

# MSCI Inc. Investor Presentation

November 4, 2020

## Forward-looking statements

- This presentation contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including without limitation, MSCI's full-year 2020 guidance. 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 MSCI's control and that could materially affect 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's Annual Report on Form 10-K for the fiscal year ended December 31, 2019 filed with the Securities and Exchange Commission ("SEC") on February 18, 2020 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 MSCI's 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 presentation may not sum due to rounding.
- Percentage changes refer to the comparable period in 2019, unless otherwise noted
- Gross sales include both new recurring subscription and non-recurring sales as reported in Table 6: Sales and Retention Rate by Segment (unaudited) of the press release reporting MSCI's financial results for third quarter 2020.
- Foreign currency exchange rate fluctuations reflect 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. While operating revenues adjusted for the impact of foreign currency fluctuations includes asset-based fees that have been adjusted for the impact of foreign currency fluctuations, the underlying assets under management ("AUM"), which is the primary component of asset-based fees, is not adjusted for foreign currency fluctuations. More than three-fifths of the AUM are invested in securities denominated in currencies other than the U.S. dollar, and accordingly, any such impact is excluded from the disclosed foreign currency adjusted variances.

# Table of contents

- 1 Company overview
- 2 Financial review
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# Company overview

# MSCI at a glance

## WHO WE ARE

**7,900+ blue-chip clients<sup>1</sup> in 90+ countries as of 9/30/2020**

- Across investment and trading spectrum
- World's most sophisticated investors use our products and services

### Must-have products and services

- Across asset classes for performance and risk
- \$1.7B+ Run Rate as of September 30, 2020
- 10%+ YoY subscription Run Rate growth in 3Q20

### Strong performance and inclusive culture

- Global, multi-cultural workforce
- Driving innovation for industry-leading solutions<sup>2</sup>

**3,545 talented employees globally as of 9/30/2020**

- 30+ MSCI locations in 20+ countries
- 64% and 36% of employees located in emerging market and developed market centers, respectively
- Extensive knowledge of the investment process

## WHAT WE DO

Provide products and services that global investors can use to build **better portfolios** for a better world

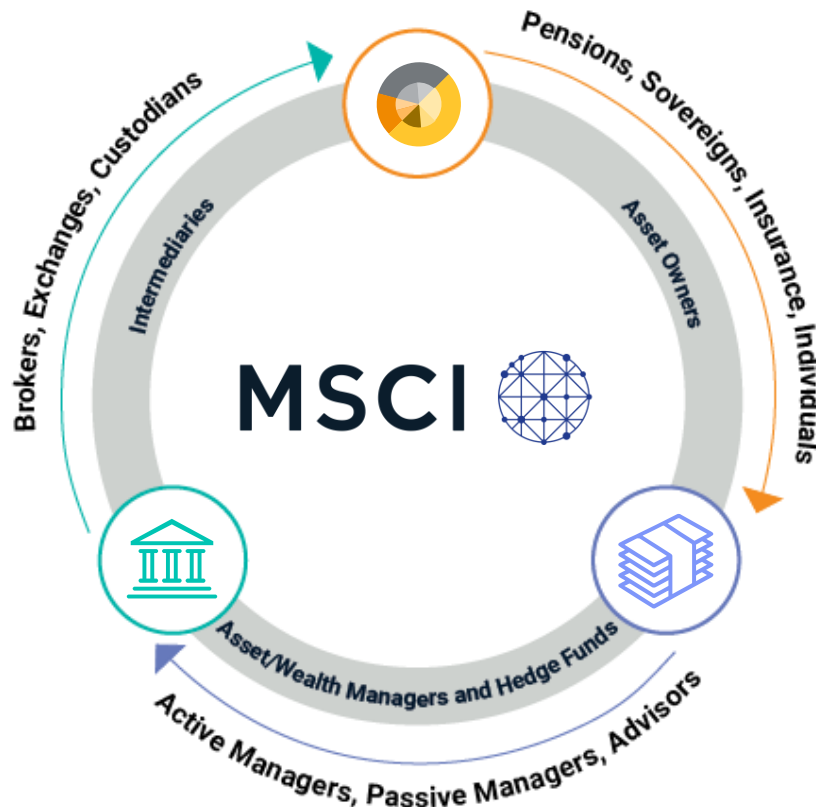
# ► Clients turn to MSCI's tools to support their investment needs

## Client investment process



### MSCI tools to support:

- Defining investable universes
- Allocating assets sustainably
- Creating investment programs/products
- Benchmarking performance
- Understanding and managing risk and performance
- Reporting to constituents
- Complying with regulations
- Measuring climate related risks and opportunities



**Solutions for the most critical investment activities**

# ▶ Continued progress on our strategic initiatives



## Product Areas

- **ESG and climate**
- **Fixed income and liquidity**
- **Thematics**
- **Derivatives**
- **Factors**
- **Private assets**



## Client Segments

- **Broker-dealers**
- **Wealth managers**
- **Corporates**
- **Insurance companies**
- **Private asset managers**



## Capabilities

- **Technology and data**
- **Virtual and remote connectivity**
- **Distribution**
- **Partnerships**



# Multiple upturn and downturn playbook levers

## Self-Adjusting

- Metrics-based incentive plan
- 

## Timing & Discretionary

- Other bonus incentives
  - Pace of hiring
  - Travel & entertainment fees (T&E)
  - Training
  - Professional fees
  - Marketing
- 

## Pacing of Investments

- Reprioritization, pace of hiring
- Headcount optimization
- Client coverage spend (e.g., T&E)

**Ongoing positive operating leverage remains a priority across a range of market outcomes**

# Robust and compelling financial model



## Recurring, visible revenue model

~97% or higher recurring revenues<sup>1</sup> as percent of total revenue from 2015 – TTM 9/30/20



## Operating efficiency strength

15% CAGR in Adjusted EBITDA from 2015 – TTM 9/30/20



## Triple-Crown investment opportunities to grow business

Investing in multiple strategic product areas, client segments and capabilities, including technology and partnerships, to drive growth



## Attractive cash generation profile

24% CAGR in Free Cash Flow from 2015 – TTM 9/30/20



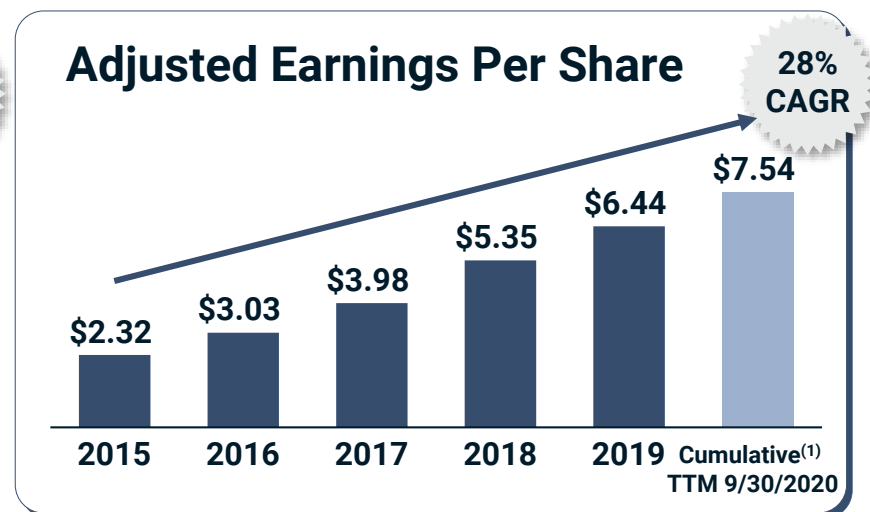
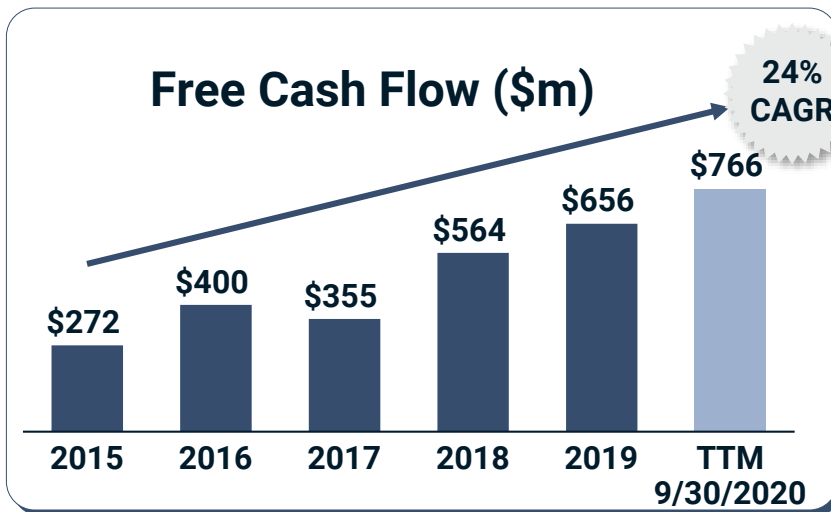
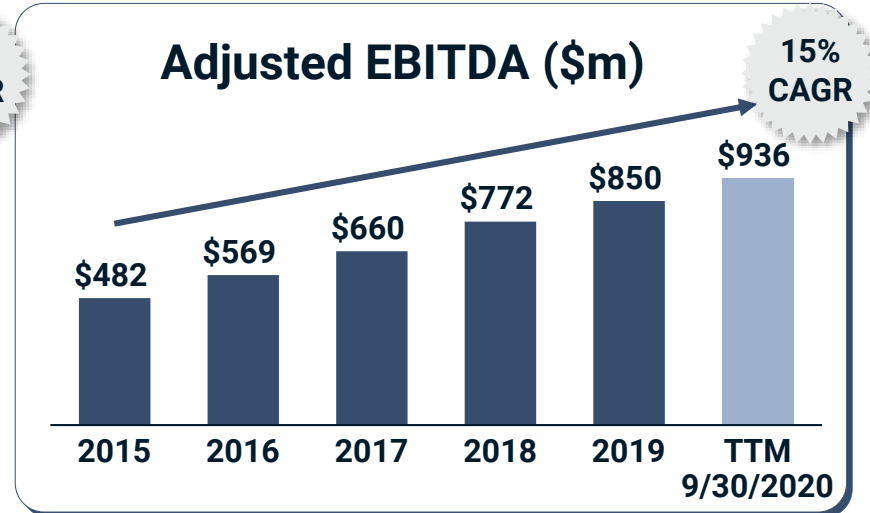
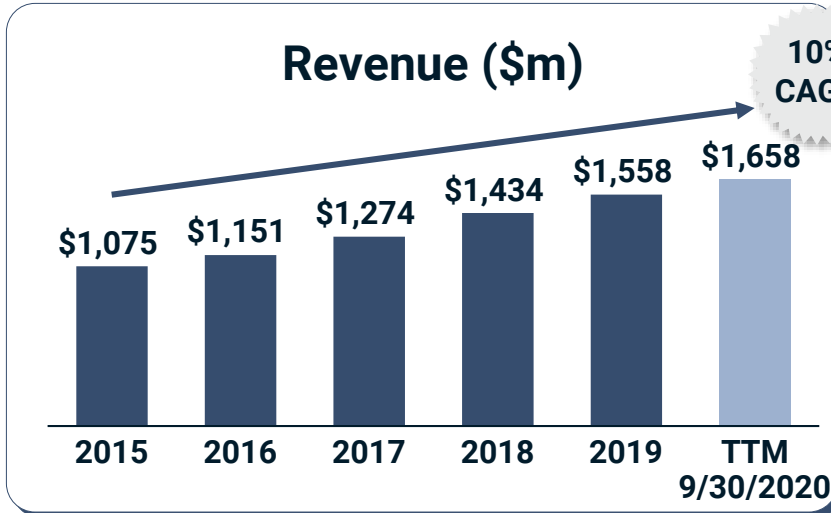
## Strong balance sheet and liquidity

As of September 30, 2020, total cash and equivalents of \$1.3B and total debt of \$3.4B, with next maturity not until 2026

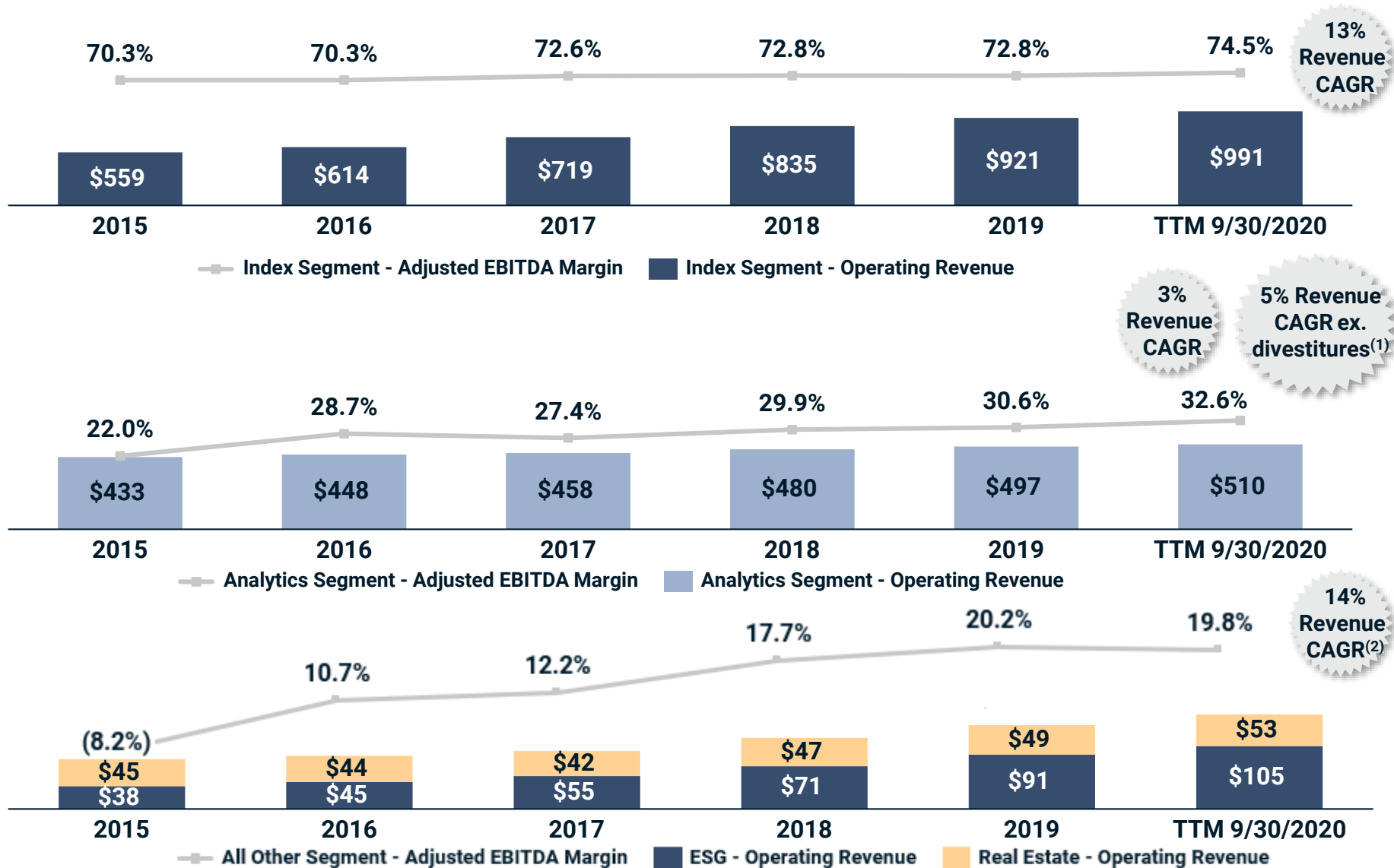
# Financial review

# Delivering growth across key metrics

Financial discipline and rigor underpinned by culture of performance and accountability



