Morningstar 2022 Shareholders' Meeting

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Opening Comments – Joe Mansueto

Joe Mansueto, Executive Chairman, Morningstar: We're going to go ahead and get started. Good morning, everyone. Welcome to the 2022 Morningstar Annual Shareholder Meeting. I'm Joe Mansueto, Chairman of the Board. And I'm glad you could all join us this morning.

We're so happy to be back in person. It's been three years since we've been able to host you with the pandemic. And so, it feels really good to be back in person and to see you face to face. I also hope you've had some time to go out and look at our products in the exhibit area outside the auditorium. Take a look at them. We've got some new enhancements to our products that I think you'll like. And if you missed that opportunity in the morning, you'll have an opportunity when we take a break later this morning.

For those of you joining us virtually, we are pleased that our technology capabilities can facilitate your active participation in today's meeting. So, however you're connecting, thank you very much for spending time with us and being with us at our Annual Shareholder Meeting.

So, the format of our meeting will be consistent with prior years. But before we get to that, take a moment to read our Safe Harbor statement. But here is the agenda for this morning, again, pretty consistent to prior years. There are three main parts to the meeting. First is the official business of the meeting, which I don't anticipate will take too long. Then, we'll move to the next part of the meeting, which are management presentations. And then, we'll take a short break and come back for the ever-popular question-and-answer period.

Virtual Meeting Access Instructions

Now, if you have questions you'd like us to address during the Q&A portion, you'll have an opportunity to ask them via the questions textbox in the Broadridge platform, or via chat, or through audio or video participation if you're joining through the Zoom platform. Anyone here in the room can simply raise your hand when we reach that portion of the meeting, and we will bring a microphone to you. We look forward very much to your questions and comments.

I will note that if you are not here in person and you would like to vote during the official part of the meeting, you must be logged into the Broadridge platform using your Control Number provided with your proxy materials. The meeting is being simulcast on both platforms. So, 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 here today. As I call your name, I'd like you to stand and face the audience. Robin Diamonte, Cheryl

Francis, Steve Kaplan, Kunal Kapoor, Gail Landis, Bill Lyons, Doniel Sutton, and last is Caroline Tsay – oh and Steve Joynt.

Our board has just been a great resource to all of us, our management team, myself, throughout the whole year, and I'd like to thank all of you for all of your contributions, your guidance. It's been invaluable to Morningstar.

Now, I'd like to introduce our executive officers – Kunal Kapoor, our Chief Executive Officer; Jason Dubinsky, our Chief Financial Officer, Danny Dunn, our Chief Revenue Officer; and Bevin Desmond, our Head of Talent & Culture. Now, I'd like to thank the executive team for all of your leadership and hard work during 2020 to make it a terrific year for Morningstar.

Now, I'd like to take this opportunity to introduce Rory Doheny with KPMG, our auditors for 2022. Rory, would you or any of your colleagues like to make a statement at this time?

Rory Doheny: Thank you, Mr. Chairman. We're pleased to be part of your meeting today. We don't have a prepared statement, but we would be happy to take any appropriate questions directed at us.

Joe Mansueto: Any questions for Rory, our auditors? Okay, if there are no questions, 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. Pat Maloney, our General Counsel will now report on the mailing of the notice of the meeting and the number of shares represented at today's meeting.

Pat Maloney, General Counsel, Morningstar: Thank you, Joe. We are holding this meeting pursuant to a notice mailed on April 1 to each shareholder of record on March 14. A certified copy of the list of shareholders of record has been available at our offices for the last 10 days. I can report that we have established a quorum for the conduct of business at this meeting.

Joe Mansueto: Thank you, Pat. Okay. The first item of business today is the election of our directors. We will elect 10 directors today who will hold office until the 2023 Annual Shareholders' 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.

Our 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. The goals of our executive compensation program are to attract and retain talented executives and motivate and reward them for their contributions to our company.

And then, the third and final proposal is the ratification of the appointment of KPMG as our independent auditors for 2022. The board recommends a vote for each of these proposals.

Voting Instructions

There was no further business scheduled to come before this meeting. So, 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 now, and our inspector of elections will give 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're voting for the first time, or you 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, at this time, we'll only take questions that are directly related to the three proposals. Anyone have a question on any of those three proposals? Not seeing any hands. Pat, anything on Zoom that we know of? Okay. If not, I now declare that the polls are closed. Pat, will you please report on the voting results?

Pat Maloney: The 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 identified in our proxy statement in favor of our compensation for our named executive officers and to ratify the appointment of KPMG. We will file an 8-K with more detailed voting results in the next couple of days.

Joe Mansueto: So, thank you. So, this concludes the formal business part of our annual meeting. But before I sign off, I'd like to make a few final comments. First, I want to thank Kunal Kapoor, our CEO, our management team, and really the whole staff at Morningstar, for all of your incredible work over the past year. 2021 was just an excellent year for Morningstar, and the team did a great work, sometimes under pretty difficult conditions.

Kunal is also in his sixth year as our CEO and has proven himself to be a really exceptional leader for Morningstar. He also celebrates his 25th anniversary with Morningstar next week. So, let's congratulate Kunal on that important milestone. It's been great working with you the past 25 years.

Next, I'd like to thank Bevin Desmond. You may have read we announced this week that Bevin is stepping down from her role as Head of Talent & Culture. She has been at Morningstar nearly 30 years, and she is stepping down to spend time with her three young kids. But we're going to miss Bevin. She has contributed so much to the growth of Morningstar. During her tenure, she has been a trusted adviser to myself, to Kunal, and she is a big reason why we have the culture that we do at Morningstar. She has been relentless in finding the best talent for Morningstar. She set the talent bar extremely high. And so, we're really going to miss Bevin. But in addition to her role in Talent & Culture, you might not know that she also helped build our international business right when we started it in the late 90s. And she was persevering and going to so many countries and setting up operations and did a great job building our international business, which has become integral to our growth.

So, I want to thank Bevin for all she has done for our people, our culture, and our firm as she begins her next chapter. So, let's congratulate Bevin.

I also want to welcome the thousands of new employees who have joined Morningstar this year. You're joining a special company, one that is completely dedicated to improving investor outcomes and advocating for investors. And you're also joining at a particularly exciting time, one where there is rapid growth across all our lines of business. So, I'm really excited to see what you all can accomplish to empower investor success. So, on behalf of our shareholders, I want to thank everyone at Morningstar for all of your admirable efforts over the past year.

And so, now, we're going to begin the management presentations followed by a Q&A session. First, we're going to hear from our CEO, Kunal Kapoor. That will be followed by our CFO, Jason Dubinsky. And then, Daniel Needham, the President of our new Wealth Management Group. And then, finally, John Gabbert here from Seattle, the CEO of PitchBook, our largest and one of our fastest growing product areas. But before we do that, please enjoy this short video, which shows some of the company highlights from 2021. Again, thank you all for joining us. We're honored and proud to have all of you as our shareholders.

[Video]

Empowering Investor Success – Kunal Kapoor

Kunal Kapoor, CEO, Morningstar: Awesome. Good morning, everybody, and welcome to our Annual Shareholder Meeting. Like Joe, I'm really thrilled to have you here in person. While I think the virtual meetings were good, I am happy that my son will not be ordering pizza in the middle of the meeting. He just texted me actually asking if I'd like to have pizza dropped off again in the middle of the meeting, but I will not have that experience where I'm watching the pizza guy coming in the middle of the Q&A once again. But Joe, thanks for the introduction. And it is 25 years for me next week, and it is special in that context. And I hope you feel special being part of our company in whatever shape or form you are. We have a special place. We have a special team. And we take a lot of pride in what we're building here. We come to work seriously. We want to, we want to win. But we also want to do it the right way. And we want to do it in a way that you as our shareholders are going to be proud of as much as anything.

So, we've got a great agenda lined up for you today. We've put Daniel Needham on here. He's leading our Wealth business, and many of you have been sending in questions on what we're doing in that space. And so, it seems very timely to address that. And then, John Gabbert is going to talk about what we have going on in PitchBook. It's been a few years since John spoke to you. And so, it seemed timely to have John back. And so, he flew in last night, 11 pm, I think. And so, he's ready to go. John, it's 7:50 in Seattle, so you got a little more time.

Mission

But we've got a great agenda. And I'm going to start right up here by showing you the slide that I've probably been showing you every year I've done this presentation, because it's true. Much has changed at Morningstar in the 25 years I've been here, in the 38 years this weekend, Joe, since you founded the company, but the mission has kept us grounded, and this is our true north. And you walk into many companies, the missions are written on the walls. And then, you walk over and ask somebody, what does the mission mean? Do you think about the mission? And either people can't recite it back to you, or it doesn't mean anything to them. And it means everything to us. This is our true north. And we really do believe that when investors win, Morningstar itself is going to do well. And when I think it's not coincidental, that as investors have been winning on many fronts in the last few years, so too, has Morningstar.

Strategy

Underpinning all of that is a simple strategy it seems, but one that we take a lot of pride in executing, which is just to deliver insights and experiences that make us essential to that investor workflow. And you'll hear today a lot about how our business is changing and evolving. But at the end of the day, it comes back to that investor workflow. When I joined Morningstar in 1997, the investing world was pretty simple. I'd like to say that there was cash, there was bonds, and there were stocks. And about 10 years later, things started to change. And I remember the first time I looked at a bond portfolio, probably with you, Sarah, and said, there's no bonds in this portfolio. There's all kinds of other types of exposures. And it was the first hint that things were starting to change. And you fast forward to today, and you look at our portfolio, private markets, ESG, indexes. Things have changed in a very meaningful fashion, and Morningstar has changed so that we can remain essential to that investor workflow.

Morningstar Today

So, a quick summary of what the company looks like today from a very high level. And Jason will spend more time on the financials. As always, we'll take you through a deep dive in terms of some of the things we're thinking about. But this gives you a picture of what the company looks like. And obviously, we had a very good year last year. But I'd like to remind everybody that often when we have a good year, the seeds for that good year were planted three years ago, five years ago, and we try to think in that fashion. Our Indexes business was our fastest growing business last year. It's still maybe not the largest business, but it is our fastest growing business. But the seeds for that were planted much more than just in 2021. And so, when Ron and his team have been executing, it's been because of all the things we've been doing ahead of time. And so, we take a lot of pride in running this business very responsibly. One of our values is financial success, and we take that very seriously. And I hope as shareholders you feel good about the path we've put the company on, because we certainly do.

Our Workforce

Now, in terms of our employee count, I have to say that while we recently went over 10,000, I don't personally get excited by just raw numbers of whether you are 8,000 10,000 or 20,000. What I get excited about is what that stands for. And what that stands for is the reality that we have more opportunity than ever, and we are hiring, because we are trying to execute on those opportunities that are in front of us, and we feel very convicted in what we're doing in that context. But I'll also say that it is a very challenging environment. And we'll talk about this from a hiring perspective. And so, it's all the more impressive that our team has been able to navigate this environment and continue to feed the business in the fashion that it's been able to do thus far.

We Expand our Data Universe to Meet Evolving Investor Needs

I was asked outside that if, in 10 years, I was only allowed to keep two Morningstar businesses, what would they be? Daniel, I said, definitely. But I think the way I answered the question is, I would always start with the underlying data, and this is how we think about everything that underpins our business. It's our secret sauce. You start with the data, then you put research and ratings on top of that data, and then you let investors consume it in a fashion that makes sense to them. And that means some will consume it from us directly, that means some will consume it from partners who choose to work with us. But the idea is that we have that underpinning across the board.

Our Solutions Empower Investors

And we keep investing in our data, so that every year our solutions continue to deliver even more value to the customers that are using them. John will, for instance, talk about what is going on in PitchBook. But one of the wonderful things is the amount of data that's coming up through PitchBook is amazing. In our Credit Ratings business, we are increasingly starting to think about how to take all the data we're collecting there, too, and build something around that. And so, data is a common theme no matter which part of the business you look at and how it plays out.

Who We Serve

And the great thing is that it means that we serve customers across the financial landscape. Morningstar in that sense is ubiquitous. Whether it's the number of retirement plan participants we're serving, and that goes right to the core of our mission, or even something like re-distributors that maybe you don't think about. When I say our data is everywhere, it's because we grow when a Robinhood grows, it's because we grow when an Amazon Web Services grows. All of those types of firms take our data, and they enable it through their solutions for consumption. And yes, we even work with regulators. And something that's a little bit different about Morningstar is the regulators often call us because they trust us, and they want to hear our opinion about how to do things right for the investor. And so, I'd like to say that we're proud of the fact that we have not lobbied up to this point, but we certainly get calls from regulators because they want to hear our view. And we're also happy to sell them our data and research and software, which we do.

Key Trends

So, how do we think about things going forward and what are the key trends? I'll start by saying that the key trends I'm going to go over should not feel entirely new to you, because we've been focused on these trends for quite a while. But I'm going to try to go through each of them. Briefly to give you a sense of the kinds of things that we're thinking about.

Changing Investor Demographics

The first, and I highlighted this last year, is that the face of the investor is changing. There's simply no doubt about that. It was an accepted fact for a long time here. As long as I remember that our typical customer that either we were serving directly, or that advisors were serving directly, or that a wealth manager, or an institutional investor ultimately was serving was an older 60-year-old type of demographic. And that remains a really important demographic for us and for financial services, and we continue to serve that demographic. But what has been really eye opening is the number of young investors who are engaging with us. And the way that they're starting to do that.

As a simple example, on Morningstar.com. today, the 25- to 34-year-old age demographic is tired with the 60 and over age demographic for most use of our website. That's pretty remarkable. And our fastest growing group of investors on our website is between 18 to 24 years old. Now, it's true, they may all be trading AMC and Carvana, or what have you, but the bottom line is that they are becoming investors. And we are increasingly thinking about how do we make them successful investors? Because I often look back at the experience of investors during the tech media telecom bubble, and how many people became interested in the markets, and how many of them gave up on the markets after that. I think we in financial services have a unique opportunity today to ensure that people who have become investors become successful investors over time, and we don't lose a generation in that context, like we did the previous one.

