

# MSCI THIRD QUARTER 2016

## Earnings Presentation

October 27, 2016

# FORWARD-LOOKING STATEMENTS

- **Forward-Looking Statements – Safe Harbor Statements**

- This earnings presentation contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including without limitation, our full-year 2016 guidance and our long-term targets. These forward-looking statements relate to future events or to future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our 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 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 our control and that could materially affect our actual results, levels of activity, performance or achievements. Other factors that could materially affect our actual results, levels of activity, performance or achievements can be found in MSCI’s Annual Report on Form 10-K for the fiscal year ended December 31, 2015 filed with the Securities and Exchange Commission (“SEC”) on February 26, 2016, and in quarterly reports on Form 10-Q and current reports on Form 8-K filed 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 projected. Any forward-looking statement in this earnings presentation reflects MSCI’s current views with respect to future events and is subject to these and other risks, uncertainties and assumptions relating to MSCI’s operations, results of operations, growth strategy and liquidity. MSCI 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.

# OTHER INFORMATION

- Percentage changes and totals in this earnings presentation may not sum due to rounding.
- Percentage changes refer to the comparable period in 2015 and exclude discontinued operations, unless otherwise noted.
- YTD 2015 and YTD 2016 refer to nine months ended September 30, 2015 and nine months ended September 30, 2016, respectively.
- Total subscription revenues include both recurring subscription and non-recurring revenues.
- Total sales include both recurring subscription and non-recurring sales.
- Foreign currency exchange rate fluctuations are calculated to be the difference between the current period results as reported compared to the current period results recalculated using the foreign currency exchange rates in effect for the comparable prior period.
- As a result of the sales of Institutional Shareholder Services Inc. and the Center for Financial Research and Analysis, in Q1'14 MSCI began reporting its former Governance business as discontinued operations in its financial statements. Financial and operating metrics for prior periods have been updated to exclude the Governance business.
- On August 1, 2016, MSCI closed the sale of its Occupiers benchmarking business. As a result, third quarter 2016 financial results include only one month's contribution from the product area. Unless indicated otherwise, reported financial results and operating metrics have not been updated to exclude the results of this business.

# Q3'16 HIGHLIGHTS - STRONG EXECUTION OF STRATEGY<sup>1</sup>

**28%** increase in adj. EPS driven by **7%** increase in operating revenue, **11%** increase in adj. EBITDA, **lower effective tax rate** and **13%** decrease in share count

## REVENUE GROWTH

- 7.3% total operating revenue growth
- 11.4% increase in Index revenue
  - 10.6% increase in Index recurring subscription revenue
  - 10.6% increase in ABF revenue; record AUM in ETFs linked to MSCI indexes
  - 76.5% increase in non-recurring revenue
- Analytics revenue up 2.7% (up 4.1% excluding FX impact)
- All Other revenue up 2.9% (up 12.4% excluding FX impact and sale of Real Estate Occupiers)

## OPERATIONAL EFFICIENCY

### Expense Management

- Operating expenses up 3.4% (up 5.4% excluding FX impact); adj. EBITDA expenses up 3.7% (up 5.8% excluding FX impact)
- FY 2016 operating expenses / adj. EBITDA expenses now expected to be in the following ranges: \$660m – \$672m / \$580m – \$590m

### Tax Rate

- Effective tax rate 33.1% - decrease of 192 bps, better alignment of tax profile with global operating footprint
- Tax project in the final stages of implementation, with full-benefit expected in 2018

## CAPITAL OPTIMIZATION

### Leverage

- Raised \$500m of 4.75% senior unsecured notes due 2026
- Expect gross leverage to decline from current 3.8x level and return to stated range of 3.0x to 3.5x over time

### Capital Return

- 0.9m shares repurchased in Q3'16 and through 10/21 at average price of \$79.48 for \$73.4m
- Board approved \$750m increase in outstanding share repurchase authorization to bring the total available to \$1.1B



**Long-Term Shareholder Value Creation**

<sup>1</sup>Percentage and other changes refer to third quarter 2015 unless otherwise noted.

# INDEX SUBSCRIPTION – THE POWER OF COMPOUNDING









## Waves of Innovation

- **Globalization:** Investors expanding their strategies from a domestic bias to a global view, including small cap
- **Factor investing:** Investors incorporating factors into their active and indexed investment approach
- **ESG investing:** Early adoption stage of investors integrating ESG into their portfolio management

## Strategy

- **Capture new clients:** Investing in coverage of new client segments
- **Upsell existing clients:** Educating investors on benefits of full global opportunity set; developing new data products
- **New Use Cases:** Establishing market leadership in Factor and ESG indexes

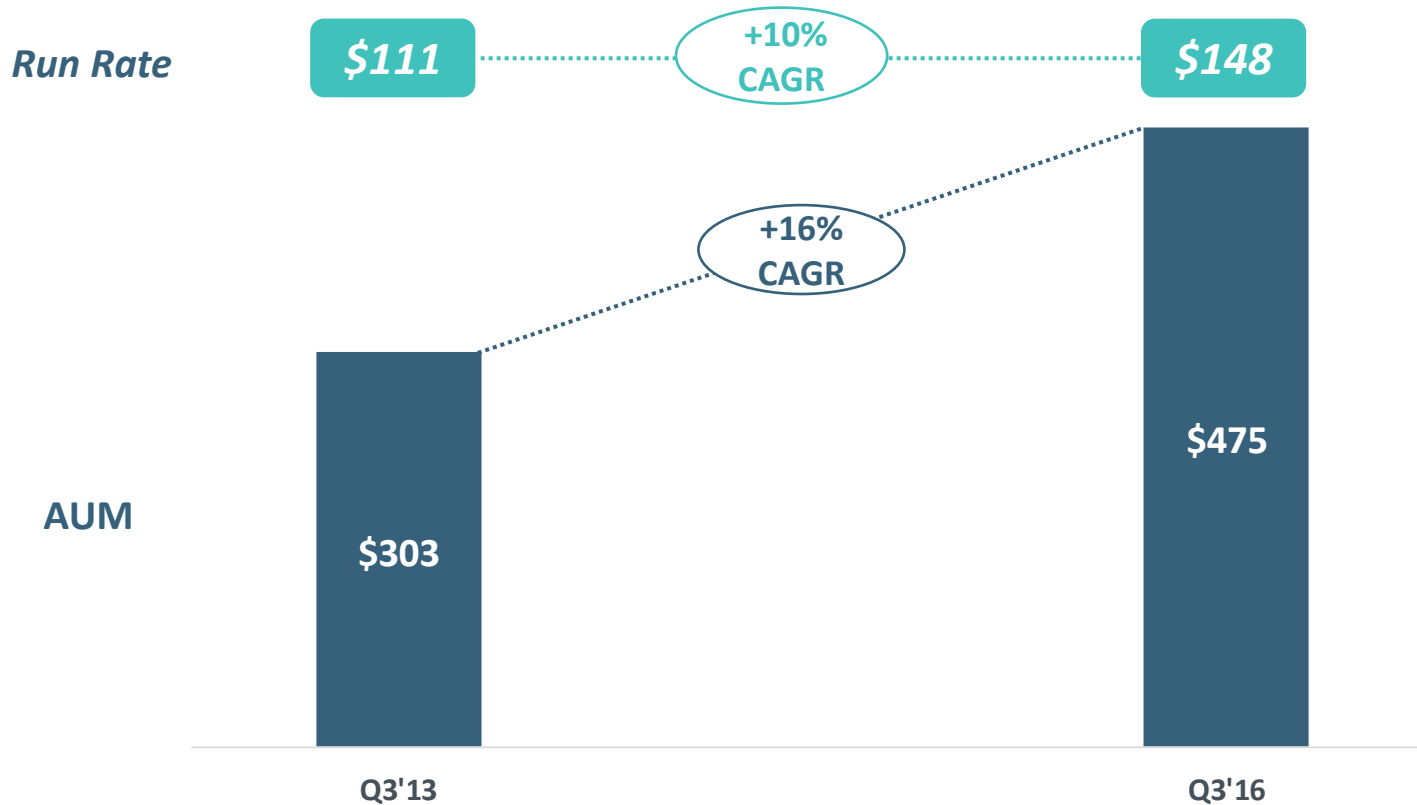
## MSCI Index Subscription Run Rate Growth

