
Second-Quarter 2017 Financial Highlights



July 25, 2017

Key Operating Metrics

- ▶ Revenue for the quarter was \$229.2 million, an increase of 15.6% compared with the same period in 2016. PitchBook Data (PitchBook), which Morningstar acquired in December 2016, contributed \$15.1 million of revenue in the second quarter. Organic revenue, which excludes acquisitions, divestitures, and the effect of foreign currency translations, rose 9.2%, or \$18.3 million.
- ▶ Operating income increased 3.4% to \$46.0 million from \$44.4 million, and operating margin was 20.0%, a decline from 22.4% in the same period in 2016. Compensation expense increased \$12.5 million, or 14.8%, including \$7.4 million of incremental compensation expense from PitchBook. Compensation expense also increased because of salary adjustments in 2017 and additional hires made during 2016. Worldwide headcount totaled about 4,675 as of June 30, 2017, compared with 4,010 as of June 30, 2016. About 330 employees joined Morningstar with the PitchBook acquisition in December 2016. Since then, the rate of hiring has slowed, with total headcount increasing by 3.0% for the year-to-date period in 2017.
- ▶ Operating expense increased \$29.4 million for the quarter, including \$16.7 million of operating expense for PitchBook. Excluding PitchBook, Morningstar reported adjusted operating income of \$47.7 million for the quarter, an increase of 7.1% compared with the second quarter of 2016.
- ▶ Cash provided by operating activities of \$55.7 million and capital expenditures of \$19.0 million resulted in free cash flow of \$36.7 million, a decrease of \$18.8 million compared with the same period in 2016. The decline in free cash flow was mainly driven by lower cash provided by operating activities, which decreased because of the timing of income tax payments and higher accounts receivable. In addition, capital expenditures increased by \$3.1 million.

Update on Key Investment Areas

- ▶ As part of its long-term strategy, Morningstar has five major areas of focus for investment— Workplace Solutions, Morningstar Direct, Morningstar Managed Portfolios, Morningstar Credit Ratings, and Morningstar Data (including PitchBook). As a group, these five areas had quarterly organic revenue growth of about 14% year over year.
- ▶ Total assets under management and advisement for Workplace Solutions rose 20.2% to \$114.4 billion as of the end of the quarter.
- ▶ Licenses for Morningstar Direct increased 9.6% to 13,222 as of June 30, 2017.
- ▶ Assets under management and advisement for Morningstar Managed Portfolios were up 25.9% to \$35.0 billion as of the end of the quarter. More than 15,500 advisors globally now use Morningstar Managed Portfolios.
- ▶ Morningstar Credit Ratings completed 20 new-issue ratings, compared with 15 in the same period a year ago. Morningstar Credit Ratings offers ratings on commercial mortgage-backed securities (CMBS), residential mortgage-backed securities (RMBS), other asset-backed securities, and corporate and financial institutions. While Morningstar Credit Ratings has historically focused on CMBS, more than half of the new-issue ratings completed in the second quarter were in other areas, such as asset-backed and single-family rental securities.

