

MSCI Inc.  
Form 10-Q  
August 04, 2017  
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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 June 30, 2017

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 July 28, 2017, there were 90,059,125 shares of the registrant's common stock, par value \$0.01, outstanding.

MSCI INC.

FORM 10-Q

FOR THE QUARTER ENDED JUNE 30, 2017

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## 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) 804-1583. 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, 2016 filed with the SEC on February 24, 2017 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 June 30, 2017 (unaudited)	December 31, 2016
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 750,581	\$ 791,834
Accounts receivable (net of allowances of \$1,296 and \$1,035 at June 30, 2017 and December 31, 2016, respectively)	289,227	221,504
Prepaid income taxes	16,201	12,389
Prepaid and other assets	27,429	29,943
Total current assets	1,083,438	1,055,670
Property, equipment and leasehold improvements (net of accumulated depreciation and amortization of \$155,884 and \$136,841 at June 30, 2017 and December 31, 2016, respectively)	88,825	95,585
Goodwill	1,558,429	1,555,850
Intangible assets (net of accumulated amortization of \$485,960 and \$462,860 at June 30, 2017 and December 31, 2016, respectively)	332,624	347,640
Deferred tax assets	9,992	9,531
Other non-current assets	16,789	18,302
Total assets	\$ 3,090,097	\$ 3,082,578
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 329	\$ 568
Accrued compensation and related benefits	72,107	119,113
Other accrued liabilities	80,845	82,531
Deferred revenue	399,116	334,358
Total current liabilities	552,397	536,570
Long-term debt	2,076,647	2,075,201
Deferred taxes	87,422	94,067
Other non-current liabilities	66,431	59,135

Total liabilities	2,782,897	2,764,973
Commitments and Contingencies (see Note 6 and Note 7)		
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; 129,477,122		
and 128,996,344 common shares issued and 90,129,138 and 91,279,590 common		
shares outstanding at June 30, 2017 and December 31, 2016, respectively)	1,295	1,290
Treasury shares, at cost (39,347,984 and 37,716,754 common shares held at June 30,		
2017 and December 31, 2016, respectively)	(2,312,471 )	(2,170,739 )
Additional paid in capital	1,246,779	1,225,565
Retained earnings	1,424,962	1,322,224
Accumulated other comprehensive loss	(53,365 )	(60,735 )
Total shareholders' equity	307,200	317,605
Total liabilities and shareholders' equity	\$3,090,097	\$ 3,082,578

See Notes to Unaudited Condensed Consolidated Financial Statements



MSCI INC.

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share data)

	Three Months Ended June 30, 2017		Six Months Ended June 30, 2017	
	2016	2016	2016	2016
	(unaudited)			
Operating revenues	\$316,089	\$290,596	\$617,296	\$569,424
Operating expenses:				
Cost of revenues	68,595	62,130	136,116	125,302
Selling and marketing	41,594	41,854	84,608	83,543
Research and development	18,203	18,566	37,180	37,494
General and administrative	21,448	22,019	42,452	43,909
Amortization of intangible assets	11,122	11,943	22,373	23,783
Depreciation and amortization of property, equipment and leasehold improvements	9,159	8,393	17,997	16,561
Total operating expenses	170,121	164,905	340,726	330,592
Operating income	145,968	125,691	276,570	238,832
Interest income	(1,310 )	(585 )	(2,242 )	(1,206 )
Interest expense	29,027	22,918	58,051	45,822
Other expense (income)	740	2,814	1,625	2,895
Other expense (income), net	28,457	25,147	57,434	47,511
Income before provision for income taxes	117,511	100,544	219,136	191,321
Provision for income taxes	36,245	33,587	64,919	63,997
Net income	\$81,266	\$66,957	\$154,217	\$127,324
Earnings per basic common share	\$0.90	\$0.69	\$1.70	\$1.30
Earnings per diluted common share	\$0.89	\$0.69	\$1.68	\$1.29
Weighted average shares outstanding used in computing earnings per share				
Basic	90,404	96,412	90,555	97,918
Diluted	91,708	96,888	91,665	98,443
Dividend declared per common share	\$0.28	\$0.22	\$0.56	\$0.44