Product	2011-2016 <sup>1</sup> 10% CAGR	Contribution to \$396m Run Rate	Global Demand	Key Growth Drivers
Factor, ESG & Thematic	15%			Investors seeking indexes that reflect new strategies
Custom & Specialized	12%			Expanding use cases for Indexes
Emerging Market	10%			Investors broadening exposure to international, emerging and global stocks
Developed Market	8%			Investors focused on pursuing opportunities in international and developed stocks

# INDEX – ETF AUM LINKED TO MSCI INDEXES

(AUM US\$ in billions, Run Rate US\$ in millions)

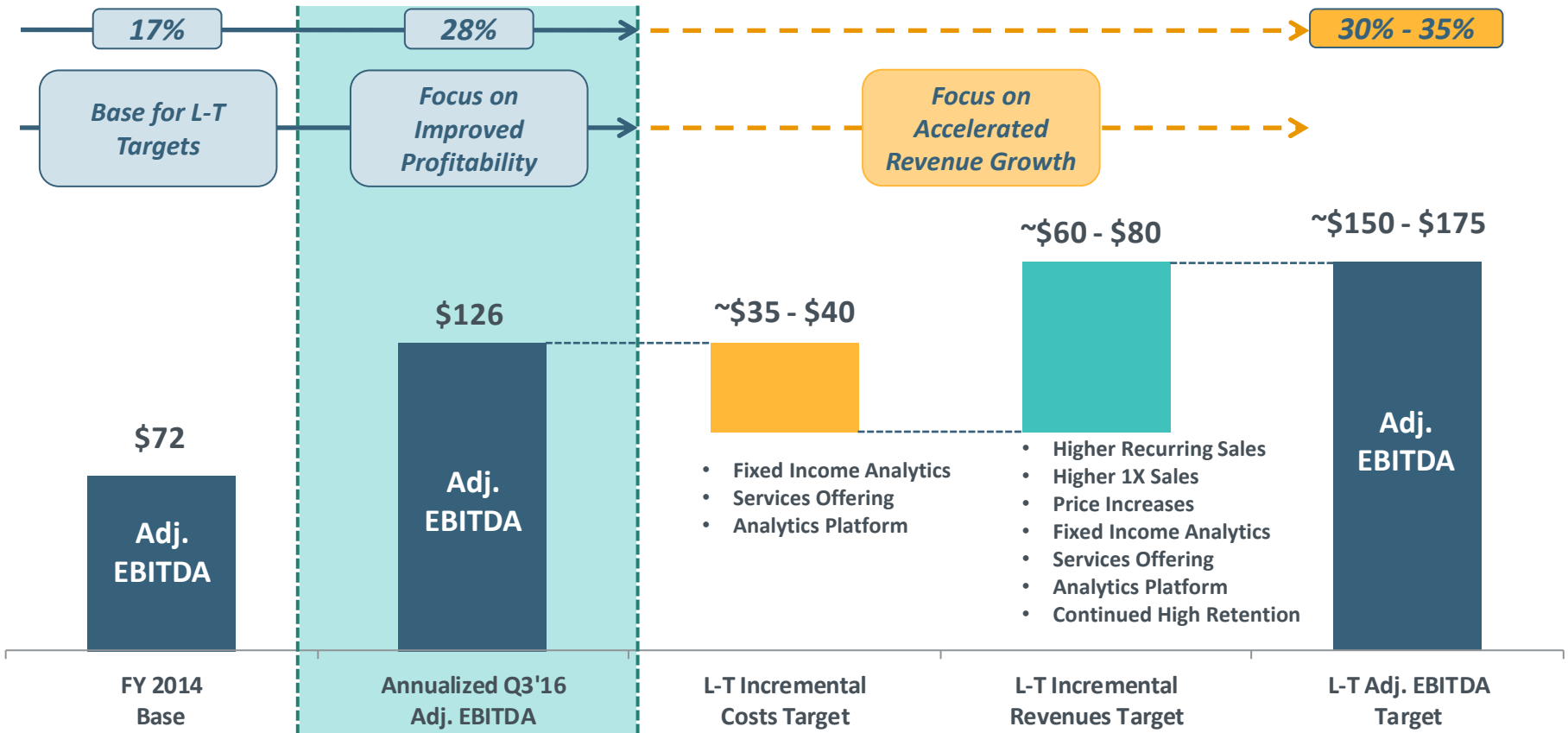
AUM in ETFs linked to MSCI indexes up **57%** to \$475B since Q3'13, driven by a diverse set of over 850 ETFs



# ANALYTICS – LONG TERM TARGETS

(US\$ in millions)

## Adj. EBITDA Margin Progression



**Continue To Work To Achieve Long-Term Targets**

# Q3'16 FINANCIAL SUMMARY

(US\$ in millions, except for EPS)

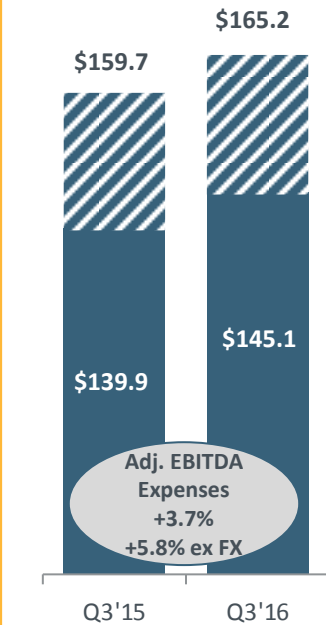
## Operating Revenue

+7.3%  
+7.8% ex FX



## Operating Expenses

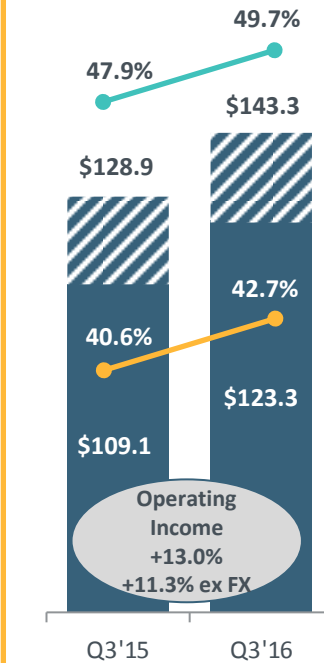
Operating Expenses  
+3.4%  
+5.4% ex FX



= Depreciation and Amortization

## Operating Income

Adj. EBITDA  
+11.2%  
+10.0% ex FX

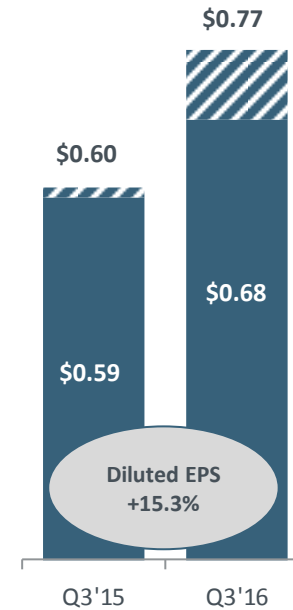


= Depreciation and Amortization

Adj. EBITDA Margin  
 Operating Margin

## Earnings Per Share

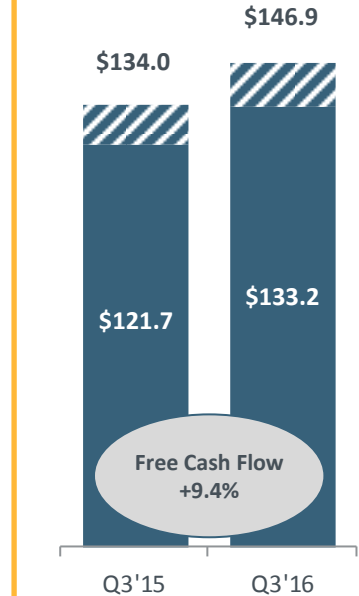
Adj. EPS  
+28.3%



= Diluted EPS, less earnings per diluted share from discontinued operations, plus the after-tax impact of amortization of intangible assets, less gain on sale

