FactSet Research Systems, Inc. FDS [XNYS] | ★★★

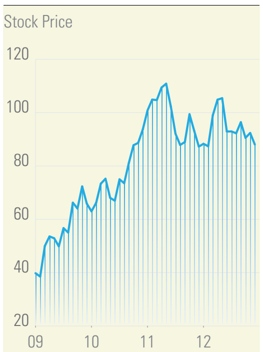
Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Stewardship	Morningstar Credit Rating	Industry
91.06 USD	89.00 USD	62.30 USD	120.15 USD	Medium	Narrow	Standard		Business Services

Slowing ASV Growth Indicates Limited Near-Term Revenue Growth Prospects for FactSet

by Swami Shanmugasundaram
Equity Analyst
Analyst covering this company do not own its stock.

Pricing as of Jan 15, 2013.
Rating as of Jan 15, 2013.

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.



Analyst Note Sep. 25, 2012

FactSet FDS reported fourth-quarter results that were largely in line with our expectations, and we are maintaining our fair value estimate. Including the revenue from the recently acquired StreetAccount, FactSet's fourth-quarter revenue totaled $207 million, up 8.2% from the prior-year period. Top-line growth has slowed over the past few quarters as the demand environment remains challenging. This trend is reflected in the company's annual subscription value, which grew 6.8% year over year to $832 million. Given the volatile environment in the financial sector, we expect FactSet's top-line growth to remain in the mid- to high single digits in the next few quarters.

On a positive note, the company added 57 net new clients during the quarter, its highest quarterly addition in almost six years. New clients typically come with a smaller user base, and the pace of user additions picks up as clients get comfortable with FactSet's products. It will probably take four to six quarters before FactSet benefits from this strong client addition. The company ended the quarter with 49,500 users, up from 48,400 in the last quarter.

Operating income grew at a faster pace (19.7%) than revenue, as the firm benefited from lower variable compensation expenses. During the quarter, FactSet's operating margin was 34%, up 330 basis points from last year but largely in line with its historical mid-30s range.

Thesis Jul. 10, 2012

FactSet Research Systems is a leading provider of financial data to the global investment industry. The company capitalized on the demand for financial information by consolidating and distributing financial data to various end users. While the volatile market conditions that have existed over the last few years would portray a gloomier picture for FactSet's growth, its long-term prospects remain bright as investors' insatiable appetite for data is unlikely to diminish, in our opinion.

Although FactSet operates in the highly competitive financial information industry, it possesses a couple of distinct business advantages, which we believe should help it grow at an attractive pace and with high profitability. FactSet's business model is built on its ability to aggregate data from more than 50 third-party vendors and allows users to gain access to more than 200 databases, including its own proprietary data, through a single online platform. We believe FactSet's ability to offer simultaneous access to disparate data sources in a flexible format, which effectively lets users slice and dice the data, provides a long-term competitive advantage. It has also helped FactSet protect itself from new entrants, as it would be extremely difficult for another firm to replicate the scale and scope of FactSet's agreements with third-party content and data providers.

Because of the embedded nature of its products in clients' daily activities, FactSet's offerings have become an indispensable information source, resulting in a very sticky business. Further, as FactSet's products and services get deeply entrenched in investors' processes, they would be difficult for clients to replace, leading to high switching costs. Its annual subscriber renewal rate, in excess of 95%, is a testament to the must-have nature of its products. These high barriers to entry and switching costs have helped FactSet create a narrow economic moat around its operations, in our view.

FactSet has been making significant investments during the last few years to expand its proprietary content and we expect this to benefit the company twofold in the long run. First, FactSet relies on third-party data providers for a large portion of its content and we believe its leverage with its data suppliers is limited. Having its own proprietary data not only helps the firm lower its dependence on its vendors but also provides it with an opportunity to capture all of the economic value of the data. Second, higher use of proprietary content should lead to higher margins in the long run as the company incurs minimal incremental cost with each additional subscriber.

Although we believe FactSet is well-positioned to have a long and profitable stint in providing financial information, we remain cautious about its near-term growth opportunities. The company's revenue growth prospects are largely tied to employment trends in the financial sector (both buy-side and sell-side) and assets under management by its buy-side clients. Concerns about economic slowdown in recent times led to turmoil in global financial markets which in turn resulted in almost flat head count and large swings in assets under management. If this trend were to continue, the company may find it difficult to return to double-digit growth rates seen before the global financial crisis.