# Reflecting continued business growth

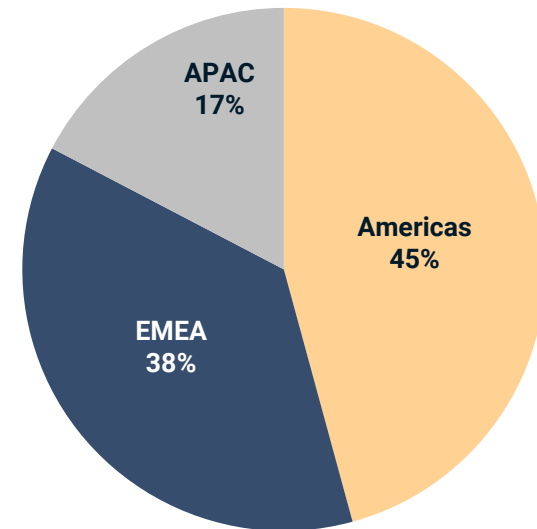
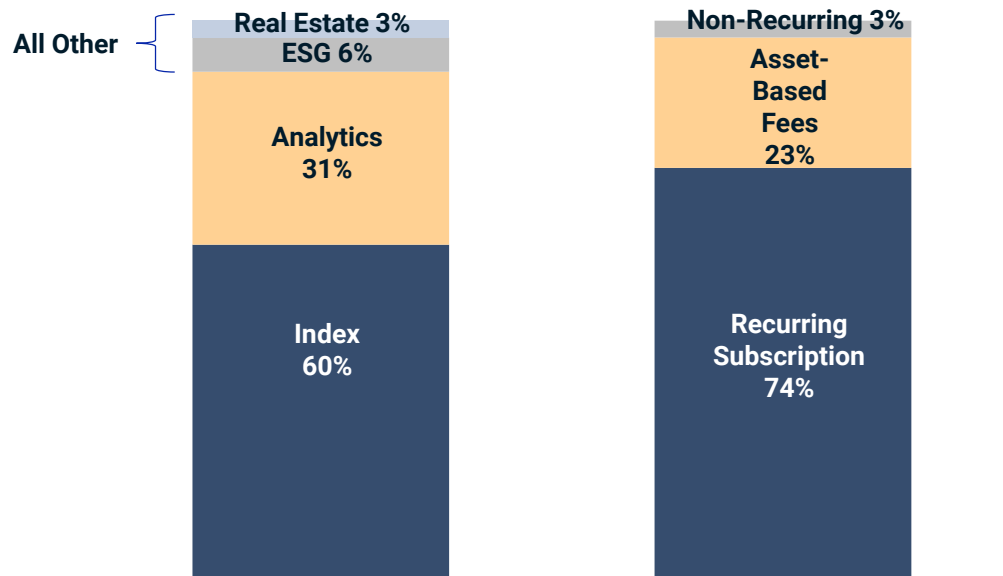


# Significant recurring revenue model with global client base

TTM 9/30/2020  
Total Revenue by Segment

TTM 9/30/2020  
Total Revenue by Type

MSCI Subscription Run Rate  
as of 9/30/2020  
by Geography



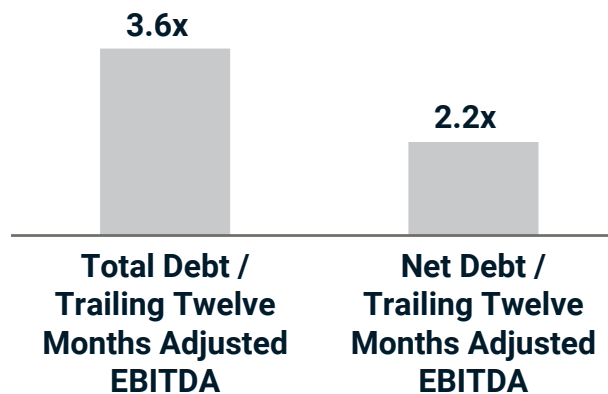
**74% of total revenue from recurring subscriptions**

# Strong balance sheet provides optionality

(US\$ in millions, unless otherwise noted)

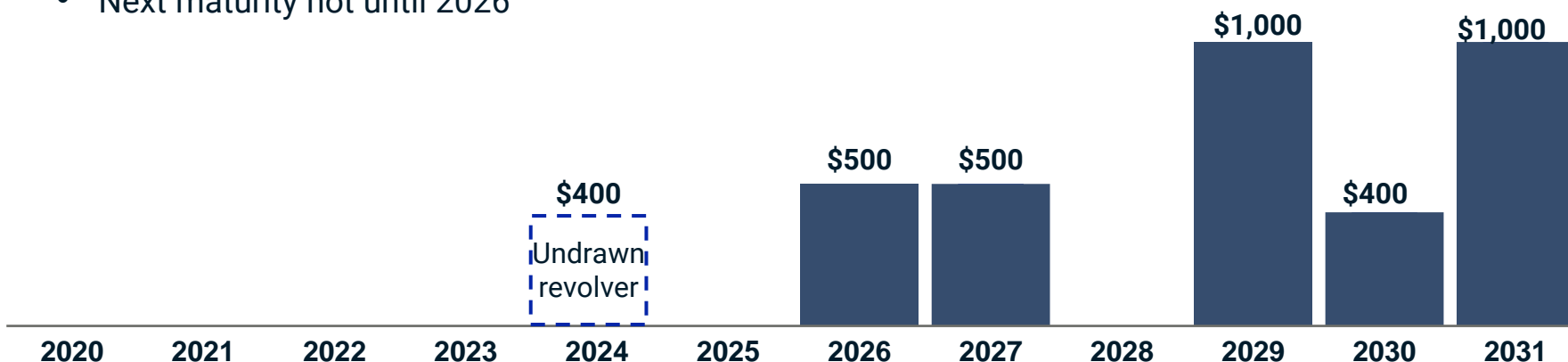
## Total Cash<sup>1</sup> and Debt<sup>2</sup> as of September 30, 2020:

- Total Cash of \$1,303
- Total Debt of \$3,366
- Net Debt of \$2,063

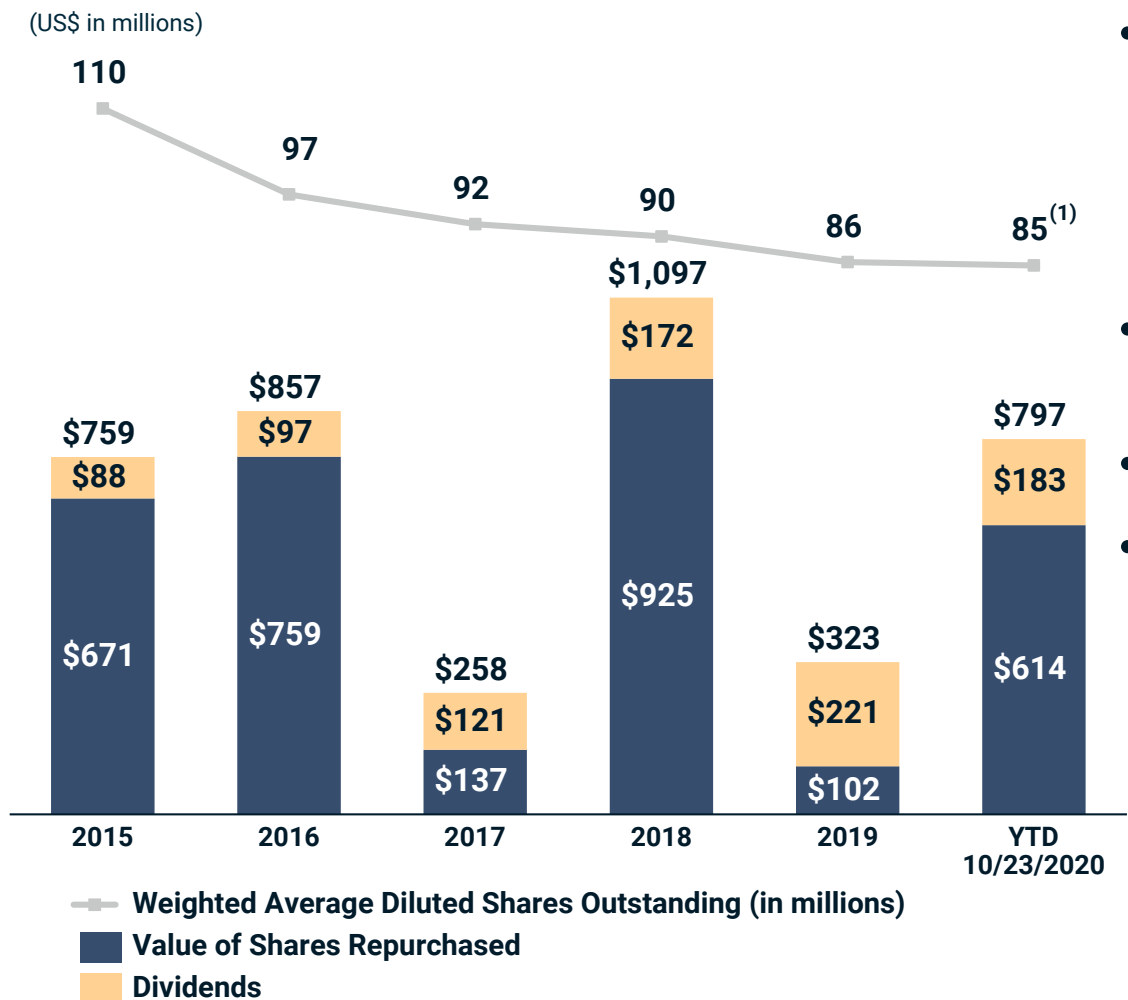


## Unsecured Debt Maturity Profile as of September 30, 2020

- Next maturity not until 2026



# Disciplined approach to capital deployment for shareholders



- Opportunistic share repurchase driven by availability of cash, view on valuation
  - Up to \$1.8B of repurchase authorization as of 10/29/20
- Dividend payout target of 40% to 50% of Adjusted EPS
- \$4.1B of capital return since 2015
- Organic investments and mergers, partnerships and acquisitions (MP&A) evaluated using “Triple Crown” framework prioritizing:
  - Highest payoff investments
  - Shortest payback periods
  - In areas most valued by the market



# Long-term targets

	Revenue Growth Rate (ex. ABF)	Adj. EBITDA Expense Growth Rate	Adj. EBITDA Growth Rate	Adj. EBITDA Margin %
Index	Low Double Digit	High Single Digit	↓	↓
Analytics	High Single Digit to Low Double Digit	Mid to High Single Digit		
ESG	Mid Twenties	Low to Mid Teens		
Real Estate	Mid Teens			
MSCI	Low Double Digit	High Single Digit		

# Full-year 2020 guidance as of October 27, 2020

Guidance Item	Current Guidance for Full-Year 2020	Prior Guidance for Full-Year 2020
Operating Expense	\$800 to \$820 million	\$790 to \$840 million
Adjusted EBITDA Expense	\$710 to \$730 million	\$700 to \$750 million
Interest Expense (including amortization of financing fees) <sup>1</sup>	~\$158 million	~\$158 million
Depreciation & Amortization Expense	~\$90 million	~\$90 million
Effective Tax Rate	11.5% to 13.5%	16% to 19%
Capital Expenditures	\$50 to \$55 million	\$50 to \$60 million
Net Cash Provided by Operating Activities	\$705 to \$750 million	\$600 to \$650 million (toward the upper end of the range)
Free Cash Flow	\$650 to \$700 million	\$540 to \$600 million (toward the upper end of the range)

Note: MSCI's guidance for 2020 is based on assumptions about a number of macroeconomic and capital market factors, in particular related to equity markets. These assumptions are subject to uncertainty, and actual results for the year could differ materially from our current guidance, including as a result of ongoing uncertainty related to the duration, magnitude and impact of the COVID-19 pandemic.

(1) Interest income will continue to be impacted by the lower rates available on cash balances.