## Cash Generation

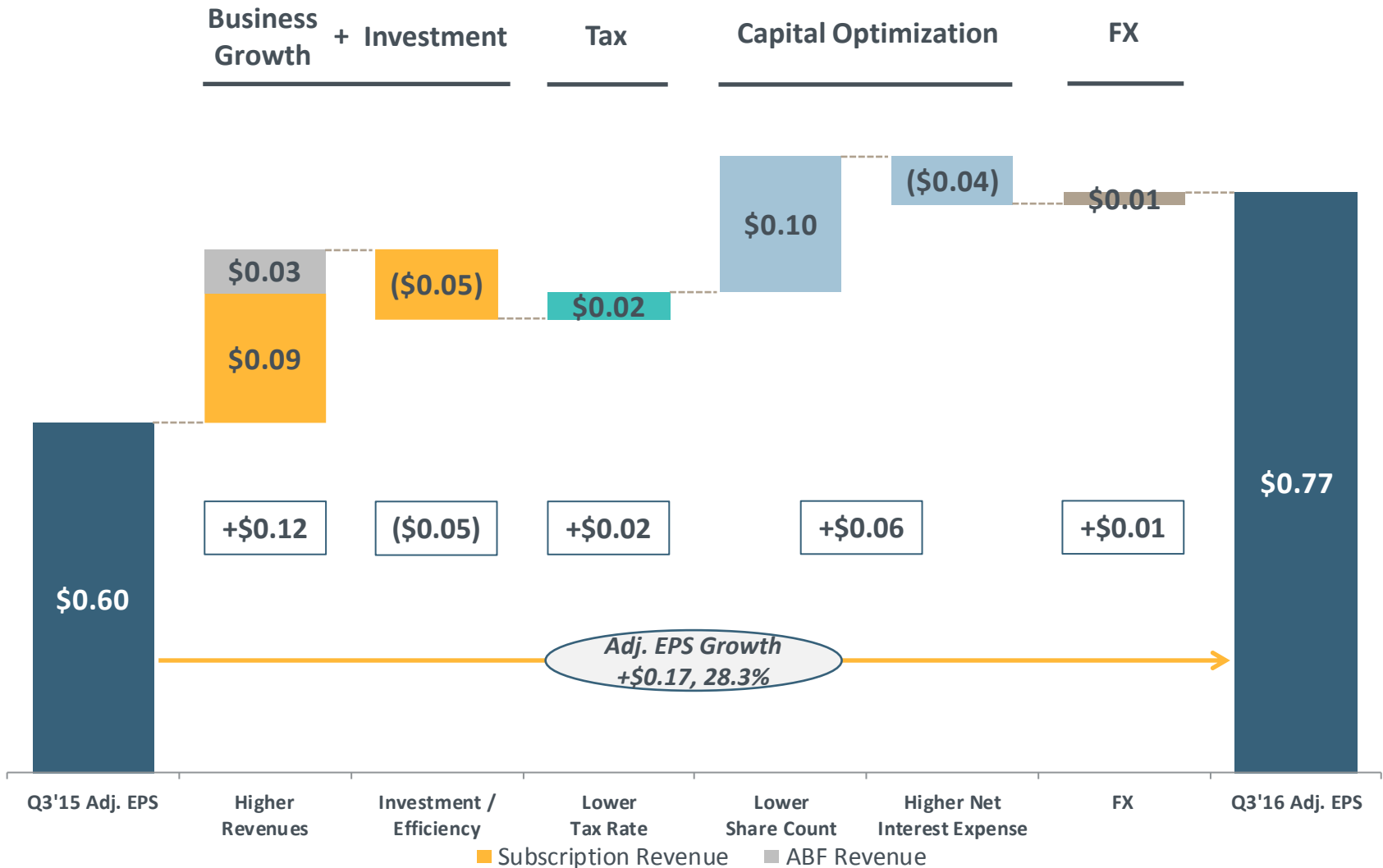
Cash from Operations  
+9.7%



= Capex



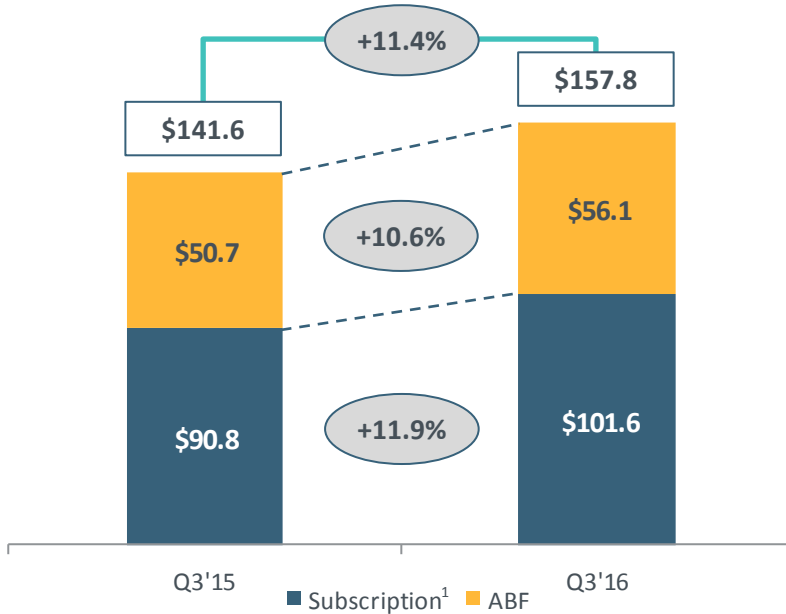
# Q3'16 VS. Q3'15 ADJUSTED EPS BRIDGE



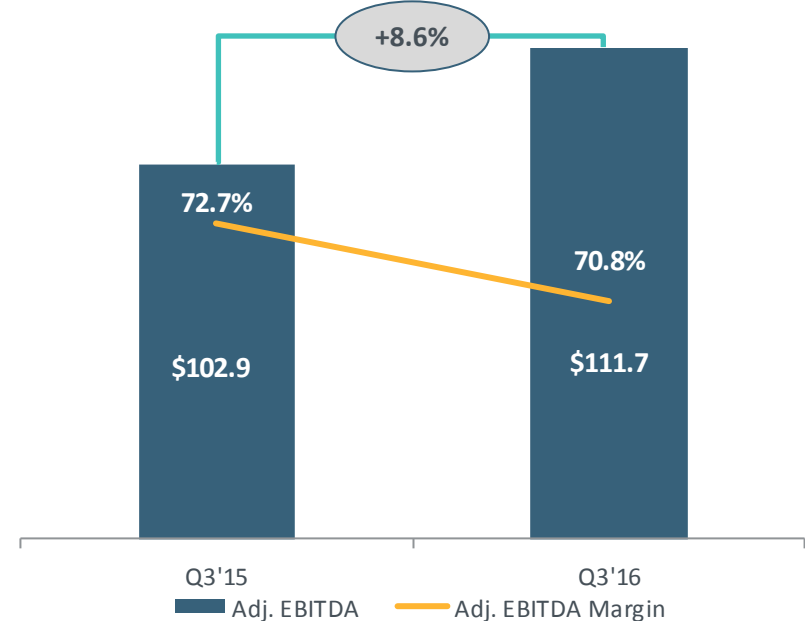
# INDEX SEGMENT

(US\$ in millions)