Valuation, Growth and Profitability

We are raising our fair value estimate for FactSet to $89 per share from $84, mainly to account for the time value of money since our last update. FactSet continues to witness stable demand for its services, as is evident in the uptrend in its subscription fundamentals, which include annual subscription value, client count, and user count. Our current forecast assumes revenue will grow at a CAGR of 10% during the next five years. We expect growth to come from the company expanding its client base as well as extending its reach within its existing clients (expanding user base and adding incremental services). We expect operating margins to remain range-bound (between 33.5% and 34.5%) during our forecast period. Despite having a scalable operating model, management reinvests any margin upside back into the business, and we expect this trend to continue in the medium term.

Risk

The greatest risk facing our fair value estimate is FactSet's ability to maintain its growth rate amid a sustained economic slump that could affect the company's core client base in the financial services sector. Turmoil in the financial services industry has forced some Wall Street firms to trim their staffing needs, and this could hurt demand for FactSet's products. The company also could be affected by consolidation among investment banks and other investment management organizations.

Bulls Say

- FactSet enjoys recurring revenue from 95% of its client base. It continuously focuses on enhancing its client relationships, giving it substantial recurring revenue opportunities.
- The company's unleveraged balance sheet gives it the financial flexibility to pursue acquisitions as a means of expanding service offerings and plugging gaps in the product and service portfolio.
- Almost a third of FactSet's revenue in fiscal 2011 came from its international operations, providing a good source of diversification against a downturn in any individual economy.

Bears Say

- Although FactSet has carved a leadership position in the financial information market, it still faces significant competition from larger players (Thomson Reuters and Bloomberg) with greater resources.
- Some of FactSet's customers continue to reel under the lingering effects of the financial crisis, potentially hindering the firm's growth prospects.
- Currency fluctuations could impact FactSet's operating results as the company has more than one-half of its employees in locations outside of the U.S

Financial Overview

Financial Health:FactSet's balance sheet is very healthy. The company has no debt and about $240 million of cash sitting on its balance sheet. Its ability to generate strong cash flow should help it maintain an unleveraged balance sheet in the future.

Company Overview

Profile: FactSet is a leading provider of financial and economic data and analytics to the global investment industry. The company aggregates content from more than 200 databases, reformats it and then furnishes the data to money managers, research analysts, and other financial professionals. The range of data offered by FactSet includes company fundamentals, earnings estimates, economic data, research reports, M&A data and more. The firm derives about 80% of its revenue from buy-side users, while the remaining revenue comes from sell-side clients.

Management: Chairman and CEO Philip A. Hadley has been at the helm since 2000. A company veteran of more than 25 years, Hadley has held several executive positions, including vice president of sales, senior vice president, and director of marketing and sales. Most of the company's senior management team consists of insiders with long employment tenures. We view this depth and record as positive attributes. Directors and executives collectively own around 3.5% of FactSet's outstanding shares. This excludes the 5.6% stake held by co-founder and director Charles J. Snyder. In our opinion, this should be a sufficient enough stake to align their interests with other shareholders'. FactSet has done a good job of returning excess capital to shareholders. During the last five years, the company had returned more than $825 million to shareholders through dividends and repurchases. Overall, we believe FactSet's corporate governance is good.

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FactSet Research Systems, Inc.(USD) FDS

Last Close $	Sales $Mil	Mkt Cap $Mil	Industry	Currency
$89.09	$820	$3,937	Business Services	USD

FactSet Research Systems Inc. is a provider of integrated global financial and economic information, including fundamental financial data on tens of thousands of companies worldwide.

Morningstar Rating	Fair Value Uncertainty	Fair Value	Economic Moat	Style	Sector
★★★ As of 01-14-2013	Medium	$89.00	Narrow	Mid Growth	

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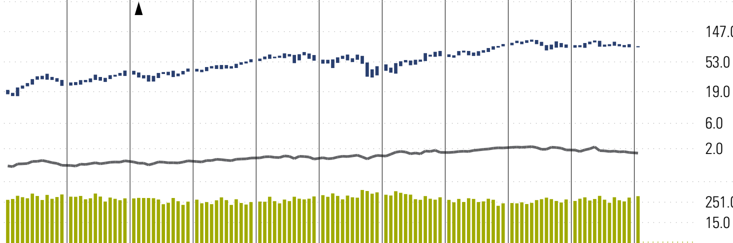
2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	YTD	
35.39	39.50	42.30	58.05	73.99	67.96	76.76	96.86	112.40	109.20	90.21	Annual Price High
16.28	23.55	27.06	37.40	50.86	31.15	35.56	61.15	78.25	85.38	86.88	Low
		3:2									Recent Splits