See Notes to Unaudited Condensed Consolidated Financial Statements



MSCI INC.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

	Three Months Ended June 30, 2017      2016 (unaudited)		Six Months Ended June 30, 2017      2016	
Net income	\$81,266	\$66,957	\$154,217	\$127,324
Other comprehensive (loss) income:				
Foreign currency translation adjustments	4,963	(12,691)	7,904	(12,387)
Income tax effect	—	212	—	145
Foreign currency translation adjustments, net	4,963	(12,479)	7,904	(12,242)
Pension and other post-retirement adjustments	(175 )	81	(274 )	(232 )
Income tax effect	(297 )	(20 )	(260 )	62
Pension and other post-retirement adjustments, net	(472 )	61	(534 )	(170 )
Other comprehensive (loss) income, net of tax	4,491	(12,418)	7,370	(12,412)
Comprehensive income	\$85,757	\$54,539	\$161,587	\$114,912

See Notes to Unaudited Condensed Consolidated Financial Statements

MSCI INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Six Months Ended June 30,	
	2017	2016
	(unaudited)	
Cash flows from operating activities		
Net income	\$ 154,217	\$ 127,324
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of intangible assets	22,373	23,783
Stock-based compensation expense	18,737	15,273
Depreciation and amortization of property, equipment and leasehold improvements	17,997	16,561
Amortization of debt origination fees	1,698	1,417
Deferred taxes	(7,080 )	(4,756 )
Other non-cash adjustments	(464 )	511
Changes in assets and liabilities:		
Accounts receivable	(66,661 )	(40,381 )
Prepaid income taxes	(4,157 )	(5,193 )
Prepaid and other assets	2,918	2,341
Accounts payable	(247 )	(790 )
Accrued compensation and related benefits	(48,366 )	(39,388 )
Other accrued liabilities	(1,862 )	7,724
Deferred revenue	63,618	47,972
Other	6,511	2,585
Net cash provided by operating activities	159,232	154,983
Cash flows from investing activities		
Capital expenditures	(11,051 )	(13,277 )
Capitalized software development costs	(5,613 )	(5,088 )
Proceeds from sale of investments	771	—
Acquisitions, net of cash acquired	—	(60 )
Net cash used in investing activities	(15,893 )	(18,425 )
Cash flows from financing activities		
Proceeds from exercise of stock options	1,273	3,442
Repurchase of treasury shares	(140,977)	(466,745)
Payment of dividends	(50,920 )	(43,281 )
Net cash used in financing activities	(190,624)	(506,584)
Effect of exchange rate changes	6,032	(3,066 )
Net decrease in cash	(41,253 )	(373,092)
Cash and cash equivalent, beginning of period	791,834	777,706
Cash and cash equivalent, end of period	\$ 750,581	\$ 404,614

Supplemental disclosure of cash flow information:

Cash paid for interest	\$56,157	\$44,660
Cash paid for income taxes	\$71,246	\$72,293

Supplemental disclosure of non-cash investing activities

Property, equipment and leasehold improvements in other accrued liabilities	\$3,765	\$6,042
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Supplemental disclosure of non-cash financing activities

Cash dividends declared, but not yet paid	\$535	\$354
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See Notes to Unaudited Condensed Consolidated Financial Statements

MSCI INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

### 1. INTRODUCTION AND BASIS OF PRESENTATION

MSCI Inc., together with its wholly-owned subsidiaries (the “Company” or “MSCI”), offers products and services to support the needs of institutional investors throughout their investment processes. The Company’s products and services include the development and production of indexes and analytical models; the provision of ratings and analysis that identify environmental, social and governance risks and opportunities and the analysis of real estate in both privately and publicly owned portfolios.

#### Basis of Presentation and Use of Estimates

These unaudited condensed consolidated financial statements include the accounts of MSCI Inc. and its subsidiaries and include all adjustments of a normal, recurring nature necessary to state fairly the financial condition as of June 30, 2017 and December 31, 2016, the results of operations and comprehensive income for the three and six months ended June 30, 2017 and 2016 and cash flows for the six months ended June 30, 2017 and 2016. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes included in MSCI’s Annual Report on Form 10-K for the year ended December 31, 2016. The unaudited condensed consolidated financial statement information as of December 31, 2016 has been derived from the 2016 audited consolidated financial statements. The results of operations for interim periods are not necessarily indicative of results for the entire year.

The Company’s unaudited condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). These accounting principles require the Company to make certain estimates and judgments that can affect the reported amounts of assets and liabilities as of the date of the unaudited condensed consolidated financial statements, as well as the reported amounts of revenue and expenses during the periods presented. Significant estimates and assumptions made by management include the deferral and recognition of revenue, research and development and software capitalization, impairment of long-lived assets, accrued compensation, income taxes and other matters that affect the unaudited condensed consolidated financial statements and related disclosures. The Company believes that estimates used in the preparation of these unaudited condensed consolidated financial statements are reasonable; however, actual results could differ materially from these estimates. Intercompany balances and transactions are eliminated in consolidation.