## Operating Revenue



## Adj. EBITDA & Adj. EBITDA Margin (%)



- Strong growth across all revenue types – recurring subscriptions, asset-based fees (ABF) and non-recurring subscriptions
- ABF revenue growth driven by non-ETF passive, as well as ETF and exchange traded futures & options related revenues
- Strong non-recurring revenue growth mainly on 1X deep history sales and other non-recurring services

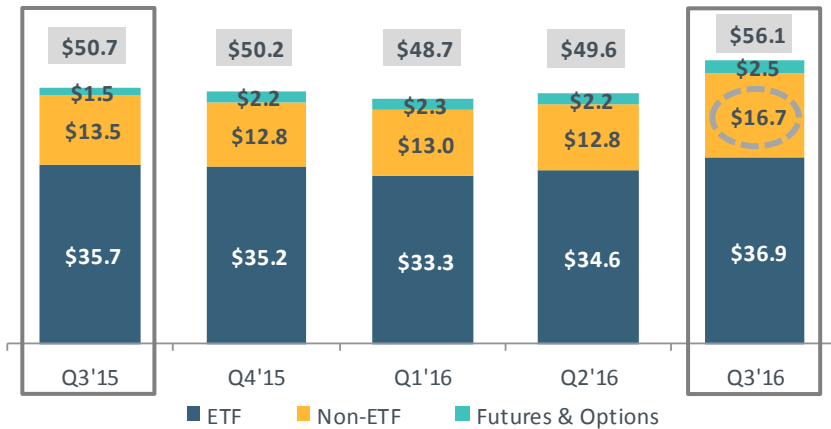
- Continuing to invest to enhance existing products and innovate with new products
- Higher research & development / selling and marketing

<sup>1</sup> Subscription revenue includes recurring and non-recurring revenue.

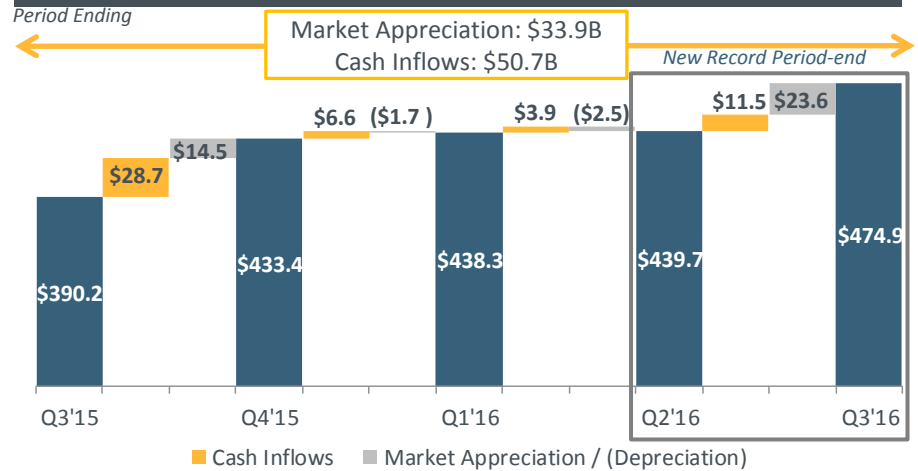
# INDEX SEGMENT - ASSET-BASED FEE DETAIL

(US\$ in millions, except AUM in billions and Average BPS fee)

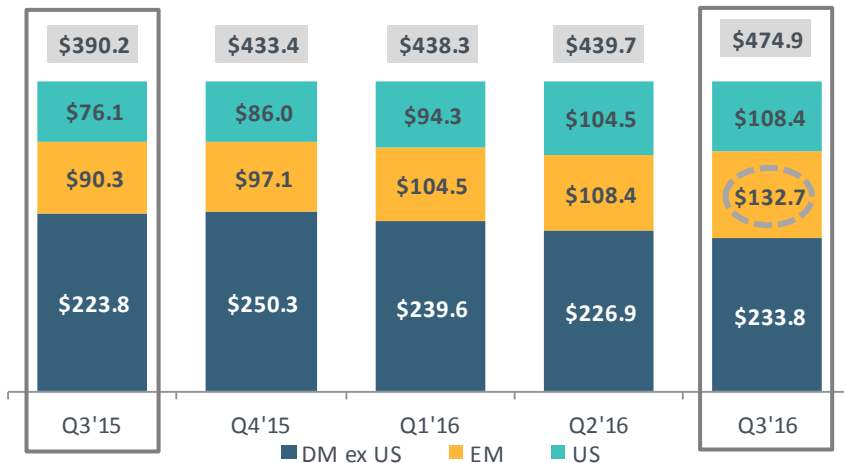
### Quarterly Asset-Based Fee Revenue Trend



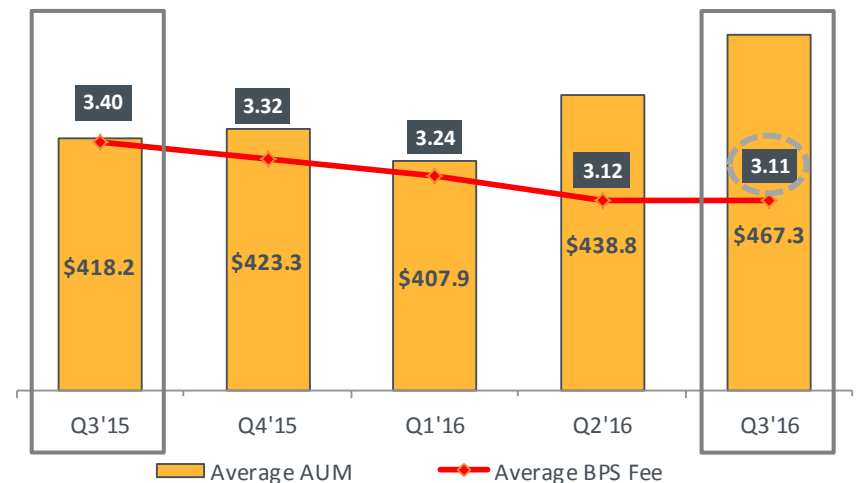
### Quarterly AUM & Market Movement of MSCI-Linked ETFs



### Quarter-End AUM by Market Exposure<sup>1</sup> of MSCI-Linked ETFs



### Quarterly Avg. AUM and Avg. BPS<sup>2</sup> of MSCI-Linked ETFs



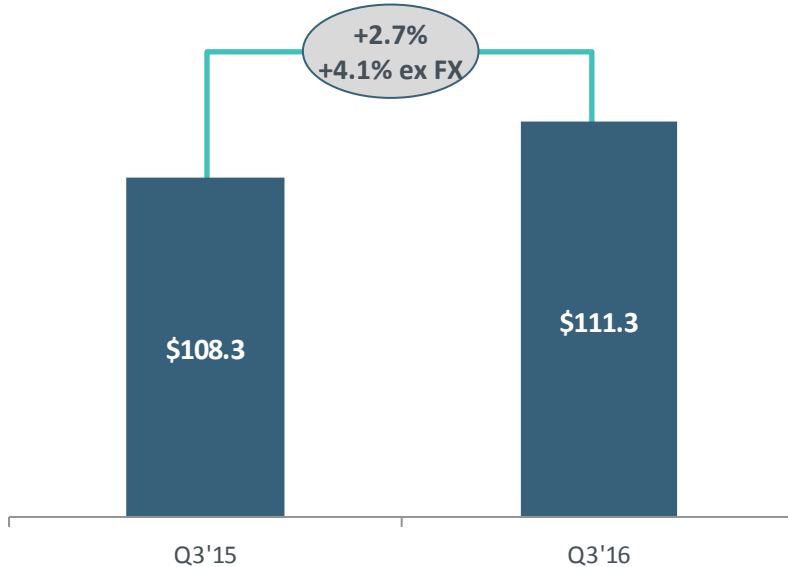
<sup>1</sup> Note: US = ETFs linked to MSCI indexes where the majority of whose weight is comprised of securities in MSCI Developed Market (DM) countries, primarily or exclusively in the US.  
DM ex US = ETFs linked to MSCI indexes where the majority of whose weight is comprised of securities in MSCI DM countries other than the US.  
EM = ETFs linked to MSCI indexes where the majority of whose weight is comprised of securities that are not in MSCI DM countries.  
Prior periods have been reclassified to conform to the current period classification.