Technology is a Key Disrupter

And of course, technology is a disrupter. I'm sure every meeting you go to, you think of technology, and you hear about technology. But it's also an opportunity. At Morningstar, we've often talked about technology, design and research being the underpinnings of our business, our core skills. And so, we think about technology really as a means through which to remove friction for investors. How do we make the jobs that they're doing easier to do? John and I often talk about the fact that in our software, how do we just answer the questions people want to get answers to before they have to ask us the question or search for that answer in our products. And if you look at what James Rhodes is starting to do with our Data and Direct businesses as well, it's really about how do we take our vast amounts of data and suddenly enable that power in the hands of our customers through the launch of our new notebook capability, which I think we are demoing out there as well, in case you've not seen it.

Climate Change & ESG

And then, of course, you cannot go to any place these days without having a conversation about climate and ESG. And for me, this is a basic investing discussion. It's not a political discussion. It's really about risk and reward and thinking about how the future of a portfolio and the investability of a portfolio ties back to the opportunity. And one of the reasons I love this opportunity for Morningstar, not only because it's going to help with the first two things that I highlighted, but also because it's a data story. And the amount of data that we have the opportunity to collect here is vast and meaningful. I don't think people have a sense as yet for the amount of data that has been collected in this space. And when we talk about where we're investing, one of the reasons we are investing so heavily in ESG is because we want to provide the leading database here in this space, and we continue to build it out in a most meaningful fashion.

Evolving Investor Portfolios

And then, the final point is around about evolving investor portfolios. And in that context, it's really great that you're going to hear from both Daniel and John, because they both are fundamentally at the precipice of this notion of how the investor portfolio is changing. John is, of course, part of the area where you're seeing this coming together of private and public trends and how people think about it. And Daniel is very much right in the middle of it in the sense of personalization at scale and how that trend is starting to play out at a very micro level with individual investors and advisors. So, you're going to hear a lot about that today in the presentations. But these are some basic trends that we think a lot about, and that are underpinning our business.

Morningstar Offerings Anticipate Investor Needs

And when you look at the evolution of our business – and we've been showing you this heat map, because internally, we use the heat map to think about how we're investing in the business and where we want the business to grow – but one of the reasons the business has ended up in this way, we've invested intentionally to support the movement of that investor portfolio. And so, what you see here today is a very intentional set of investments that have yielded the kind of makeup of the company as it exists today. And some of that will change over time, and that's what drives our investments. And in particular, we're really focused right now on converting on the wealth opportunity. And so, you're going to hear a lot from me, from Daniel about that. And obviously, you've seen that we've done a number of things on that front.

Strategic Priorities

So, to bring my presentation to conclusion, I wanted to underline it by highlighting our strategic priorities for you. I think they're simple and thoughtful, but they're very meaningful in terms of how we run the business.

Insights

The first is that we want to continue to be at the intersection of public and private markets. We think this is not a trend that's going to go away. If you had asked John me in 2015-2016 about this trend, I think we both would have acknowledged that it's an important trend, and it's one of the important reasons why PitchBook became a part of Morningstar. But I think even we have been surprised at the pace at which this trend has moved ahead. And it's our intent to continue to lead in this space. And you will see us not only do so via PitchBook but through other assets, such as our reporting capabilities in Direct, such as our Indexes, such as what we might start to offer in the future, even for instance, in our Workplace or Wealth businesses going forward.

Sustainability

Sustainability is core to Morningstar. Every part of our business is focused on this. This is not just a corporate goal. We have OKRs for each of our businesses tied to hitting ESG goals, because we want to be the leader here, and we want to make sure that the investments we're making continue to have a positive impact for investors, and ultimately, for our business as well.

Scale

And then, there is scale. We're operating today as a much larger company than before, obviously. But we also have ambitions to be significantly larger from where we are today. And so, we're spending a lot of time investing, and Jason will talk a little bit about this, because we want to make sure that the underpinnings of Morningstar, the support functions, the support systems, the technology that we need, are all in place, so that when we're a larger company, we're not looking back and feeling like we shortchanged the way we invested and weren't ready to take advantage of the growth. It's a fine balance, of course. But we are certainly working through that.

Talent

And then, it's talent. It's about building an inclusive culture that really drives that exceptional talent, engagement and development. Like everybody else, we've certainly had more turnover than we would like. But the wonderful thing when we go out recruiting is that we continue to have an easy time bringing people to Morningstar, because they know of our culture, and they know that we are trying to grow this business, that we're trying to win, and we do it the right way. And so, this is a really important part of who we are.

Establishing Leadership Position in Corporate Sustainability

And I hope actually that many of you had a chance, as you were looking at our work this year, to read our Corporate Sustainability Report, because we've really increased the amount of transparency that we've put forward on a number of matters when it comes to talent. And you're going to see us continue to try to lead the way on this front, because we think it really aligns with what we're trying to do on the ESG front. And internally, at Morningstar this is really, really important. I was telling members of our board yesterday, that after the launch of our CSR report, we had a number of internal town halls for people to dive into sections of the report. And we got about as high engagement as we do from our own teams on internal town halls as we have on just about any topic so far. And so, it is about providing transparency, both internally and externally, and continuing to lead the way on what is a fantastic culture.

So, I hope you're excited about the Morningstar story. We're very excited about the place we're in. I think we have a very talented set of individuals that are part of this firm. I'm obviously going to get to meet a number of our leaders today. But I just want to say that our executive team – we have great team where we challenge each other, we're friends when we're done challenging each other. But this is not a team that goes to bed without thinking about how we're winning and trying to push the envelope forward. And so, I think you should feel good about that. And hopefully, you get a chance to meet many of them, who are all here, who I may lob a question or two to during the Q&A session. But please do meet the rest of the management team. They're all here. And I think you'll enjoy meeting them.

And so, with that said, I'm going to pass things over to my partner, Jason Dubinsky, who is our Chief Financial Officer. Jason has done a fantastic job being a great steward for the business. He is super thoughtful about the way he helps run the business, and he is a terrific partner to the business leaders as well and just an all-round wonderful person. So, Jason, over to you.

Financial Highlights – Jason Dubinsky

Jason Dubinsky, CFO, Morningstar: Thank you. Thank you, Kunal, and hello, everyone. I've been here for almost five years now. And we've got a long way to go to catch up with Kunal. Now, I realized we got to get you a gift for 25 years, and anyone who wants to, you can send them to our corporate office, and we can share with Kunal. But I think it does speak to the fact that we've got great diversity of talent and people here and tenure. And just as Joe and Kunal and Bevin have had long and successful careers here, I'm really impressed by a lot of the new folks that are coming into Morningstar and our ability to attract great talent from across the industry. And that really holds true with the people that we brought into the firm, that continue to come in, amaze us, contribute, and more importantly, embody our culture. And it's great to be here with all of you in person. And I've been here for five years. I know many of you have been shareholders for that period and a lot longer as well as relatively new to Morningstar. So, we want to thank all of you for your investment and for your partnership. We take that very seriously, and we all look forward to the dialogue that we're going to have today.

Agenda and Topics

So, I'm going to cover a few areas today in my presentation. First, I'll talk through our financial performance. Then, I'll pivot to specific trends in margins and the investments that we're making in the business, and then close with some thoughts on capital allocation and our balance sheet.

2021 Performance

But to start, this wouldn't be an annual meeting if we weren't talking about 2021 performance. And hopefully, you're all pretty familiar with the results already in that. We had a really strong year in 2021 coming off the back of what was probably a more turbulent year in 2020. Top-line growth was north of 20% and organic growth, which is really the measure that we home in and track pretty regularly here, was 17.6%. So, really, healthy, broad-based growth across the business, both in product areas and geography.

I think, importantly, you saw an expansion of operating income over the period last year, and adjusted operating income grew close to 15%. And remember, that's the other important measure that we track that that excludes our M&A related expenses and things like deal amortization.

Cash flow growth was healthy as well. Our free cash flow was up 13.2%. But for those of you that studied our financials pretty closely, we did flow through some of the Sustainalytics earnouts through operating cash flow from operations. So, if we back that out as more one-time, our free cash flow growth was close to 16.6% in excess of our operating income. So, continued good conversion there.

And important, which we track pretty consistently and important for all of you, are our shareholder returns. We view these over long periods of time, if you look over the past three years, and even despite some of the recent market volatility, if we looked at that, at the end of April, we're up over 20% over the three-year period compared to the peer group that we track, which was closer to 19%. You'd see comparable variations and us being more favorable, even on a two or a five-year basis. So, important measurements and good to see that our shareholder returns are increasing with the growth of the company.

And I won't touch on this. Kunal mentioned 2021 performance too. But I'd like to call out a couple things on this page. First and foremost, you can see that we reached almost $1.7 billion of revenue last year. We were $700,000 short. So, we almost got there on an average basis. But that's another important high watermark and milestone for the business. And then, importantly, on the right-hand side, you can see that our free cash flow was close to $350 million. Another record year in cash flow, and again, speaks to the cash flow conversion and really, our business model that continues to generate large amounts of cash that give us a lot of flexibility to invest back into the business and importantly, continue to be opportunistic in M&A and return cash to shareholders. And I'll get back into that a bit later.

Performance Trends

But we're long-term focused here at Morningstar. And while we had a very good year in 2021, we want to make sure that we continue to be measured over the long term. And if you look at performance over the past five years, I'd like to say that we've been pretty successful in growing the business in a pretty sustainable way over that period. You can see that our top-line growth is close to 17%, and that's reported. Adjusted operating income up a bit higher than that and free cash flow up a bit higher than that in terms of growth. So, continued good conversion. And what I'd say about this chart is that this isn't by accident. It's very deliberate in the sense that we continue to invest heavily in the business to capitalize on market opportunities. And you need to make sure you're judging us by the rates of organic growth and the rates of operating income growth and free cash flow generation over time.

I think what's interesting if you dissect the data, particularly on the top-line, if you look at the revenue contribution over this five-year period, about 60% of that is organic and about 40% of that is through M&A. And I think we continue to believe that we have significant opportunity and runway to invest organically and deploy that capital back into the business to generate long-term returns.

Product Revenue Composition: 2017 vs 2021

I thought what's also interesting to take a look at is how our business composition has changed over the past five years. And if you look at the business today, it's very different in terms of product portfolio and composition than it was back in 2017. And you saw some of the heat maps that Kunal shared before. But if you look at where we ended 2021, our two largest product areas came through PitchBook and primarily through acquisition in PitchBook and DBRS Morningstar, and you could see now Sustainalytics is on the board with close to 5% of our overall aggregate revenue in 2021.

I think what's also notable was that Data and Direct still have a very prominent place in the portfolio, as well as Investment Management and Workplace Solutions. If you look at top to bottom, our top six products in 2021, so PitchBook, all the way down to Workplace, all of these product areas now have north of $100 million of revenue, and PitchBook and DBRS Morningstar and Morningstar Data are well north of $200 million. If we went back to 2017, and you looked at the product portfolio composition, only our three largest products in Data, Direct and Investment Management were north of $100 million at that time and just a bit north of that. So, here's another way to view the investments that we're making in the business and how they're manifesting itself, and the concentration in our product portfolio. But again, this isn't by accident. This is deliberate, and we feel good about the composition and the growth opportunities we have in the portfolio today.

Our Path to Scale: Historical Revenue

So, now, I want to turn our attention to the growth of the business and how we are thinking about scaling over time. I thought it was useful to go back in history to see how we've progressed over the period since inception, and you can see a lot of the acceleration of growth all the way to $1.7 billion of revenue that you see today. But I think it's interesting to look that it took us 24 years to get to our first $500 million of revenue in 2008. It took us another 10 years from 2008 to 2018 to get the next $500 million. And just in a short amount of time, after 2018, where we reached a milestone of being $1 billion revenue company, we've already hit another $500 million and our path to adding another $1 billion in probably less than five years if I were to extrapolate this out. I say that because it's notable that we're probably growing and accelerating faster than we have in our history. And as we talk about scale, how we manage and run a $2 billion business and beyond is very different from how we had to manage and run a $500 million business or even $1 billion business.

Peer Growth Comparisons

And many of you often compare us to competitors. And we have a pretty broad peer set. But I thought it was also interesting to share how our competitors and our peers have scaled over time in relation to what I just shared with you before. So, if you look at the first bar, it's depicting a revenue increase from $500 million to $1 billion. And you can see that we're all the way on the right-hand side of that page. So, remember, I shared that we went from $500 million to $1 billion from 2008 to 2018. So, it took us 10 years. But most of our peers did that faster. You see, Moody's did it in four years. Envestnet and MSCI did it a little north of that. SEI did it I think in 6 or 6.5, FactSet in 7. But if you look at the chart below, it's a little bit of a different picture, and folks that have gotten from $1 billion to $2 billion, and how long that has taken them. Moody's, depending on how you look at it, took eight years. They were there in four, and they took a step back in the credit crisis and took time to get back $2 billion and maintain that. S&P was north of 11. And MSCI just hit $2 billion this year, and it took them 7 years. FactSet is not on this page. I think they just hit $1.6 billion after 6. And I mentioned that we're probably on a pace to go from $1 billion to $2 billion in less than five. So, I say that again in that we're growing very rapidly and growing probably faster than our peers did at this stage in their growth cycle. And again, that's why we're very much focused on creating the right infrastructure across our business to make sure we're scaling in the right way.

Margin Profile Over Time

But that growth and acceleration over the period of time, from 2017 to 2021, as I mentioned, was very deliberate. But it certainly came at a cost and investment back into the business. And I think you've seen that over time in how our margins have trended from 2017 to 2021.

If you look at where we are today, and 2021 at adjusted margins of 21.3%, generally they're in line with where we were in 2017. We've peaked at higher levels over that period and fell back in certain instances. Good examples were in 2019 after the DBRS acquisition. We increased in 2020 during the heart of the pandemic, as we made some decisive decisions around discretionary costs and compensation that had benefits from COVID-related expenses like lack of travel. And then, last year, we fell back a bit as we started to invest more heavily coming out of the pandemic and saw some margin dilution with the oncoming of Sustainalytics.

If you look at the revenue contribution over the period of time, we've added close to $800 million of revenue and about $170 million of operating income. But where that margin change has been more pronounced are in three or four specific areas. That shouldn't be much of a surprise. We've invested heavily in compensation, and in headcount as well as the plans and benefits to reward our employees here. That's about 160 basis points drag on margin over the period.

Data and infrastructure – so, that is the data we need to power our business, that's investments in our cloud spend, that is the software infrastructure to support our products and services and architecture. All of that is another about 140 basis points of margin contraction over that period of time to help support the growth of the business. And then, we've seen a little bit of leverage that we've had in advertising and marketing expenses as well as depreciation and other expenses to get to that 10-basis-point increase over that period of time.