#### Concentrations

For the six months ended June 30, 2017, BlackRock, Inc. accounted for 10.7% of the Company’s consolidated operating revenues while no single customer represented 10.0% or more of the Company’s consolidated operating revenues for the six months ended June 30, 2016. For the six months ended June 30, 2017 and 2016, BlackRock, Inc. accounted for 19.0% and 16.9% of the Index segment operating revenues, respectively. No single customer represented 10.0% or more of revenues within the Analytics and All Other segments for the six months ended June 30, 2017 and 2016.

## 2. RECENT ACCOUNTING STANDARDS UPDATES

In May 2014, the FASB issued Accounting Standards Update (“ASU”) 2014-09, “Revenue from Contracts with Customers (Topic 606),” or ASU 2014-09. The objective of ASU 2014-09 is to establish a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and will supersede most of the existing revenue recognition guidance, including industry-specific guidance. The core principle of ASU 2014-09 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Entities have the option of adopting ASU 2014-09 retrospectively to each prior period presented, or retrospectively with a cumulative-effect adjustment recognized as of the date of initial application. In August 2015, the FASB issued ASU 2015-14, “Deferral of the Effective Date,” which defers the effective date of ASU 2014-09 by one year by changing the effective date to be for annual reporting periods, including interim periods within those periods, beginning after December 15, 2017 from December 15, 2016, with early adoption at the prior date permitted.

In March 2016, the FASB issued ASU 2016-08, “Principal Versus Agent Considerations (Reporting Revenue Gross Versus Net).” In April 2016, the FASB issued ASU 2016-10, “Identifying Performance Obligations and Licensing.” In May 2016, the FASB issued ASU 2016-12, “Narrow-Scope Improvements and Practical Expedients.” In December 2016, the FASB issued Accounting Standards Update No. 2016-20, “Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers.” These updates provide supplemental adoption guidance and clarification to ASU 2014-09 and must be adopted concurrently. The Company intends to adopt the new revenue guidance as of January 1, 2018 using the modified retrospective transition method. Under this adoption method, the Company will record a cumulative adjustment to retained earnings at January 1, 2018 and apply the

provisions of the ASU prospectively. Currently, the Company expects that ASU 2014-09 will have an impact on a number of accounting practices, including but not limited to, the timing of revenue recognition and costs for implementation services; the timing of revenue recognition of licenses for desktop applications; and accounting for multi-year deals. In addition, the new standard will require certain amounts in accounts receivable and deferred revenues to be netted on the balance sheet and enhanced disclosures in relation to (i) disaggregated revenue, (ii) reconciliations of contract balances, (iii) performance obligations, (iv) significant judgments and (v) cost to obtain or fulfill contracts. The Company has not yet determined the quantitative impact of the new standard on its condensed consolidated financial statements. The Company is in the process of upgrading its technology infrastructure in order to support the accounting under the new standard as well as assessing the impact that the new standard will have on its processes and internal controls.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, “Leases (Topic 842),” or ASU 2016-02. The FASB issued ASU 2016-02 in order to increase transparency and comparability among organizations by recognizing lease assets and liabilities on the balance sheet and disclosing key information about leasing arrangements. To meet that objective, the FASB amended the FASB Accounting Standards Codification and created Topic 842, Leases. ASU 2016-02 is effective for annual reporting periods, including interim periods within those periods, beginning after December 15, 2018, with early adoption permitted. ASU 2016-02 requires reporting organizations to take a modified retrospective transition approach (as opposed to a full retrospective transition approach). The Company is continuing to evaluate the potential impact that ASU 2016-02 will have on its condensed consolidated financial statements.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, “Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting,” or ASU 2016-09. The FASB issued ASU 2016-09 as part of its Simplification Initiative. The areas for simplification in ASU 2016-09 involve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. Amendments related to accounting for the income tax consequences have been adopted prospectively, resulting in the recognition of \$1.0 million and \$4.1 million of excess tax benefits within income taxes rather than additional paid in capital for the three and six months ended June 30, 2017, respectively. This increased diluted earnings per share by \$0.01 and \$0.04 per share for the three and six months ended June 30, 2017, respectively. Excess tax benefits related to share-based compensation are now included in operating cash flows rather than financing cash flows. This change has been applied retrospectively in accordance with ASU 2016-09 and resulted in an increase of \$4.9 million in net cash provided by operating activities with a matching decrease in net cash used in financing activities for the six months ended June 30, 2017, respectively, compared to previously reported results. The Company has previously classified cash paid for tax withholding purposes as a financing activity in the statement of cash flows, therefore there is no change related to this requirement. The amendments allow for a one-time accounting policy election to either account for forfeitures as they occur or continue to estimate forfeitures as required by current guidance. The Company has elected to continue estimating forfeitures under the current guidance.