<sup>2</sup> Average BPS fee based on Run Rate and period-end AUM.

# ANALYTICS SEGMENT

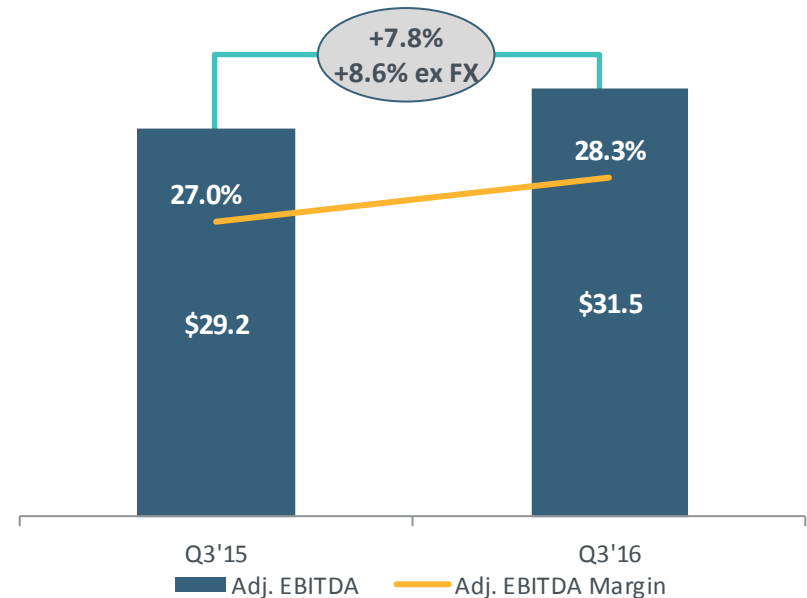
(US\$ in millions)

## Operating Revenue



- Strong equity model revenue due to increasing use of factors by Hedge Funds to better explain performance
- Risk management use-case results impacted by client budget pressures
- Strong new product delivery: transaction-based attribution, new fixed income model, new global equity model, enhancements to RiskManager & BarraOne

## Adj. EBITDA & Adj. EBITDA Margin (%)

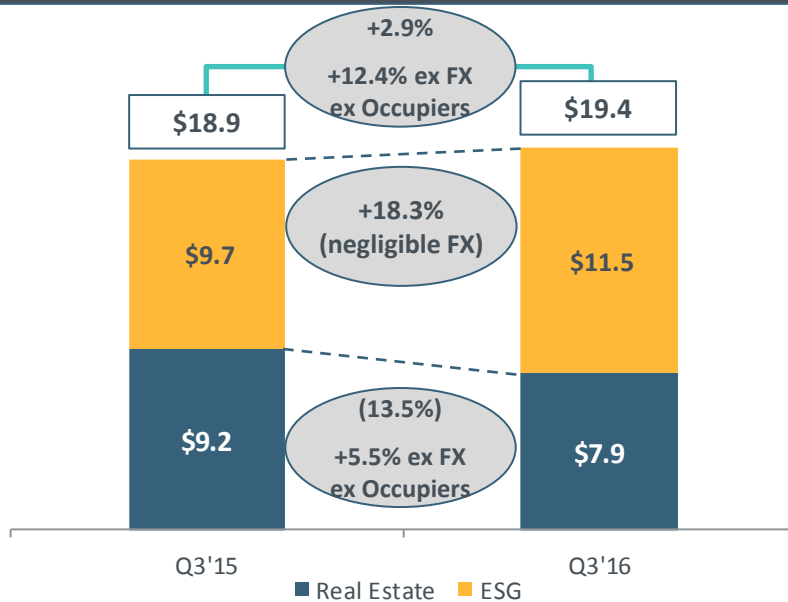


- Focus on profitability has delivered strong growth in operating leverage

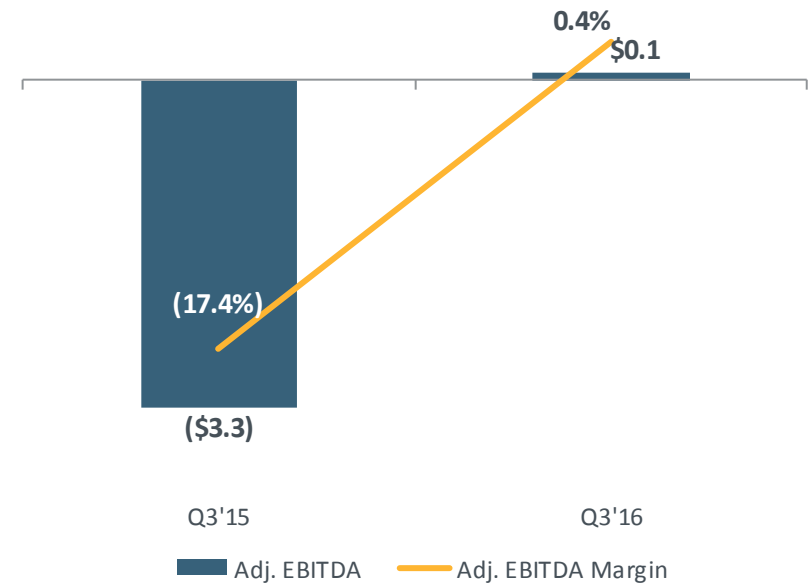
# ALL OTHER SEGMENT

(US\$ in millions)