# Segment highlights

# Index segment run rate fundamentals

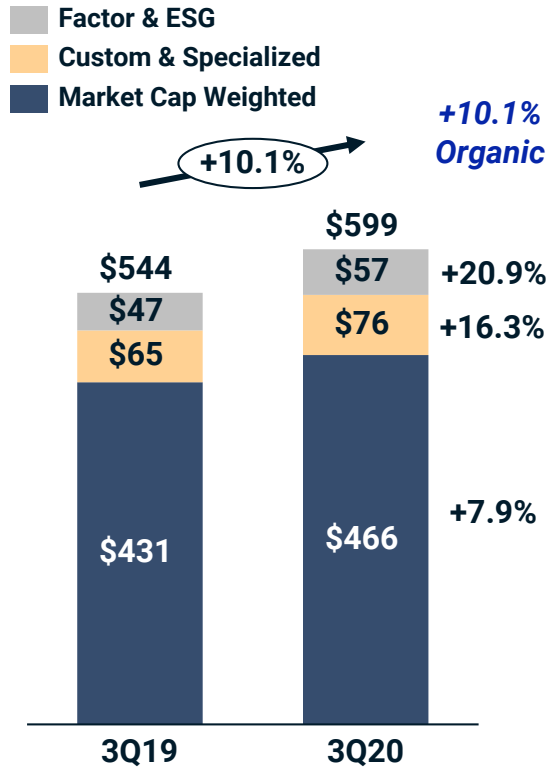
	Subscription Run Rate (\$599M as of 3Q20)	Asset-Based Fee Run Rate (\$401M as of 3Q20)
Products/ Content	<ul style="list-style-type: none"> <li>Market Cap Weighted</li> <li>Factor &amp; ESG</li> <li>Custom &amp; Specialized</li> </ul>	<ul style="list-style-type: none"> <li>ETFs</li> <li>Non-ETFs</li> <li>Futures &amp; Options</li> </ul>
Pricing Model	<ul style="list-style-type: none"> <li>License fees</li> </ul>	<ul style="list-style-type: none"> <li>ETFs – basis point fees on AUM</li> <li>Non-ETFs – basis point fees on AUM</li> <li>Futures &amp; Options – fees on contract volumes traded</li> </ul>
Volume Trend	<ul style="list-style-type: none"> <li>~2/3 of subscription run rate growth has come from new clients and upsells to existing clients</li> </ul>	<ul style="list-style-type: none"> <li>Increased adoption over time given ongoing trend towards Index-enabled investing and product launches</li> <li>Subject to market fluctuations</li> </ul>
Retention	<ul style="list-style-type: none"> <li>95% in 3Q20</li> </ul>	<ul style="list-style-type: none"> <li>N/A</li> </ul>
Overall	Solid Base of Recurring Revenue	

# Index subscription at a glance

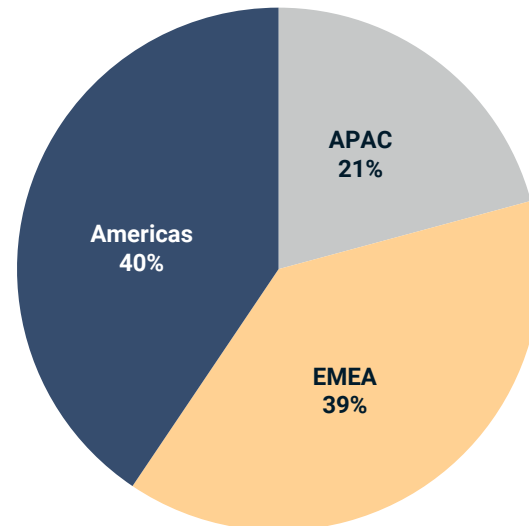
Asset managers, asset owners, broker-dealers and wealth managers globally use our solutions for portfolio construction, performance and risk management

Index Subscription Run Rate  
ex. ABF

(US\$ in millions)

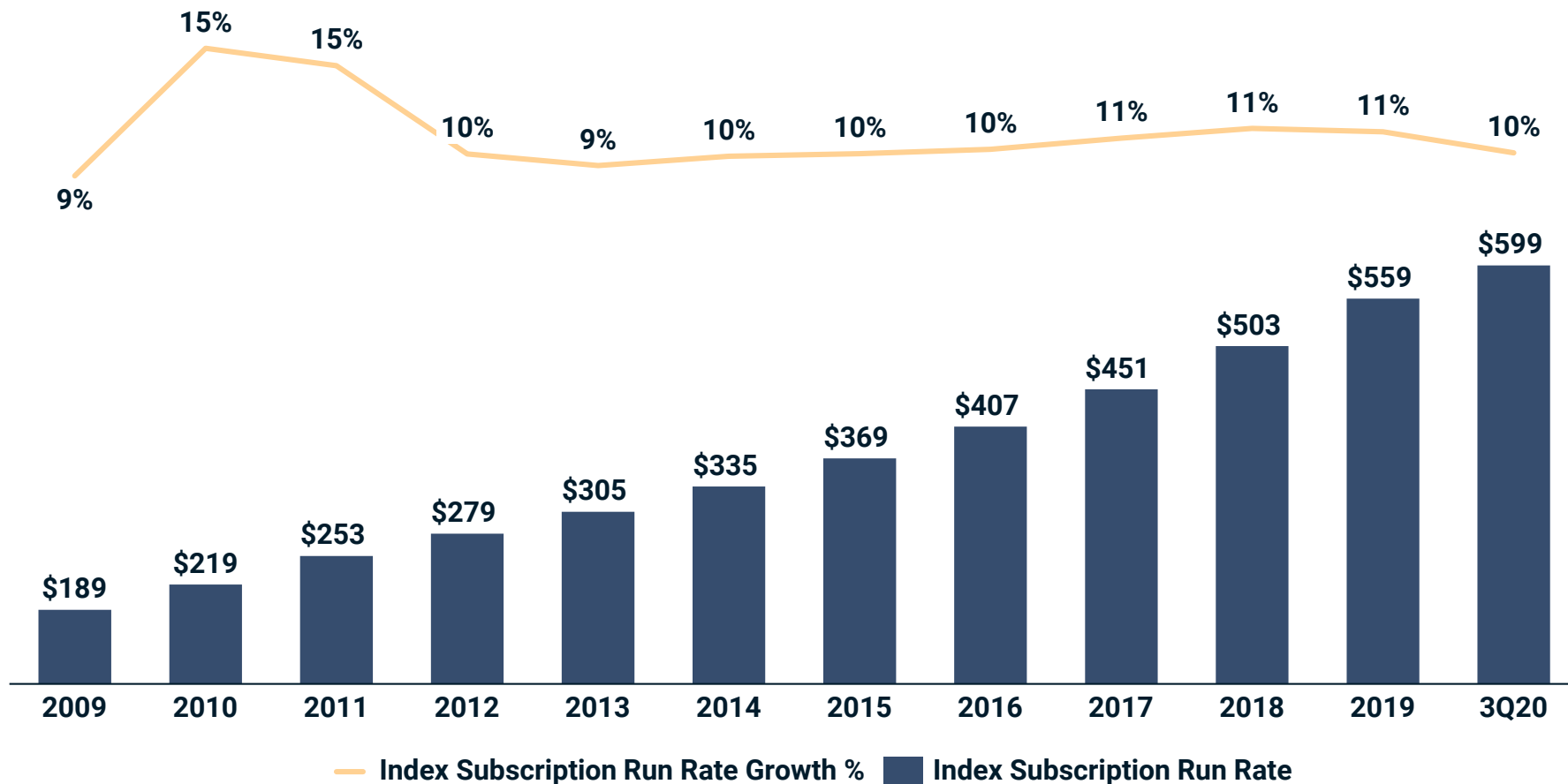


Index Subscription Run Rate ex. ABF  
as of 9/30/2020  
by Geography



# Resilient Index subscription franchise

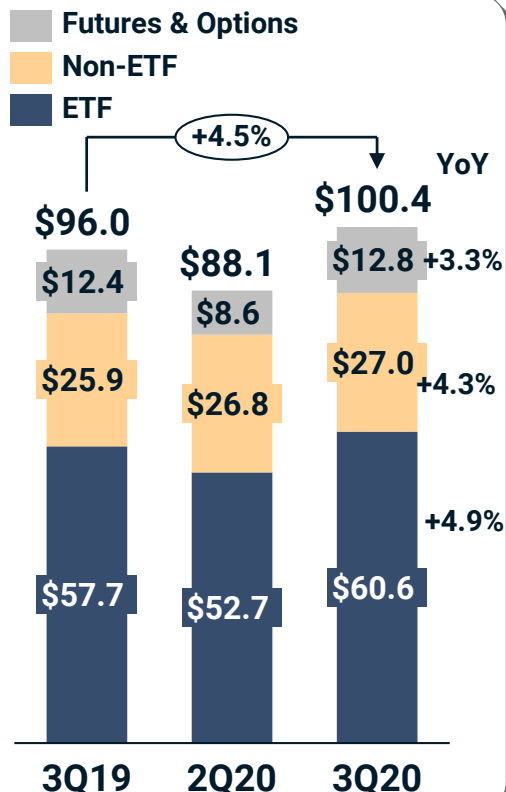
Subscription Run Rate (\$m) and YoY Growth



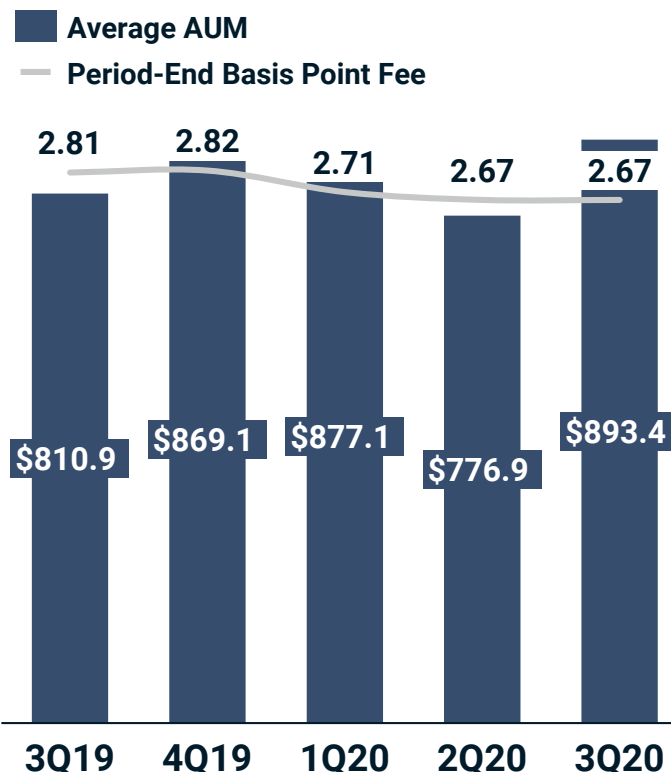
# Index segment: asset-based fees details

(US\$ in millions, except AUM in billions)

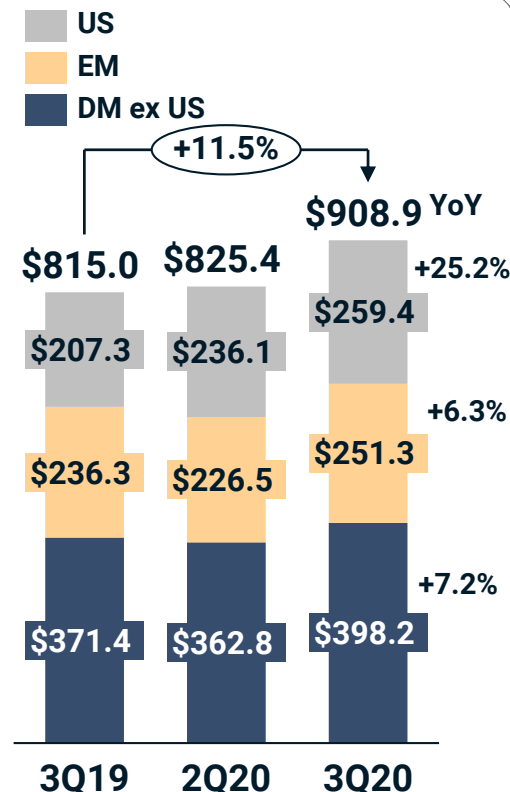
## Asset-based Fees (ABF) Revenue



## Quarterly Average AUM and Period-End Basis Point Fee<sup>1</sup> of Equity ETFs linked to MSCI Indexes



## Quarter-End AUM by Market Exposure<sup>2</sup> of Equity ETFs linked to MSCI Indexes



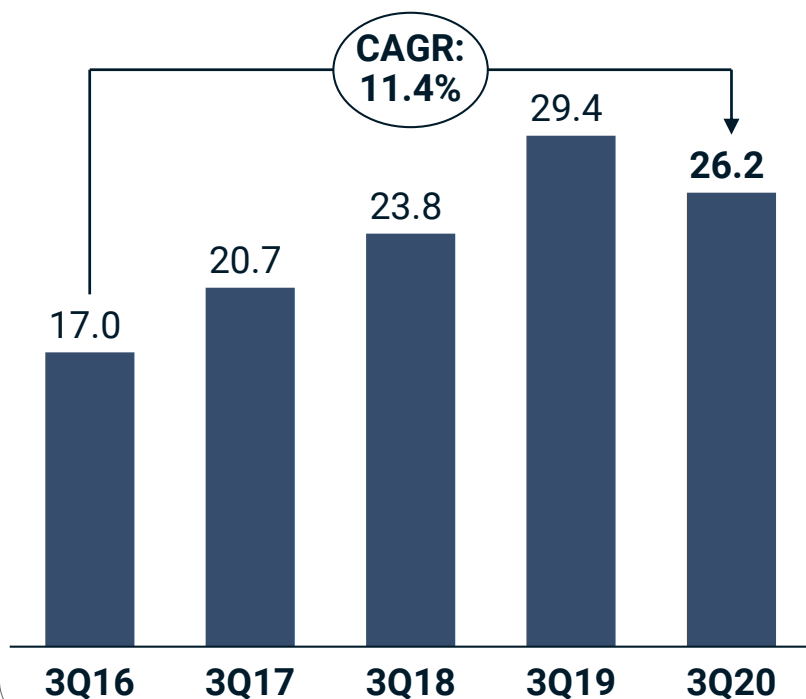
<sup>1</sup>Based on period-end Run Rate for equity ETFs linked to MSCI indexes using period-end AUM. Please refer to Table 7: AUM in Equity ETFs Linked to MSCI Indexes (unaudited) of the press release reporting MSCI's financial results for third quarter 2020.

