
Fourth-Quarter and Full-Year 2016 Financial Highlights



February 21, 2017

Key Operating Metrics

- ▶ Revenue for the quarter was \$212.2 million, an increase of 5.3% compared with the same period in 2015. For the year, revenue was \$798.6 million, an increase of 1.2% compared with \$788.8 million in 2015. Organic revenue, which excludes acquisitions, divestitures, and the effect of foreign currency translations, rose 4.6%, or \$9.3 million, in the fourth quarter, and 1.7%, or \$13.8 million, for the year.
- ▶ Fourth-quarter operating income was \$49.9 million, a decrease of 0.5% compared with the fourth quarter of 2015. Fourth-quarter operating margin was 23.5%, compared with 24.9% in the fourth quarter of 2015. For the year, operating income was \$180.8 million, a decrease of 5.2% compared with \$190.6 million in 2015. Full-year operating margin was 22.6%, compared with 24.2% in 2015.
- ▶ Free cash flow for the quarter was \$55.2 million, reflecting cash provided by operating activities of \$70.5 million and capital expenditures of \$15.3 million, an increase of \$19.7 million in free cash flow compared with the same period in 2015. For the year, free cash flow was \$150.9 million, reflecting cash provided by operating activities of \$213.7 million and capital expenditures of \$62.8 million, a decrease of \$33.3 million in free cash flow compared with 2015.

Comparability of Year-Over-Year Results

- ▶ Net income for the fourth quarter and full year in 2016 included a holding gain of \$37.1 million, or 86 cents per share, in connection with Morningstar's December 2016 acquisition of the remaining ownership interest in PitchBook Data, Inc. (PitchBook). The holding gain reflects the higher price paid to acquire the remaining ownership interest versus the prices Morningstar previously paid for its minority ownership.
- ▶ Fourth-quarter results included \$4.5 million in revenue and approximately \$8.6 million of incremental operating expense from acquisitions. These totals include the results of PitchBook, which contributed \$4.1 million of revenue and approximately \$7.5 million of incremental operating expense (including about \$1.1 million of acquisition-related expense incurred by Morningstar) during the one-month period that PitchBook was included in Morningstar's consolidated results for 2016.
- ▶ For the full year, acquired companies (primarily PitchBook) contributed revenue of \$5.5 million and incremental operating expense of \$11.2 million.
- ▶ Foreign currency translations increased operating income by \$1.2 million during the fourth quarter, reducing revenue by \$3.2 million and operating expense by \$4.4 million. For the year, foreign currency translations increased operating income by \$2.0 million, reducing revenue by \$9.5 million and operating expense by \$11.5 million.