## Operating Revenue



## Adj. EBITDA & Adj. EBITDA Margin (%)

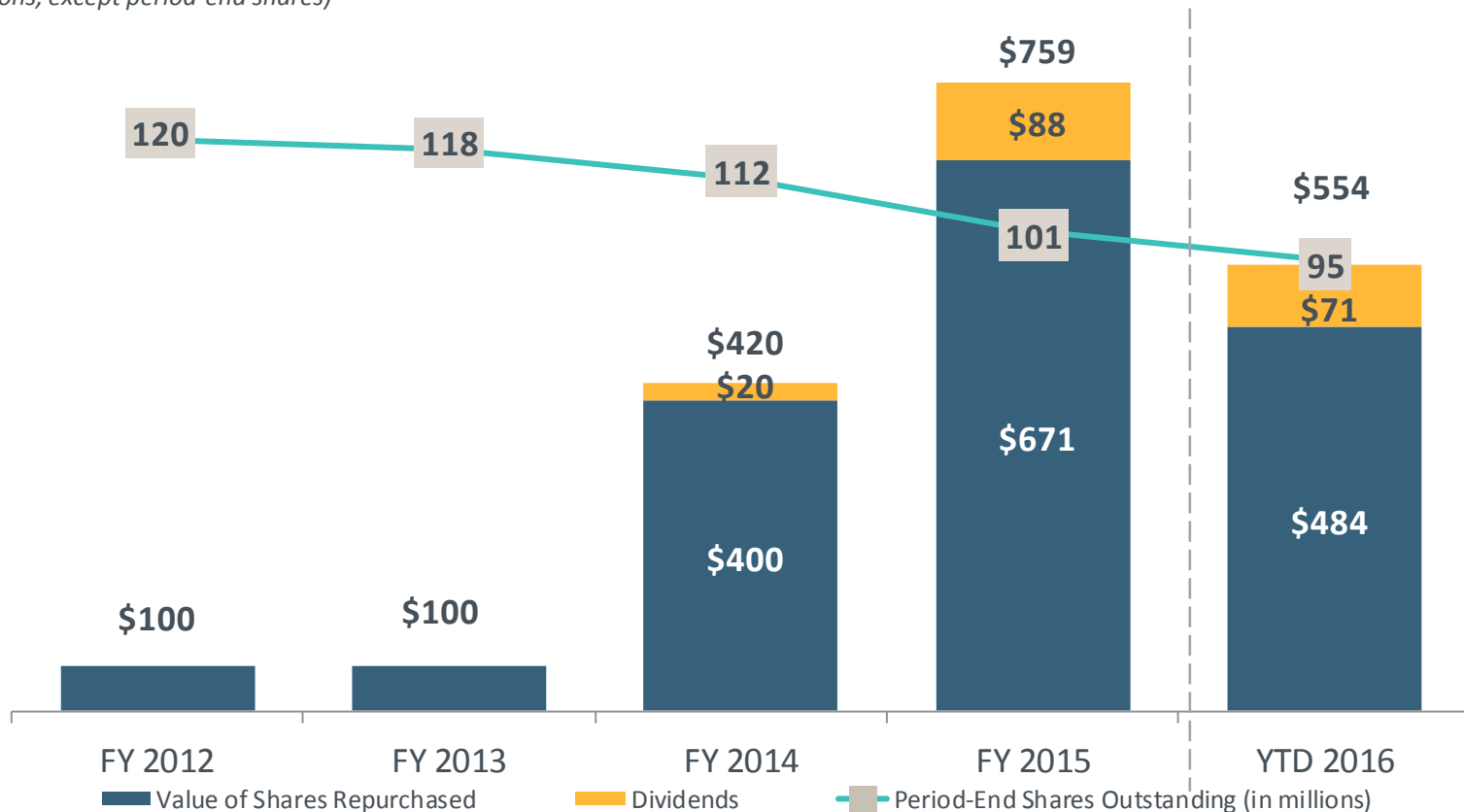


- Strong ESG revenue growth (+18.3%) on 31% increase in ESG Ratings Run Rate driven by record sales
- Real Estate revenue up 5.5% adjusting for FX impact and sale of Real Estate Occupiers (closed 8/1/16); decline in revenue vs. Q2'16 driven by seasonally strong second quarter and negative FX impact

- Improved profitability driven by continued strong growth in ESG top-line and improved efficiency in Real Estate
- Continued investment in ESG
- Continued restructuring of the Real Estate product area to achieve profitability

# STRONG TRACK RECORD OF RETURNING CAPITAL

(US\$ in millions, except period-end shares)



- Total Capital Returned since 2012: \$1.9B
- Total Shares Repurchased since 2012: ~31m
- In Q3'16 and through October 21, 2016, a total value of \$73.4m in shares were repurchased
- Board approved \$750m increase in outstanding share repurchase authorization to bring the total available to \$1.1B

# BALANCE SHEET AND LIQUIDITY

(US\$ in millions)

As of September 30, 2016

<b>Cash &amp; Cash Equivalents</b>		<b>\$974.1</b>
Cash & Cash Equivalents in the US <sup>1</sup>	\$786.5	
Cash & Cash Equivalents held outside of the US	\$187.6	
<b>Total Debt<sup>2</sup></b>		<b>\$2,100.0</b>
5.25% \$800m senior unsecured notes due 11/2024	\$800.0	
5.75% \$800m senior unsecured notes due 8/2025	\$800.0	
4.75% \$500m senior unsecured notes due 8/2026	\$500.0	
\$220m unsecured revolving credit facility terminating 8/2021	\$0.0	
<b>Net Debt</b>		<b>\$1,125.9</b>
<b>Total Debt / Adj. EBITDA</b>		<b>3.8x</b>
<b>Net Debt / Adj. EBITDA</b>		<b>2.0x</b>
<b>Credit Ratings* (S&amp;P / Moody's)</b>		<b>BB+ / Ba2</b>

\*Note: A securities rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.

- Gross leverage of 3.8x above stated range of 3.0x – 3.5x
  - Expect gross leverage to decline over time and return to stated range
- Commitment to deploy capital quickly in the most efficient method to achieve the highest return for shareholders

***Strong Balance Sheet***



<sup>1</sup>Includes approximately \$125m - \$150m in minimum cash balances, which MSCI seeks to maintain for general operating purposes.

<sup>2</sup>Excludes deferred financing fees of \$25.5m as of September 30, 2016.

# UPDATED FY 2016 GUIDANCE

(US\$ in millions)

## Updated Guidance

	<u>Previous</u>	<u>Current</u>
Operating expenses	\$680 - \$697	\$660 - \$672
Adj. EBITDA expenses	\$600 - \$615	\$580 - \$590
Interest expense	\$92	\$102
<hr/>		
Net cash provided by operating activities	\$320 - \$350	\$350 - \$375
Capex	<u>(\$50 - \$40)</u>	<u>(\$45 - \$40)</u>
Free cash flow	\$270 - \$310	\$305 - \$335

## No Change to Previous Guidance

- Effective tax rate expected to be in the range of 33% - 34%
- Dividend pay-out in the range of 30% - 40% of adj. EPS

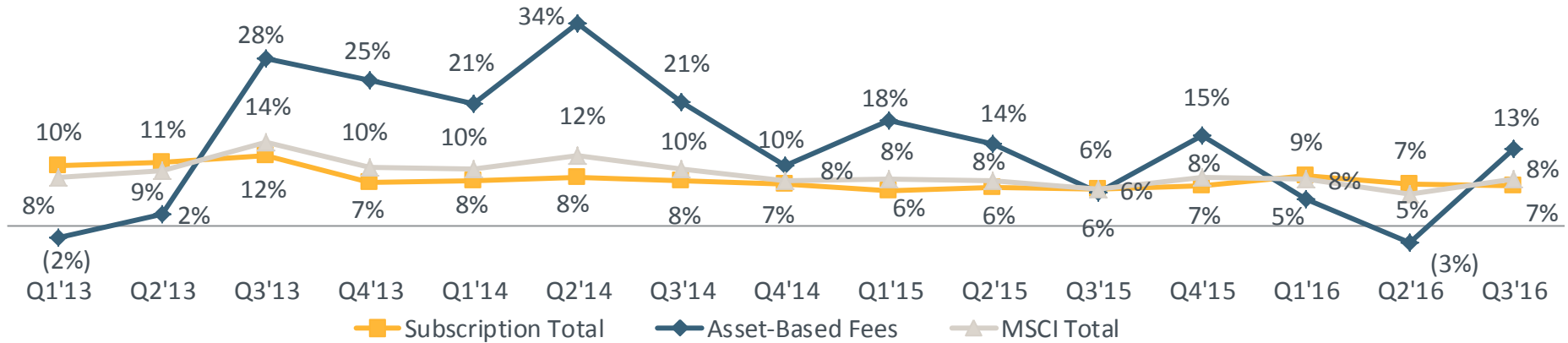


# *APPENDIX*

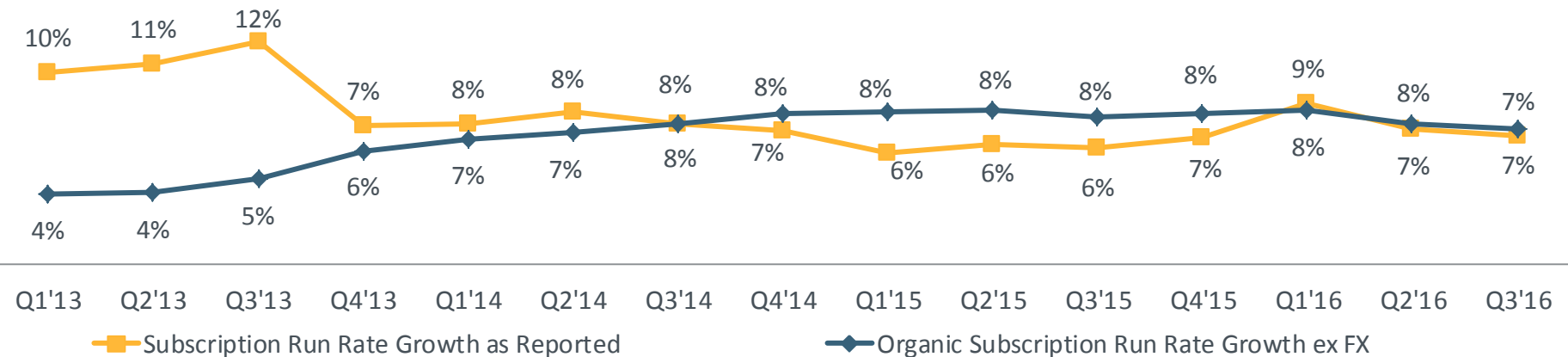
## Supplemental Disclosures & Reconciliation of Non-GAAP Measures to GAAP Measures