<sup>2</sup>US = Equity ETFs linked to MSCI indexes, the majority of whose weight is comprised of securities in MSCI Developed Market (DM) countries, primarily or exclusively in the US; DM ex US = Equity ETFs linked to MSCI indexes, the majority of whose weight is comprised of securities in MSCI DM countries other than the US; EM = Equity ETFs linked to MSCI indexes, 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. Note: The AUM in equity ETFs also includes AUM in Exchange Traded Notes, the value of which is less than 1.0% of the AUM amounts presented.

# Index segment: Futures & Options progress

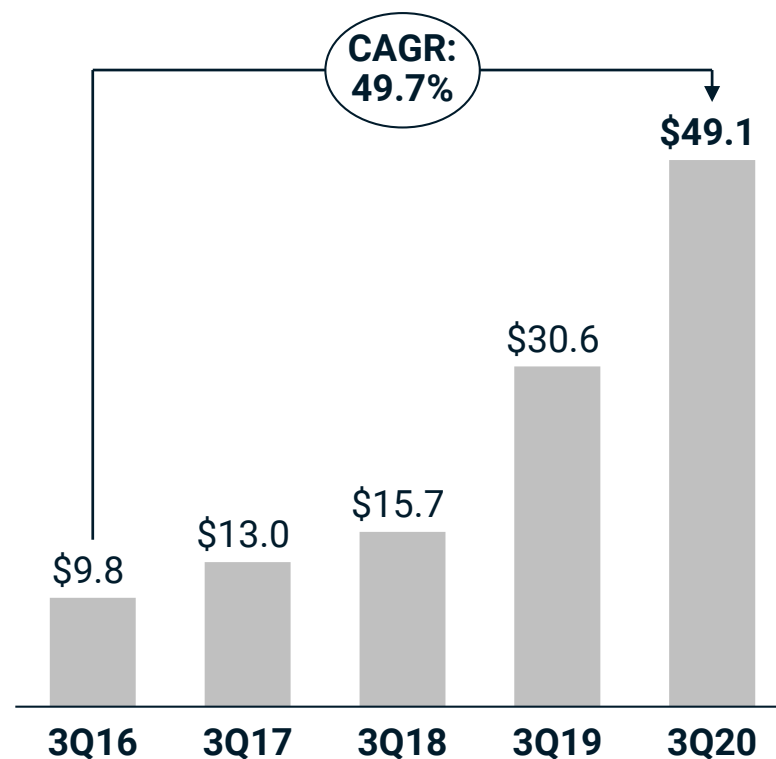
## Futures & Options Volume Linked to MSCI Indexes

(in millions of contracts traded<sup>1</sup>)



## Futures & Options Run Rate

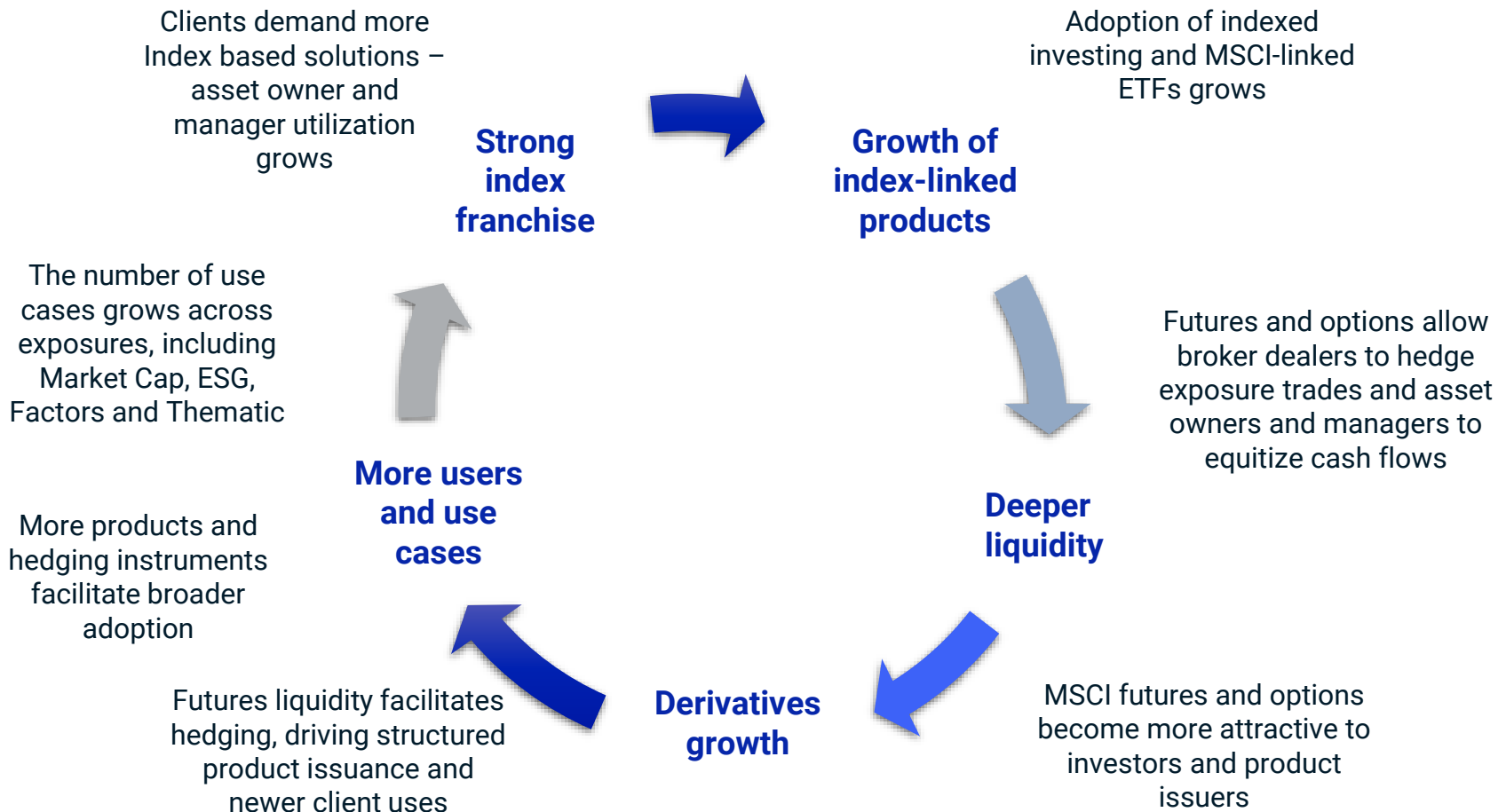
(US\$ in millions)





# ► Growing the MSCI-linked product ecosystem

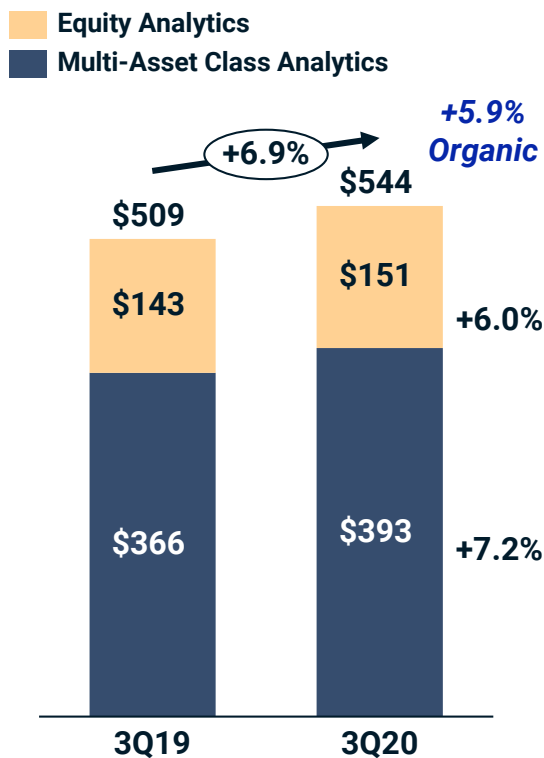
**Deeper liquidity drives a virtuous circle of enhanced and new uses across products and clients, benefiting the investment community**



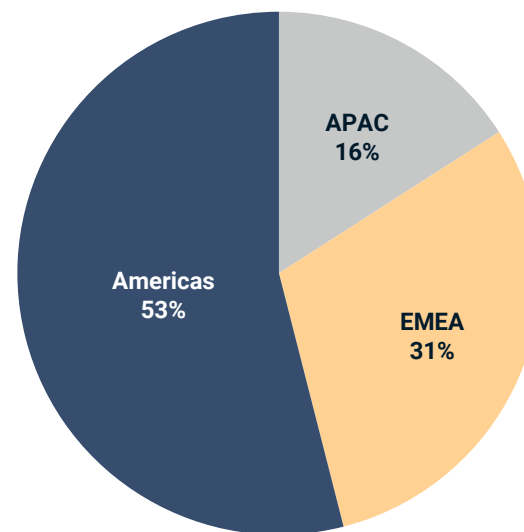
# Analytics segment at a glance

Extensively used by asset owners, asset managers and intermediaries globally to solve a broad range of investment problems

Analytics Segment Run Rate



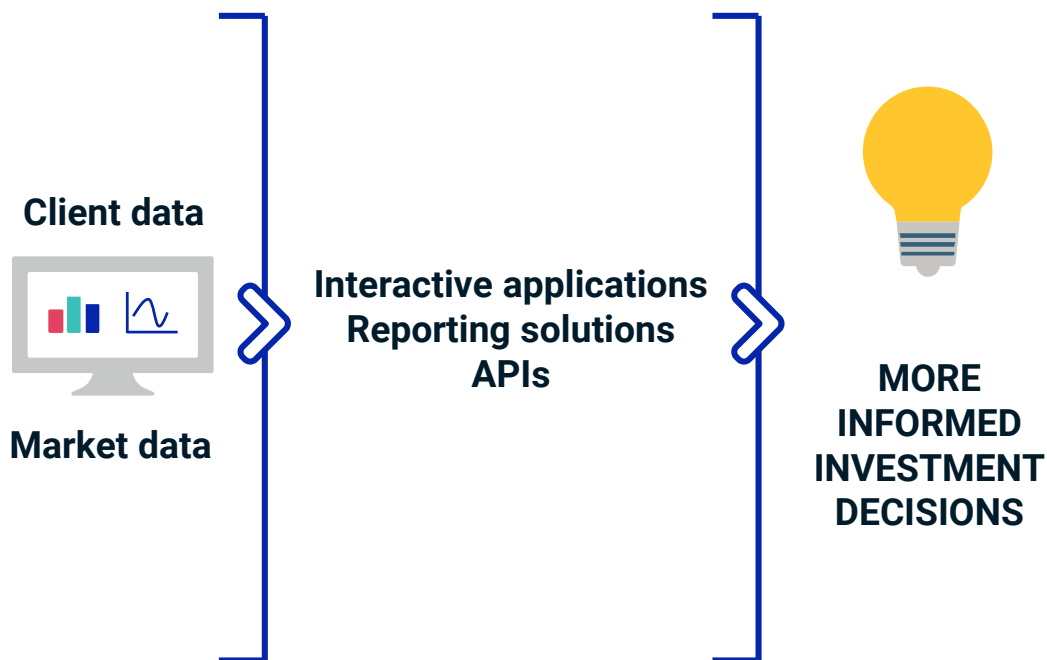
Analytics Segment Run Rate as of 9/30/2020 by Geography



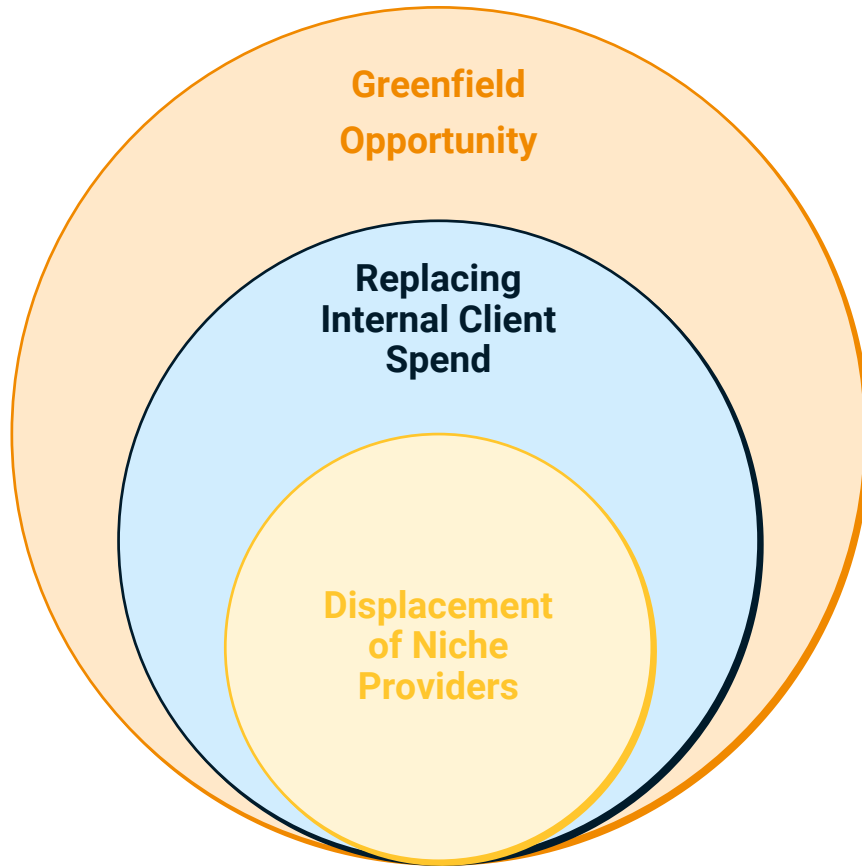
# Analytics product overview

Serving the portfolio construction, performance and risk management needs of investors\* to help them build better portfolios