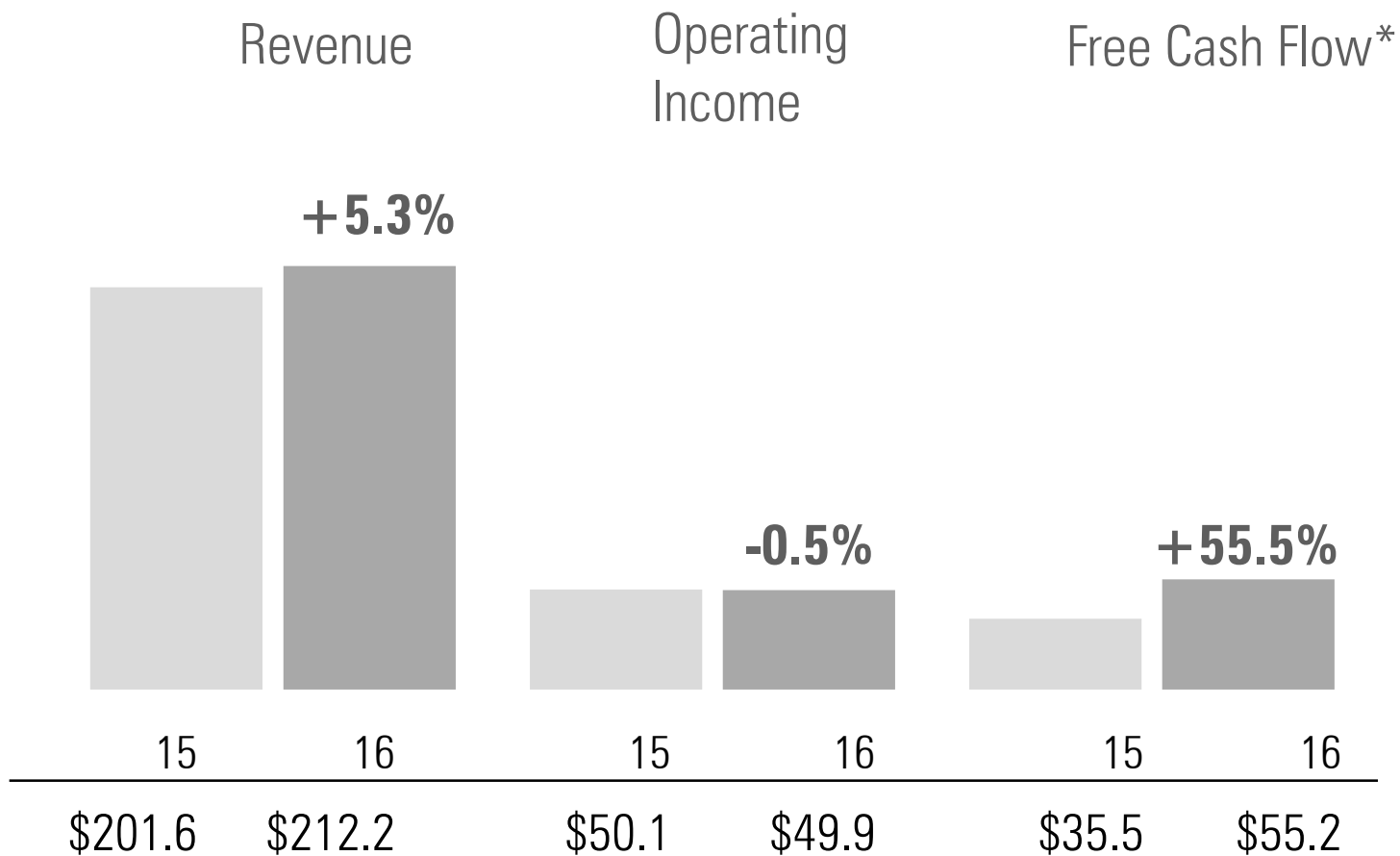
Update on Key Investment Areas

- ▶ Total assets under management and advisement for Workplace Solutions rose 16.4% during the year to \$104.4 billion.
- ▶ Licenses for Morningstar Direct rose 9.3% to 12,492 as of Dec. 31, 2016, compared with 11,428 as of Dec. 31, 2015.
- ▶ Assets under management and advisement for Morningstar Managed Portfolios totaled \$29.8 billion as of the end of the year, compared with \$25.8 billion in 2015. More than 10,000 financial advisors globally now use Morningstar Managed Portfolios.
- ▶ Morningstar Credit Ratings completed 27 CMBS new-issue ratings in 2016, compared with 56 in 2015, reflecting both lower industry-wide issuance and negative market-share trends. Separately, the Securities and Exchange Commission authorized an expansion of the registration for Morningstar Credit Ratings to rate corporate issuers and financial institutions as a nationally recognized statistical rating organization (NRSRO). This development will help Morningstar bring its investor-focused approach to a much broader portion of the U.S. fixed-income markets.
- ▶ The company introduced a family of Global Sustainability Indexes that incorporate ESG factors into the investment process. Morningstar also launched the Morningstar Open Indexes Project, which provides open-source access to Morningstar's global equity indexes to the industry for benchmarking at no cost.