In June 2016, the FASB issued Accounting Standards Update No. 2016-13, “Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,” or ASU 2016-13. The amendments in ASU 2016-13 introduce an approach based on expected losses to estimate credit losses on certain types of financial instruments, modifies the impairment model for available-for-sale debt securities and provides for a simplified accounting model for purchased financial assets with credit deterioration since their origination. ASU 2016-13 is effective for annual reporting periods, including interim periods within those periods, beginning after December 15, 2019, with early adoption permitted beginning after December 15, 2018. The adoption of ASU 2016-13 is not expected to have a material effect on the Company’s condensed consolidated financial statements.

In January 2017, the FASB issued Accounting Standards Update No. 2017-01, “Business Combinations (Topic 805): Clarifying the Definition of a Business,” or ASU 2017-01. The amendments in ASU 2017-01 provide a screen to assist entities with evaluating whether transactions should be accounted for as acquisitions or disposals of assets or



businesses. Under ASU 2017-01, an entity first determines whether substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets. If this threshold is met, the set is not a business. If it's not met, the entity then evaluates whether the set meets the requirement that a business include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. ASU 2017-01 also narrows the definition of outputs by more closely aligning it with how outputs are described in Topic 606. ASU 2017-01 is effective for annual reporting periods, including interim periods within those periods, beginning after December 15, 2017, with early adoption permitted. The adoption of ASU 2017-01 is not expected to have a material effect on the Company's condensed consolidated financial statements.

In January 2017, the FASB issued Accounting Standards Update No. 2017-04, "Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment," or ASU 2017-04. The amendments in ASU 2017-04 simplify the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. In computing the implied fair value of goodwill under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities. Instead, under the amendments in ASU 2017-04, an entity performs its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and recognizes an impairment charge for the amount by which the carrying

amount exceeds the reporting unit's fair value, but not more than the total amount of goodwill allocated to the reporting unit. ASU 2017-04 is effective for annual reporting periods, including interim periods within those periods, beginning after December 15, 2019, with early adoption permitted. The adoption of ASU 2017-04 is not expected to have a material effect on the Company's condensed consolidated financial statements.

In February 2017, the FASB issued ASU No. 2017-07, "Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost," or ASU 2017-07. The FASB issued ASU 2017-07 in order to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost. ASU 2017-07 is effective for annual reporting periods, including interim periods within those periods, beginning after December 15, 2017, with early adoption permitted. Entities should apply these amendments retrospectively for the presentation of the service cost component and the other components of net periodic pension cost and net periodic postretirement benefit cost in the income statement and prospectively, on and after the effective date, for the capitalization of the service cost component of net periodic pension cost and net periodic postretirement benefit in assets. The adoption of ASU 2017-07 is not expected to have a material effect on the Company's condensed consolidated financial statements.

In May 2017, the FASB issued Accounting Standards Update No. 2017-09, "Compensation—Stock Compensation (Topic 718), Scope of Modification Accounting," or ASU 2017-09. The FASB issued ASU 2017-09 in order to reduce the diversity in practice, as well as the cost and complexity when applying the guidance in Topic 718, Compensation—Stock Compensation, to a change to the terms or conditions of a share-based payment award. The amendments in ASU 2017-09 provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. ASU 2017-09 provides that an entity shall account for the effects of a modification of the terms or conditions of an equity award as an exchange of the original award for a new award, unless the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used), the vesting conditions and the classification of the modified award are the same as the original award immediately before the award is modified. ASU 2017-09 is effective for annual reporting periods, including interim periods within those periods, beginning after December 15, 2017, with early adoption permitted. ASU 2017-09 requires reporting organizations to apply the amendments prospectively to an award modified on or after the adoption date. The adoption of ASU 2017-09 is not expected to have a material effect on the Company's condensed consolidated financial statements.