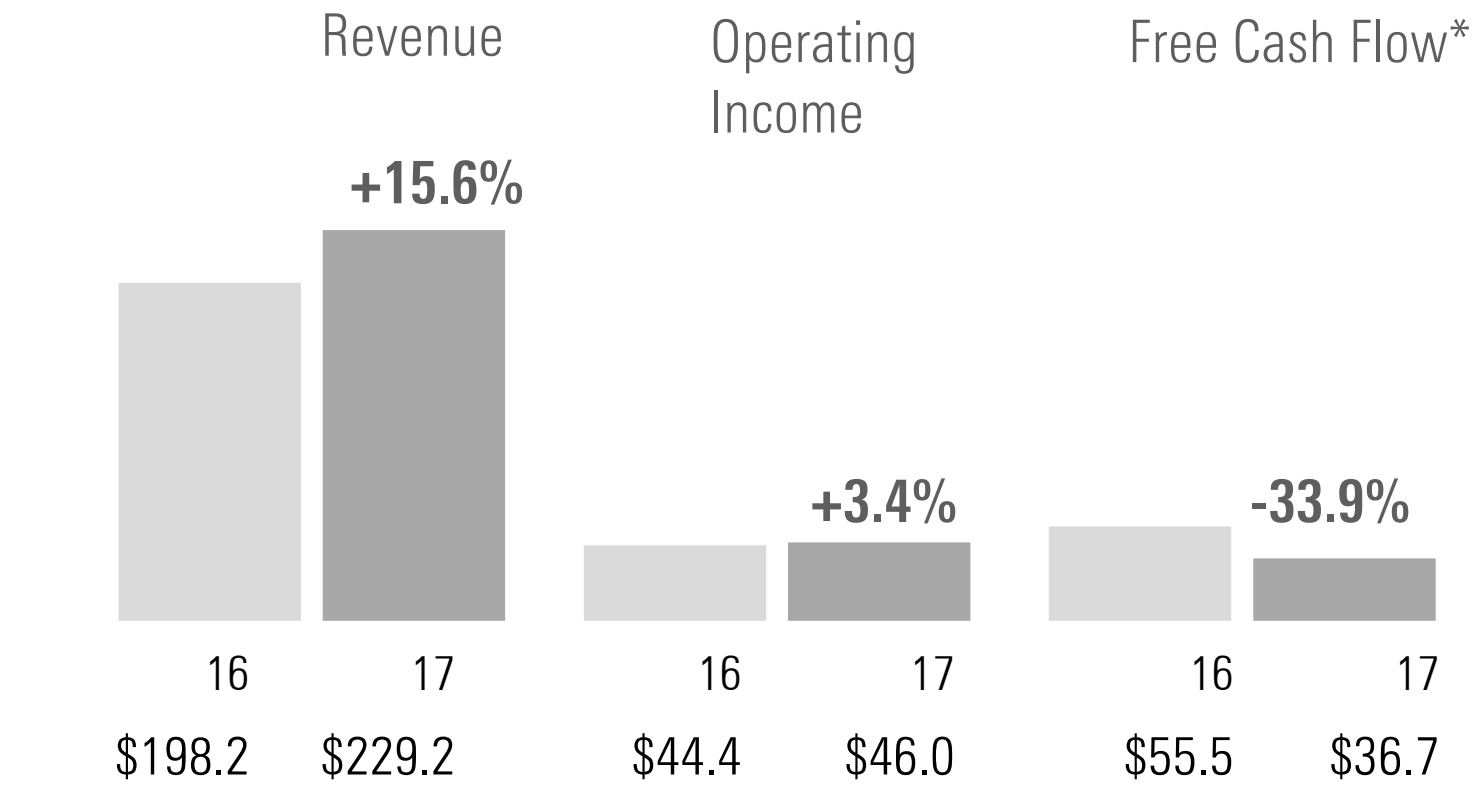
Balance Sheet and Capital Allocation

- ▶ As of June 30, 2017, the company had cash, cash equivalents, and investments totaling \$339.6 million and \$230.0 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 \$5.0 million of the outstanding balance on its revolving credit facility during the quarter.
- ▶ The company paid \$9.8 million for its regular quarterly dividend during the quarter.
- ▶ In the second quarter of 2017, the company repurchased approximately 400,000 shares for \$30.5 million. As of June 30, 2017, the company had \$296.4 million remaining for future repurchases under its share repurchase authorization and 42.7 million shares outstanding.
- ▶ Deferred revenue totaled \$185.3 million as of June 30, 2017, a 12.0% increase from \$165.4 million as of Dec. 31, 2016, with the increase reflecting positive sales trends in the first half of the year.

Comparability of Year-Over-Year Results

- ▶ Net income for the quarter includes a noncash after-tax gain of \$18.0 million, or 42 cents per share, in connection with the sale of HelloWallet.
- ▶ Second-quarter results included \$15.2 million in revenue and approximately \$16.9 million in operating expense from acquisitions, almost all of which was from PitchBook. PitchBook contributed \$15.1 million of revenue and approximately \$16.7 million of operating expense in the second quarter of 2017 (including \$2.7 million of amortization expense and \$1.8 million related to a management bonus plan).
- ▶ Foreign currency translations had no effect on operating income during the quarter, with a negative effect on revenue offset by a favorable effect on operating expense.