Balance Sheet and Capital Allocation

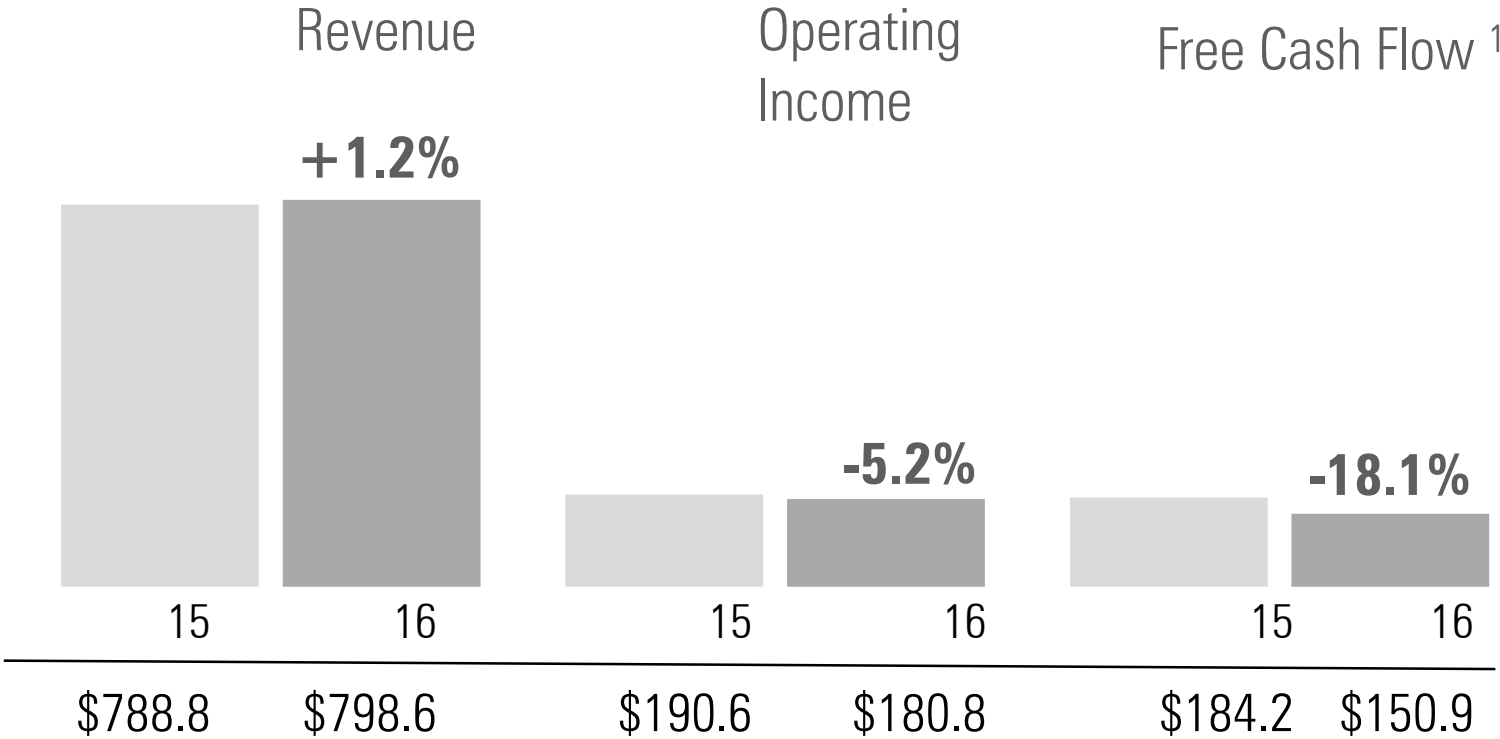
- ▶ As of Dec. 31, 2016, the company had cash, cash equivalents, and investments totaling \$304.0 million and \$250.0 million of long-term debt, compared with cash, cash equivalents, and investments of \$248.6 million and \$35.0 million of short-term debt as of Dec. 31, 2015. Debt increased mainly because the company expanded its existing revolving credit facility to fund the PitchBook acquisition in December 2016.
- ▶ Morningstar expects to make annual bonus payments of approximately \$38.0 million in the first quarter of 2017, compared with \$50.0 million in the first quarter of 2016.
- ▶ In the fourth quarter of 2016, the company repurchased approximately 147,000 shares of common stock for \$10.7 million. For the full year, the company repurchased approximately 645,000 shares of common stock for \$49.5 million. As of Dec. 31, 2016, the company had \$327.1 million remaining under the current authorization for future repurchases and 42.9 million shares of common stock outstanding.
- ▶ The company paid \$37.9 million in dividends in 2016.