# Q1'13 – Q3'16 YoY RUN RATE GROWTH TREND

## YoY Run Rate Growth as Reported

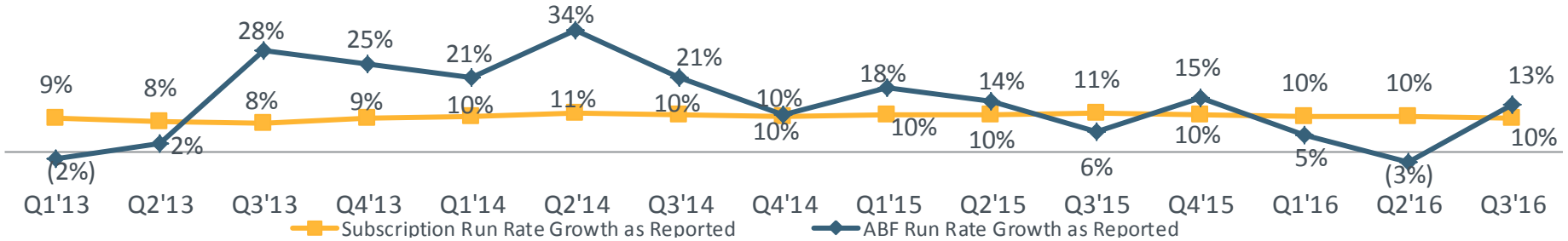


## YoY Subscription Run Rate Growth as Reported vs. Organic Growth (excluding FX Impact and Acquisitions/Divestitures)

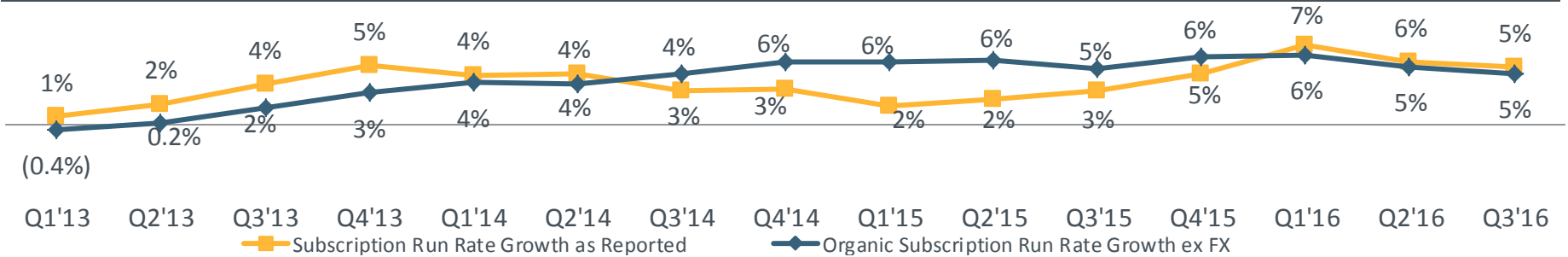


# Q1'13 – Q3'16 YoY SEGMENT RUN RATE GROWTH TREND

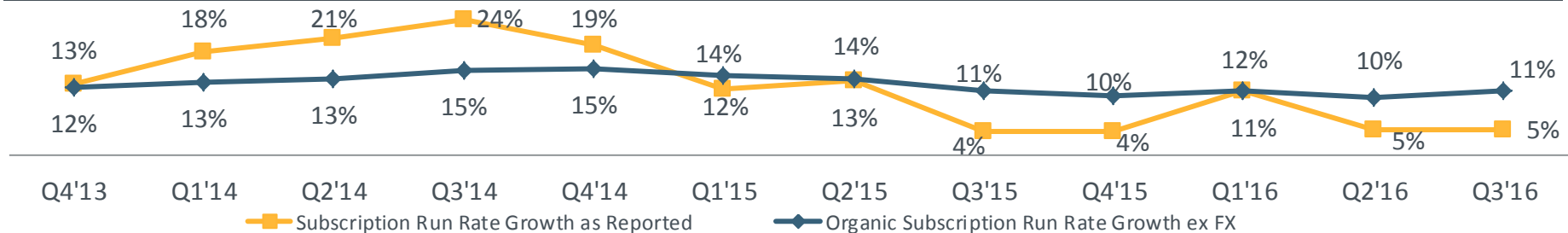
## Index



## Analytics



## All Other



# RECONCILIATION OF ADJUSTED EBITDA TO NET INCOME

In thousands	Three Months Ended			Nine Months Ended	
	Sep. 30, 2016	Sep. 30, 2015	Jun. 30, 2016	Sep. 30, 2016	Sep. 30, 2015
Index adjusted EBITDA	\$ 111,750	\$ 102,927	\$ 106,518	\$ 318,317	\$ 293,997
Analytics adjusted EBITDA	31,501	29,216	33,302	95,163	64,560
All Other adjusted EBITDA	73	(3,282)	6,207	9,020	(3,774)
<b>Consolidated adjusted EBITDA</b>	<b>143,324</b>	<b>128,861</b>	<b>146,027</b>	<b>422,500</b>	<b>354,783</b>
Amortization of intangible assets	11,752	11,710	11,943	35,535	35,107
Depreciation and amortization of property, equipment and leasehold improvements	8,312	8,049	8,393	24,873	23,321
<b>Operating income</b>	<b>123,260</b>	<b>109,102</b>	<b>125,691</b>	<b>362,092</b>	<b>296,355</b>
Other expense (income), net	25,738	10,060	25,147	73,249	32,237
Provision for income taxes	32,241	34,644	33,587	96,238	94,079
<b>Income from continuing operations</b>	<b>65,281</b>	<b>64,398</b>	<b>66,957</b>	<b>192,605</b>	<b>170,039</b>
Income (loss) from discontinued operations, net of income taxes	—	—	—	—	(5,797)
<b>Net income</b>	<b>\$ 65,281</b>	<b>\$ 64,398</b>	<b>\$ 66,957</b>	<b>\$ 192,605</b>	<b>\$ 164,242</b>