### 3. EARNINGS PER COMMON SHARE

Basic earnings per share ("EPS") is computed by dividing income available to MSCI common shareholders by the weighted average number of common shares outstanding during the period. Common shares outstanding include common stock and vested restricted stock unit awards where recipients have satisfied either the explicit vesting terms or retirement-eligible requirements. Diluted EPS reflects the assumed conversion of all dilutive securities. There were 1,501 anti-dilutive securities excluded from the calculation of diluted EPS for the six months ended June 30, 2017, respectively. There were no anti-dilutive securities excluded from the calculation of diluted EPS for the three months ended June 30, 2017 and the three and six months ended June 30, 2016.

The following table presents the computation of basic and diluted EPS:

Three Months Ended	Six Months Ended
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	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
(in thousands, except per share data)				
Net income	\$81,266	\$66,957	\$154,217	\$127,324
Basic weighted average common shares outstanding	90,404	96,412	90,555	97,918
Effect of dilutive securities:				
Stock options and restricted stock units	1,304	476	1,110	525
Diluted weighted average common shares outstanding	91,708	96,888	91,665	98,443
Earnings per basic common share	\$0.90	\$0.69	\$1.70	\$1.30
Earnings per diluted common share	\$0.89	\$0.69	\$1.68	\$1.29

#### 4. PROPERTY, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Property, equipment and leasehold improvements at June 30, 2017 and December 31, 2016 consisted of the following:

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	As of	
	June 30, 2017	December 31, 2016
	(in thousands)	
Computer & related equipment	\$175,117	\$ 162,306
Furniture & fixtures	10,207	9,724
Leasehold improvements	51,045	49,442
Work-in-process	8,340	10,954
Subtotal	244,709	232,426
Accumulated depreciation and amortization	(155,884)	(136,841 )
Property, equipment and leasehold improvements, net	\$88,825	\$ 95,585

Depreciation and amortization expense of property, equipment and leasehold improvements was \$9.2 million and \$8.4 million for the three months ended June 30, 2017 and 2016, respectively. Depreciation and amortization expense of property, equipment and leasehold improvements was \$18.0 million and \$16.6 million for the six months ended June 30, 2017 and 2016, respectively.

## 5. GOODWILL AND INTANGIBLE ASSETS

### Goodwill

The following table presents goodwill by reportable segment:

(in thousands)	Index	Analytics	All Other <sup>(1)</sup>	Total
Goodwill at December 31, 2016	\$1,202,448	\$302,611	\$50,791	\$1,555,850
Foreign exchange translation adjustment	1,596	—	983	2,579
Goodwill at June 30, 2017	\$1,204,044	\$302,611	\$51,774	\$1,558,429

<sup>(1)</sup>The goodwill in All Other at June 30, 2017, consisted of \$31.6 million in the ESG segment and \$20.2 million in the Real Estate segment and at December 31, 2016 consisted of \$31.6 million in the ESG segment and \$19.2 million in the Real Estate segment.

### Intangible Assets

Amortization expense related to intangible assets for the three months ended June 30, 2017 and 2016 was \$11.1 million and \$11.9 million, respectively. Amortization expense related to intangible assets for the six months ended June 30, 2017 and 2016 was \$22.4 million and \$23.8 million, respectively.

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The gross carrying and accumulated amortization amounts related to the Company's identifiable intangible assets were as follows:

	As of June 30, 2017	December 31, 2016
	(in thousands)	
Gross intangible assets:		
Customer relationships	\$361,199	\$ 361,199
Trademarks/trade names	223,382	223,382
Technology/software	215,572	210,013
Proprietary data	28,627	28,627
Covenant not to compete	1,225	1,225
Subtotal	830,005	824,446
Foreign exchange translation adjustment	(11,421 )	(13,946 )
Total gross intangible assets	\$818,584	\$ 810,500
Accumulated amortization:		
Customer relationships	(178,011 )	(166,923 )
Trademarks/trade names	(110,878 )	(105,077 )
Technology/software	(188,825 )	(184,290 )
Proprietary data	(9,441 )	(8,571 )
Covenant not to compete	(1,171 )	(1,089 )
Subtotal	(488,326 )	(465,950 )
Foreign exchange translation adjustment	2,366	3,090
Total accumulated amortization	\$(485,960 )	\$ (462,860 )
Net intangible assets:		
Customer relationships	\$183,188	\$ 194,276
Trademarks/trade names	112,504	118,305
Technology/software	26,747	25,723
Proprietary data	19,186	20,056
Covenant not to compete	54	136
Subtotal	341,679	358,496
Foreign exchange translation adjustment	(9,055 )	(10,856 )
Total net intangible assets	\$332,624	\$ 347,640