Fourth-Quarter 2016 Key Metrics (\$mil)



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

Full-Year 2016 Key Metrics (\$mil)

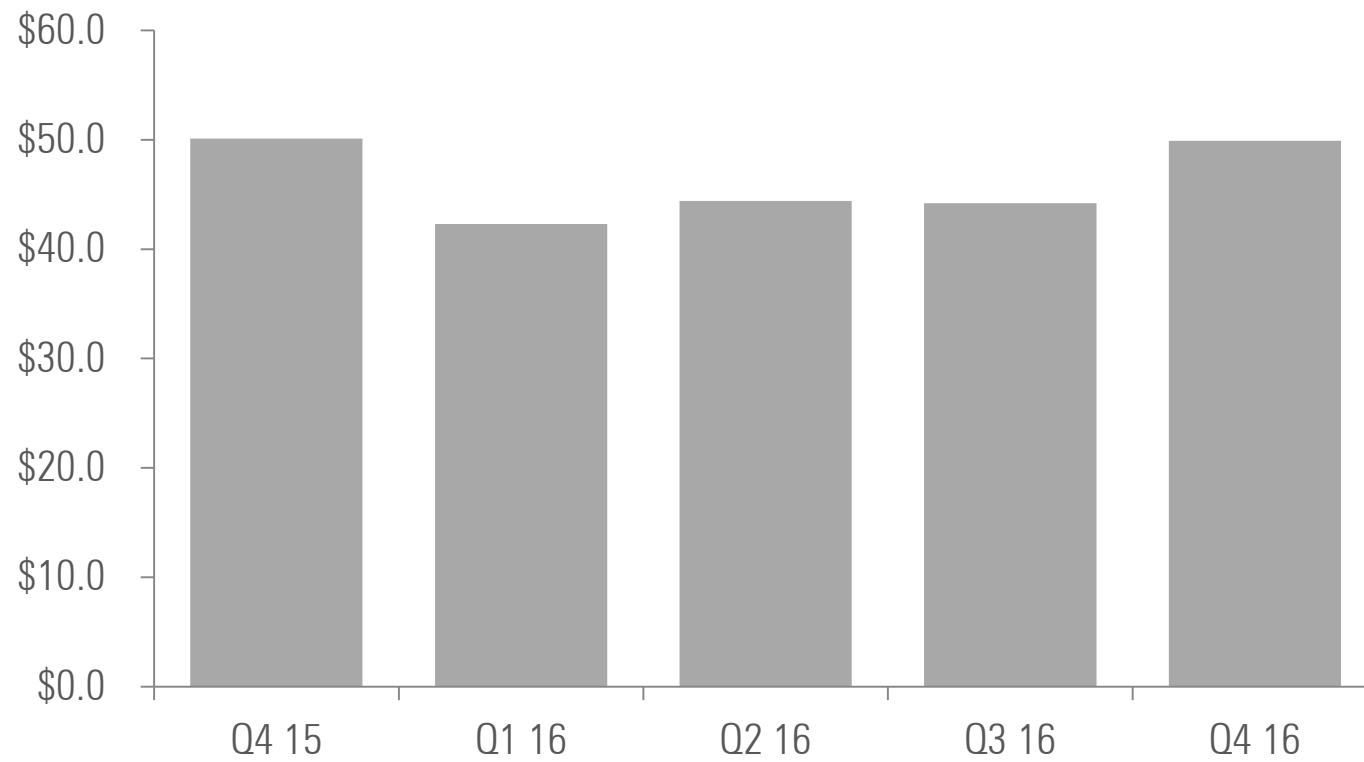


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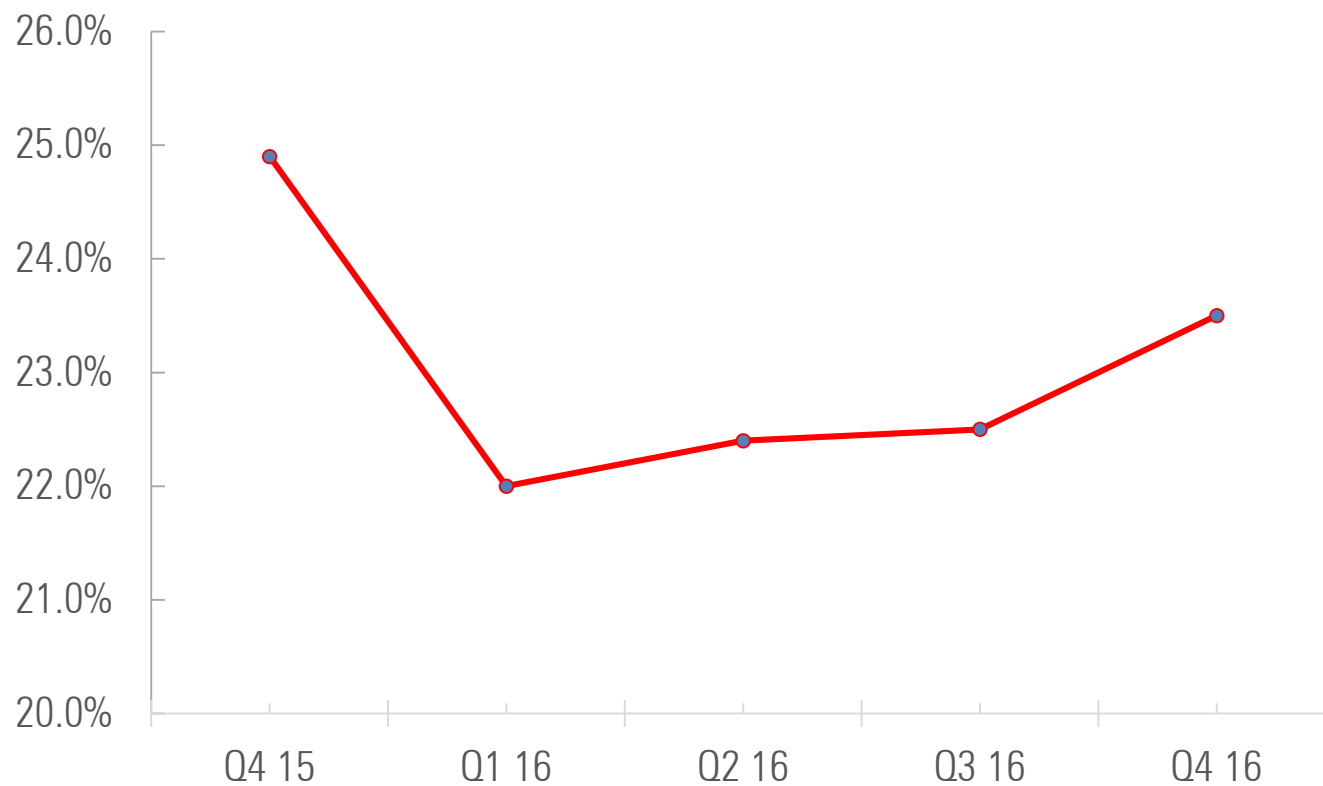
Revenue for Top Five Products (\$mil)

| (in millions) | Year ended December 31 | | |
|-----------------------------------|-------------------------------|-------------|---------------|
| | 2016 | 2015 | change |
| Morningstar Data | \$152.1 | \$144.5 | 5.3% |
| Morningstar Direct | 110.5 | 101.7 | 8.7% |
| Morningstar Investment Management | 98.4 | 98.8 | (0.4%) |
| Morningstar Advisor Workstation | 82.4 | 81.4 | 1.2% |
| Workplace Solutions | 71.3 | 66.6 | 7.0% |

Quarterly Operating Income (\$mil)



Quarterly Operating Margin (%)



Balance Sheet (\$mil)

| | As of December 31, | |
|---|---------------------------|-------------|
| | 2016 | 2015 |
| Cash, cash equivalents, and investments | \$ 304.0 | \$ 248.6 |
| Working capital | 177.1 | 105.5 |
| Total assets | 1,350.9 | 1,029.0 |
| Deferred revenue | 165.4 | 140.7 |
| Short- and long-term debt | 250.0 | 35.0 |
| Total equity | 696.8 | 640.6 |

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

| | Three months ended December 31, | | Year ended December 31, | |
|---------------------------------------|------------------------------------|---------|----------------------------|----------|
| | 2016 | 2015 | 2016 | 2015 |
| Cash provided by operating activities | \$ 70.5 | \$ 52.9 | \$ 213.7 | \$ 241.5 |
| Less: capital expenditures | (15.3) | (17.4) | (62.8) | (57.3) |
| Free cash flow | \$55.2 | \$35.5 | \$150.9 | \$ 184.2 |

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

| | Three months ended | | Year ended | |
|---|--------------------|----------|--------------|----------|
| | December 31, | | December 31, | |
| | 2016 | 2015 | 2016 | 2015 |
| Consolidated revenue | \$ 212.2 | \$ 201.6 | \$ 798.6 | \$ 788.8 |
| Less: divestitures | -- | -- | -- | -- |
| Less: acquisitions | (4.5) | -- | (5.5) | -- |
| Unfavorable effect of currency translations | 3.2 | -- | 9.5 | -- |
| Organic revenue | \$ 210.9 | \$ 201.6 | \$ 802.6 | \$ 788.8 |

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