Q1 2022 Performance

I think you've seen some of those trends continue when we announced our first quarter results a couple of weeks ago, and hopefully many of you are familiar with that. I'll share some highlights. I think, first and foremost, our revenue continued to be very strong in the fourth quarter. We had 16.3% reported growth, 18.1% on an organic basis. And that's pretty consistent with some of the inbound trends that you saw coming in from last year. So, we're pretty happy and pleased about that performance.

On the right-hand side of the page, you see that free cash flow was negative in the first quarter, and we view that as a good thing because of our strong performance in 2021, we paid out higher bonus payments in the first quarter of 2022, higher than last year to reward our very strong performance. And that's why you see a bit of a dip in free cash flow relative to the year prior. But I think some of the more pronounced change you saw in the first quarter was the fallback in adjusted operating income and margin. So, you saw that our adjusted operating income in Q1 was down about 10.6%. A little bit more than half of that was due to the fact that we had a step up, in PitchBook stock-based compensation under their unique stock incentive plan. And you'll see that persist throughout this year. But if you strip that out, our adjusted operating margins were down about 400 basis points in the quarter. And the primary reason for that that we shared was around compensation.

So, as Joe noted, we're expanding pretty significantly here, because we see opportunities. We added roughly 1,600 new people relative to the first quarter of the prior year. So, some of the largest areas of growth that we're seeing in the business, we're investing very deliberately and that's in Sustainalytics. That's in PitchBook. It's in Credit Ratings. It's in the Wealth areas that Daniel is going to speak about and it's in our core Data and Research infrastructure to support our products and services. So, you see headcount increase in a lot of primary areas to drive growth.

The other big piece of the compensation increases is that we were very deliberate again earlier this year to increase our compensation and merit pools to be commensurate with the experience that we're seeing in the market to make sure that we're being competitive and we're retaining employees here, given the heightened competition for talent in the marketplace. We view that as a very strategic decision and something that was really important to sustain our people and culture and growth here in the company.

Investing for Growth and Scale

So, I think moving on from themes that we saw in the first quarter in some of our investments and decisions, I'd like to bring to a bit broader discussion and how we're thinking about growth and scale for the entirety of the business. I mentioned we're at $1.7 billion, we're close to $2 billion, and we have ambitions to be much larger than that over time. And I view our opportunities to grow as significant. But we have to do that in the right way to make sure we're making the right investments in our people and our products and our corporate infrastructure to support and sustain those levels of growth into the future.

People

So, I see our investments in three primary areas that are going to be thematic, and you saw some of that in the first quarter of this year. First is we have to continue to invest in our people. We've surpassed the 10,000 mark here at Morningstar and need to make sure that our compensation is structured the right way. It's competitive. Our benefits packages globally are consistent, particularly when we bring in new folks and acquired companies into Morningstar. That's a primary area of focus along with the training and development and the investment that we have in our people to make sure they can grow careers here.

People are our most important asset. People represent 70% of the costs in our business. But more importantly, they're the ones empowering our mission. They're on the front lines with our clients. They're the ones creating products and services and solutions to serve our client base and make sure that we're keeping an eye on you, our stakeholders. So, we're going to continue to do that in a smart way over time and support the 10,000-plus people that are here at Morningstar.

Products

Second, as I spoke about, we have to continue to invest in our products and solutions. We have significant opportunities to continue to grow this business. And I think what you've seen over time and more of late is that where we're putting more heavier investment and where you're seeing the headcount growth is in some of our fastest growing areas of the company. Again, that is very deliberate. And we've shared some of this earlier today in that PitchBook and DBRS Morningstar and Sustainalytics and Indexes are key areas, but also where we see opportunities to accelerate growth. And Daniel is going to come and talk about the Wealth space. A lot of this focus here is consistent with the themes that we see in the marketplace and where we're focusing our strategy on the convergence of private and public company data, on wealth and serving advisors, and on ESG. So, all thematic consistent with what Kunal talked about and we need to make sure our investments are supporting the opportunities and themes and trends that we're seeing in the marketplace.

Corporate Infrastructure

And then, finally, equally as important, and to some extent, even more significant is scaling our corporate infrastructure to support the growth of the business. I think many of you would acknowledge that we have a very diverse product set here and somewhat more diverse than a lot of our peers that I mentioned before. I think we view that as a good thing and an opportunity, that diversity of our product portfolio is a competitive advantage to us. It also gives us very strong shoots of organic growth opportunity across the business where we have the ability to invest. But I think we have to continue to do a better job over time in aligning our products and services and the related infrastructure around those products and services to make sure we can create scale and the appropriate amount of leverage in our product areas and for the company as a whole.

I also think it's really important that we're able to utilize common resources and capabilities to create consistent process and go to market strategies. And that's where standardization comes into play as we grow and become a bigger company. It's also ensuring that our technology infrastructure is there to support our products in the right way in aggregating our data capabilities and moving to cloud computing, creating common systems and architecture like our CRM applications, and even digital marketing or our ERP platforms. And I think it's also critically important that functions like mine and finance or talent and culture and IT are serving the business on a global basis in common ways and are scaling in a way that allows us to be more efficient and gain leverage over time.

So, you're going to continue to hear us talk about that. But there are specific investments that we have to continue to make to, kind of, catch up the infrastructure to make sure that we're operating with the mindset of being a $2 billion business and beyond. And I think that with that (it does become) our opportunity to continue to scale and create greater operating leverage for this business into the future.

Capital Allocation & Deployment

And then, finally, I will close with some thoughts on capital allocation and our balance sheet. And I think you've seen we had a pretty measured as well as consistent approach to capital allocation over time. First and foremost, our goal is to invest back into the business because we continue to see significant organic opportunities and then be opportunistic with M&A and more consistent with returning cash to shareholders. You can see in 2019 that we spiked due to the DBRS acquisition. You see those light blue bars continuing in 2021 with our Sustainalytics tranche payouts and the acquisition there. I think, importantly, you've seen steady rates in dividend increase and consistent payout ratios over time and us continuing to be opportunistic with share repurchase, most notably, you see on the LTM basis, really due to the first quarter, you saw that we purchased a little bit over $110 million of stock. And we want to continue to use our cash and balance sheet to do that and return cash to shareholders where we see opportunity to generate long-term returns.

Balance Sheet at March 31, 2022

And our balance sheet continues to be in great shape. Right now, as of the end of March, our leverage was close to 1 times, and that's our debt to EBITDA ratio based on the definitions of our credit agreement. You saw that we recently announced the LCD acquisition for up to about $650 million of purchase price. So, if we pro forma that leverage for that acquisition, that would take us a bit north of 2 times to 2.3 times. Again, we think that's very manageable, given the opportunities that we have and the flexibility that we'll continue to create for us to manage the business going forward.

Our cash mix still is overseas. We have a significant amount of cash, and we continue to just try to find ways to deploy that cash into the business and through M&A and repatriate that back to find uses for that cash and reduce that mix over time. And I think importantly, you can see our debt mix right today is still primarily fixed rate based on the private placement issuance we did a couple of years ago. You'll notice that we just filed an 8-K and signed a new $1.1 billion credit agreement. A lot of that capacity through a new term loan is going to be used to fund the LCD acquisition. So, you're going to see that mix change once we close, primarily through that credit agreement and that facility to fund the LCD acquisition in the third quarter of this year.

ROIC: Return on Invested Capital

And then, finally, I will close where I started the conversation in shareholder return. So, you saw the TSR that we flashed up before. But what's really important to us is that the investments that we're making in the business are driving growth and return, and we monitor our ROIC pretty closely. After the DBRS acquisition in 2018, as often acquisitions do, we dropped a bit, but you've now seen a steady path to growth and consistent performance above our weighted average cost of capital. So, it's very important that the investments that we have in the business are generating long-term growth and returns.

And I sit here today after five years being just as excited about the journey for the next five years as where we've been on because I can tell you that we continue to have significant opportunities to grow this business, to grow it in a responsible way, to capitalize on the opportunities and addressable markets that we see, but importantly, serve our mission and serve our clients and support our people and support you, our stakeholders, to make sure that we're on the right path to value creation in the future.

So, I want to thank you again for coming today and your support and your partnership, and really look forward to our dialogue in the Q&A session. So, now, I have the opportunity to welcome Daniel Needham up onto the stage, my partner. And along with being a good partner, I'm really excited for Daniel to present today, because as you may have seen, we've gathered our assets and our capabilities now in a unique way to focus on a significant opportunity that we see in the wealth space, and Daniel is leading the charge here. And this is an area we have a lot of focus and a great ability to really provide a lot of value for advisors out there and bringing to bear all the Morningstar assets and capabilities, new capabilities, that we have coming to market. So, with that, Daniel, off to you.

Wealth Management Solutions – Daniel Needham

Daniel Needham, President Wealth Management Solutions, Morningstar: Okay. Well, it's great to be here and to see everybody in person. It's certainly a preferred approach than Zoom, that's for sure. And I'm really happy to hear that Kunal has decided to hang on to the Wealth group. He sprung it on me here. And I'm really excited to be able to bring Morningstar's mission of empowering investor success through our wealth offerings. And really, that's the focus of the business and why we've been bringing the capabilities together.

Agenda

So, today, I'm going to provide an overview of the business, touch on some of the key trends, share our vision, our new vision for the group, touch on some of our strategic focus areas, and then, dive deeply into one of those, which is direct indexing, which we're really excited about.

Our Business

So, we have five main offerings within Wealth Management Solutions. Firstly, we have our platform business, which is for fee-based advisors that want to outsource the full end-to-end workflow of their practice from account opening and prospecting through to performance reporting. And we're really focused on U.S. advisors at the moment. Investment solutions are our multi-asset, fixed income and equity portfolios and funds that we serve up to advisors that want to outsource just the investment part of their workflow. We have Morningstar Office, which is our portfolio accounting and reporting service that's really geared to serving small to midsize RIAs in the U.S. and IFAs in the U.K.

We have ByAllAccounts, which is our aggregation service, and that's focused on aggregating client assets for wealth managers and advisors that want to be able to see a holistic picture of the investor portfolio, the client portfolio, which includes held away assets. And then, we have the individual business, which Kunal mentioned, and that's really our website, Morningstar.com. We have our premium subscription service, we have our newsletter business, and we also have ad sales. And we're very much focused on that retail investor. But we also serve asset managers and institutions through our advertising business.

By the Numbers

And Kunal touched on some of these numbers. But I think it's really important to see we serve nearly 4 million investors on a monthly basis with our website. We have over 130,000 premium subscribers that can access our research and valuation tools and different capabilities that we have. We manage over $32 billion of assets on behalf of financial advisors. We serve over 10,000 advisors directly with our platform in Wealth Management Solutions, so with our investment solutions. We have 286 investment models that we're delivering around the world. We aggregate around $500 billion of assets a day with our

ByAllAccounts business. And we're serving over 2,300 advisors with our Office solution, which is actually one of the leading numbers based on firm count in the U.S. marketplace. And all of that generated around $234 million of revenue in 2021.

Wealth Management Industry Tailwinds

But as Kunal mentioned, we've created the new Wealth Management group. And there are some key reasons for that, why we're excited about this sector. So, there are a number of important tailwinds in the industry. So, as people will be aware, U.S. household wealth continues to grow supported by GDP, household income and capital markets. We see this trend in all of the markets that we're operating in. We've also seen more assets, more household assets are being advised by advisors around the world. So, that's been growing at a faster rate. And then, all of those assets that advisors are advising on, more of those are being implemented through managed account platforms. So, advisors are looking for help in delivering that advice, and we think we're quite well-positioned to do that. We expect that it's going to accelerate because there's a couple of key trends that are driving adoption.

Wealth Management Long-Term Secular Trends

We've talked about personalization. So, people want to be able to personalize their investment solutions to reflect their preferences, their values, their household tax situation, that's only accelerating as we will touch on later. Investment choice and flexibility is really important for financial advisors. They're managing more assets, they're managing more clients, and they want to be able to build the right portfolio for their clients. Kunal touched on technology as a disruptor. We're seeing it really accelerate within the Wealth space, and certainly, COVID-19 and the remote work accelerated things. I mean, certainly, for the advisors that we work with, they moved a decade forward within 18 months from a technology adoption, so really remarkable. And advisor counts have been relatively stable over the last 10 years while household assets and AUM they're managing and the accounts they are managing has been increasing. So, they need help in making their practices more scalable and more efficient.

And finally, the consistent number one strategic imperative for RIAs in the U.S. is practice growth, it's new client acquisition. So, they want to be able to have time to find new clients, and they want to be able to have new sources of attracting new clients. So, these five trends are really important. We think they're going to accelerate the adoption of many of the managed account services and solutions that we have. That's why we created the Wealth Management Solutions group.

Wealth Management Solutions Vision

So, this is the vision we put together. So, we want to be a trusted partner, empowering investors globally through an integrated suite of wealth offerings that are personalized with uniquely Morningstar insights for advisors and individuals around the world.

Marrying the Investor Journey and Advisor Workflow

Now, Kunal touched on our strategy, which is to be essential to the investor workflow. We think the investor journey and the advisor workflow have some really important parallels. So, whether you're an individual that has a life event, where you need advice, you need help, or you're an advisor, that's marketing and prospecting to find clients to deliver advice to, there's quite similar needs being met there. You could be researching to build your own portfolio, construct that portfolio management, or you could be an advisor that's managing a model portfolio and implementing that for your practice. Across each of these steps, there are relatively similar activities, and they could be supported by similar capabilities. At Morningstar, we've got a large number of those capabilities and we're building more of them. So, I'm not going to touch on each of the hexagons, which I'm sure everyone is happy about. But suffice it to say that having this breadth of capabilities allows us to configure them to support different elements of the investor journey and the advisor workflow. That's one of the key reasons why we bought advisor facing and investor facing businesses together. There's real opportunity to combine those capabilities.

Strategic Focus Areas

Build a best-in-class wealth management platform

That's what's driving our strategic focus areas within the group. So, we have five key areas. Firstly, it's to build a best-in-class wealth management platform, so that advisors can put more of their clients' assets and more of their clients on our platform, so that they can deliver choice and flexibility. We've made some important investments as well in that space. So, we announced an investment in SMArtX last week. We're also buying the international operations of Praemium, which is going to give us platform capabilities outside the U.S. And so, we see this as a really critical area.