Price Volatility
Monthly High/Low
Rel Strength to S&P 500
52 week High/Low $
109.20-85.38
10 Year High/Low $
112.40-16.28
Trading Volume Thousand

Growth Rates Compound Annual

Grade: B	1 Yr	3 Yr	5 Yr	10 Yr
Revenue %	10.9	9.0	11.1	14.6
Operating Income %	14.5	9.0	12.0	6.6
Earnings/Share %	14.1	11.5	14.0	18.1
Dividends %	16.0	15.1	26.4	25.5
Book Value/Share %	9.1	5.2	8.3	13.6
Stock Total Return	3.5	11.2	12.1	16.9
+/- Industry	-15.0	-0.6	5.5	8.3
+/- Market	-13.2	0.3	9.1	10.1

Profitability Analysis

Grade: A	Current	5 Yr Avg	Ind	Mkt
Return on Equity %	34.4	31.5	7.4	20.7
Return on Assets %	28.1	24.8	2.5	8.5
Revenue/Employee $K	136.3	188.4	—	1090.4
Fixed Asset Turns	10.5	8.1	6.9	7.0
Inventory Turns	—	—*	13.0	13.4
Gross Margin %	65.6	66.6	37.1	43.8
Operating Margin %	33.8	33.4	12.0	19.3
Net Margin %	23.5	23.1	4.0	13.3
Free Cash Flow/Rev %	25.0	25.7	9.9	12.0
R&D/Rev %	—	—	0.4	—

Financial Position (USD)

Grade: A	08-12 $Mil	11-12 $Mil
Cash	189	211
Inventories	—	—
Receivables	74	79
Current Assets	299	320
Fixed Assets	77	76
Intangibles	289	289
Total Assets	694	712
Payables	14	21
Short-Term Debt	—	—
Current Liabilities	113	95
Long-Term Debt	—	—
Total Liabilities	142	125
Total Equity	552	587

Valuation Analysis

	Current	5 Yr Avg	Ind	Mkt
Price/Earnings	21.0	22.5	29.7	15.0
Forward P/E	16.0	—	—	13.1
Price/Cash Flow	17.8	17.1	11.5	9.2
Price/Free Cash Flow	19.8	19.6	16.2	75.1
Dividend Yield %	1.4	1.2	1.4	2.3
Price/Book	6.7	6.6	3.1	2.1
Price/Sales	4.9	5.2	1.6	2.5
PEG Ratio	1.1	—	—	1.7

*3Yr Avg data is displayed in place of 5 Yr Avg

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	YTD	Stock Performance
35.1	53.6	5.1	37.8	-0.6	-19.4	50.7	43.7	-5.8	2.3	1.2	Total Return %
6.4	42.7	0.2	22.0	-6.1	17.6	24.2	28.6	-7.9	-13.7	-2.0	+/- Market
5.8	43.8	-0.7	20.3	-6.7	11.7	23.0	29.5	-9.7	-13.9	-2.7	+/- Industry
0.6	0.5	0.5	0.4	0.8	1.5	1.2	1.0	1.2	1.4	1.4	Dividend Yield %
1293	1865	1992	2767	2687	2084	3104	4345	3938	3891	3937	Market Cap $Mil

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	TTM	Financials (USD)
222	252	313	387	476	576	622	641	727	806	820	Revenue $Mil
70.2	70.6	70.6	68.7	67.9	66.8	66.3	67.8	66.3	65.8	65.6	Gross Margin %
—	—	—	—	—	184	211	222	238	273	—	Oper Income $Mil
34.5	34.8	34.9	31.3	32.6	32.0	33.9	34.6	32.8	33.9	33.8	Operating Margin %
51	58	72	83	110	125	145	150	171	189	193	Net Income $Mil
0.99	1.15	1.43	1.64	2.14	2.50	2.97	3.13	3.61	4.12	4.24	Earnings Per Share $
0.15	0.17	0.20	0.22	0.36	0.60	0.76	0.86	1.00	1.16	1.20	Dividends $
52	51	50	51	49	50	49	48	47	46	46	Shares Mil
4.52	4.45	5.89	7.87	8.79	9.17	11.16	11.71	11.89	12.48	13.27	Book Value Per Share $
75	82	94	121	156	143	208	211	207	232	228	Oper Cash Flow $Mil
-8	-38	-22	-24	-39	-36	-24	-21	-29	-23	-23	Cap Spending $Mil
66	45	72	97	117	107	184	190	178	209	205	Free Cash Flow $Mil