Second-Quarter 2017 Key Metrics (\$mil)

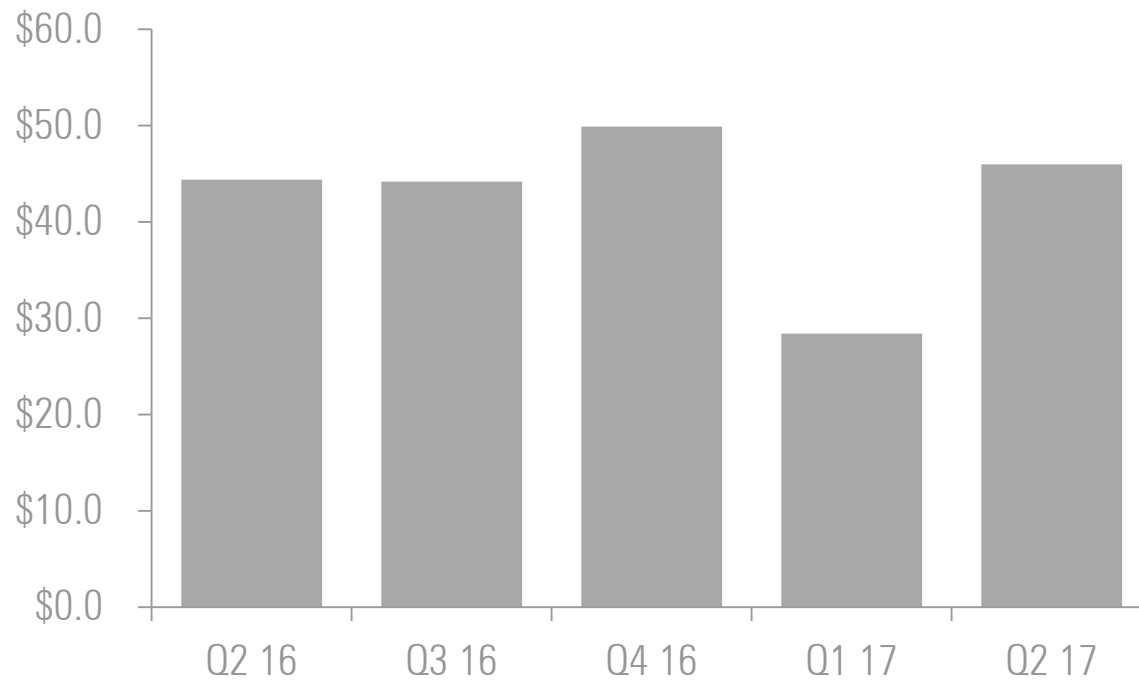


*Free cash flow is a non-GAAP financial measure.