Become direct indexing leader

We want to become a direct indexing leader. Personalization at scale is a big opportunity, and we think it's an exciting way for us to take those capabilities and bundle them into that market space. I'll touch more on that later.

Revitalize Morningstar Office

We're revitalizing Morningstar Office so that we can deliver greater efficiencies to the IFAs and the independent RIAs that we serve. We think this is a big opportunity for us. Office is our beachhead into the RIA segment, which is the fastest growing segment within the Wealth space. So, not only can we better serve RIAs, we can provide more services, more of those capabilities that are sitting in our platform, direct indexing, and some of our individual investor workflows.

Become the investment industry data aggregation market leader

We want to become an investment industry data aggregation market leader. ByAllAccounts is a hidden gem or has been a hidden gem in the business. So, we have the highest-quality enriched investment data in the industry, specifically, for the advisor investor use case that I described earlier. Many of our competitors have focused on the consumer retail use case, but we have a real advantage in this space. So, we're investing to scale that business to be able to serve more wealth managers and advisors through FinTechs and other channels, but importantly, also serve our own product suite. Data is going to become really important in the future.

Launch new experiences for individual investors with uniquely-Morningstar capabilities

Finally, we want to launch new experiences for individual investors with uniquely Morningstar capabilities, which I touched on earlier. So, we're launching our new investor product later this year, and that's going to be taking aggregation capabilities directly. So, individuals can see their holistic portfolio on our website. We also have an opportunity to bring some of the other capabilities like direct indexing and our wealth management platform workflows into investor experiences. So, there's a really good opportunity. So, having these capabilities together, we think, allows us to move more quickly to innovate for our clients, and to deliver more comprehensive workflows.

Our Differentiation

Now, there's competitors in all of these areas. We recognize this. But we're confident that we can win because we think we've got some compelling advantages in the wealth segment. Our trusted brand, which has been built upon decades of independent insights and views, transparency and being a champion for end investors counts for a lot in the wealth segment with advisors. If you speak to advisors, they want us to do well, they want us to win. We've got a breadth of capabilities that's really unparalleled within the wealth segment and we can really bring those together.

Our unique data and insights that we've built, as Kunal, touched on earlier, really power our own solutions, but many of our competitor's solutions, whether it's our ratings, whether it's our categorizations, our new datasets with PitchBook, with Sustainalytics, bundling these together is very compelling for advisors.

Design is a core capability at Morningstar. I would just say that removing friction from the advisor workflow and the investor journey is a big opportunity and there's lots of friction that's still there. So, we think design and technology are going to become key, especially as you're looking at personalization at scale. We're able to bundle these services together because we have such a breadth of compelling capabilities, we can deliver compelling workflows, we can deliver best-of-breed components in a very compelling package, so from a price, as well as saving advisors' time. So, this for us is one of the key selling points in the marketplace.

What is Direct Indexing?

Now, Jeff Bezos outlined when he was describing Amazon Prime, he said, I want to pack so much value into Amazon Prime that you'd be irresponsible to not be a subscriber or a member. We've got an opportunity to do that with our solutions in the Wealth segment. One of those areas is direct indexing. So, what is direct indexing? If you want to gain exposure to a, say, U.S. large cap equity index, the main way that an investor or an advisor would get exposure is to own an ETF or a mutual fund. Direct indexing allows you to own all or part of the securities in that index within your individual brokerage account. You're able to adjust the holdings or exclude holdings and weights to reflect your preferences and values within that brokerage account while tracking the target index. You're also able to have that portfolio managed from a household tax perspective, including tax loss harvesting. So, these are really compelling solutions for individuals.

Direct Indexing: Why Now?

So, we've had equity SMAs for a long time. We've been managing them for over 15 years. So, why is direct indexing taking off now? There's a couple of key reasons in our view. So, technological advancement. The ability to do complex calculations really quickly, like portfolio optimizations, to move data and store data at relatively low cost. The elimination of trading commissions means that you don't have to worry about a minimum dollar amount per trade, which has been a real game changer. And finally, taking that further, there's fractional shares, which means you don't even have to own a whole share. You can own a fraction of a share, which means that small balances can hold relatively large portfolios, like our Morningstar's U.S. Total Market Exposure Index. And that's a really exciting opportunity, and we think the adoption is going to be significant and so does Cerulli. So, they're predicting that AUM will go from about $360 billion in 2020 to about $730 billion by 2026. We think that could be a conservative estimate because the adoption rates could be much higher. So, we're really excited about the opportunity, and we're investing aggressively and moving quickly to participate in this exciting trend.

Why Morningstar Direct Indexing is Unique

So, again, why do we think we're well positioned here? We think we can put a compelling proposition on the table because we have some really great capabilities. Morningstar equity research, we cover 1,500 companies, we have over 100 equity analysts and we've got high-quality fundamental equity data in the business. Ron Bundy is here. We have our Morningstar Indexes President here. We've got a great Indexes business. We have a custom index capability now that's been bolstered with the Moorgate acquisition, and we're able to work with them to build indexes that are specifically made for direct indexing.

Within Investment Management, we've been managing equity SMAs for over 15 years, and really, direct indexing is an application of an equity SMA. We have Morningstar Sustainalytics, which is leading ESG data provider. Preference-based investing, values-based investing was made for direct indexing and personalization, and we're really well set to position there. What most people don't realize is that direct indexing is as much a technology-driven managed account solution as it is an index investment. With our Wealth platform, we've got the workflows, we've got the pipes and plumbing and the technology to provide that last mile that's essential for direct indexing. So, when we combine these capabilities with our really strong brand and elegantly designed workflows, we think we can win. We've touched on that in the demos early this morning, when I do so later, so you can see direct indexing. Andrew Scherer is out there. So, if you want to take a look at it – but here's a brief snapshot of the workflow.

We're really focused on ease of use and simple account opening and account management processes. So, I won't go through each of the steps, but you can see that at the break. But our goal is to launch a pilot program by the end of June. We're going to be doing a full launch later in the year. The team is working really hard to get this to market, and it's early days for us. We're going to be doing so much more. We think direct indexing is going to be a very big product trend. Where we're positioned now? We've been talking to our advisors; we've been talking to RIAs about our solution. We've had really great feedback. They're excited. We've got a number of advisors signing up for our pilot program. So, there's going to be a lot more to come here, but we're moving really quickly.

I would just say that I think Morningstar is uniquely positioned within the wealth segment to do well, to be able to serve more advisors and more individuals over the coming decade, and we're really investing behind it. And I'm certainly super excited about leading the efforts with a really talented team of people.

So, with that, I'm going to thank you for your time. I look forward to questions later on. I only take the easy ones. Kunal takes the hard ones. And now, I get to welcome John Gabbert, who is the CEO and Founder of PitchBook. He has come all the way from Seattle. He is our resident superstar CEO. And so, we're going to hand over to John who is going to deliver a session.

PitchBook – John Gabbert

John Gabbert, CEO, PitchBook: You know, it's funny. I was actually at a dinner the other night talking about Seattle and 10 years ago, like how not many people made it that far to the northwest. You make it sound so far. It's not that far. It's not that far. It's a little flight.

Who we serve

But anyways, thank you for having me back. It's been a few years and really happy to share an update on what we're doing at PitchBook. So, we're a very values-driven company. Our first core value is customers are king, which aligns really nicely with Morningstar and putting investors first. And as you can see, these are some logos of some of our clients. We serve over 8,000 firms globally today, and we have a very diverse customer base. So, this pie chart on the right-hand side, investors first. We look at venture capital firms, 14% of our users; private equity firms 9%. In this company bucket, we have a number of corporate venture capital firms, corporate development firms. So, we really focus on building products for investors. But we also have a lot of other client types that that use the PitchBook Platform. A lot of advisory firms, so investment banks, lawyers, lenders, accountants. There's a lot of different use cases, which we'll see in a moment. But a very diverse customer base. And at the top here, only 1% of our customers today are lenders, and I'll get into the LCD acquisition in a little bit. But we're really excited about what the capabilities of LCD are going to bring to PitchBook and Morningstar to help us grow this segment even further. So, point being, a very diverse customer base across the entire capital market landscape.

What you can do with PitchBook

So, how do our customers benefit by using PitchBook? Lots of different ways. Again, many different user types using it to gain value. And so, we serve over 80,000 professionals today. So, 8,000 firms and about 80,000 users on the platform. First and foremost, every single client uses it for market intelligence, whether that's competitive intelligence, trying to understand different spaces, emerging spaces, where is capital flowing, where are other funds investing. So, everyone really is using it for market intelligence purposes. And then, it gets into some more specific use cases. So, deal sourcing. So, our investor clients, they're always looking for new investments. So, whether that's early-stage venture, growth buyout, M&A. So, sourcing deals is a primary use. Then we work to enable workflow. So, comparables analysis, valuation analysis. That includes both our private company data, so valuations on, say, venture backed companies, as well as our public equity data and then building the tools, which I'll touch on a little bit to enable very efficient workflows.

Then through the whole cycle of selling a company, obviously, we're tracking things, 1.75 million transactions, 3.5 million companies. And so, a lot of portfolio companies are changing hands. So, many of our investment banking clients using PitchBook for a targeted buyers list to identify where is the right next home for that business. Then along the bottom, we have many start-up clients as well that use PitchBook to identify venture capital firms as potential investors for them. GP is using it as a fundraising tool. We track limited partners, about 400,000 or a little less than limited partners. So, our GP clients are using it to raise funds. And then benchmarking. So, we'll get into that a little bit more, but custom benchmarking tools, and all the returns data that we have. And then, a lot of firms, consultants of every type – and I was actually speaking earlier today that nearly any B2B business can be a PitchBook customer. So, we have a lot of professional services firms that use PitchBook to grow their business.

Our data: What you can research with PitchBook

And as Kunal mentioned, data. It's the secret sauce and it is core to what we do at PitchBook. This gives a high-level overview of all the different data sets that we track. On the company side, 3.5 million companies today in the PitchBook platform. And again, that's pre-venture, venture-backed, private equity-backed, private companies in general, public companies. So, a full range of companies that we do research on in the platform. And then, on the deal side, that's probably the secret sauce of the secret sauce. We've got 1.75 million transactions that we've done research on. And this is where we have a lot of the differentiation in what we do. We have some parts of our data operations team that we refer to as fight club because when we're going to talk about fight club, that's probably all I'm going to say about fight club. But it's how do we gather private company valuations, how do we gather cap tables on private companies, and that is one of the biggest differentiators for us and how we compete in the marketplace. Then, on the investors side, over 400,000 investors, again, could be angels, accelerators, venture capital firms, private equity firms, corporate development. So, lots of investors.

And then, I'll touch on the funds a little bit as well. A big differentiator for us is on a quarterly basis having thousands of cash flow data points between LPs and GPs on the return side. So, the capital call is going in, distribution is going out. And in PitchBook, you can watch those cash flows LP to GP into that fund. You can track the portfolio companies in that fund, and you can track the partners that are actually leading those transactions to really understand where value is being created. So, you can really connect the dots across the whole value stream there. So, big differentiator for us on the fund side. Then the limited partners, again, institutions, endowments, foundations, making their commitments, the advisors, and then over 3 million people. So, again, trying to connect all of the dots across capital markets here.

400+ Releases: Innovation on 3 strategic themes

Market Intelligence

And then, that flows into our product. So, we're always innovating on the data side. We're always innovating on the software side. So, last year, we had over 400 releases in the PitchBook Platform. So, every single day, we are showing up trying to figure out how do we make PitchBook more valuable to our customers. We have three main strategic themes that we focus on. First is market intelligence. Again, all of our customers have that use case. So, identifying trends, emerging technologies, where is capital flowing. And then, we're always adding new datasets as well to help our customers discover and learn about different companies specifically, as well as markets. Last year, we added tens of thousands of patents and then tools to conduct patent analytics. So, that's just one example of the type of functionality and additional data sets that we're always looking to add, which opens up our target market on and on.

Deal Execution

So, on the deal execution side, again, getting transactions done. It's not just the data side. We have made a very large investment into equity data over the past handful of years, and we've got a great roadmap ahead of us. And really, we have a world-class data set now on the public equity data side. Last year, some big functionality, some drill down functionality into our Excel plug-ins. We launched the plug-in for Mac. So, again, trying to meet our customers wherever they're working in their workflow. So, if they want to log into the platform, great. If they want to use mobile, great. If they want to use a Salesforce.com plug-in, great. But a lot of our users are in Excel, whether they're investment banking clients, private equity clients and being able to pull data directly into their models and update them real time, it's been a very powerful tool that has helped drive our growth.

Fundraising, allocation and benchmarking (FAB)

And then, the third strategic initiative for us what we refer to as FAB, so fundraising, asset allocation and benchmarking. Again, it's LPs doing diligence on GPs. GPs looking for LPs to raise capital from and then a lot of tools around benchmarking. Last year, we made some really nice enhancements to our custom benchmarking tools, our manager performance analytics. So, this is a big area for us to drive growth. About 5% of our customers are limited partners, and we've got a lot of runway there.

Researching the capital markets is hard – PitchBook makes it easy

So, the data plus the software, all driving the PitchBook platform. And doing research on opaque private asset classes has been hard and our job is to make it as easy as possible for our customers, really to help them win what is next for them. So, all of this, in Morningstar speak, drives our moat. We have 15 years of doing research on private capital markets. We put in over 8.5 million hours creating these datasets. Every single year, right now, we're adding about 2.5 million hours. So, again, I think we have a very nice moat. And every single year, we continue to add to our moat through the efforts that we're doing on the data operation side.

And we're always looking to refine these processes. We have hundreds of thousands of crawlers that run every single day, all of our machine learning, all of our AI to make the researchers' time more efficient and better, drive higher quality. So, that paired with the software development side, always building tools, that again, make it easy, and Kunal referred to that. But back in the day at PitchBook, I'll go back 15 years, first thing I said on the wall is, has to be wicked fast. Second thing I wrote on the wall is, don't make me think. The third thing I wrote on the wall was don't make me work. And that's the mindset that we build to bring in product is, how do you want to find it, how do we make it as easy as possible, how do we reduce friction. That's how we approach building product every single day.

