |
| Add back: management bonus plan expense | 1.7 | -- | -- |
| Add back: intangible amortization | 2.6 | -- | -- |
| Add back: other operating expense, net for PitchBook | 1.2 | -- | -- |
| Operating income, excluding PitchBook (adjusted operating income) | \$ 33.9 | \$ 42.3 | (19.7%) |

Reconciliation of Non-GAAP Measure with the Nearest Comparable GAAP Measure

| | Three months ended | | |
|---|--------------------|-------|----------|
| | March 31, | | |
| | 2017 | 2016 | change |
| Consolidated operating margin | 13.6% | 22.0% | (8.4) pp |
| Add back: management bonus plan expense | 0.7% | -- | 0.7 pp |
| Add back: intangible amortization | 1.1% | -- | 1.1 pp |
| Add back: other operating expense, net for PitchBook | 1.9% | -- | 1.9 pp |
| Operating margin, excluding PitchBook (adjusted operating margin) | 17.3% | 22.0% | (4.7) pp |

pp—percentage points

Reconciliation of Non-GAAP Measure with the Nearest Comparable GAAP Measure (\$mil)

| | Three months ended March 31, | |
|---------------------------------------|---------------------------------|---------|
| | 2017 | 2016 |
| Cash provided by operating activities | \$ 46.5 | \$ 11.4 |
| Less: capital expenditures | (14.3) | (13.5) |
| Free cash flow | \$32.2 | (\$2.1) |