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	TTM	Profitability
21.8	23.9	24.9	20.6	22.3	22.5	23.7	23.5	26.3	27.9	28.1	Return on Assets %
26.4	30.8	33.2	26.5	28.5	28.6	30.0	30.0	33.6	35.4	34.4	Return on Equity %
0.94	1.04	1.08	0.96	0.97	1.04	1.02	1.00	1.12	1.19	1.19	Asset Turnover
23.1	23.0	23.0	21.4	23.0	21.7	23.3	23.4	23.5	23.4	23.5	Net Margin %
1.2	1.4	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.2	Financial Leverage

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	11-12	Financial Health (USD)
—	—	—	—	—	—	—	—	—	—	—	Long-Term Debt $Mil
212	165	268	359	409	465	501	502	515	552	587	Total Equity $Mil
—	—	—	—	—	—	—	—	—	—	—	Debt/Equity
169	97	75	128	162	142	200	156	164	186	225	Working Capital $Mil

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	TTM	Valuation
25.1	32.4	27.7	32.8	23.6	16.8	22.1	28.7	23.5	21.4	21.0	Price/Earnings
0.0	0.0	—	—	0.0	0.0	0.0	0.0	—	0.0	1.4	P/E vs. Market
5.9	7.3	6.3	7.1	5.4	3.7	5.2	6.8	5.5	5.0	4.9	Price/Sales
5.7	8.8	7.0	7.2	6.3	4.8	5.9	8.0	7.3	7.1	6.7	Price/Book
17.2	27.2	21.9	21.8	18.5	13.0	16.6	21.5	17.1	17.4	17.8	Price/Cash Flow

Quarterly Results (USD)

Revenue $Mil	Feb	May	Aug	Nov
Most Recent	199.0	202.0	207.0	211.0
Previous	177.0	183.0	191.0	196.0
Rev Growth %	**Feb**	**May**	**Aug**	**Nov**
Most Recent	12.2	10.2	8.2	7.5
Previous	12.9	14.6	14.1	13.4
Earnings Per Share $	**Feb**	**May**	**Aug**	**Nov**
Most Recent	1.02	1.05	1.07	1.11
Previous	0.95	0.92	0.86	0.99

Close Competitors

	Mkt Cap $Mil	Rev $Mil	P/E	ROE%
Thomson Reuters Corporation	24711	13456	-28.2	-4.8

Major Fund Holders

	% of shares
Baron Growth Retail	3.62
American Funds AMCAP A	3.59
T. Rowe Price Mid-Cap Growth	3.15

Morningstar's Approach to Rating Stocks

Our Key Investing Concepts

- Economic Moat™ Rating
- Discounted Cash Flow
- Discount Rate
- Fair Value
- Uncertainty
- Margin of Safety
- Consider Buying/Consider Selling
- Stewardship Grades

At Morningstar, we evaluate stocks as pieces of a business, not as pieces of paper. We think that purchasing shares of superior businesses at discounts to their intrinsic value and allowing them to compound their value over long periods of time is the surest way to create wealth in the stock market.

We rate stocks 1 through 5 stars, with 5 the best and 1 the worst. Our star rating is based on our analyst's estimate of how much a company's business is worth per share. Our analysts arrive at this "fair value estimate" by forecasting how much excess cash--or "free cash flow"--the firm will generate in the future, and then adjusting the total for timing and risk. Cash generated next year is worth more than cash generated several years down the road, and cash from a stable and consistently profitable business is worth more than cash from a cyclical or unsteady business.

Stocks trading at meaningful discounts to our fair value estimates will receive high star ratings. For high-quality businesses, we require a smaller discount than for mediocre ones, for a simple reason: We have more confidence in our cash-flow forecasts for strong companies, and thus in our value estimates. If a stock's market price is significantly above our fair value estimate, it will receive a low star rating, no matter how wonderful we think the business is. Even the best company is a bad deal if an investor overpays for its shares.