PitchBook revenue growth & 10-year sales CAGR

And that has in turn driven a lot of our revenue growth. So, this is a look at our revenue over the past five years by quarters, represented in these blue bars. I think over the last five years, 6 to 7 times growth in revenue. And then, this yellow line represents the percentage of growth. And actually, last year, we were able to accelerate that not just in terms of absolute dollars, but actually the growth rate. Blue circle highlights our 10-year sales, compounded annual growth rate of 56%. We love driving growth. I think we genuinely have a growth mindset. Growth creates opportunities for us to invest back in our business, to build a more valuable product for our customers, which then in turn fuels growth. We love creating opportunities for people to grow professionally within the company. And growth feeds that.

Market Opportunity

And we're also excited about the fact that we have a lot of runway. We've been able to serve 8,000 firms today. But there's 100,000 plus that really should be PitchBook customers. And when we look at addressable market, here is 114,000 firms, I would say that this is a conservative view of our available market. How we look at it is that a firm needs to have at least three use cases to be in this number. So, not just, hey, they have a one-off use, hey, we'll count them, in which case, I think there would be millions. But these are firms that have at least three use cases that I talked about earlier for PitchBook. So, again, we've got opportunity across the entire landscape, all the different customer types. But I'll highlight again this one at the top on the lender front. Just 1% of our customers are lenders, as well as limited partners, 5% of our customers there. And again, we've got opportunity across the entire landscape.

So, now it's our job to take advantage and make the very most of this opportunity. And before I click to the next slide, I know it's not Q&A time yet, but I'm going to ask a question anyways. All right. As we talk about driving growth, and this is really executing on our go-to-market plans, how many new customer demos or meetings do you think we did last year? Now, I know some of you may have read ahead in the slide. So, just think for a sec, how many new customer meetings we did last year? I know we've got a sharp group. So, you probably have a number in mind. If you want to share, this is a very safe place. If you want to share, it's totally fine. Safe. All right. So, I hope you've got a number. So, it's right in the middle; 31,500 new customer meetings last year, with new firms that are not yet PitchBook customers. So, we're talking 140, 150 a day new customer meeting.

Capturing TAM through EXECUTION of go-to-market activities

So, I'll jump back in the slide here a little bit. So, if we take this 114,000 available market firms, we're always looking to drive awareness. We have a wonderful PR team. This year, I think, our target is to get about 5,000 press mentions. So, we're always looking to drive that awareness. We drive a lot of leads through SEO, organic search, paid search, but we're always looking to build the brand and build that awareness. And then, we look to engage all of those prospects and opportunities. So, we have a daily email newsletter. It goes out to about 1 million people a day. We average about 300,000 opens every single day. So, we're looking to engage with the market. We produce a lot of great emerging tech research, a lot of reports on the industry. We contribute to events, lots of things. So, we're looking to engage. And then, last year, we delivered 132,000 sales qualified leads to our inside sales teams, that then took those, converted them to opportunities. So, over 31,000 new customer meetings, and over 3,100 new firms that we brought on as PitchBook customers last year.

So, this is really the core of it, how we drive growth. We build great product, the data side, technology side, but we execute the heck out of it on the go-to-market front. And then, we service a heck out of our customers. Again, first core value for us is customers are king. Our NPS score is in the high-50s. We're very proud of that. We love providing great customer service. And in turn, we get a lot of growth from our existing customer base. So, 127% net renewal rate, again, servicing the heck out of customers and every single year, adding new customers back on.

Three Legs of the stool: Private, Public & Debt Capital Markets

So, final slide. As I've mentioned LCD a little bit, we are really excited about this opportunity. We have best-in-class private company data. We have best-in-class public equity data, and this is really adding on, what I refer to, as this third leg of the strategic stool here, debt capital market data. So, on the early-stage side, adding to our venture data, our fund performance data; adding this for leveraged loans, private debt; then on the public side, high yield, as well as investment-grade, debt, all of that capability.

And so, LCD is Leveraged Commentary & Data. And they have built a really great company in terms of the product and the content that they're providing. But I think strategically for us, one, we have a very high level of overlap in terms of who our customers are and who LCD customers are. However, many times it's different groups within those firms. So, I think there's a big opportunity to expand across both of our user groups, one. And two, while they have amazing content, incredibly passionate team, they haven't been able to get the level of investment that they would really like to get in building product. And they also haven't received the investment in go-to-market activities. So, I think those are two really strong points of what we can bring in Morningstar and PitchBook and bring that to LCD, taking all of the incredible content that they have, but innovating on the product side and innovating on the go-to-market side to serve a lot of different use cases, again, across this entire market, to maximize that opportunity. I think from a competitive perspective, it's going to put us in a really, really good place to continue to drive growth.

So, with that, thank you again for having me, and turn it back over to Kunal.

Kunal Kapoor: Great. Thank you, John. Thank you, Daniel. Thank you, Jason. We are going to go to break and then we're going to come back after about 15 minutes. So, right at 10.45 where we will start the Q&A. And since we're going to break, we thought we'd kind of kick it off with our own ad debut here at our halftime show. So, this is a little funny video that we're going to use for recruiting and we thought we'd show it here to go into break.

[Video]

Questions-and-Answers

Kunal Kapoor: So, thank you, everybody, and I want to welcome everybody back to the stage, and Bevin is joining us here as well. And so, we're going to take Q&A. But before we start, I too want to join Joe and others in thanking Bevin for everything she has done for Morningstar. Bevin is a unique person on many fronts, but I've learned many things from her over the years, and one of the things I've just learned is always to shoot higher and expect more, and just aim for excellence. And Bevin has been an amazing example of that, and I'm just going to miss your advice and the fact that you're always around when we need you, and just wishing you well and thank you for everything, Bevin.

Bevin Desmond: Thank you. And I have to say, because I tell everybody when they say such nice things to me, it just showcases how lucky I've been. So, thank everybody.

Kunal Kapoor: Yeah. So, with that, we're going to move to Q&A. We have folks with mics moving around, one person with two mics. So, you're going to really work the room. But just raise your hand and we'll send a mic to you. If you're on Zoom, there's two ways that we will take questions. One is you can just type it in, and we'll have it read out. Or the second thing you can do is, we can just promote you up and you can actually ask your question live, and we'd love to see your faces. So, please feel free to do that. My only request is that when you're asking a question, please introduce yourself. Let us know who you are and which firm you're with, as well. And we'd appreciate that. So, just raise your hand. I think we already have some Zoom questions. So, why don't we just start there and go from there?

Victoria Rabuse: We do. Thank you, Kunal. Hi, everyone. I'm Victoria. I'm a member of the Corporate Communications team. And I'll be facilitating questions coming in online. Our first question has a couple different parts. There's two Morningstar parts and one DBRS Morningstar part. This is from Anil Sharma at UBS. I'll read them all but feel free to take them in any order. First one is, if the market backdrop is more difficult, then would management slow the pace of investments to help protect profitability? Or are those investments required now in order to capture the opportunity?

Kunal Kapoor: Sure. I can take a stab at it. And Jason, if you want to add, you can as well. The way I think about it is, if you look at the way we've managed through past cycles, we've generally responded to downturns pretty quickly and been conservative in the way that we've spent to kind of match the environment. I think that is not unreasonable behavior to expect from us when it comes to thinking about things. I will say that so far, we're watching things in this cycle. I think we still feel very strongly that the investments we have and that we're making are good ones, and we want to get after them. And so, at least up to this point in this cycle, even though the markets had some downside volatility in the last month, while we are starting to watch things, we have not as yet made deliberate decisions to do anything on that front.

Jason, I don't know if you want to add anything.

Jason Dubinsky: Yeah, I think that's fair. And I think many of us have been around and some haven't. We've been through market cycles here. But I think sometimes it's important to recognize that there are cycles. Credit ratings is a good example. But you don't want to necessarily deprive the business in those periods because you want to emerge stronger when issuers need us on the other side of those. So, we want to manage the business prudently, but realize that sometimes cycles do create opportunities to emerge stronger. And I think you saw that coming out of some of the pre-pandemic – the beginning of the pandemic in 2020, where we didn't necessarily take the foot off the gas, and we were ready to serve clients in the back half of 2020 and into 2021.

Victoria Rabuse: Great. Thank you, Jason. Our second question from Anil is, why has MORN dropped in the Q1 earnings statement from this year the KPIs to help us track progress on the license side of the business?

Jason Dubinsky: Yeah. I've got a few questions today. So, we didn't necessarily drop it. We just felt that some of those metrics were better suited in the supplemental information that we have, because you can see longer-term trends versus just the static information that we had in our press release. So, if you go to the supplemental deck that we share, along with our press release, you can still find our license information for things like PitchBook and Direct, you just have to go there. And I think it's more useful because you see longer-term trends. So, that's where you'll find it.

Victoria Rabuse: Great. And then, our last question from Anil. This is on the DBRS Morningstar front. DBRS has a skew toward CMBS and RMBS. What is Morningstar seeing in terms of recent trends? Both Moody's and S&P recently lowered their ratings outlook. What is Morningstar's view?

Kunal Kapoor: Yeah, certainly, when you start to have interest rate volatility, or just more volatility in the markets, issuers do tend to slow down their activity a little bit. And so, I don't think it's been surprising to notice that a couple of issuers have been starting to slow things down, push their deals out a little bit. And I think most likely what's going to happen is that until there's some stability, there will be a little bit of hesitation in that market as it pertains to new issues.

Having said that, we have actually noticed in the past month that issuance in Europe has started to kind of stabilize a little bit relative to what happened when the war broke out in Ukraine. And so, that is a positive sign in that context.

Colin: This is Colin from Franklin Templeton. On PitchBook, so for John, your $4 billion addressable market, I guess, what market share do you have now? And I guess, two, do you expect that market share to go up over time when you're closer to the – hitting the $4 billion addressable market? Like what percentage should one expect?

John Gabbert: I think we're about 7% today. We're going to try to get as much of that pie as possible. I mean, each year, again, as we try to sign on thousands of new customers, we're just going to keep chipping away at that. So, I mean, I guess at what point in the future will we be at what percent penetration on that? I mean, I'm not sure exactly. But I know each year, we're working on signing up thousands of new customers. And also, importantly, again, on that available market, that isn't really – everyone defines that differently, TAM. But for us again, it's which firms have at least three use cases. So, it's a very refined available market for us. I could say that every single B2B business has a use case for PitchBook, and that is true. But this is really the refined market. So, we're 7% today. We look to add few thousand new customers every single year. Just keep chipping away at it.

Alex Kramm: Yes. Alex Kramm, UBS. Just a quick follow up on this, on PitchBook, maybe more of a near-term question, if I may. You mentioned headwinds in the marketplace. And I think you have focus on DBRS and other areas. But what are you seeing in PitchBook right now, given what's going on in public markets, tech valuations coming down? I'm not a private equity or private markets guy, but like just this got to have an impact. So, is the selling environment getting tougher? Are there potential customer losses, even like…? What are you seeing right now, I guess, is the question when it comes down to it? Thank you.

John Gabbert: Sure. You should probably ask Steve Kaplan how that impacts valuation of the private companies. He'll give like a really beautiful answer, I'm sure. But yeah, I mean, valuations in public markets absolutely affect private market valuations, especially for firms that are more later stage, the unicorns of the world. Yeah, I mean, they're getting marked down – most of them are getting marked down right now. But they're still there. This has already been written about – firms are laying off people, but those businesses are still there, they're still in portfolios, they still need capital to grow, they're still going to be looking for an exit at some point.

So, the market is there. And one nice thing on the private capital market side is we're talking about 10-year funds, let's say, on average. I mean, I've been doing this since 1998, so a couple decades, and listen, things are going to cycle through, everyone here knows. But these funds, the nature, how they're structured, they can sustain some downturns. All depends how long, how bad, but there's really nice sustainability, I think, in the market and the customer base. So, we're optimistic about – and even early 2020, with the pandemic, we have great strategic minds on the marketing, go-to-market side and sales front close to our customers. And we get in the war room, we figure out what does this mean to them, what are their needs, how have their needs changed, and let's make sure that we're addressing that. So, that's how we approach it. So, when it cycles, we'll work to figure it out.

Kunal Kapoor: John, one thing that is a positive in this cycle, at least, is that our data shows that there's a lot of dry powder.

John Gabbert: Yeah. I mean, there's trillions of dollars of capital on the sidelines that's already committed, ready to be put to work. So, yeah, I mean, incredible amount of capital.

Abbas Perez: Hi, Abbas Perez from T. Rowe Price Investment Management. ARPU at PitchBook has been relatively flat despite healthy subscriber growth. And if we assume some part of that growth comes from penetrating existing clients where there's likely a substantial discount involved, how do we think about product add-ons to offset these discounts and how you think about the product roadmap in the next three to five years?

John Gabbert: I'm sorry. What part was flat?

Abbas Perez: The ARPU for PitchBook.

John Gabbert: I may not have caught entire question, my apologies. But I think that – listen, there continues to be a lot of opportunity. I think we watch – we track all of our SaaS metrics to understand the economics of bringing on a new customer, all of our customer acquisition costs, all of our costs of service. And so, every single dollar of spend that we put in the business, we measure that, and I think that all of the metrics are at a healthy point, and even maybe overly healthy as far as opportunity to put capital to work. So, I'm not sure if I may have hit exactly what…

Jason Dubinsky: I think the other thing there is that as that – I think you're talking about our average revenue per user…

Abbas Perez: Yeah.

Jason Dubinsky: I think what you've seen more pronounced, and John can expound upon this that, as we continue to grow the user base, we're entering into more enterprise type agreements for more expensive licenses. And those are a good thing for us as we further penetrate a lot of these larger firms with larger contracts and the way we structure enterprise agreements might be different from some of the smaller firms that are really buying on a per seat basis. So, that continues to be an important tool. And those tend to be sticky relationships. And that's why you see maybe some of those metrics decline, but the user base is going up. And I would always measure PitchBook on the fact that we're growing 40% off a $300 million base is another affirmation that we're doing the right thing. But I think a lot of that is just the enterprise agreements that we're entering into.

Abbas Perez: That was a great answer, Jason. Thank you. I appreciate it. John?

John Gabbert: Yeah. license price does go up certainly each year. But you said it really well.

Kunal Kapoor: Go ahead.