- Equity, fixed income, multi-asset-class (MAC) and private asset models
- Calculation engines for pricing, risk, performance and optimization
- Enterprise risk management
- Performance attribution
- Portfolio construction
- Asset allocation
- Stress tests
- Data and analytics



# Analytics strongly positioned to capitalize on a large opportunity \$20B+ in TAM<sup>1</sup> globally



## Greenfield Opportunities

- Investment innovation (e.g., factor investing, ESG)
- Regulation (e.g., liquidity)
- Increasing adoption of best practices and technology (e.g., asset owners becoming more sophisticated)

## Replacing Internal Client Spend

- Internal software developments
- Outsourcing through managed services

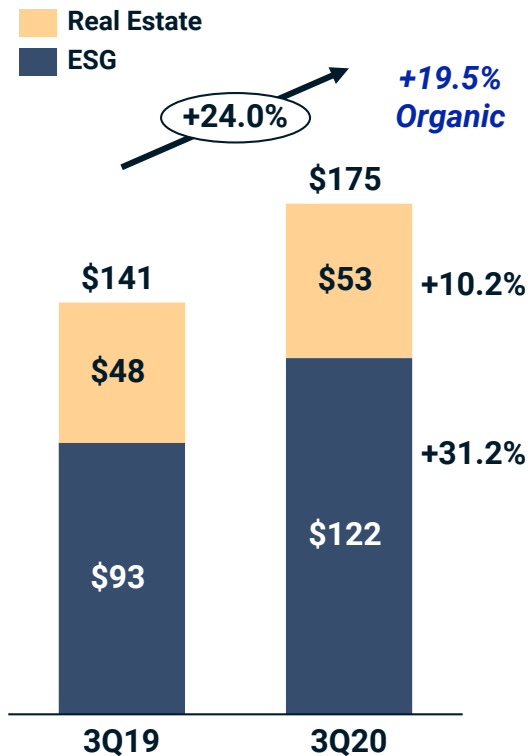
## Displacement of Niche Providers

- Offerings across single asset classes (e.g., equity only)
- Narrow products to specific problems (e.g., performance attribution only)

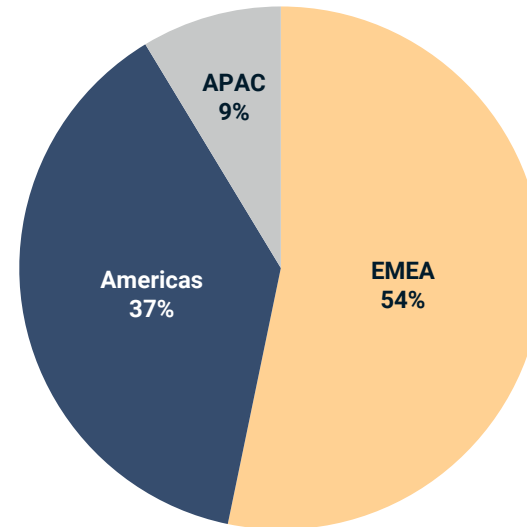
**Winners Will Provide Flexible and Integrated Solutions Across Asset Classes**

# All Other segment (ESG & Real Estate) at a glance

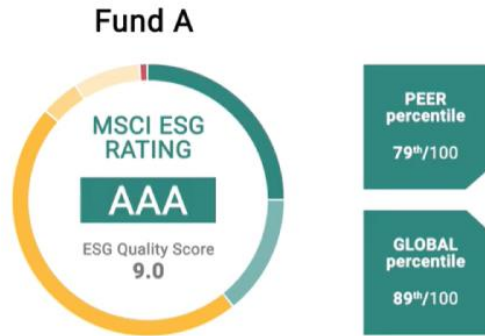
All Other Segment Run Rate  
(ESG and Real Estate)



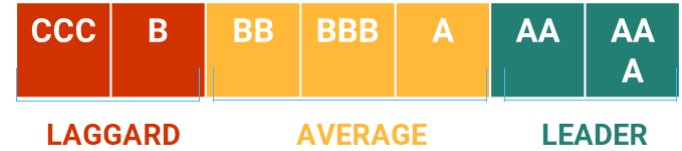
All Other Segment Run Rate as  
of 9/30/2020  
by Geography



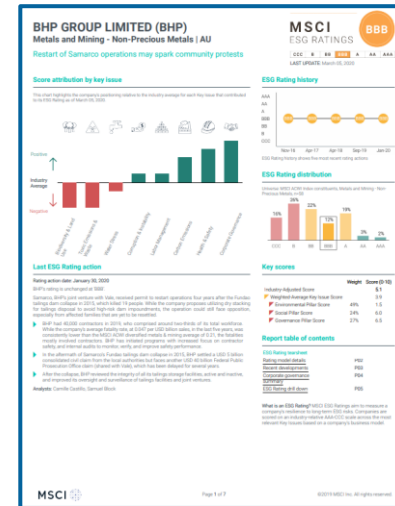
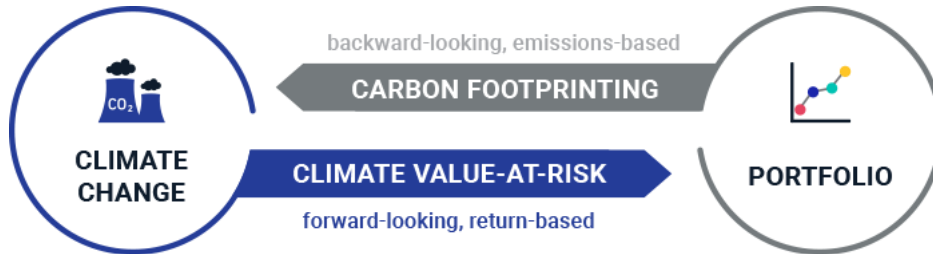
# ESG Research overview



## ESG Ratings and Research



## Climate Value-at-Risk



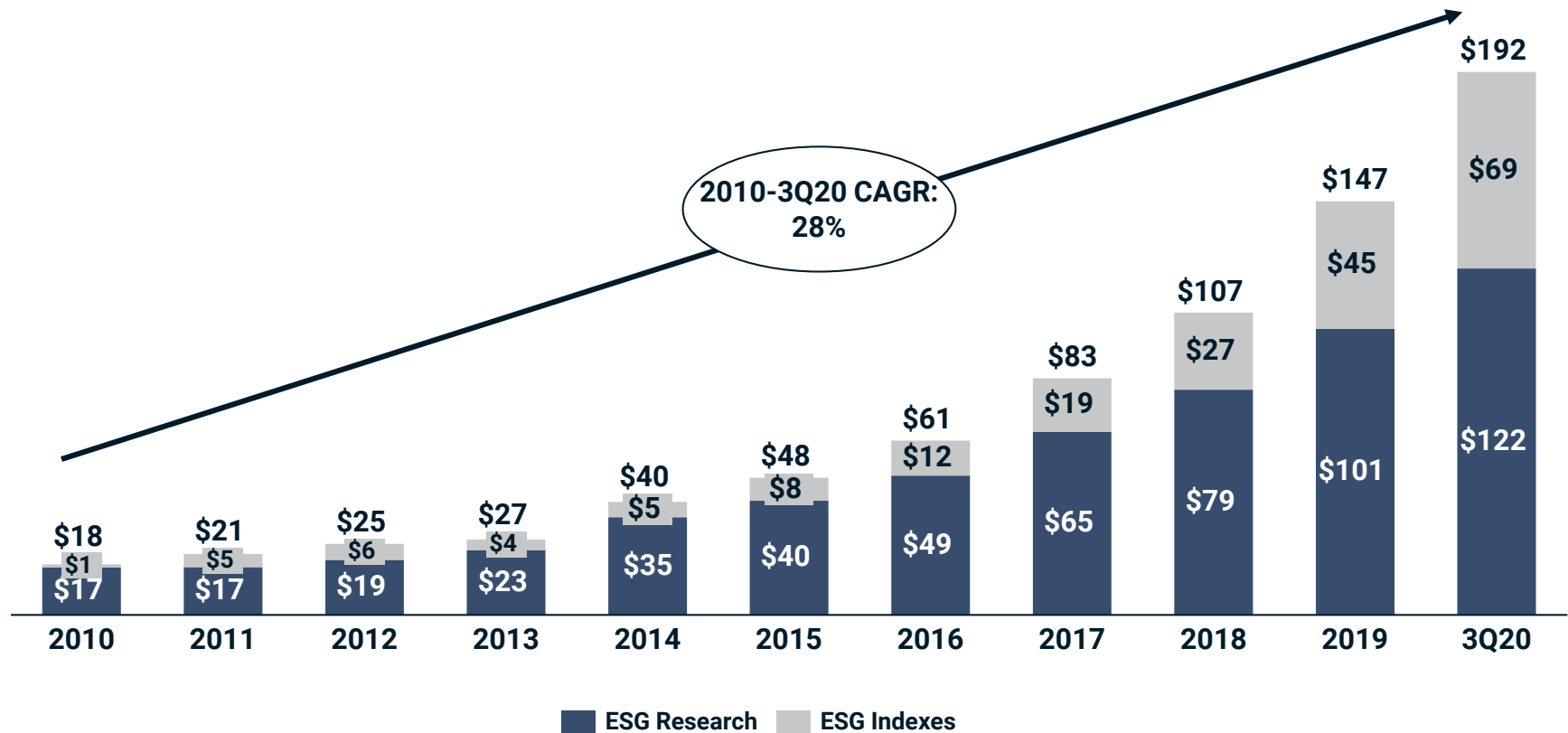
## Key catalysts and tailwinds for ESG integration into the investment process:

<p><b>Investors have become less tolerant of corporate ESG incidents</b> <i>(Vale 2019; Equifax 2017; Valeant 2015; Volkswagen 2015)</i></p>	<p><b>Asset owner and consumer-driven demand for sustainable investing</b></p>	<p><b>Investor belief in potential financial benefit of integrating ESG strategies</b></p>	<p><b>Regulatory landscape and ongoing enhancement of reporting frameworks</b></p>
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# Continued growth across firmwide ESG franchise

## Firmwide ESG Run Rate (ESG Indexes and ESG Research)<sup>1</sup>

(US\$ in millions)



# ESG: increasing adoption and growing addressable market

- ✓ **Nearly 30% CAGR** in MSCI ESG Run Rate firmwide<sup>1</sup> from 2010 – 3Q20
- ✓ **<20%** penetration of ~3,000 (and growing number of) asset owner, investment manager and other signatories of the UN Principles for Responsible Investment (“UN PRI”)
  - ✓ New logo capture opportunities
  - ✓ Upselling existing clients

## Current ESG Client Penetration Among UN PRI Signatories



- ✓ **Growing addressable market** via new use cases and product innovation including:
  - ✓ Climate VaR including Real Estate
  - ✓ Fixed income
  - ✓ Ongoing new/deepened data, content and ratings coverage

## Increasing Use Cases for ESG Integration:





# Real Estate product overview

Providing real estate investment support tools and critical business intelligence at both asset and fund levels to institutional investors and real estate owners, managers and brokers worldwide



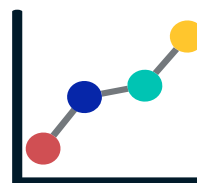
**MSCI Real Estate  
Global Intel**

- One of the most extensive private real estate databases in the world
- Data contributed by clients



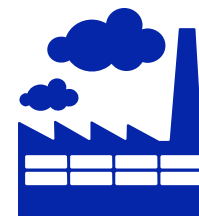
**MSCI Real Estate  
Enterprise Analytics**

- Single integrated market information, analytics and risk platform



**Global market indexes  
and benchmarks**

- Single, global framework
- Asset or fund level
- Customizable benchmarks



**Real Estate  
Climate VaR**

- Tools to measure climate-related exposures and risks
- Forward-looking and return-based valuation assessment

*Tools for real estate investors to build better portfolios*

# Appendix

# Helping investors navigate increasing complexity

**More Markets -**  
Markets are  
Democratizing

**More Investment  
Alternatives –** More  
Instruments, Asset  
Classes and Funds of  
Increasing Complexity



**Increasingly Global –**  
New Geographies are  
Accessible

**More Data –**  
Exponential Growth in  
Available Data

## MSCI is Helping Investors Navigate Key Shifts in the Industry

### Global Equity Investing

- Global index framework
- Factor investing and integration
- Adaptive multi-factor allocation strategies
- Alternative data signals for risk models

### Multi-Asset Class Investing

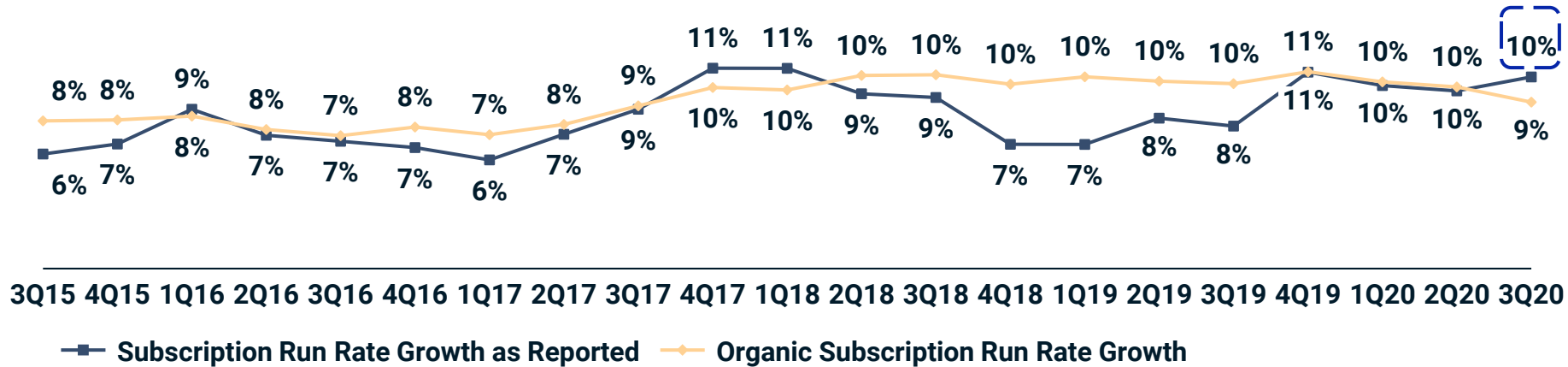
- Factor investing
- Enterprise and liquidity risk management
- Private assets
- Fixed income