# RECONCILIATION OF ADJUSTED NET INCOME AND ADJUSTED EPS TO NET INCOME AND EPS

	Three Months Ended			Nine Months Ended	
	Sep. 30, 2016	Sep. 30, 2015	Jun. 30, 2016	Sep. 30, 2016	Sep. 30, 2015
<b>In thousands, except per share data</b>					
Net income	\$65,281	\$64,398	\$66,957	\$192,605	\$164,242
Less: Income (loss) from discontinued operations, net of income taxes	—	—	—	—	(5,797)
Income from continuing operations	65,281	64,398	66,957	192,605	170,039
Plus: Amortization of intangible assets	11,752	11,710	11,943	35,535	35,107
Less: Gain on sale of investment	—	(6,300)	—	—	(6,300)
Less: Income tax effect	(3,873)	(4,082)	(4,001)	(11,840)	(12,505)
<b>Adjusted net income</b>	<b>\$73,160</b>	<b>\$65,726</b>	<b>\$74,899</b>	<b>\$216,300</b>	<b>\$186,341</b>
Diluted EPS	\$0.68	\$0.59	\$0.69	\$1.98	\$1.47
Less: Earnings per diluted common share from discontinued operations	—	—	—	—	(0.05)
Earnings per diluted common share from continuing operations	\$0.68	\$0.59	\$0.69	\$1.98	\$1.52
Plus: Amortization of intangible assets	0.12	0.11	0.12	0.36	0.31
Less: Gain on sale of investment	—	(0.06)	—	—	(0.06)
Less: Income tax effect	(0.03)	(0.04)	(0.04)	(0.12)	(0.11)
<b>Adjusted EPS</b>	<b>\$0.77</b>	<b>\$0.60</b>	<b>\$0.77</b>	<b>\$2.22</b>	<b>\$1.66</b>

# RECONCILIATION OF ADJUSTED EBITDA EXPENSES TO OPERATING EXPENSES

In thousands	Three Months Ended			Nine Months Ended		Full-Year
	Sep. 30, 2016	Sep. 30, 2015	Jun. 30, 2016	Sep. 30, 2016	Sep. 30, 2015	2016 Outlook
Index adjusted EBITDA expenses	\$46,001	\$38,650	\$45,599	\$136,164	\$121,265	
Analytics adjusted EBITDA expenses	79,790	79,125	79,091	238,784	258,196	
All Other adjusted EBITDA expenses	19,318	22,135	19,879	60,409	67,876	
<b>Consolidated adjusted EBITDA expenses</b>	<b>145,109</b>	<b>139,910</b>	<b>144,569</b>	<b>435,357</b>	<b>447,337</b>	<b>\$580,000 - \$590,000</b>
Amortization of intangible assets	11,752	11,710	11,943	35,535	35,107	
Depreciation and amortization of property, equipment and leasehold improvements	8,312	8,049	8,393	24,873	23,321	80,000 - 82,000
<b>Total operating expenses</b>	<b>\$165,173</b>	<b>\$159,669</b>	<b>\$164,905</b>	<b>\$495,765</b>	<b>\$505,765</b>	<b>\$660,000 - \$672,000</b>

# RECONCILIATION OF FREE CASH FLOW TO NET CASH PROVIDED BY OPERATING ACTIVITIES

In thousands	Three Months Ended			Nine Months Ended		Full-Year
	Sep. 30, 2016	Sep. 30, 2015	Jun. 30, 2016	Sep. 30, 2016	Sep. 30, 2015	2016 Outlook
Net cash provided by operating activities	\$146,923	\$133,963	\$117,077	\$297,030	\$224,672	\$350,000 - \$375,000
Capital expenditures	(10,867)	(8,975)	(10,142)	(24,144)	(24,525)	
Capitalized software development costs	(2,861)	(3,275)	(2,763)	(7,949)	(6,062)	
Capex	(13,728)	(12,250)	(12,905)	(32,093)	(30,587)	(45,000 - 40,000)
<b>Free cash flow</b>	<b>\$133,195</b>	<b>\$121,713</b>	<b>\$104,172</b>	<b>\$264,937</b>	<b>\$194,085</b>	<b>\$305,000 - \$335,000</b>

# USE OF NON-GAAP FINANCIAL MEASURES AND OPERATING METRICS

- MSCI has presented supplemental non-GAAP financial measures as part of this earnings presentation. The non-GAAP financial measures presented in this earnings presentation should not be considered as alternative measures for the most directly comparable GAAP financial measures. The non-GAAP financial measures presented in this presentation are used by management, in conjunction with other measures, to monitor the financial performance of the business, inform business decision-making and forecast future results. A reconciliation that reconciles each non-GAAP financial measure with the most comparable GAAP measure is available in the appendix.
- “Adjusted EBITDA” is defined as net income before income (loss) from discontinued operations, net of income taxes, plus provision for income taxes, other expense (income), net, depreciation and amortization of property, equipment and leasehold improvements, amortization of intangible assets and, at times, certain other transactions or adjustments.
- “Adjusted EBITDA expenses” is defined as operating expenses less depreciation and amortization of property, equipment and leasehold improvements and amortization of intangible assets.
- “Adjusted net income” and “adjusted EPS” are defined as net income and EPS, respectively, before income from discontinued operations, net of income taxes and the after-tax impact of the amortization of intangible assets.
- “Capex” is defined as capital expenditures plus capitalized software development costs.
- “Free cash flow” is defined as net cash provided by operating activities, less capex.
- We believe adjusted EBITDA and adjusted EBITDA expenses are meaningful measures of the operating performance of MSCI because they adjust for significant one-time, unusual or non-recurring items as well as eliminating the accounting effects of capital spending and acquisitions that do not directly affect what management considers to be our core operating performance in the period.
- We believe that free cash flow is useful to investors because it relates the operating cash flow of MSCI to the capital that is spent to continue and improve business operations, such as investment in MSCI’s existing businesses. Further, free cash flow indicates our ability to strengthen MSCI’s balance sheet, repay our debt obligations, pay cash dividends and repurchase shares of our common stock.
- We believe that the non-GAAP financial measures presented in this earnings release facilitate meaningful period-to-period comparisons and provide a baseline for the evaluation of future results.
- Adjusted EBITDA expenses, adjusted EBITDA, adjusted net income, adjusted EPS and free cash flow are not defined in the same manner by all companies and may not be comparable to similarly-titled non-GAAP financial measures of other companies.
- The Run Rate at a particular point in time primarily represents the forward-looking revenues for the next 12 months from then-current subscriptions and investment product licenses we provide to our clients under renewable contracts or agreements assuming all contracts or agreements that come up for renewal are renewed and assuming then-current currency exchange rates. For any license where fees are linked to an investment product’s assets or trading volume, the Run Rate calculation reflects, for ETFs, the market value on the last trading day of the period, for futures and options, the most recent quarterly volumes and for non-ETF funds, the most recent client reported assets under such license or subscription. The Run Rate does not include fees associated with “one-time” and other non-recurring transactions. In addition, we remove from the Run Rate the fees associated with any subscription or investment product license agreement with respect to which we have received a notice of termination or non-renewal during the period and determined that such notice evidences the client’s final decision to terminate or not renew the applicable subscription or agreement, even though such notice is not effective until a later date.
- Organic subscription Run Rate growth ex FX is defined as the period over period Run Rate growth, excluding the impact of changes in foreign currency and the first year impact of any acquisitions, it is also adjusted for divestitures. Changes in foreign currency are calculated by applying the end of period currency exchange rate from the comparable prior period to current period foreign currency denominated Run Rate. This metric also excludes the impact on the growth in subscription Run Rate of the acquisitions of IPD, InvestorForce, and GMI for their respective first year of operations as part of MSCI, as well as the divestiture of MSCI’s Occupiers benchmarking business which closed on August 1, 2016.
- The Aggregate Retention Rate for a period is calculated by annualizing the cancellations for which we have received a notice of termination or for which we believe there is an intention to not renew during the period, and we believe that such notice or intention evidences the client’s final decision to terminate or not renew the applicable agreement, even though such notice is not effective until a later date. This annualized cancellation figure is then divided by the subscription Run Rate at the beginning of the year to calculate a cancellation rate. This cancellation rate is then subtracted from 100% to derive the annualized Aggregate Retention Rate for the period. The Aggregate Retention Rate is computed on a product-by-product basis. Therefore, if a client reduces the number of products to which it subscribes or switches between our products, we treat it as a cancellation. In addition, we treat any reduction in fees resulting from renegotiated contracts as a cancellation in the calculation to the extent of the reduction.



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