Victoria Rabuse: Great. So, we have another question from online. This is from Brad Moldin from T. Rowe Price. Two questions here. The first is about the impacts of product mix and technology investments in the future given the business should have very high operating leverage, and is it possible to see adjusted operating margins return to low 20s levels in the next three years?

Kunal Kapoor: Jason?

Jason Dubinsky: Yeah. I'll give more of a general comment on that because we're not going to guide on margins going forward. But I think as we continued to say and acknowledge is that we do have operating leverage in the business, but we want to still make the right trade-offs in the short term and the long term to make sure that we're driving top-line growth, we're driving free cash flow generation, and we're driving returns. So, I would say that, yes, as we talk about scale and envisioning a business that's $2 billion and beyond, I do think we continue to have ample opportunity to increase margin over time, but it's not going to come at sacrificing the present for the future. And I think a lot of the things that you see us talking about here today on stage and across the portfolio, whether it's in the wealth space and direct indexing, whether it's investing heavily in equity datasets to support PitchBook, and we talked DBRS Morningstar and building out analyst staff to support corporate credit ratings, it takes time and building platforms to attract assets. We're focused on the long game here, and we see significant market opportunity ahead. But yes, as we want to get bigger, and you guys all look at our competitors out there, and some that have higher margins than us, it's out there for us, and we have the leverage of business. But we want to make sure that we're in a period here we have significant market opportunity, that we're investing responsibly to make sure we're driving long-term growth and return.

Victoria Rabuse: Great. Thank you, Jason. Also, from Brad on a different front pivoting to the ESG market. The ESG market looks like it's progressing along a similar track as indexing did the past couple of decades. Could you walk us through how Morningstar is empowering the financial advisor and their clients to select ESG investments aligned with values instead of – or versus funds based on ESG attributes defined by a third party? And then, what degree of customization can you provide to the consumer? And how are we going to market with this strategy?

Kunal Kapoor: Sure. I think Daniel and I can both answer aspects of that question. And it's a really important question, because earlier, when we were outside, you were asking me as well, just how we think about differentiating on the ESG front, given that there are multiple providers of that data. And one of the things I've come to realize as it pertains to ESG data is in the institutional space, pretty much every firm wants our data, but then wants to add their secret sauce to it, whatever that might be. And so, when I think about the institutional marketplace, asset owners, asset managers, our goal is just to provide the most comprehensive, timely, and best data set possible that we can, that they can then use to drive the outcomes that they want to.

But the opportunity that we are really starting to add to this and where we think we have a unique opportunity to win is in the wealth space. And it has a lot to do there with the fact that the language of ESG today is still very institutionally oriented. And in the wealth space, advisors are only now starting to understand how to talk about it, how to use it. We have some really interesting data that we're going to present next week at our conference for the first time showing that when advisors use ESG data to talk to new clients – or they are using ESG data more often to talk to new clients than existing clients, which is an interesting data point just in terms of that evolving, or the evolution of the investor as I talked about it. But our goal is to really help them with both risk and impact tools, as well as reporting tools that connected together in our platforms will allow the advisor to have that conversation end to end and not only bring somebody in and talk to them about the trade-offs that they might be making by making certain ESG elections, but then following it through to what the actual impact is in the reporting side. And you're going to see a lot of that roll out here in the second quarter and third quarter. You're going to see it obviously in direct indexing in Daniel's group, but also within Morningstar Advisor Workstation and within Direct, these tools are all going to come to life here in the upcoming quarters.

Daniel Needham: That was a really good answer. I would just add…

Kunal Kapoor: Something better.

Daniel Needham: Yeah, I'll try. So, the advisor workflow, as Kunal mentioned, a lot of the engagement happens on the onboarding side. So, you're having that first prospecting meeting. And that's where we're really focused on building those tools out, whether it's in the Advisor Workstation team, where they're building out an ESG preferences tool with a portfolio construction tool that allows a wealth manager to include ESG-based investments that map that level of preference, or within direct indexing. When we talk to advisors, one of the key feedback points we get is that an ESG portfolio isn't necessarily right for my client. I don't have a view about – I don't have a strong view that I want to own a portfolio made up of ESG

ETFs. They have a specific view that they really don't want animal testing in their portfolio, or they want to invest in companies that are going to reduce carbon footprint within a particular industry. And so, it's very specific. And so, historically, they haven't had that. And what we're seeing is the ability to personalize a portfolio very specifically is what advisors are keen to do. And so, chatting to some of the folks looking at adoption at Compass. I think it's the O'Shaughnessy, the feedback they had was a lot of their use cases within ESG were very specific circumstances, like it was like excluding this one company or excluding this one industry. And so, it's very heterogeneous. And so, taking a broad product solution to it isn't necessarily going to fit. So, that's our thesis anyway. We're starting to see some good engagement there. And with the reporting, as Kunal mentioned, the engagement point is I've put you in this portfolio, I don't want to go and talk about whether interest rates went up or down or what happened to the market. I can talk about how your portfolio reflected your values and what impact that had. And that's why the Sustainalytics team are working really hard on Impact data and Impact reporting. And so, that's going to be an area where we think we can really add value.

Kunal Kapoor: Go ahead.

Colin: Hey, Colin from Franklin Templeton. Just to follow up on the Sustainalytics ESG side. I guess, on the asset owners, institutional side, I guess, at Franklin, we are subscribed to four ESG providers, I guess, maybe in five years, how do you envision that playing out, like, is four still the number because it's all complimentary. Just curious to…

Daniel Needham: Should be one, I think. We can simplify your cost structure.

Kunal Kapoor: (Jenny) is going to be here. We'll talk to her about it. I think what you said just speaks to the fact that everyone is trying to find a particular angle. And so, when I think about it, there's really only two providers today, us being one, the other that will go unnamed here, that are of true scale, right? And a lot of the other providers are more nichey and providing data in certain, very kind of clear swim lanes that a firm like yours is probably taking because you have a particular view on how you want to allow ESG to manifest in your portfolios. And so, over time, I would anticipate that there will continue to be firms that do these little slivers of data. It's not different in any other part as well. There tend to be sort of a couple of firms that have the complete composite datasets, and then you have a few that provide some of the key slivers. And so, I would sort of expect that that will continue.

Sid Arora: This is Sid Arora from Brown Brothers Harriman. So, DBRS has always been strong in structured finance related issuance. But are you investing deliberately to take additional share on the corporate side in the U.S.? Or is that a market you see as less strategic given it is perhaps more difficult to compete against the incumbents?

Kunal Kapoor: Yeah, that's a great question. And if our colleague Detlef Scholz was here, he would tell you that we view the corporate opportunities as very strategic to what we want to do and where we want to go. So, the way I think about it is in Canada, we already have a very strong presence in the corporate market. And we are starting to develop a stronger presence in Europe and the U.S. In fact, if you start to look at what has happened in the last couple of years, you'll start to see that we are starting to increase the work we're doing in that space. And candidly, one of the constraining factors in the past 12 months has been that we have not been able to hire as quickly as we need to start meeting some of the demand that we're starting to see. And we're addressing that, obviously. But that is clearly a pretty sizable opportunity for us. It's also a long-term opportunity. It's going to take behavior change, and including firms like yours, where often in the policy statement sort of requires rating from two of the legacy three firms. And so, our ask always, especially of Morningstar shareholders is often to go back to your firms and at least right in there as long as it's a sanctioned NRSRO, it's okay to take the ratings. Because you do that, it helps us compete. And we're chipping away at it, and I think it's going to be very substantial opportunity for us in the years ahead.

Shane Connor: Shane Connor, Huffman Prairie. Curious on PitchBook. Last year, there was a stat mentioned about pageviews of public companies and the ongoing engagement that you're getting sort of in public data sets and public companies. Just curious sort of you guys have been making an investment in public equity data sets, but just any sort of anecdotes or examples of that investment driving additional user engagement?

John Gabbert: Yeah, it absolutely does. I don't have the numbers offhand. But we do a business review on it at least quarterly on – because we have a roadmap, very detailed roadmap of all the functionality that we're looking to build out relative to other competitors in the marketplace have on the data sets on the Excel plug-in functionality. So, we do watch that. We look at all of our usage, monthly active users, engagement, how frequently they're using it and all good trends on that. And in particular, again, it's our private equity clients and our investment banking clients, predominantly, that are engaging with that data, especially in the plug-in.

Jason Dubinsky: Yeah, the trends are really impressive in monitoring the usage. And I think what you're seeing as a part of that addressable market is you're able to attract more firms into PitchBook that don't want to swivel chair between private data and public company data. And for those that haven't had it, I would look outside and I'm a former investment banker, so I geek out over this kind of stuff. But it's really robust equity data, cap tables, drill downs on adjusted EBIT'DA, probably more pronounced than a lot of our competitors are doing today in order to get to the underlying data, not just to plug it into your comp sets, but actually to analyze the information. So, it's a lot of good collaborative work between – in the data providers, as well as the folks delivering the user experience to create a really robust data set with more functionality than I think a lot of our competitors have.

John Gabbert: Yeah, absolutely the case. Like, even the debt capital structure, equity capital structure, breaking out different business groups and units within a publicly traded company. So, yeah, it's a really nice dataset today.

Kunal Kapoor: I would say the biggest hurdle we face around adoption here and in other parts of our business, where we're trying to break into new segments, is just get people to change their behavior. You're used to one type of software, it might be Excel, it might be a competitive product. And so, you generally don't want to come off of it. And so, one of the advantages I see with PitchBook is we're increasingly being used by the next generation of bankers, the next generation of those who are coming out of B schools and those folks don't necessarily come in with the bias of having used other pieces of software and I think that that's going to ultimately be a very big positive.

John Gabbert: Yeah. Which is why we worked with a lot of universities to plant seeds. It has a different project name, but we'll call it that.

Jason Dubinsky: That's not in the fight club.

John Gabbert: No, no, different.

Julie Toran: Hi, Julie Toran from Lazard. I have a couple of questions. So first, on the LCD acquisition. I know you talked about this in the 8-K answers. But maybe you could give some further detail on what gave you the confidence to pay the multiple. I mean, you highlighted that you see a lot of growth there, a lot of synergies. You also noted that it's going to be accretive to margins. So, it must be fairly high margin, but we'd just love some additional detail.

And then, second question. In terms of the growth trajectory of the business, I know, Jason, you highlighted – I don't remember if you said three years or four – I have to go back now. I'll have to listen to the webcast. But how long you expect to take it to get an additional $500 million, but what do you think the normalized growth of the overall business is? I mean obviously, these businesses are lumpy, but I feel like whenever we look at businesses, we generally have a sense of, okay, they grow GDP, they grow at 2%, or they grow at 15%. And you've definitely seen an uplift in growth. And I don't know how sustainable that is or not, but just would love your thoughts.

Jason Dubinsky: Okay, maybe I'll tackle two of those. The first was the LCD. We'll maybe focus on the LCD, and then maybe where we think sustainable growth is. But to some extent, a multiple is a byproduct of the purchase price that we pay. It's not what we focus on. We focus on making sure that the price we pay for acquisitions is going to generate long-term returns, and we look at cash on cash returns, and the price we're paying for LCD, we really feel confident that we have significant opportunity to create value over time, not just in what John addressed in PitchBook and marrying the public or the private equity data with the private debt side. But we haven't talked about indexes here today and we're acquiring really the flagship private market index provider in LCD and really expanding our index platform for fixed income capabilities. And that's going to really be able to expose us to new clients that don't use Morningstar and discuss todays and new product sets around fixed income. So, both of those were really part of the investment thesis to drive opportunities for LCD over time, along with the fact that many of you and your firms may use that today. It's great data. It's great research. But bringing that into the modern world and how we deliver that in user experience and continue to invest behind the research and insights to deliver that, we're really excited about it. So, back to that, we run our own race in M&A and acquisitions, and we feel good about the price that we paid relative to the value that we're going to create over time.

Anyone want to comment on that before I go to sustainable growth? And Ron Bundy is right in front of you, too. If you want to tap him on the shoulder and ask him about all the great index opportunities that we have.

John Gabbert: I think he planted that…

Jason Dubinsky: But again, back to growth, and maybe just level-setting in the fact that we are in a rapid phase of growth and expansion, both organically and then through M&A. And we don't necessarily have a target of what I would call normalized growth rates would be, other than, if you look across our product portfolio, we still think we have significant run rate across all of those relative to the addressable markets that we serve. We're approaching a $300 million Credit Ratings business with an $8 billion addressable market, if you look at the size of our peers. John mentioned, we got $5 billion of PitchBook opportunity related to a business that's kind of on a run rate a little bit north of $300 million today. And I could extend that into ESG and Sustainalytics, which is sub-$100 million, and Workplace, which is $100 million. So, we want to make sure we're investing behind the market opportunities that we see, but that requires us to make sure that that organic growth that I showed up there is really commensurate with the investment that we're putting in and the cash flow generation. I think we know enough about the pace of the business and where the market opportunities are to decide when it's time to slow down and when it's time to accelerate, and that's why if you look at the mix of our product portfolio, some are growing double digits, some are growing in the mid to low-single digits. And we operate those products differently inside of Morningstar in terms of where they are in the product maturity curve.

So, I would say that I don't have a specific answer of what the future holds and what that growth rate looks like, other than you should expect us given the level of investment that we're putting in today to continue to have outsized growth related to the opportunities that we'd see in the market.

David Shepley: David Shepley, Windancer Holdings. Two questions on PitchBook. Curious how the international business would be developing today from a penetration and growth standpoint. And then, curious as it relates to some of the use cases on selling PitchBook data, anything that you could explore there and the opportunity longer term on selling some of the unique data that you would have inside PitchBook? Thanks.