### Sustainable Investing

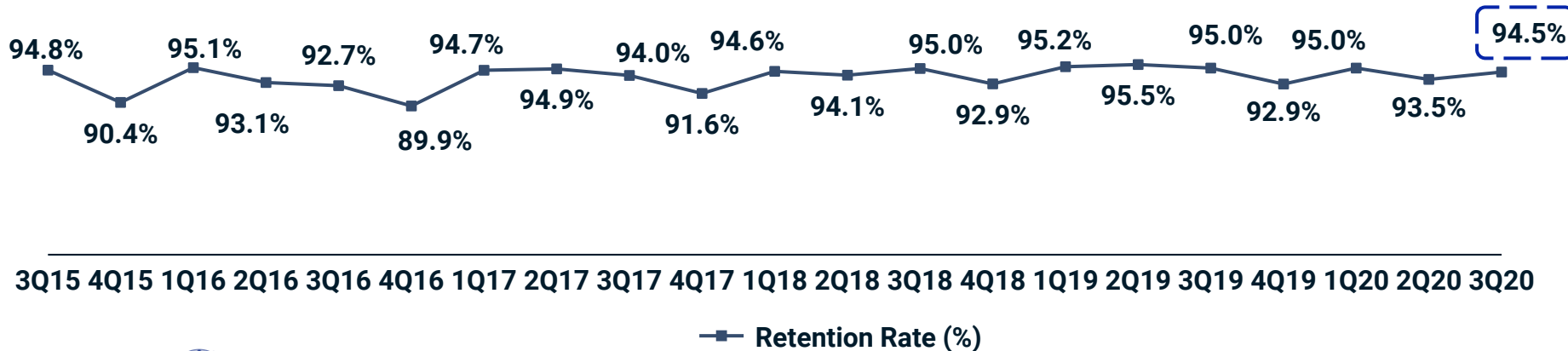
- Identify key ESG issues using machine learning
- Leverage alternative data to measure ESG exposure

# Key operating metrics have been resilient

## YoY Subscription Run Rate Growth (as Reported and Organic)



## Retention Rate Trends

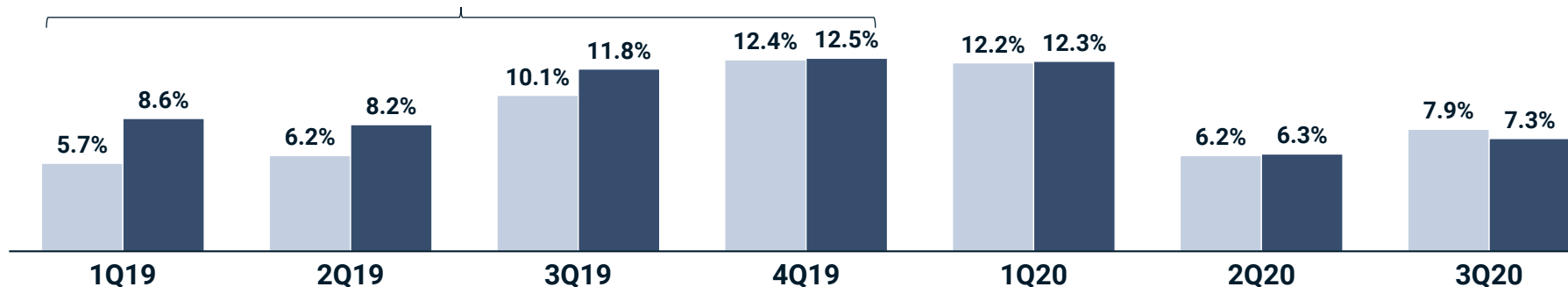


# Revenue and profitability trends

## YoY Growth – Operating Revenue

**FY2019 Operating Revenue Growth:**  
8.6% as reported / 10.3% organic

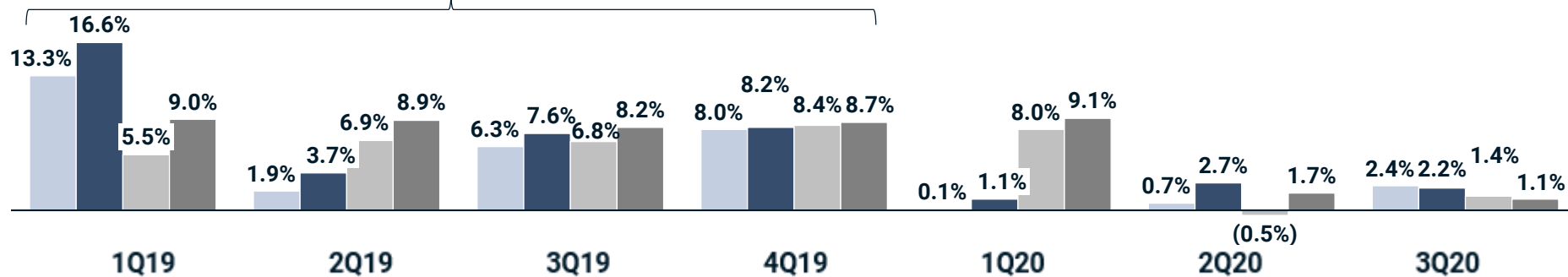
Operating Revenue growth – as reported (%)  
Organic Operating Revenue Growth - ex. acquisitions/divestitures and FX fluctuations (%)



## YoY Growth – Operating Expenses and Adjusted EBITDA Expenses

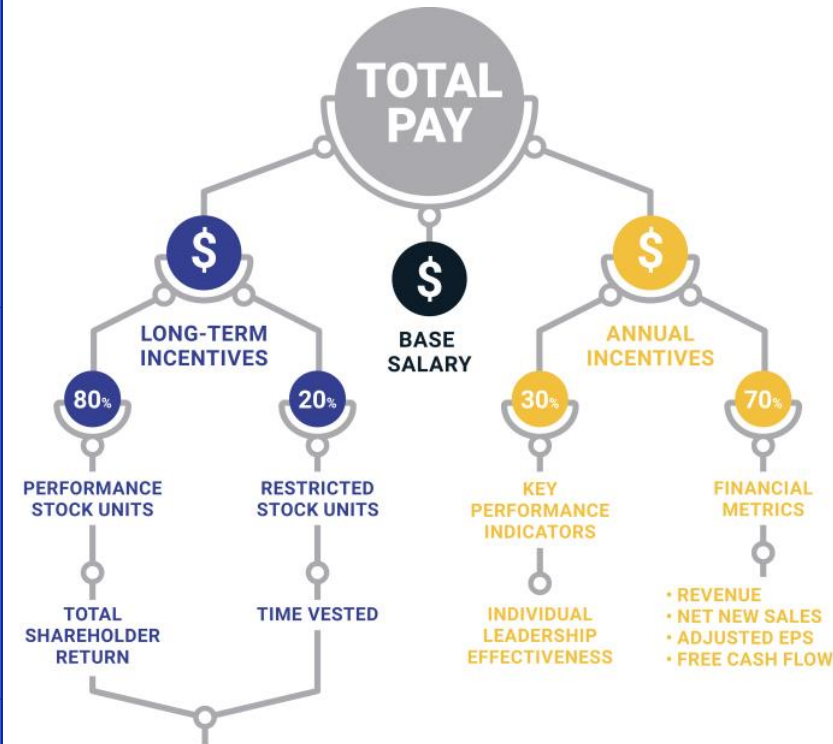
**FY2019 Operating Expense Growth:** 7.4% as reported / 9.0% ex. FX  
**FY2019 Adjusted EBITDA Expense Growth:** 6.9% as reported / 8.7% ex. FX

Operating Expense Growth - as reported (%)  
Operating Expense Growth - ex. FX fluctuations (%)  
Adjusted EBITDA Expense Growth - as reported (%)  
Adjusted EBITDA Expense Growth - ex. FX fluctuations (%)



# Pay for performance culture at MSCI

	Component	Objective	Pay In
Fixed Compensation	Annual Base Pay	<ul style="list-style-type: none"> <li>The only fixed component of our executive compensation program</li> <li>Provides certainty and predictability to meet ongoing living and financial commitments</li> </ul>	Cash
	Annual Incentive Plan (AIP)	<ul style="list-style-type: none"> <li>Alignment of management's interests with shareholders' interests</li> <li>Introduced to drive one year performance results</li> <li>Specific financial criteria and key performance indicators</li> </ul>	Cash
Variable Compensation	Long-Term Incentive Plan (LTIP)	<ul style="list-style-type: none"> <li>Align interests of management with the execution of Company's long-term strategy and shareholder value</li> <li>Promotes retention</li> </ul>	Performance Stock Units  Restricted Stock Units <sup>(1)</sup>



Reflects weightings for the President, COO and the heads of each product segment in 2016. CEO was weighted 100% PSUs in 2016. Our CEO and NEOs were not eligible to receive PSUs in 2017 and 2018.

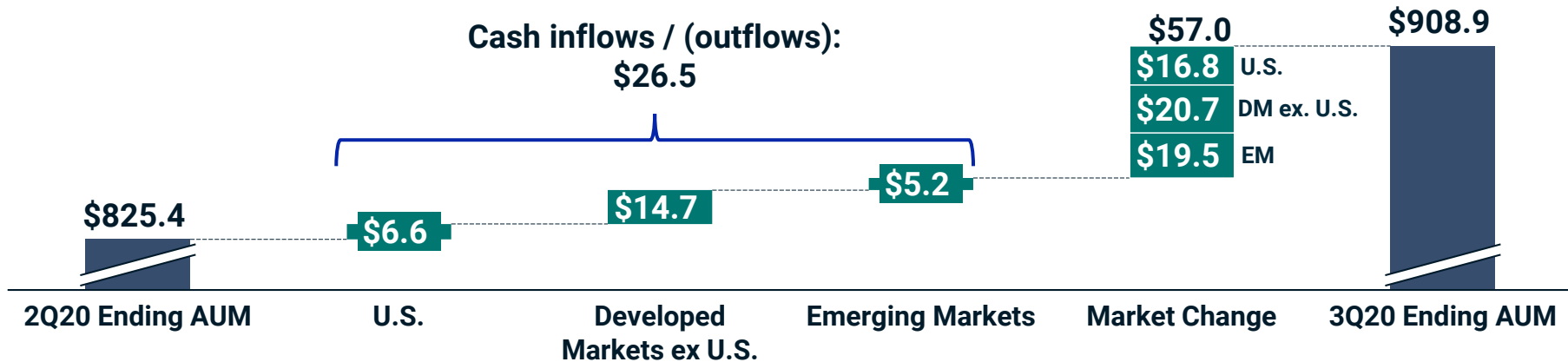
Other Executive Committee members were weighted 40% RSUs and 60% PSUs in 2017 and 2018.

**Executive compensation program aligned with shareholder interests**

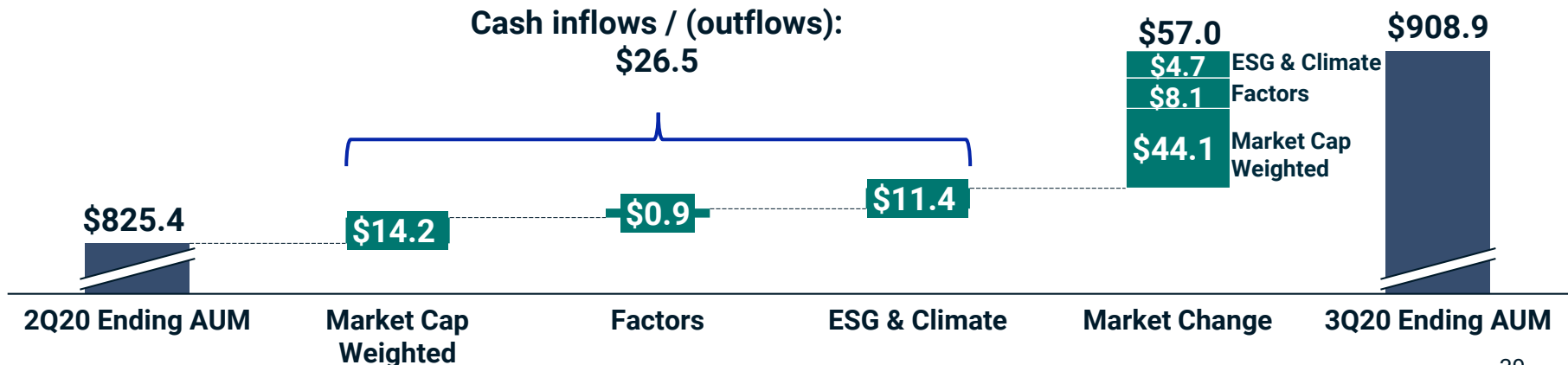
# Index segment: 3Q20 QoQ AUM drivers: MSCI-linked equity ETFs

(US\$ in billions)

## By Geographic Exposure



## By Product



# MSCI's approach to ESG Ratings

MSCI ESG Ratings assess the extent to which companies are positioned to manage the risks and take advantage of the opportunities emerging from a rapidly changing world



**Forward-looking financial materiality:** We monitor emerging risks & opportunities and focus on the issues that are most relevant to a company's core business model.