Our fair value estimates don't change very often, but market prices do. So, a stock may gain or lose stars based just on movement in the share price. If we think a stock's fair value is $50, and the shares decline to $40 without much change in the value of the business, the star rating will go up. Our estimate of what the business is worth hasn't changed, but the shares are more attractive as an investment at $40 than they were at $50.

Because we focus on the long-term value of businesses, rather than short-term movements in stock prices, at times we may appear out of step with the overall stock market. When stocks are high, relatively few will receive our highest rating of 5 stars. But when the market tumbles, many more will likely garner 5 stars. Although you might expect to see more 5-star stocks as the market rises, we find assets more attractive when they're cheap.

We calculate our star ratings nightly after the markets close, and issue them the following business day, which is why the rating date on our reports will always be the previous business day. We update the text of our reports as new information becomes available, usually about once or twice per quarter. That is why you'll see two dates on every Morningstar stock report. Of course, we monitor market events and all of our stocks every business day, so our ratings always reflect our analyst's current opinion.

Economic Moat™ Rating

The Economic Moat™ Rating is our assessment of a firm's ability to earn returns consistently above its cost of capital in the future, usually by virtue of some competitive advantage. Competition tends to drive down such

Morningstar Research Methodology for Valuing Companies

Competitive Analysis →	Economic Moat™ Rating →	Company Valuation →	Fair Value Estimate →	Uncertainty Assessment →	★★★★★
Analyst conducts company and industry research: • Management interviews • Conference calls • Trade-show visits • Competitor, supplier, distributor, and customer interviews	The depth of the firm's competitive advantage is rated: • None • Narrow • Wide	Analyst considers company financial statements and competitive position to forecast future cash flows. Assumptions are input into a discounted cash-flow model.	DCF model leads to the firm's Fair Value Estimate, which anchors the rating framework.	An uncertainty assessment establishes the margin of safety required for the stock rating.	★ ★★ ★★★ ★★★★ ★★★★★ The current stock price relative to fair value, adjusted for uncertainty, determines the rating.

economic profits, but companies that can earn them for an extended time by creating a competitive advantage possess an Economic Moat. We see these companies as superior investments.

Discounted Cash Flow

This is a method for valuing companies that involves projecting the amount of cash a business will generate in the future, subtracting the amount of cash that the company will need to reinvest in its business, and using the result to calculate the worth of the firm. We use this technique to value nearly all of the companies we cover.

Discount Rate

We use this number to adjust the value of our forecasted cash flows for the risk that they may not materialize. For a profitable company in a steady line of business, we'll use a lower discount rate, also known as "cost of capital," than for a firm in a cyclical business with fierce competition, since there's less risk clouding the firm's future.

Fair Value

This is the output of our discounted cash-flow valuation models, and is our per-share estimate of a company's intrinsic worth. We adjust our fair values for off-balance sheet liabilities or assets that a firm might have--for example, we deduct from a company's fair value if it has issued a lot of stock options or has an under-funded pension plan. Our fair value estimate differs from a "target price" in two ways. First, it's an estimate of what the business is worth, whereas a price target typically reflects what other investors may pay for the stock. Second, it's a long-term estimate, whereas price targets generally focus on the next two to 12 months.

Uncertainty

To generate the Morningstar Uncertainty Rating, analysts consider factors such as sales predictability, operating leverage, and financial leverage. Analysts then classify their ability to bound the fair value estimate for the stock into one of several uncertainty levels: Low, Medium, High, Very High, or Extreme. The greater the level of uncertainty, the greater the discount to fair value required before a stock can earn 5 stars, and the greater the premium to fair value before a stock earns a 1-star rating.

Margin of Safety

This is the discount to fair value we would require before recommending a stock. We think it's always prudent to buy stocks for less than they're worth.The margin of safety is like an insurance policy that protects investors from bad news or overly optimistic fair value estimates. We require larger margins of safety for less predictable stocks, and smaller margins of safety for more predictable stocks.

Consider Buying/Consider Selling

The consider buying price is the price at which a stock would be rated 5 stars, and thus the point at which we would consider the stock an extremely attractive purchase. Conversely, consider selling is the price at which a stock would have a 1 star rating, at which point we'd consider the stock overvalued, with low expected returns relative to its risk.

Stewardship Grades

Our corporate Stewardship Rating represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.