John Gabbert: Yeah, certainly. Yeah, our international business has been growing quite nicely. For us that is still predominantly in Europe. I think about a quarter of our business is outside of North America. So, Europe is significant for us and has been growing quite nicely. And then, we're investing in our Asian business as well. We first started with Chinese venture capital. We're now expanding that across Asia, covering the investors, funds, and whatnot. So, we see a lot of opportunity to continue to grow internationally. Again, I think a lot of our growth is still going to come from North America and Europe, but good opportunities in Asia. And then, what we refer to as Direct Data, so our APIs and Datafeed business. I think this is something that we've taken from the Morningstar playbook. We've done data feeds for a while, but not at scale. But really, it was probably four or five years ago that we got behind that effort selling Direct Data. And it's a business for us, I don't think we break it out specifically, but I think it's doubling right now, kind of, year-over-year. So, we think there's a big opportunity to integrate data directly into our customers' workflow, whatever systems they're using. So…

Kunal Kapoor: John's answer to the first question is a good one, too, because I think you partly are trying to emphasize the fact that when we think about growing globally, we have a lot of opportunities across our business. And that's one of the places where we make some of our hardest trade-offs. Because yes, with like PitchBook, we could go and invest a lot more tomorrow in a market that we don't have a presence in. But that would come at the expense of continuing to do what we're doing in the U.S. and Europe where we're having a lot of success. And so, we have not accelerated as fast as we could in that context. Or even in Credit Ratings, we have so much opportunity right now to build a business in Europe and the U.S. And so, we've been thoughtful about not going elsewhere. And so, we're making those choices as well and it's an important point to make in terms of how we think about that.

John Gabbert: Yeah, we focus on opportunities that we think are going to create the most value. So…

Raj Visen-Singh: Hi, Raj Visen-Singh, 2Xideas. You mentioned at breadth as a key advantage, but are you confident that every one of your businesses can generate the incremental returns or synergies as well as value for clients that you're looking for? And at what point would you actually be willing to make divestments?

Kunal Kapoor: Yeah, I mean – so, the question is a good one and a fair one. You saw the heatmap, right? And we look at the heatmap a lot, because it's not just a question of divestments, when something slows down in growth. Some of our slower growth businesses are our most profitable. And we'd like to take the cash flow from those businesses and put them into new growth opportunities. And candidly, if you look at our strategy, and some of the things we've been able to do, we've been able to fund an expansion in ESG because of the cash flow that we got in some other parts of our business. And so, I feel like we have a really good mix of businesses. We evaluate them pretty thoroughly. There will be times when some will be up and down, but we think of it as a really solid portfolio. And there's certainly some small things from time to time that we want to deemphasize, or even maybe, divest, to use your terminology. But it has to be done in a way that creates value as opposed to just sort of a rush for the exits. And so, it's all to say that I think we have a good portfolio today. And we're not certainly thinking of anything other than pruning our portfolio in a thoughtful way when it comes to capital allocation.

Sid Arora: Sid Arora from Brown Brothers. What areas would you say you have the most pricing power in your portfolio and where's the least, particularly in an inflation environment like this one?

Kunal Kapoor: Yeah. So, I do have some other folks here who have agreed to jump in. And Danny, I know you've been chomping at the bit for a question. So, Danny Dunn is our Chief Revenue Officer, and he sits next to me, and so we often talk about pricing. But Danny this is a good one maybe for you to weigh in with some thoughts as well. You got a mic right behind you.

Daniel Dunn: You know, I don't like holding microphones. I like to use my hands, so I don't have one.

Kunal Kapoor: He is going to ask for a whiteboard here.

Daniel Dunn: Yeah, we could actually get an entire exercise going in here. But no – so, I mean, look, pricing – Jason and I have been spending a good deal of time on our pricing strategy, particularly in this environment. We're thoughtful about it. I go back to sort of – years ago, we didn't really have a systematic way of looking at year-over-year price increases and thinking about how to implement that and how to apply that across the user base. So, today, we kind of – I mean, I'd say we really very much look at what are our most differentiated assets, where we look at where do our customers have limited choice, and we know that we create outsized value. And that comes in – I think you'd probably know some of these, but certain of our Data products, our Ratings products, our Workflow products that allow us to command greater price increase. Others, we're really thoughtful about, and what we really like to think about is how are we creating value across an entire portfolio of solutions for a client, right? So, we might be willing to take down price in one area and compensate for that in another. So, it comes down to specific client-based deals, but in general, we're spending time with each of our product leaders looking at our typical year-over-year price increase, and then, what do we think we need to do in this environment. So, we're pretty active on it.

Kunal Kapoor: Yeah. I'd say to summarize that, our licensing area is where we have, I think, the most opportunity for continuing to have price increases. The reality is in the AUM businesses, that's not an area – you know that – where pricing power exists. It's really about getting to scale and benefiting from that. Thanks, Danny.

Yeah. Sorry, I can't see who you pointed to. Oh, okay. All right. Go ahead.

Victoria Rabuse: That's great. I've got a whole lineup of questions that have come in from online. The next one we have is from Oliver Hinsch from Nordflint, and this is on the Sustainalytics front. So, with Sustainalytics, can you talk a little bit about moat in terms of leveraging existing infrastructure around the investor value chain? How is Morningstar expanding Sustainalytics moat? And how are we progressing towards becoming the standard bearer within ESG ratings?

Kunal Kapoor: Yeah, I think that's a far-reaching question. But the way I think about it as if you think back to my presentation and the data component of what we're doing on Sustainalytics, that really is the underpinning of how we think of our ESG strategy. From there, every part of our business is charged with trying to create additional value through it. So, take the example of Indexes. We've got a really interesting opportunity in Indexes, but obviously, there's always difficulty when you're trying to get somebody to switch from an index that already exists. You have to go back to the investment committee. You've got to change all your materials, get the approvals. And so, that's a longer, tougher process.

But you think about all the ESG benchmarking that's being launched, and that's greenfield. And so, that's a part of our business where we want to completely develop and get after a new opportunity. Or if you think about what Daniel is trying to do with Direct Indexing, what John can do with private companies in the Workplace area. We've already started to launch things that are signaling that we're going to take ESG methodology and put it front and center in our research capability, whether it's equity research, or our manager research. We have now clear ways that we are approaching this. And so, for us, the way we think about it is we want ESG around the investor. But then, as Daniel said, it's kind of up to the investor and the person that they work with, or if they're doing it themselves, then sobeit, to kind of make the choices that make sense for themselves. But we want it in every part of our business and accessible to investors. And ultimately, one of the things I'm most excited about is what we're going to do in Morningstar Direct around the reporting. Because we think one of the places people are struggling the most with ESG is on the reporting front and telling the story. And so, whether you're a wealth manager or an asset manager, we're really going to try to help you in your reporting to be able to tell that story.

Let's do one more online, and then we'll go right there.

Victoria Rabuse: Sure. So, we had one question come in, this is anonymous. So, this one, I believe, is for Jason and Kunal. What is your appetite for share buybacks going forward after the elevated purchases completed in Q1 of 2022?

Jason Dubinsky: Yeah. So, I think our philosophy on share repurchase is consistent with how we want to make investments in the rest of the business. I think, where we see an opportunity to invest in our stock relative to other parts of the business to generate return, we're going to do that. And I think you saw that in the first quarter with probably the most sizable quarter that we've had in a long period of time with over $110 million. So, post the LCD acquisition, you saw we will be 2.3 times levered. That still gives us ample capacity to continue to operate the business and be opportunistic where we need to in returning cash to shareholders. So, it's always a balance in capital allocation to where we see opportunity. But we've got capacity, we just need to continue, like we always do, to balance against the opportunities to invest in the business, invest in M&A and returning cash to shareholders. But hopefully, you saw in the first quarter, that we'll be aggressive where we need to when we see opportunities in the market to earn a return on our stock.

Kunal Kapoor: We're all owners in the business. And when it comes to buybacks, we think like owners. And I have to say that probably this is one of the few firms when we start to do buybacks, we're all high-fiving each other, because we're excited about putting money to work in an investment that we understand and know really well and think we'll continue to do well. So, it was exciting in the first quarter from that perspective, market declines aside. Yes.

Unidentified Speaker: Question for John on PitchBook. You mentioned data operations, fight club, but just curious how human intensive it is to get the data maybe relative to other Morningstar segments and business units.

John Gabbert: So, fight club, yeah. It is human intensive. I mean, we leverage a lot of technology, a lot of machine learning, a lot of AI where we run hundreds of thousands of crawlers every single day. We ingest an incredible amount of information. And we leverage those tools to make it easier for researchers to find the nuggets of information that we're looking to integrate in our product. So, we scrape anything that has a dollar sign, a number, a count. We have, I think, some of the best entity recognition software out there to help power this. So, we do leverage a lot of technology. But the vast majority of the data in the platform is entered by a person. And I think that's a big competitive differentiator for us. A lot of competitors just use software tools to do that work. And that seems like the sexier thing to do. And yeah, super exciting, cool. But unless you put people on it, it's not going to be clean. And our customers expect high-quality data, and that's our expectations of ourselves. So, without putting people on this, you don't get high quality. I mean, no venture deal is the same. What was conversion? What was secondary, et cetera, et cetera? So, you have to put a person on it. So, there's a lot of people, and we have thousands of people every single day working to make that data better.

Kunal Kapoor: Victoria?

Victoria Rabuse: Sure. Our next one comes from Jinesh Patel, who asks, how should we think about pricing for data and licensed products and licenses in this higher inflationary environment? Would these differ by product?

Kunal Kapoor: Yeah, I mean, I think we sort of answered that question earlier, which is that we certainly see the opportunity, regardless of inflation or not to continue to extract value from a pricing perspective when it comes to our licensed products. And maybe just to go in deeper, I think the ESG Fund is a perfect example where we want to bring more of kind of our price discipline to how we how we're doing things there, and I think we see that as a very big opportunity. And Danny, and I spend time talking about that with Bob, who runs that part of the business all the time.

Daniel Dunn: Yeah, correct. I mean, I think the message is price for value, and then keep a very close eye with Jason on our input costs and make the appropriate changes.

Jason Dubinsky: So, that was Danny reemphasizing the price for value. And maybe just on top of that, you see that it's not just inflationary, it's not just can we command a higher price in the market. We are investing in our products and solutions here and adding capabilities to enhance the user experience and the functionality that exists. And I think that always gives us the permission to make sure that our price is reflecting the value that we're driving. PitchBook has always done that really well over time. So, when you see those types of investments into Direct, into Morningstar Office on the licensed side, into our Sustainalytics platforms, all of that, we're adding new data, we're adding new functionality, and we're providing more value to the users of those products and services. And that's always the right time to make sure that are we – is our pay structure fair related to the value that we're delivering. But I don't want to dismiss the fact that we're putting capital to make these products and services better to increase functionality for the users that are partnering with us.

Kunal Kapoor: Go ahead.

David Shepley: David Shepley from Windancer Holdings again. And I'm just going to put Joe on the spot here and get his perspective of what he's seeing here today. It's amazing to me how different this business is today than it was 5, 10 years ago. And so, want to get your perspective just on how it's evolved, and how has that been possible from your perspective? What was the secret sauce? What were the unique elements of the culture that have allowed this business to get where it is to today?

Joe Mansueto: Yeah, that's a good question. No, I couldn't be more proud of kind of the evolution of the business. This team has done a remarkable job. And it's built a lot on the culture that we have here. I think I give Bevin a lot of credit, and Kunal, recruiting really great people. And it all comes from building the right team and then, having a similar mindset, the longevity. You've heard some of the long-tenured people that we've had here. And you don't replicate that easily. And there's a lot of shared thinking, a common culture, as Kunal said in his presentation to do the right thing. So, we've got really this strong brand and reputation. And I think, over 38 years doing the right thing for investors has created an unusually strong bond with our client base and a level of trust, that's really unusual in this business. And so, it's nothing you build overnight. It kind of takes many years. But it begins with the people.

And then, actually being smart about kind of where we're investing. As Jason touched on building the moat, that's our equity philosophy. And every year, we look at, are we expanding our moat? Are we putting investments in things that widen and expand that moat? So, the data is kind of a core piece of it, and the functionality. And then that's just – it's like a wine, it just gets better every year, you know, and it's just matured. And again, I couldn't be more proud of the way the culture, the people have evolved. And even as we approach $2 billion in revenue, I think we still have a really great future ahead of us. I don't know how you could help not be excited listening to the presentation this morning, the opportunities we have, and then the people we have here.

So, my perspective is extremely positive. I'm obviously a major shareholder in the company, and I like that, and I'd love to see us buy back shares because I want to be a bigger shareholder. And so, yeah, my perspective is very positive. But I think it's not an overnight success. It's come from a long time of carefully building a culture, having people, this group here and many who are not here, people like Don Phillips, who led the analyst voice at Morningstar, has been so important. People who have led our technology organization have all contributed so much. So, we've just been fortunate to assemble an A-plus group of people and create a great environment for them to do their best work. And I think Bevin is a big part of this, thinking about the workplace and what we can do to facilitate their best work. work. And so, we give a lot of thought to the workplace and creating an environment where people can succeed. So, again, yeah, maybe it's a little long-winded, but that's my perspective.

Victoria Rabuse: Great. Well, we have two questions here from Pankaj Nevatia from Fidelity Investments. First, Kunal, in relation to your presentation earlier today. You talked about 18- to 24-year-olds being the fastest growing demographic on Morningstar.com but investing in few selected stocks. How do you make sure this investor base stays with Morningstar long-term? And how does Morningstar monetize that relationship over time?

Kunal Kapoor: Yeah. So, that's a terrific question and an important one. And Daniel, maybe you can weigh in as well on this front. I think one of the things we're really trying to do is ensure that we're relevant to their portfolio. And I talked earlier just about our Corporate Social Responsibility Report and the heavy levels of engagement we got, and I would – well, I don't have the data to back it up. I would guess that a lot of the engagement, even at Morningstar, came from people who are on the younger side of our overall employee base. And so, that means providing them with tools that will allow them to be engaged investors. So, whether it's ESG, direct indexing, or continuing just to have that independent voice that Joe talked about. I came to Morningstar 25 years ago, partly because I liked the voice. It was irreverent, but it was clear what it was. And I think we still have that voice. Sometimes when you're 38 years old, people kind of forget that you were maybe the original one who had that voice. And I think just continuing to have that and being reasoned is as important. And so, we're doing those kinds of things. But our technology needs to also keep up and some of the experiences that we're going to roll out in our new investor product will kind of show that that is important.

Daniel Needham: Yeah. I think, we're working from an editorial perspective as well, so that if you're interested in a topic like meme stocks, you need to be able to land somewhere where you recognize the content that's been covered, so that you – okay, this is interesting, that's what I was looking at. But you want to engage them to be maybe think about it the right way, or a different way. And so, we have to be relevant. The content has to be relevant and engaging. And that's what the team are really focused on. And so, with the increased engagement of younger investors, we need to make sure that there is something on there that they're going to engage with. And so, that's a key focus for us. And with the investor portal, the investor launch that we've got coming up, we have a real opportunity to create value for people by allowing them to aggregate their holdings and do things that they haven't been able to do previously. And our goal is to have Morningstar.com to be the first website you go to in the morning and the last subscription that you'd cancel during a downturn, and that's our focus. And once we do that, there is an opportunity to really expand the services that we provide. And that's really in front of us. I think it's a really great asset for us and big opportunity.

