

MSCI Inc.  
Form 10-Q  
May 04, 2018  
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-33812

MSCI INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware  
(State of

Incorporation)

7 World Trade Center

250 Greenwich Street, 49<sup>th</sup> Floor

New York, New York

13-4038723

(I.R.S. Employer

Identification Number)

10007

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(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code: (212) 804-3900

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company) Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of April 27, 2018, there were 89,024,288 shares of the registrant's common stock, par value \$0.01, outstanding.

MSCI INC.

FORM 10-Q

FOR THE QUARTER ENDED MARCH 31, 2018

TABLE OF CONTENTS

	Page
<u>Part I</u>	
Item 1. <u>Financial Statements</u>	5
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	24
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	40
Item 4. <u>Controls and Procedures</u>	40
<u>Part II</u>	
Item 1. <u>Legal Proceedings</u>	42
Item 1A. <u>Risk Factors</u>	42
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	42
Item 3. <u>Defaults Upon Senior Securities</u>	43
Item 4. <u>Mine Safety Disclosures</u>	43
Item 5. <u>Other Information</u>	43
Item 6. <u>Exhibits</u>	44

## AVAILABLE INFORMATION

MSCI Inc. files annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (the “SEC”). You may read and copy any document MSCI Inc. files with the SEC at the SEC’s public reference room at 100 F Street, NE, Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for information on the public reference room. The SEC maintains a website that contains annual, quarterly and current reports, proxy and information statements and other information that issuers (including MSCI Inc.) file electronically with the SEC. MSCI Inc.’s electronic SEC filings are available to the public at the SEC’s website, [www.sec.gov](http://www.sec.gov).

MSCI Inc.’s website is [www.msci.com](http://www.msci.com). You can access MSCI Inc.’s Investor Relations homepage at <http://ir.msci.com>. MSCI Inc. makes available free of charge, on or through its Investor Relations homepage, its proxy statements, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to those reports filed or furnished pursuant to the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. MSCI Inc. also makes available, through its Investor Relations homepage, via a link to the SEC’s website, statements of beneficial ownership of MSCI Inc.’s equity securities filed by its directors, officers, 5% or greater shareholders and others under Section 16 of the Exchange Act.

You can access information about MSCI Inc.’s corporate governance at <http://ir.msci.com/corporate-governance.cfm>, including copies of the following:

- ◆ Charters for MSCI Inc.’s Audit Committee, Compensation and Talent Management Committee, Nominating and Corporate Governance Committee and Strategy and Finance Committee;
- ◆ Corporate Governance Policies;
- ◆ Procedures for Submission of Ethical or Accounting Related Complaints; and
- ◆ Code of Ethics and Business Conduct.

MSCI Inc.’s Code of Ethics and Business Conduct applies to all directors, officers and employees, including its Chief Executive Officer and its Chief Financial Officer. MSCI Inc. will post any amendments to the Code of Ethics and Business Conduct and any waivers that are required to be disclosed by the rules of either the SEC or the New York Stock Exchange LLC on its website. You can request a copy of these documents, excluding exhibits, at no cost, by contacting Investor Relations, MSCI Inc., 7 World Trade Center, 250 Greenwich Street, 49th Floor, New York, NY 10007; (212) 804-3986. The information on MSCI Inc.’s website is not incorporated by reference into this report or any other report filed or furnished by us with the SEC.

## FORWARD-LOOKING STATEMENTS

This report may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements relate to future events or to future financial performance and involve known and unknown risks, uncertainties and other factors that may cause MSCI Inc.’s actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. In some cases, you can identify forward-looking statements by the use of words such as “may,” “could,” “expect,” “intend,” “plan,” “seek,” “anticipate,” “believe,” “estimate,” “predict,” “potential” or “continue,” or the negative of these terms or other comparable terminology. You should not place undue reliance on forward-looking statements because they involve known and unknown risks, uncertainties and other factors that are, in some cases, beyond MSCI Inc.’s control and that could materially affect MSCI Inc.’s actual results, levels of activity, performance or achievements.

Other factors that could materially affect actual results, levels of activity, performance or achievements can be found in MSCI Inc.’s Annual Report on Form 10-K for the fiscal year ended December 31, 2017 filed with the SEC on February 26, 2018 and in quarterly reports on Form 10-Q and current reports on Form 8-K filed or furnished with the SEC. If any of these risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual

results may vary significantly from what MSCI Inc. projected. Any forward-looking statement in this report reflects MSCI Inc.'s current views with respect to future events and is subject to these and other risks, uncertainties and assumptions relating to MSCI Inc.'s operations, results of operations, growth strategy and liquidity. MSCI Inc. assumes no obligation to publicly update or revise these forward-looking statements for any reason, whether as a result of new information, future events, or otherwise, except as required by law.

WEBSITE AND SOCIAL MEDIA DISCLOSURE

MSCI Inc. uses its website and corporate Twitter account (@MSCI\_Inc) as channels of distribution of company information. The information MSCI Inc. posts through these channels may be deemed material. Accordingly, investors should monitor these channels, in addition to following MSCI Inc.'s press releases, SEC filings and public conference calls and webcasts. In addition, you may automatically receive email alerts and other information about MSCI Inc. when you enroll your email address by visiting the "Email Alerts Subscription" section of our Investor Relations homepage at <http://ir.msci.com/alerts.cfm?>. The contents of MSCI Inc.'s website and social media channels are not, however, incorporated by reference into this report or any other report filed or furnished by us with the SEC.

## PART I

Item 1. Financial Statements  
MSCI INC.

## CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(in thousands, except per share and share data)

	As of March 31, 2018 (unaudited)	December 31, 2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 849,828	\$ 889,502
Accounts receivable (net of allowances of \$1,861 and \$1,700 at March 31, 2018 and December 31, 2017, respectively)	462,577	327,597
Prepaid income taxes	1,153	15,103
Prepaid and other assets	34,799	34,927
Total current assets	1,348,357	1,267,129
Property, equipment and leasehold improvements (net of accumulated depreciation and amortization of \$177,562 and \$171,280 at March 31, 2018 and December 31, 2017, respectively)	86,310	94,437
Goodwill	1,562,660	1,560,621
Intangible assets (net of accumulated amortization of \$519,640 and \$507,612 at March 31, 2018 and December 31, 2017, respectively)	316,259	321,836
Deferred tax assets	11,876	12,013
Other non-current assets	19,032	19,632
Total assets	\$ 3,344,494	\$ 3,275,668
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 1,382	\$ 1,612
Income taxes payable	22,144	14,828
Accrued compensation and related benefits	45,951	131,156
Other accrued liabilities	83,106	85,710
Deferred revenue	503,298	374,365
Total current liabilities	655,881	607,671
Long-term debt	2,078,816	2,078,093
Deferred taxes	76,768	78,027

Other non-current liabilities	111,655	110,865
Total liabilities	2,923,120	2,874,656
Commitments and Contingencies (see Note 7 and Note 8)		
Shareholders' equity:		
Preferred stock (par value \$0.01, 100,000,000 share authorized; no shares issued)	—	—
Common stock (par value \$0.01; 750,000,000 common shares authorized; 129,953,761		
and 129,543,856 common shares issued and 89,859,658 and 90,104,885 common		
shares outstanding at March 31, 2018 and December 31, 2017, respectively)	1,300	1,295
Treasury shares, at cost (40,094,103 and 39,438,971 common shares held at March		
31, 2018 and December 31, 2017, respectively)	(2,413,283)	(2,321,989 )
Additional paid in capital	1,276,109	1,264,849
Retained earnings	1,601,583	1,505,204
Accumulated other comprehensive loss	(44,335 )	(48,347 )
Total shareholders' equity	421,374	401,012
Total liabilities and shareholders' equity	\$3,344,494	\$ 3,275,668

See Notes to Unaudited Condensed Consolidated Financial Statements

MSCI INC.

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share data)

	Three Months Ended March 31,	
	2018	2017
	(unaudited)	
Operating revenues	\$351,316	\$301,207
Operating expenses:		
Cost of revenues	71,304	67,463
Selling and marketing	46,409	42,972
Research and development	20,707	18,970
General and administrative	26,187	20,981
Amortization of intangible assets	11,338	11,251
Depreciation and amortization of property, equipment and leasehold improvements	8,205	8,838
Total operating expenses	184,150	170,475
Operating income	167,166	130,732
Interest income	(2,770 )	(932 )
Interest expense	29,560	29,024
Other expense (income)	938	1,015
Other expense (income), net	27,728	29,107
Income before provision for income taxes	139,438	101,625
Provision for income taxes	24,346	28,674
Net income	\$115,092	\$72,951
Earnings per basic common share	\$1.28	\$0.80
Earnings per diluted common share	\$1.24	\$0.80
Weighted average shares outstanding used in computing earnings per share		
Basic	90,075	90,708
Diluted	92,587	91,624
Dividend declared per common share	\$0.38	\$0.28

See Notes to Unaudited Condensed Consolidated Financial Statements



MSCI INC.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

	Three Months Ended March 31, 2018      2017 (unaudited)	
Net income	\$115,092	\$72,951
Other comprehensive income (loss):		
Foreign currency translation adjustments	3,962	2,941
Income tax effect	—	—
Foreign currency translation adjustments, net	3,962	2,941
Pension and other post-retirement adjustments	(100 )	(99 )
Income tax effect	27	37
Pension and other post-retirement adjustments, net	(73 )	(62 )
Net investment hedge adjustments	123	—
Income tax effect	—	—
Net investment hedge adjustments, net	123	—
Other comprehensive income (loss), net of tax	4,012	2,879
Comprehensive income	\$119,104	\$75,830

See Notes to Unaudited Condensed Consolidated Financial Statements

MSCI INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Three Months Ended March 31,	
	2018	2017
	(unaudited)	
<b>Cash flows from operating activities</b>		
Net income	\$ 115,092	\$ 72,951
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of intangible assets	11,338	11,251
Stock-based compensation expense	9,053	9,394
Depreciation and amortization of property, equipment and leasehold improvements	8,205	8,838
Amortization of debt origination fees	849	849
Deferred taxes	(1,097 )	(2,035 )
Other non-cash adjustments	321	25
Changes in assets and liabilities:		
Accounts receivable	(134,801)	(40,582)
Prepaid income taxes	13,626	12,438
Prepaid and other assets	192	629
Accounts payable	(230 )	561
Accrued compensation and related benefits	(84,517 )	(76,708)
Income taxes payable	3,001	3,755
Other accrued liabilities	(1,516 )	(10,280)
Deferred revenue	148,468	43,247
Other	613	2,682
Net cash provided by operating activities	88,597	37,015
<b>Cash flows from investing activities</b>		
Capital expenditures	(1,512 )	(7,322 )
Capitalized software development costs	(4,360 )	(2,307 )
Net cash used in investing activities	(5,872 )	(9,629 )
<b>Cash flows from financing activities</b>		
Proceeds from exercise of stock options	102	625
Repurchase of treasury shares		