The following table presents the estimated amortization expense for the remainder of 2017 and succeeding years:

	Amortization
Years Ending December 31,	Expense (in thousands)
Remainder 2017	\$ 21,314
2018	42,836
2019	40,829
2020	38,956
2021	37,203

Thereafter	151,486
Total	\$ 332,624

## 6. COMMITMENTS AND CONTINGENCIES

Legal matters. From time to time, the Company is party to various litigation matters incidental to the conduct of its business. The Company is not presently party to any legal proceedings the resolution of which the Company believes would have a material effect on its business, operating results, financial condition or cash flows.

Leases. The Company leases facilities under non-cancelable operating lease agreements. The terms of certain lease agreements provide for rental payments on a graduated basis. The Company recognizes rent expense on the straight-line basis over the lease period and has accrued for rent expense incurred but not paid. Rent expense was \$6.1 million for both the three months ended June 30, 2017 and 2016. Rent expense for the six months ended June 30, 2017 and 2016 was \$11.9 million and \$12.2 million, respectively.

Senior Notes. The Company has issued an aggregate of \$2.1 billion in senior unsecured notes (collectively, the “Senior Notes”) in the three discrete private offerings described below.

On November 20, 2014, the Company completed its private offering of \$800.0 million aggregate principal amount of 5.25% senior unsecured notes due 2024 (the “2024 Senior Notes”). The Company used the net proceeds from the offering of the 2024 Senior Notes, together with cash on hand, to repay in full its then outstanding term loan indebtedness of \$794.8 million.

On August 13, 2015, the Company completed its private offering of \$800.0 million aggregate principal amount of 5.75% senior unsecured notes due 2025 (the “2025 Senior Notes”). The \$789.5 million of net proceeds from the offering of the 2025 Senior Notes were allocated for general corporate purposes.

On August 4, 2016, the Company completed its private offering of \$500.0 million aggregate principal amount of 4.75% senior unsecured notes due 2026 (the “2026 Senior Notes”). The \$493.3 million of net proceeds from the offering of the 2026 Senior Notes were allocated for general corporate purposes, including, without limitation, buybacks of its common stock and potential acquisitions.

The 2024 Senior Notes are scheduled to mature and be paid in full on November 15, 2024. At any time prior to November 15, 2019, the Company may redeem all or part of the 2024 Senior Notes upon not less than 30 nor more than 60 days’ prior notice at a redemption price equal to the sum of (i) 100% of the principal amount thereof, plus (ii) a make-whole premium as of the date of redemption, plus (iii) accrued and unpaid interest and additional interest, if any, thereon, to the date of redemption. In addition, the Company may redeem all or part of the 2024 Senior Notes, together with accrued and unpaid interest, on or after November 15, 2019, at redemption prices set forth in the indenture governing the 2024 Senior Notes. At any time prior to November 15, 2017, the Company may use the proceeds of certain equity offerings to redeem up to 35% of the aggregate principal amount of the 2024 Senior Notes, including any permitted additional notes, at a redemption price equal to 105.25% of the principal amount.

The 2025 Senior Notes are scheduled to mature and be paid in full on August 15, 2025. At any time prior to August 15, 2020, the Company may redeem all or part of the 2025 Senior Notes upon not less than 30 nor more than 60 days’ prior notice at a redemption price equal to the sum of (i) 100% of the principal amount thereof, plus (ii) a make-whole premium as of the date of redemption, plus (iii) accrued and unpaid interest and additional interest, if any, thereon, to the date of redemption. In addition, the Company may redeem all or part of the 2025 Senior Notes, together with accrued and unpaid interest, on or after August 15, 2020, at redemption prices set forth in the indenture governing the 2025 Senior Notes. At any time prior to August 15, 2018, the Company may use the proceeds of certain equity offerings to redeem up to 35% of the aggregate principal amount of the 2025 Senior Notes, including any permitted additional notes, at a redemption price equal to 105.75% of the principal amount.