Kunal Kapoor: The other part of it, which I won't beat a dead horse is, we need to help advisors be prepared to serve these investors, because many of them will go to advisors, especially those that find that perhaps this was not something that they want to take on, right? And past patterns have sort of shown that as people start to build wealth, there's more complexity to their financial lives, as well as the fact that they just get busy with their lives, they do go to an advisor. And so, we need to make sure the advisor is ready as well to take that on.

Victoria Rabuse: And we have a second question from Pankaj. And this is changing gears here a little bit. Can you talk about the progress on DBRS growth initiatives in U.S. and Europe? Growth slowed in Q1, but it's still well above long-term industry average. To the extent you can discuss what do you think is a sustainable growth rate above the market?

Kunal Kapoor: Yeah, as Jason said, I mean, we don't really like to forecast those kinds of things. But what I will say is, what I often spend time with the team on when we're looking at how we're growing is what does our market share look like. Because certainly, issuance is going to go up and down sometimes from quarter-to-quarter or even year-to-year depending on what the environment is. And so, you never want to react to short-term, kind of, trends in issuance, because over the long run, our feeling is still that it will keep kind of ticking up, and it'll have a nice opportunity. So, what we look at is market share. And from a market share perspective, we feel really good. In terms of where we are including in Canada, where we have a very strong presence. We've been able to maintain that strong market share, and we've used that as a beachhead to grow in other parts of the world. And if you look at how we did last year, we were able to grow fairly successfully in the areas that we were investing in. And I would expect that to continue and that's what we look at when we sit down and evaluate the long-term health of that business.

Victoria Rabuse: Okay. We've a few additional anonymous questions that have come in. This one is about bond issuance. So, what is Morningstar's view on the bond issuance environment going forward? And how could it impact DBRS profitability?

Kunal Kapoor: Yeah, I'm not sure there's anything we need to add. Hopefully, we've answered that one.

Victoria Rabuse: And then a follow-up. How easy or difficult is it to penetrate non-independent financial advisors versus independent ones? And what does this mean for expansion in Europe?

Daniel Needham: So, I think – so, non-independent financial advisors would be those that are normally tied to a financial institution that are like an insurance company in Europe, mainly. I mean, it's more difficult. What we generally find is that we're more successful in markets where there are fee-based advisors or independent advisors than when they're tied advisors that are tied to an institution and selling their products. But I would say that regulation is changing that dynamic, and pretty much across almost all developed markets now we're seeing a shift towards more fiduciary responsibility. It's harder and harder for advisors to just sell their own product and generate commissions from it. So, we're seeing the independent and fee-based market expand, which is great for us, because at the end of the day, when we're competing on research IPO solution, we tend to win. And so, that's the opportunity. And we're pretty vocal about empowering, great advice and supporting fee-based advisors and independent advisors. And so, I'm really bullish on that.

Kunal Kapoor: It takes a lot for Daniel to be bullish on anything.

Colin: Colin from Franklin Templeton again. Any plans to disclose margins by either revenue type or based on different growth rates? That's the first question. And then, MSCI rates you guys as BBB on ESG, which after reading your CSR report I think is pretty low. So, I'm just curious, any updates on the score coming up?

Jason Dubinsky: Yeah, so maybe on the first, we don't have any explicit plans right now to start disclosing margin by product area. I think we tried to do a couple of years ago, I think it was in this meeting, just to give you just a relative sense of where the portfolio sat related to the average. And I think by and large, those trends continue, and those are things we could potentially update over time to give you a sense of how we're doing. But we operate in one segment here, we do a lot of allocation of expenses in order to make sure we're monitoring product health and profitability. But we do recognize that the portfolio continues to grow, the business continues to get more complex. So, I think we want to make sure that over time we continue to provide the right and relevant information to give you as much insight into the business as possible. But I would probably look at this forum in the future for us to give some level of progress relative to us publishing those types of things in our public filings.

Kunal Kapoor: In terms of the second question, I have not read that report myself. So, I'm just going to comment generally. Certainly, the things we've done this year in the CSR are aimed at starting to be very transparent and set a high bar for others to follow. So, we recognize that we need to do that, and we're committed to doing that. I think, among other things, you saw us maybe take the lead on topics like pay fairness and disclosures around pay equity. And so, I would hope that they're going to go back and look at their report is what I would say. But I feel very good about our governance and the things we're doing. And you're just going to keep seeing us try to push on that front. I don't know if you want to add anything?

Bevin Desmond: Yeah, the only thing I'd add is, we are embracing our own methodologies and our best practices. So, we've spent a fair amount of time focusing on Sustainalytics methodology and holding ourselves to those standards and really making sure that we're doing the things that makes us a stronger company. And many of the things Kunal mentioned are some of the things that we made purposeful strides to in relationship to that.

Kunal Kapoor: Yeah. The person running our internal efforts on this front is Michael Jantzi, who founded and ran Sustainalytics, so Michael is now doing that and obviously, is as qualified as anybody to make sure we hit a very high bar. Yeah, go ahead, please.

Sid Arora: Sid Arora from BBH again. Two questions for Jason. You talked about compensation a little bit and being more deliberate around that. Can you just expand on how you're being creative with regards to retaining people? And the second one is around free cash flow conversion. Do you look at it as a percentage of adjusted net income or operating income? Any thoughts on that would be really helpful.

Jason Dubinsky: I'll look at it – I'll answer that one first, then I'll take the first – the first one, Bevin, I think would be better suited to answer it. But in terms of cash flow conversion, we look across the board. One is as a percentage of revenue, as a percentage of net income, as a percentage of adjusted EBITDA too and making sure that all those are trending in the right directions. I think the unique thing about looking in revenue is a lot of – as we grow our license-based areas, that tends to be sometimes a stronger metric and indicator because in a lot of those cases, we're getting paid upfront for annual licenses, and that's a favorable working capital and cash flow scenario for us as PitchBook grows, as Sustainalytics grows. So, we look at it on all of those measures and conversion, but revenue sometimes is a bit more suited to the nature of the business because of the upfront nature of our license agreements and the favorable working capital that that creates.

Bevin Desmond: On the first question about being creative around compensation with talent market pressures. So, in 2021, it kind of took us by surprise, like everyone, I think it took a little bit longer to hit Morningstar than it did some other companies. But when it did, it felt pretty significant, especially coming off the pandemic where turnover was so very low. So, we learned a lot from that. And we were willing to spend in order to stay abreast of what we were seeing in the marketplace. So, we stayed pretty agile. We also started something that I really love, something that we have to offer at Morningstar that I think is unique, which is we can really offer people opportunity that they can get elsewhere. And so, it's a matter of really pushing that. So, we developed a talent marketplace internally, so people really know that they don't have to go somewhere else to grow their career and grow their compensation. So, we saw people leaving more for larger opportunities. And what we tried to do is turn as much of that as we could internal. And we did maintain a really healthy internal placement ratio in 2021. I think it was 40% of all opportunities requiring experienced people took internally. And then, in 2022, we just stayed ahead of the curve before the data came out, which eventually the data did back up. We baked in the investment of spending about 2 times what we normally would in the compensation increase pool. And I think that that has really helped us stabilize a lot of our workforce.

Alex Kramm: Yeah, Alex Kramm, UBS one more time. Maybe just coming back to the margin, and maybe the prior question touched upon this a little bit. But it sounded earlier like that as the company becomes bigger, and as you have made acquisitions, there is some investments necessary to become like a $2 billion company and scale 10,000-plus people. What are you doing – and maybe this has come up already – what are you doing on the opposite side? You've done these acquisitions. You bring in LCD. And shortly, you bought Sustainalytics. Are you integrating a lot of these best practices? Are you trying to do a lot of shared services? Or are there a lot of still very separate functions that maybe you're not touching because you don't want to mess with the business too much? And I'm asking because you look at the space, right, different companies have done different things and obviously, it's manifested in the margin.

Kunal Kapoor: Yeah, it's a really terrific question, and we have that debate here. I think at the heart of what you're asking is the centralization versus de-centralization debate that every company has. And I would say that we're thoughtful about it. There are obvious things that we want to make sure we leverage as much as possible. So, I'll take Sustainalytics as an example, given that they're the newest significant acquisition that we've made, that I can talk about in that context. But with them, a big part of the investment in the last six to nine months has been to start migrating them from all their systems that they've used over to our systems. We've had to look at compensation in the way they used to do it and migrate people to our compensation systems. And so, yes, that has cost us more than what it would have cost them as a standalone company, if you will. But we're also thoughtful about just not doing things for the sake of doing those things. And we often talk about the trade-offs between speed and efficiency, and I can't say that we have a perfect answer. But we're certainly trying more and more to be thoughtful about, at least with our support functions, everyone's on Salesforce, everyone's on Workday, doing things like that that every part of the business can leverage. And then, we do allow the businesses themselves to make some choices as to how they want to run things for their own ability to kind of help their audience and get to market fast.

Victoria, you got another one?

Victoria Rabuse: Yeah, we have two remaining ones that have come in online. The first is from Mindee Wasserman, financial planner with CIMA. Is your advice to your wealth management clients in this inflationary time period, similar to the advice you're giving yourself in running Morningstar?

Kunal Kapoor: Do you want to take a shot at it?

Daniel Needham: So, what was the question? I want to make sure I understood it.

Victoria Rabuse: Is your advice to your wealth management clients during this inflationary time period similar to the advice you give yourself in running Morningstar?

Kunal Kapoor: Are you running your business any differently?

Daniel Needham: Yeah. So, I think we're long-term in nature. So, our recommendation to clients now is to focus on the long-term and think about a balanced outcome from an investment perspective. So, I think our investment advice is pretty consistent with the way that we run the business. It's about creating long-term value and being thoughtful about how you allocate your resources and what you're prioritizing. And so, I would say it's pretty consistent. I mean, the way that we run our portfolios is consistent with the way that we will manage our own portfolios as well. So, I'd say it's pretty consistent.

Kunal Kapoor: Yeah. I mean, we have a long-term mindset. You don't want to stop doing the things that you need to do to create long-term value. And certainly, you want to be contrarian and take advantage of opportunities, even when things are not looking great out there, right? And I think one of the advantages we have because of that strong balance sheet that Jason pointed to is we can persevere in down periods. And I think that actually strengthens us coming out of down cycles when they do occur.

Victoria Rabuse: Great. And we have one final question from online. This one is also anonymous. Could the current market environment lead to consolidation within your sector, given most of the players are investing in similar areas while searching for scalability. And how would Morningstar position itself?

Kunal Kapoor: Yeah. No, it's a great question, the whole notion of whether there's consolidation or people selling away things. I mean, it's been around forever. And I think there's no doubt that there has been a fair amount of consolidation and the big firms have gotten bigger. S&P buying IHS Markit is certainly an example of the type of scale that one of our competitors is now operating at. But every time somebody talks about scale in that way, I see lots of little firms finding their opportunities. And one of the interesting trends if you're not noticing it is that over the past five years, a number of firms have gone and made a bunch of acquisitions. And now, you're starting to see some of them are starting to sell them off, as they've kind of realized that they were maybe the wrong fit.

And so, I see both sides of it. And for us, I think Jason used the terminology, we just run our own race. We want to grow, we want to create value, and it's usually easier to do organic. And so, we really focus very carefully on the trade-offs required to make an acquisition. And even with LCD, I would say that John really pushed the team hard to fully understand what we wouldn't be able to do if we were to go and make that acquisition. And ultimately, we had to get comfortable with that to get to where we did. So, I don't know, I see trends on both sides. We're going to run our own race in that context.

Michael: Hey, it's (Michael) from (Tresidor). Sustainalytics, we find very important. It's good to hear that you believe you're one of the leaders there. Are you running fast enough to stay there? Especially on climate, gathering climate data, are you investing enough? Because I mean, there are some other guys with a lot of money going after you and the other player you didn't want to name. And I think they are ahead. So, we think you are second…

Kunal Kapoor: Yes. I would love to show you where we are on climate. We actually made a small acquisition in that space, a firm in Montreal called Aquantix. And through that, we're bringing in their data as well as a bunch of data scientists who are part of that organization. I believe that we have closed the gap on the climate side, and you will see that in the data that will start flowing through Sustainalytics here in the near future. I feel really very positive about where we are.

Michael: Like how near?

Kunal Kapoor: Like now.

Michael: So, it's there, Scope 3, you think you are…?

Kunal Kapoor: We're going to have all of that. Feeling very good about it. Okay, I know we're pushing up here against time. And so, I want to thank everybody for making the time to come here.

As we wrap up, I want to do one final acknowledgement before we leave, and that is that our General Counsel, Pat Maloney, will be retiring at the end of this year. Pat came to me last year and said that it was time to hit the golf course, and that as much as he had enjoyed working with us, and he has had a long and distinguished career, Pat just said he wants to get in the next phase of his life. And Pat has been just what you would want from a general counsel. He's a great partner to all of us. He is a rabble-rouser when he needs to be, which is often. And you don't want to get an email from him after 8 pm most days. But he is also just a great contrarian voice and been an important part of creating value here at Morningstar. So, Pat, I want to say thank you to you as well. We will be sure – I've got a habit of giving Pat extra work on long weekends. So, July 4th is coming up, and we've got a tradition of handing Pat extra work on July 4th weekend. So, we're going to try to figure out how to keep that alive for you, Pat. But thank you as well very much. And I want to acknowledge you here as well before we wrap up.

And thank you everyone for coming here, for being our partners. We feel like we have a special place with a special business. And I hope you feel that we're doing a good job with the trust you've put into us. Please don't ever hesitate to send us your questions, comments. We take them seriously. We try to answer questions as thoroughly as we can every month. And if there's anything we can do to improve that process, please never hesitate to tell us because we're always eager for ideas in that context. But thank you for making the trip out to Chicago. We've got a lovely day out for you. So, if you're staying around town, I hope you have a great weekend. If you're heading home, hopefully there is no delays. And we'll see you again hopefully next year. So, thank you.