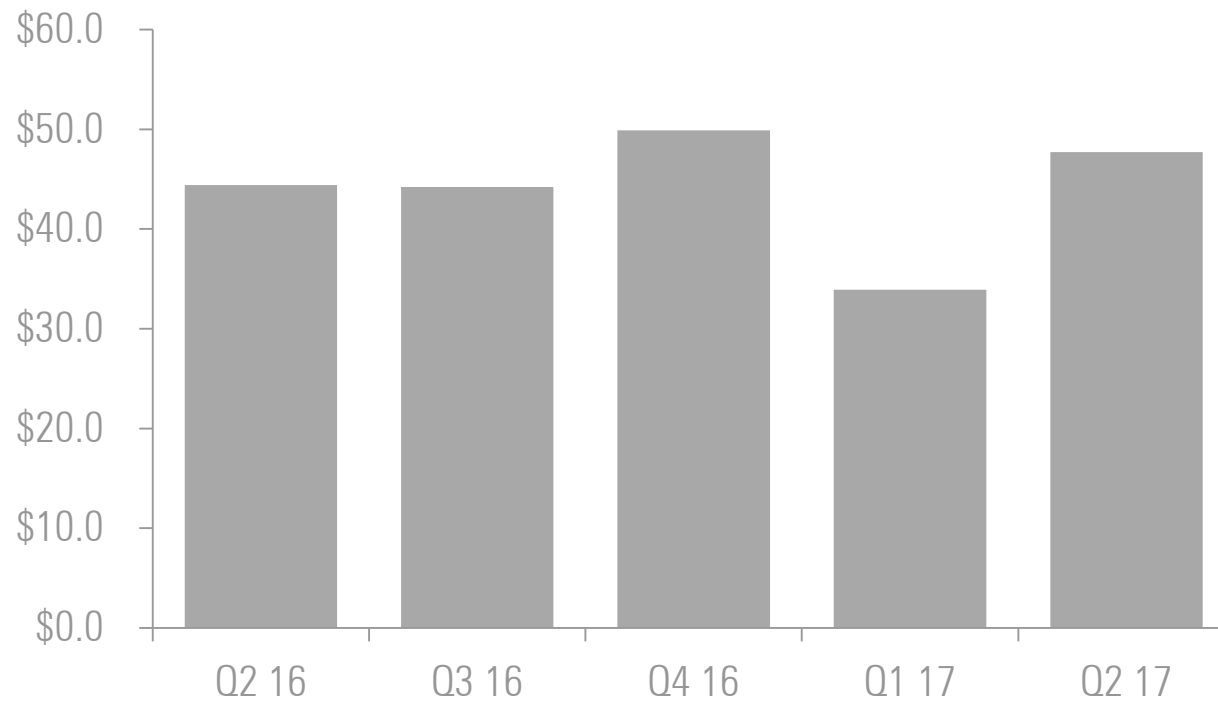
Revenue for Top Five Products (\$mil)

	Three months ended June 30		
	2017	2016	change
Morningstar Data	\$ 40.6	\$ 38.2	6.2%
Morningstar Direct	30.7	27.3	12.7%
Morningstar Investment Management	26.8	24.5	9.7%
Morningstar Advisor Workstation	22.8	20.6	10.6%
Workplace Solutions	19.0	16.7	13.4%

Quarterly Operating Income (\$mil)