The 2026 Senior Notes are scheduled to mature and be paid in full on August 1, 2026. At any time prior to August 1, 2021, the Company may redeem all or part of the 2026 Senior Notes upon not less than 30 nor more than 60 days’ prior notice at a redemption price equal to the sum of (i) 100% of the principal amount thereof, plus (ii) a make-whole premium as of the date of redemption, plus (iii) accrued and unpaid interest and additional interest, if any, thereon, to the date of redemption. In addition, the Company may redeem all or part of the 2026 Senior Notes, together with accrued and unpaid interest, on or after August 1, 2021, at redemption prices set forth in the indenture governing the 2026 Senior Notes. At any time prior to August 1, 2019, the Company may use the proceeds of certain equity offerings to redeem up to 35% of the aggregate principal amount of the 2026 Senior Notes, including any permitted additional notes, at a redemption price equal to 104.75% of the principal amount.

Interest payments attributable to the 2024 Senior Notes are due on May 15 and November 15 of each year. The first interest payment was made on May 15, 2015. Interest payments attributable to the 2025 Senior Notes are due on February 15 and August 15 of each year. The first interest payment was made on February 16, 2016. Interest payments attributable to the 2026 Senior Notes are due on February 1 and August 1 of each year. The first interest

payment was made on February 1, 2017.

Revolver. On November 20, 2014, the Company entered into a \$200.0 million senior unsecured revolving credit agreement (the “2014 Revolving Credit Agreement”) with a syndicate of banks. The 2014 Revolving Credit Agreement had an initial term of five years with an option to extend for two additional one-year terms. On August 4, 2016, the Company entered into Amendment No. 1 (the “Amendment”) to the 2014 Revolving Credit Agreement (the 2014 Revolving Credit Agreement as so amended, the “Revolving Credit Agreement”). The Amendment, among other things, (i) increased aggregate commitments available to be borrowed to \$220.0 million, (ii) increased the maximum consolidated leverage ratio and (iii) extended the initial term to August 2021 with an option to extend for an additional one-year term. No amounts have ever been drawn under the Revolving Credit Agreement.

Long-term debt at June 30, 2017 was \$2,076.6 million, net of \$23.4 million in deferred financing fees. Long-term debt at December 31, 2016 was \$2,075.2 million, net of \$24.8 million in deferred financing fees.

In connection with the closings of the Senior Notes offerings and entry into the 2014 Revolving Credit Agreement and the Amendment, the Company paid certain fees which, together with the existing fees related to prior credit facilities, are being amortized



over the related lives. At June 30, 2017, \$25.4 million of the deferred financing fees remain unamortized, \$0.5 million of which is included in “Prepaid and other assets,” \$1.5 million of which is included in “Other non-current assets” and \$23.4 million of which is grouped and presented as part of “Long-term debt” on the Unaudited Condensed Consolidated Statement of Financial Condition.

At June 30, 2017 and December 31, 2016, the fair market value of the Company’s debt obligations was \$2,237.8 million and \$2,192.5 million, respectively. The fair market value is determined in accordance with accounting standards related to the determination of fair value and represents Level 2 valuations, which are based on one or more quoted prices in markets that are not considered to be active or for which all significant inputs are observable, either directly or indirectly. The Company utilizes the market approach and obtains security pricing from a vendor who uses broker quotes and third-party pricing services to determine fair values.

**Derivatives and Hedging Activities.** The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity and credit risk, primarily by managing the amount, sources and duration of its debt funding and the use of derivative financial instruments.

Certain of the Company’s foreign operations expose the Company to fluctuations of foreign exchange rates. These fluctuations may impact the value of the Company’s cash receipts and payments in terms of the Company’s functional currency, the U.S. dollar. The Company enters into derivative financial instruments to protect the value or fix the amount of certain exposures in terms of its functional currency.

**Non-designated Hedges of Foreign Exchange Risk.** Derivatives not designated as hedges are not speculative and are used to manage the Company’s economic exposure to foreign exchange rate movements but do not meet the strict hedge accounting requirements. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings. As of June 30, 2017, the Company had outstanding foreign currency forwards with a notional amount of \$34.1 million that were not designated as hedges in qualifying hedging relationships.

The following table presents the fair values of the Company’s derivative instruments and the location in which they are presented on the Company’s Unaudited Condensed Consolidated Statements of Financial Condition:

(in thousands)	Unaudited Condensed Consolidated Statements of Financial Condition Location	As of June 30, 2017	December 31, 2016
<b>Non-designated hedging instruments:</b>			
<b>Asset derivatives:</b>			
Foreign exchange contracts	Prepaid and other assets	\$9	\$ 27
<b>Liability derivatives:</b>			
Foreign exchange contracts	Other accrued liabilities	\$(127)	\$ (124 )

The Company’s foreign exchange forward contracts represent Level 2 valuations, as they were valued using pricing models that took into account the contract terms as well as multiple observable inputs where applicable, such as prevailing spot rates and forward points.