**Alternative data & models:** Alternative data helps minimize reliance on voluntary disclosure to deliver key insights.  
  
Robust models transform unstructured data into meaningful signals.



**Tech-enabled human insights:** We use technology and artificial intelligence (AI) to increase the timeliness and precision of data collection and analysis, and to check and validate data.

Our 200+ strong team of analysts vet, validate and transform the data into meaningful insights



# ESG Research: continuous data updates to capture the latest events and information

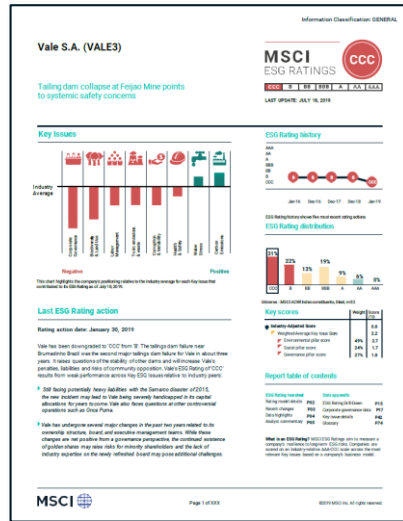
1. Initiate rating

2. Monitor on ongoing basis

3. Incorporate new information in scores and report on weekly basis

4. Significant score changes trigger rating action

5. Upgrade, downgrade or re-affirm rating



On average per week:

**180** companies are updated to account for **new controversies**

**425** companies are updated to reflect **new governance information**

All ratings **pro-actively reviewed in full** if no rating action has been triggered in last 12 months

**2.3M+** data values updated per month

# Use of non-GAAP financial measures

- MSCI has presented supplemental non-GAAP financial measures as part of this presentation. Reconciliations are provided in slides 44-51 that reconcile each non-GAAP financial measure with the most comparable GAAP measure. 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 earnings presentation are used by management to monitor the financial performance of the business, inform business decision-making and forecast future results.
- “Adjusted EBITDA” is defined as net income before (1) provision for income taxes, (2) other expense (income), net, (3) depreciation and amortization of property, equipment and leasehold improvements, (4) amortization of intangible assets and, at times, (5) certain other transactions or adjustments, including the impact related to the vesting of the multi-year restricted stock units subject to performance payout adjustments granted in 2016 (the “Multi-Year PSUs”).
- “Adjusted EBITDA expenses” is defined as operating expenses less depreciation and amortization of property, equipment and leasehold improvements and amortization of intangible assets and, at times, certain other transactions or adjustments, including the impact related to the vesting of the Multi-Year PSUs.
- “Adjusted net income” and “adjusted EPS” are defined as net income and diluted EPS, respectively, before the after-tax impact of the amortization of acquired intangible assets, including the amortization of the basis difference between the cost of the equity method investment and MSCI’s share of the net assets of the investee at historical carrying value, the impact of divestitures, the impact of adjustments for the Tax Cuts and Jobs Act that was enacted on December 22, 2017 (“Tax Reform”), except for amounts associated with active tax planning implemented as a result of Tax Reform, and, at times, certain other transactions or adjustments, including the impact related to the vesting of the Multi-Year PSUs and costs associated with debt extinguishment.
- “Adjusted tax rate” is defined as the effective tax rate excluding the impact of Tax Reform adjustments (except for amounts associated with active tax planning implemented as a result of Tax Reform) and the impact related to the vesting of the Multi-Year PSUs.
- “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.
- “Organic operating revenue growth” is defined as operating revenue growth compared to the prior year period excluding the impact of acquired businesses, divested businesses and foreign currency exchange rate fluctuations.
- Asset-based fees ex-FX does not adjust for the impact from foreign currency exchange rate fluctuations on the underlying AUM.
- 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 eliminate the accounting effects of certain capital spending and acquisitions that do not directly affect what management considers to be our ongoing operating performance in the period.
- We believe adjusted net income and adjusted EPS are meaningful measures of the performance of MSCI because they adjust for the after-tax impact of significant one-time, unusual or non-recurring items as well as eliminate the impact of any transactions that do not directly affect what management considers to be our ongoing operating performance in the period. We also exclude the after-tax impact of the amortization of acquired intangible assets and amortization of the basis difference between the cost of the equity method investment and MSCI’s share of the net assets of the investee at historical carrying value, as these non-cash amounts are significantly impacted by the timing and size of each acquisition and therefore not meaningful to the ongoing operating performance in the period.
- We believe that adjusted tax rate is useful to investors because it increases the comparability of period-to-period results by adjusting for the estimated net impact of Tax Reform and the impact related to the vesting of the Multi-Year PSUs.
- 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 products. 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 organic operating revenue growth is a meaningful measure of the operating performance of MSCI because it adjusts for the impact of foreign currency exchange rate fluctuations and excludes the impact of operating revenues attributable to acquired and divested businesses for the comparable prior year period, providing insight into our ongoing operating performance for the period(s) presented.
- We believe that the non-GAAP financial measures presented in this earnings presentation 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, adjusted tax rate, Capex, free cash flow and organic operating revenue growth 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. These measures can differ significantly from company to company depending on, among other things, long-term strategic decisions regarding capital structure, the tax jurisdictions in which companies operate and capital investments. Accordingly, the Company’s computation of these measures may not be comparable to similarly titled measures computed by other companies.

# Use of operating metrics

- MSCI has presented supplemental key operating metrics as part of this presentation, including Retention Rate, Run Rate, subscription sales, subscription cancellations and non-recurring sales.
- Retention Rate is an important metric because subscription cancellations decrease our Run Rate and ultimately our operating revenues over time. The annual Retention Rate represents the retained subscription Run Rate (subscription Run Rate at the beginning of the fiscal year less actual cancels during the year) as a percentage of the subscription Run Rate at the beginning of the fiscal year. The Retention Rate for a non-annual 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 not to renew during the non-annual 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 fiscal year to calculate a cancellation rate. This cancellation rate is then subtracted from 100% to derive the annualized Retention Rate for the period. Retention Rate is computed by operating segment on a product/service-by-product/service basis. In general, if a client reduces the number of products or services to which it subscribes within a segment, or switches between products or services within a segment, we treat it as a cancellation for purposes of calculating our Retention Rate except in the case of a product or service switch that management considers to be a replacement product or service. In those replacement cases, only the net change to the client subscription, if a decrease, is reported as a cancel. In the Analytics and the ESG operating segments, substantially all product or service switches are treated as replacement products or services and netted in this manner, while in our Index and Real Estate operating segments, product or service switches that are treated as replacement products or services and receive netting treatment occur only in certain limited instances. In addition, we treat any reduction in fees resulting from a down-sale of the same product or service as a cancellation to the extent of the reduction. We do not calculate Retention Rate for that portion of our Run Rate attributable to assets in index-linked investment products or futures and options contracts, in each case, linked to our indexes.
- Run Rate estimates at a particular point in time the annualized value of the recurring revenues under our client license agreements ("Client Contracts") for the next 12 months, assuming all Client Contracts that come up for renewal are renewed and assuming then-current currency exchange rates, subject to the adjustments and exclusions described below. For any Client Contract where fees are linked to an investment product's assets or trading volume/fees, 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/or reported exchange fees, and for other non-ETF products, the most recent client-reported assets. Run Rate does not include fees associated with "one-time" and other non-recurring transactions. In addition, we add to Run Rate the annualized fee value of recurring new sales, whether to existing or new clients, when we execute Client Contracts, even though the license start date, and associated revenue recognition, may not be effective until a later date. We remove from Run Rate the annualized fee value associated with products or services under any Client Contract with respect to which we have received a notice of termination or non-renewal during the period and have determined that such notice evidences the client's final decision to terminate or not renew the applicable products or services, even though such notice is not effective until a later date.
- "Organic subscription Run Rate growth" 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 currency exchange rate from the comparable prior period to current period foreign currency denominated Run Rate.
- Sales represents the annualized value of products and services clients commit to purchase from MSCI and will result in additional operating revenues. Non-recurring sales represent the actual value of the customer agreements entered into during the period and are not a component of Run Rate. New recurring subscription sales represent additional selling activities, such as new customer agreements, additions to existing agreements or increases in price that occurred during the period and are additions to Run Rate. Subscription cancellations reflect client activities during the period, such as discontinuing products and services and/or reductions in price, resulting in reductions to Run Rate. Net new recurring subscription sales represent the amount of new recurring subscription sales net of subscription cancellations during the period, which reflects the net impact to Run Rate during the period.
- Total gross sales represent the sum of new recurring subscription sales and non-recurring sales. Total net sales represent the total gross sales net of the impact from subscription cancellations.

# Reconciliation of Adjusted EBITDA to Net Income

(UNAUDITED)

In thousands	Year Ended				
	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2015
Index adjusted EBITDA	\$ 670,188	\$ 607,853	\$ 522,241	\$ 431,478	\$ 392,987
Analytics adjusted EBITDA	152,113	143,645	125,624	128,507	95,468
All Other adjusted EBITDA	28,198	20,935	11,892	9,472	(6,758)
<b>Consolidated adjusted EBITDA</b>	<b>850,499</b>	<b>772,433</b>	<b>659,757</b>	<b>569,457</b>	<b>481,697</b>
Multi-Year PSU payroll tax expense	15,389	—	—	—	—
Amortization of intangible assets	49,410	54,189	44,547	47,033	46,910
Depreciation and amortization of property, equipment and leasehold improvements	29,999	31,346	35,440	34,320	30,889
<b>Operating income</b>	<b>755,701</b>	<b>686,898</b>	<b>579,770</b>	<b>488,104</b>	<b>403,898</b>
Other expense (income), net	152,383	57,002	112,871	102,166	54,344
Provision for income taxes	39,670	122,011	162,927	125,083	119,516
<b>Income from continuing operations</b>	<b>563,648</b>	<b>507,885</b>	<b>303,972</b>	<b>260,855</b>	<b>230,038</b>
Income (loss) from discontinued operations, net of income taxes	—	—	—	—	(6,390)
<b>Net income</b>	<b>\$ 563,648</b>	<b>\$ 507,885</b>	<b>\$ 303,972</b>	<b>\$ 260,855</b>	<b>\$ 223,648</b>

In thousands	Three Months Ended		Nine Months Ended		Trailing Twelve Months Ended
	Sep. 30, 2020	Sep. 30, 2019	Sep. 30, 2020	Sep. 30, 2019	Sep. 30, 2020
Index adjusted EBITDA	\$ 194,720	\$ 177,680	\$ 561,563	\$ 493,806	\$ 737,945
Analytics adjusted EBITDA	45,056	37,797	127,540	113,266	166,387
All Other adjusted EBITDA	9,671	5,312	26,271	23,220	31,249
<b>Consolidated adjusted EBITDA</b>	<b>249,447</b>	<b>220,789</b>	<b>715,374</b>	<b>630,292</b>	<b>935,581</b>
Multi-Year PSU payroll tax expense	—	—	—	15,389	—
Amortization of intangible assets	14,333	12,361	42,171	36,167	55,414
Depreciation and amortization of property, equipment and leasehold improvements	7,494	7,209	22,524	22,464	30,059
<b>Operating income</b>	<b>227,620</b>	<b>201,219</b>	<b>650,679</b>	<b>556,272</b>	<b>850,108</b>
Other expense (income), net	38,577	32,471	159,620	99,487	212,516
Provision for income taxes	6,685	31,765	45,453	15,920	69,203
<b>Net income</b>	<b>\$ 182,358</b>	<b>\$ 136,983</b>	<b>\$ 445,606</b>	<b>\$ 440,865</b>	<b>\$ 568,389</b>

# Reconciliation of Adjusted EBITDA Expenses to Operating Expenses (UNAUDITED)

In thousands	Three Months Ended				Year Ended
	Dec. 31, 2019	Sep. 30, 2019	June 30, 2019	Mar. 31, 2019	December 31, 2019
Index adjusted EBITDA expenses	\$ 66,805	\$ 59,747	\$ 61,635	\$ 62,562	\$ 250,749
Analytics adjusted EBITDA expenses	89,359	85,806	84,610	85,037	344,812
All Other adjusted EBITDA expenses	30,235	27,909	27,517	26,075	111,736
<b>Consolidated adjusted EBITDA expenses</b>	<b>186,399</b>	<b>173,462</b>	<b>173,762</b>	<b>173,674</b>	<b>707,297</b>
Multi-Year PSU payroll tax expense	–	–	–	15,389	15,389
Amortization of intangible assets	13,243	12,361	12,013	11,793	49,410
Depreciation and amortization of property, equipment and leasehold improvements	7,535	7,209	7,405	7,850	29,999
<b>Total operating expenses</b>	<b>\$ 207,177</b>	<b>\$ 193,032</b>	<b>\$ 193,180</b>	<b>\$ 208,706</b>	<b>\$ 802,095</b>

In thousands	Three Months Ended			Full-Year
	Sep. 30, 2020	June 30, 2020	Mar. 31, 2020	2020 Outlook(1)
Index adjusted EBITDA expenses	\$ 60,971	\$ 59,652	\$ 65,669	
Analytics adjusted EBITDA expenses	83,281	81,396	89,191	
All Other adjusted EBITDA expenses	31,634	31,868	32,693	
<b>Consolidated adjusted EBITDA expenses</b>	<b>175,886</b>	<b>172,916</b>	<b>187,553</b>	<b>\$710,000 - \$730,000</b>
Multi-Year PSU payroll tax expense	–	–	–	
Amortization of intangible assets	14,333	14,062	13,776	
Depreciation and amortization of property, equipment and leasehold improvements	7,494	7,463	7,567	~\$90,000
<b>Total operating expenses</b>	<b>\$ 197,713</b>	<b>\$ 194,441</b>	<b>\$ 208,896</b>	<b>\$800,000 - \$820,000</b>