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

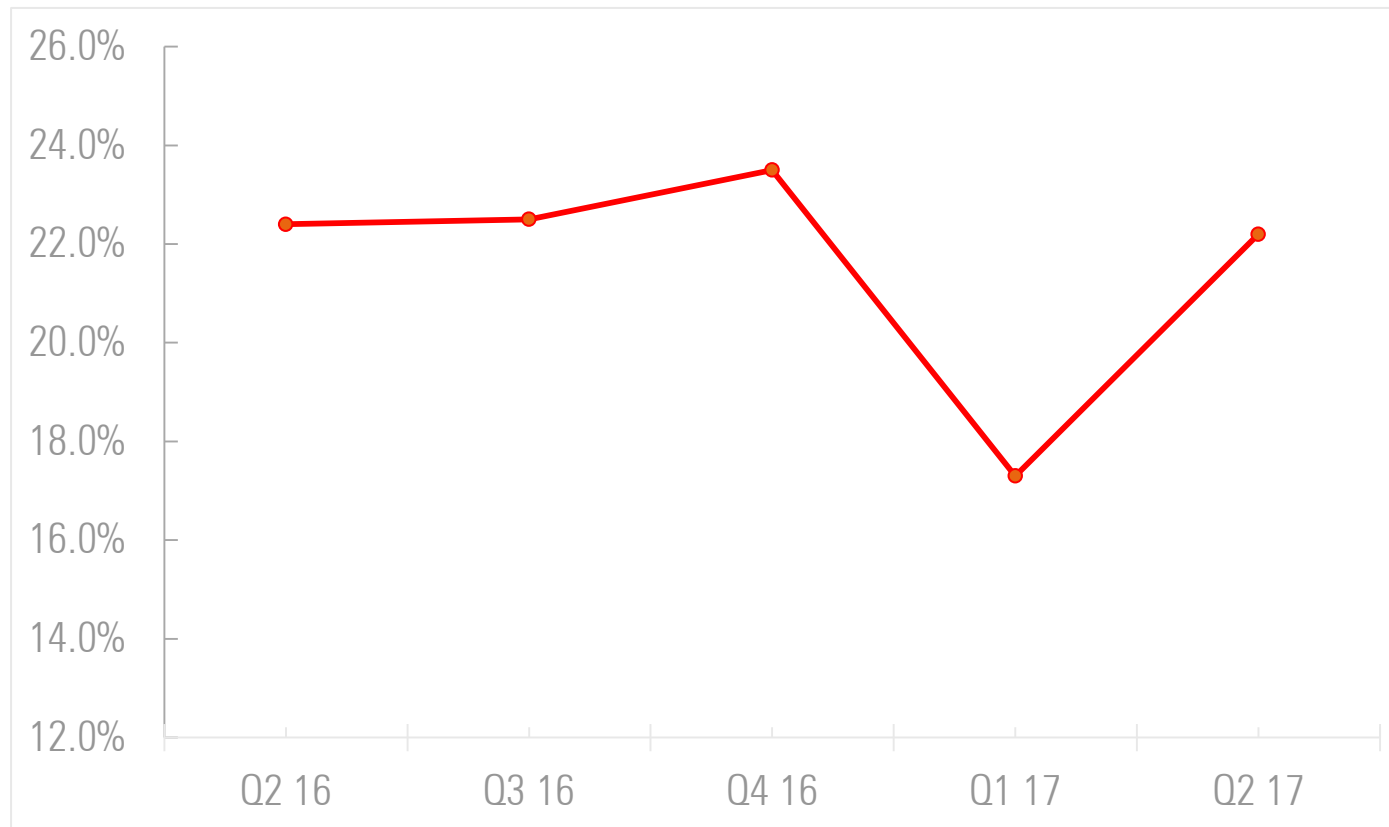


*Adjusted operating income is a non-GAAP financial measure.

Quarterly Operating Margin



Adjusted Operating Margin* (excluding PitchBook)



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

Balance Sheet (\$mil)

	June 30 2017	Dec. 31 2016
Cash, cash equivalents, and investments	\$ 339.6	\$ 304.0
Working capital	205.6	177.1
Total assets	1,376.0	1,350.9
Deferred revenue	185.3	165.4
Long-term debt	230.0	250.0
Total equity	739.1	696.8

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

	Three months ended		
	June 30,		
	2017	2016	change
Consolidated revenue	\$ 229.2	\$ 198.2	15.6%
Less: divestitures	--	--	--
Less: acquisitions	(15.2)	--	NMF
Unfavorable effect of foreign currency translations	2.5	--	NMF
Revenue excluding acquisitions, divestitures, and the effect of foreign currency translations (organic revenue)	\$ 216.5	\$ 198.2	9.2%

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

	Three months ended		Change
	2017	June 30, 2016	
Consolidated operating income	\$ 46.0	\$ 44.4	3.4%
Add back: management bonus plan expense	1.8	--	--
Add back: intangible amortization	2.7	--	--
Add back: other operating expense, net for PitchBook	(2.8)	--	--
Operating income, excluding PitchBook (adjusted operating income)	\$ 47.7	\$ 44.4	7.1%

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

	Three months ended		
	June 30,		
	2017	2016	change
Consolidated operating margin	20.0%	22.4%	(2.4) pp
Add back: management bonus plan expense	0.6%	--	0.6 pp
Add back: intangible amortization	1.0%	--	1.0 pp
Add back: other operating expense, net for PitchBook	0.6%	--	0.6 pp
Operating margin, excluding PitchBook (adjusted operating margin)	22.2%	22.4%	(0.2) pp

pp—percentage points

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

	Three months ended June 30,	
	2017	2016
Cash provided by operating activities	\$ 55.7	\$ 71.4
Less: capital expenditures	(19.0)	(15.9)
Free cash flow	\$ 36.7	\$ 55.5