# Reconciliation of Net Income to Adjusted Net Income (UNAUDITED)

In thousands	Year Ended				
	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2015
Net income	\$ 563,648	\$ 507,885	\$ 303,972	\$ 260,855	\$ 223,648
Less: Income (loss) from discontinued operations, net of income taxes	—	—	—	—	(6,390)
Income from continuing operations	563,648	507,885	303,972	260,855	230,038
Plus: Amortization of acquired intangible assets	34,773	43,981	39,157	47,033	46,910
Plus: Multi-Year PSU payroll tax expense	15,389	—	—	—	—
Less: Discrete excess tax benefit related to Multi-Year PSU vesting	(66,581)	—	—	—	—
Plus: Debt extinguishment costs associated with the 2024 Senior Notes Redemption	16,794	—	—	—	—
Less: Gain on sale of Alacra (not-tax effected)	—	—	(771)	—	(6,300)
Less: Gain on sale of FEA (not-tax effected)	—	(10,646)	—	—	—
Less: Gain on sale of InvestorForce	—	(46,595)	—	—	—
Less: Valuation Allowance released related to InvestorForce disposition	—	(7,758)	—	—	—
Less: Tax Reform adjustments	—	(8,272)	34,500	—	—
Less: Income tax effect	(13,226)	1,678	(10,772)	(15,243)	(16,039)
<b>Adjusted net income</b>	<b>\$ 550,797</b>	<b>\$ 480,273</b>	<b>\$ 366,086</b>	<b>\$ 292,645</b>	<b>\$ 254,609</b>

In thousands	Three Months Ended				Trailing Twelve Months Ended
	Dec. 31, 2019	Mar. 31, 2020	Jun. 30, 2020	Sep. 30, 2020	Sep. 30, 2020
Net income	\$ 122,783	\$ 148,125	\$ 115,123	\$ 182,358	\$ 568,389
Plus: Amortization of acquired intangible assets and equity method investment basis difference (1)	8,778	8,778	9,592	\$ 9,515	36,663
Plus: Multi-Year PSU payroll tax expense	—	—	—	—	—
Less: Discrete excess tax benefit related to Multi-Year PSU vesting	—	—	—	—	—
Plus: Debt extinguishment costs associated with the 2024 and 2025 Senior Notes Redemptions	16,794	9,966	34,964	—	61,724
Less: Tax Reform adjustments	—	(759)	—	(5,497)	(6,256)
Less: Income tax effect	(5,752)	(3,396)	(10,555)	(532)	(20,235)
<b>Adjusted net income</b>	<b>\$ 142,603</b>	<b>\$ 162,714</b>	<b>\$ 149,124</b>	<b>\$ 185,844</b>	<b>\$ 640,285</b>

# Reconciliation of Diluted EPS to Adjusted EPS

(UNAUDITED)

	Year Ended				
	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2015
Diluted EPS	6.59	\$ 5.66	\$ 3.31	\$ 2.70	\$ 2.03
Less: Earnings per diluted common share from discontinued operations	—	—	—	—	(0.06)
Earnings per diluted common share from continuing operations	6.59	\$ 5.66	\$ 3.31	\$ 2.70	\$ 2.09
Plus: Amortization of acquired intangible assets	0.41	0.49	0.43	0.49	0.43
Plus: Multi-Year PSU payroll tax expense	0.18	—	—	—	—
Less: Discrete excess tax benefit related to Multi-Year PSU vesting	(0.78)	—	—	—	—
Plus: Debt extinguishment costs associated with the 2024 Senior Notes Redemption	0.20	—	—	—	—
Less: Gain on sale of Alacra (not-tax effected)	—	—	(0.01)	—	(0.06)
Less: Gain on sale of FEA (not-tax effected)	—	(0.12)	—	—	—
Less: Gain on sale of InvestorForce	—	(0.52)	—	—	—
Less: Valuation Allowance released related to InvestorForce disposition	—	(0.09)	—	—	—
Plus: Tax Reform adjustments	—	(0.09)	0.38	—	—
Less: Income tax effect	(0.16)	0.02	(0.13)	(0.16)	(0.14)
<b>Adjusted EPS</b>	<b>6.44</b>	<b>\$ 5.35</b>	<b>\$ 3.98</b>	<b>\$ 3.03</b>	<b>\$ 2.32</b>

	Three Months Ended				Cumulative Trailing Twelve Months Ended
	Dec. 31, 2019	Mar. 31, 2020	Jun. 30, 2020	Sep. 30, 2020	Sep. 30, 2020
Diluted EPS	1.44	1.73	\$ 1.36	\$ 2.16	\$ 6.69
Plus: Amortization of acquired intangible assets and equity method investment basis difference (1)	0.10	0.10	0.11	0.11	0.42
Plus: Multi-Year PSU payroll tax expense	—	—	—	—	—
Less: Discrete excess tax benefit related to Multi-Year PSU vesting	—	—	—	—	—
Plus: Debt extinguishment costs associated with the 2024 and 2025 Senior Notes Redemptions	0.20	0.12	0.41	—	0.73
Less: Tax Reform adjustments	—	(0.01)	—	(0.07)	(0.08)
Less: Income tax effect	(0.07)	(0.04)	(0.11)	—	(0.22)
<b>Adjusted EPS</b>	<b>\$ 1.67</b>	<b>\$ 1.90</b>	<b>\$ 1.77</b>	<b>\$ 2.20</b>	<b>\$ 7.54</b>

# Reconciliation of Net Cash Provided by Operating Activities to Free Cash Flow (UNAUDITED)

In thousands	Year Ended				
	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2015
Net cash provided by operating activities	\$ 709,523	\$ 612,762	\$ 404,158	\$ 442,363	\$ 321,247
Capital expenditures	(29,116)	(30,257)	(33,177)	(32,284)	(40,652)
Capitalized software development costs	(24,654)	(18,704)	(15,640)	(10,344)	(8,500)
Capex	(53,770)	(48,961)	(48,817)	(42,628)	(49,152)
<b>Free cash flow</b>	<b>\$ 655,753</b>	<b>\$ 563,801</b>	<b>\$ 355,341</b>	<b>\$ 399,735</b>	<b>\$ 272,095</b>
<b>Net Income</b>	<b>\$ 563,648</b>	<b>\$ 507,885</b>	<b>\$ 303,972</b>	<b>\$ 260,855</b>	<b>\$ 223,648</b>

In thousands	Three Months Ended		Nine Months Ended		Trailing Twelve Months Ended	Full-Year
	Sep. 30, 2020	Sep. 30, 2019	Sep. 30, 2020	Sep. 30, 2019	Sep. 30, 2020	2020 Outlook <sup>(1)</sup>
Net cash provided by operating activities	\$ 199,795	\$ 188,535	\$ 575,181	\$ 465,880	\$ 818,824	\$705,000 - \$750,000
Capital expenditures	(4,555)	(7,782)	(12,152)	(17,216)	(24,052)	
Capitalized software development costs	(7,170)	(6,983)	(21,931)	(18,086)	(28,499)	
Capex	(11,725)	(14,765)	(34,083)	(35,302)	(52,551)	(\$55,000 - \$50,000)
<b>Free cash flow</b>	<b>\$ 188,070</b>	<b>\$ 173,770</b>	<b>\$ 541,098</b>	<b>\$ 430,578</b>	<b>\$ 766,273</b>	<b>\$650,000 - \$700,000</b>
<b>Net Income</b>	<b>\$ 182,358</b>	<b>\$ 136,983</b>	<b>\$ 445,606</b>	<b>\$ 440,865</b>	<b>\$ 568,389</b>	



# Reconciliation of Effective Tax Rate to Adjusted Tax Rate *(UNAUDITED)*

	Year Ended				
	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2015
Effective tax rate	6.6%	19.4%	34.9%	32.4%	34.2%
Tax Reform impact on effective tax rate	—%	1.3%	(7.4%)	—%	—%
Multi-Year PSU impact on effective tax rate	11.0%	—%	—%	—%	—%
Adjusted tax rate	17.6%	20.7%	27.5%	32.4%	34.2%

	Three Months Ended		Nine Months Ended	
	Sep. 30, 2020	Sep. 30, 2019	Sep. 30, 2020	Sep. 30, 2019
Effective tax rate	3.5%	18.8%	9.3%	3.5%
Tax Reform impact on effective tax rate	2.9%	—%	1.2%	—%
Multi-Year PSU impact on effective tax rate	—%	—%	—%	14.6%
Adjusted tax rate	6.4%	18.8%	10.5%	18.1%

# Reconciliation of Operating Revenue Growth to Organic Operating Revenue Growth *(UNAUDITED)*

	Comparison of the Three Months Ended September 30, 2020 and 2019			
	<b>Total</b>	<b>Recurring Subscription</b>	<b>Asset-Based Fees</b>	<b>Non-Recurring Revenues</b>
<b>Index</b>	<u>Change Percentage</u>	<u>Change Percentage</u>	<u>Change Percentage</u>	<u>Change Percentage</u>
Operating revenue growth	7.7%	9.7%	4.5%	11.5%
Impact of acquisitions and divestitures	—%	—%	—%	—%
Impact of foreign currency exchange rate fluctuations	(0.1%)	—%	—%	—%
Organic operating revenue growth	<u>7.6%</u>	<u>9.7%</u>	<u>4.5%</u>	<u>11.5%</u>
	<b>Total</b>	<b>Recurring Subscription</b>	<b>Asset-Based Fees</b>	<b>Non-Recurring Revenues</b>
<b>Analytics</b>	<u>Change Percentage</u>	<u>Change Percentage</u>	<u>Change Percentage</u>	<u>Change Percentage</u>
Operating revenue growth	3.8%	3.4%	—%	40.7%
Impact of acquisitions and divestitures	—%	—%	—%	—%
Impact of foreign currency exchange rate fluctuations	—%	(0.1%)	—%	(0.2%)
Organic operating revenue growth	<u>3.8%</u>	<u>3.3%</u>	<u>—%</u>	<u>40.5%</u>
	<b>Total</b>	<b>Recurring Subscription</b>	<b>Asset-Based Fees</b>	<b>Non-Recurring Revenues</b>
<b>All Other</b>	<u>Change Percentage</u>	<u>Change Percentage</u>	<u>Change Percentage</u>	<u>Change Percentage</u>
Operating revenue growth	24.3%	24.4%	—%	18.4%
Impact of acquisitions and divestitures	(2.1%)	(1.4%)	—%	(35.2%)
Impact of foreign currency exchange rate fluctuations	(3.6%)	(3.7%)	—%	(0.7%)
Organic operating revenue growth	<u>18.6%</u>	<u>19.3%</u>	<u>—%</u>	<u>(17.5%)</u>
	<b>Total</b>	<b>Recurring Subscription</b>	<b>Asset-Based Fees</b>	<b>Non-Recurring Revenues</b>
<b>Consolidated</b>	<u>Change Percentage</u>	<u>Change Percentage</u>	<u>Change Percentage</u>	<u>Change Percentage</u>
Operating revenue growth	7.9%	8.7%	4.5%	16.2%
Impact of acquisitions and divestitures	(0.2%)	(0.2%)	—%	(2.2%)
Impact of foreign currency exchange rate fluctuations	(0.4%)	(0.4%)	—%	(0.1%)
Organic operating revenue growth	<u>7.3%</u>	<u>8.1%</u>	<u>4.5%</u>	<u>13.9%</u>

# Reconciliation of Operating Revenue Growth to Organic Operating Revenue Growth (UNAUDITED)

Comparison of the Nine Months Ended September 30, 2020 and 2019				
	<b>Total</b>	<b>Recurring Subscription</b>	<b>Asset-Based Fees</b>	<b>Non-Recurring Revenues</b>
<b>Index</b>	<u>Change Percentage</u>	<u>Change Percentage</u>	<u>Change Percentage</u>	<u>Change Percentage</u>
Operating revenue growth	10.3%	9.8%	8.7%	45.4%
Impact of acquisitions and divestitures	—%	—%	—%	—%
Impact of foreign currency exchange rate fluctuations	—%	(0.1%)	—%	—%
Organic operating revenue growth	<u>10.3%</u>	<u>9.7%</u>	<u>8.7%</u>	<u>45.4%</u>
	<b>Total</b>	<b>Recurring Subscription</b>	<b>Asset-Based Fees</b>	<b>Non-Recurring Revenues</b>
<b>Analytics</b>	<u>Change Percentage</u>	<u>Change Percentage</u>	<u>Change Percentage</u>	<u>Change Percentage</u>
Operating revenue growth	3.4%	3.5%	—%	2.4%
Impact of acquisitions and divestitures	—%	—%	—%	—%
Impact of foreign currency exchange rate fluctuations	—%	(0.1%)	—%	(0.3%)
Organic operating revenue growth	<u>3.4%</u>	<u>3.4%</u>	<u>—%</u>	<u>2.1%</u>
	<b>Total</b>	<b>Recurring Subscription</b>	<b>Asset-Based Fees</b>	<b>Non-Recurring Revenues</b>
<b>All Other</b>	<u>Change Percentage</u>	<u>Change Percentage</u>	<u>Change Percentage</u>	<u>Change Percentage</u>
Operating revenue growth	16.9%	16.5%	—%	37.8%
Impact of acquisitions and divestitures	(1.2%)	(0.9%)	—%	(16.6%)
Impact of foreign currency exchange rate fluctuations	0.3%	0.3%	—%	0.6%
Organic operating revenue growth	<u>16.0%</u>	<u>15.9%</u>	<u>—%</u>	<u>21.8%</u>
	<b>Total</b>	<b>Recurring Subscription</b>	<b>Asset-Based Fees</b>	<b>Non-Recurring Revenues</b>
<b>Consolidated</b>	<u>Change Percentage</u>	<u>Change Percentage</u>	<u>Change Percentage</u>	<u>Change Percentage</u>
Operating revenue growth	8.7%	7.9%	8.7%	36.8%
Impact of acquisitions and divestitures	(0.1%)	(0.1%)	—%	(1.4%)
Impact of foreign currency exchange rate fluctuations	—%	—%	—%	(0.1%)
Organic operating revenue growth	<u>8.6%</u>	<u>7.8%</u>	<u>8.7%</u>	<u>35.3%</u>