The following table presents the effect of the Company’s financial derivatives and the location in which they are presented on the Company’s Unaudited Condensed Consolidated Statements of Income:

Derivatives Not Designated as Hedging Instruments (in thousands)	Location of Gain or (Loss) Recognized in Income on Derivatives	Amount of Gain or (Loss) Recognized in Income on Derivatives for the Three Months Ended June 30,	
		2017	2016
Foreign exchange contracts	Other expense (income)	\$ (785 )	\$ 700

Derivatives Not Designated as Hedging Instruments (in thousands)	Location of Gain or (Loss) Recognized in Income on Derivatives	Amount of Gain or (Loss) Recognized in Income on Derivatives for the Six Months Ended June 30,	
		2017	2016
Foreign exchange contracts	Other expense (income)	\$ (1,119 )	\$ 914

## 7. SHAREHOLDERS' EQUITY

## Return of capital.

On October 28, 2015, the Board of Directors approved a new stock repurchase program authorizing the purchase of up to \$1.0 billion worth of shares of MSCI's common stock (the "2015 Repurchase Program").

On October 26, 2016, the Board of Directors approved an additional stock repurchase program authorizing the purchase of up to \$750.0 million worth of shares of the Company's common stock (together with the \$330.3 million remaining authorization under the 2015 Repurchase Program, the "2016 Repurchase Program"). Share repurchases made pursuant to the 2016 Repurchase Program may take place in the open market or in privately negotiated transactions from time to time based on market and other conditions. This authorization may be modified, suspended or terminated by the Board of Directors at any time without prior notice. As of June 30, 2017, there was \$742.2 million of available authorization remaining under the 2016 Repurchase Program.

The following table provides information with respect to repurchases of the Company's common stock made on the open market:

Six Months Ended	Average	Total	Dollar
	Price	Number of	
	Paid Per	Shares	Value of
	Share	Repurchased	Shares
		(in thousands)	Repurchased
June 30, 2017	\$ 86.98	1,468	\$ 127,735
June 30, 2016	\$ 70.12	6,496	\$ 455,516

The following table presents dividends declared per common share as well as total amounts declared, distributed and deferred for the periods indicated:

(in thousands, except per share amounts)	Dividends			
	Per Share	Declared	Distributed	Deferred
<b>2017</b>				
Three Months Ended March 31,	\$0.28	\$ 25,769	\$ 25,500	\$ 269
Three Months Ended June 30,	0.28	25,710	25,444	266
<b>Total</b>	<b>\$0.56</b>	<b>\$ 51,479</b>	<b>\$ 50,944</b>	<b>\$ 535</b>
<b>2016</b>				
Three Months Ended March 31,	\$0.22	\$ 22,046	\$ 21,889	\$ 157
Three Months Ended June 30,	0.22	21,588	21,391	197
<b>Total</b>	<b>\$0.44</b>	<b>\$ 43,634</b>	<b>\$ 43,280</b>	<b>\$ 354</b>



## Common Stock.

The following table presents activity related to shares of common stock issued and repurchased during the six months ended June 30, 2017:

	Common Stock Issued	Treasury Stock	Common Stock Outstanding
Balance At December 31, 2016	128,996,344	(37,716,754)	91,279,590
Dividend payable/paid	114	(114)	—
Common stock issued and exercise of stock options	389,198	—	389,198
Shares withheld for tax withholding and exercises	—	(139,208)	(139,208)
Shares repurchased under stock repurchase programs	—	(1,079,005)	(1,079,005)
Shares issued to directors	51	(10)	41
Balance At March 31, 2017	129,385,707	(38,935,091)	90,450,616
Dividend payable/paid	126	(126)	—
Common stock issued and exercise of stock options	82,960	—	82,960
Shares withheld for tax withholding and exercises	—	(16,002)	(16,002)
Shares repurchased under stock repurchase programs	—	(389,479)	(389,479)
Shares issued to directors	8,329	(7,286)	1,043
Balance At June 30, 2017	129,477,122	(39,347,984)	90,129,138

## 8. INCOME TAXES

The Company's provision for income taxes was \$64.9 million and \$64.0 million for the six months ended June 30, 2017 and 2016, respectively. These amounts reflect effective tax rates of 29.6% and 33.5% for the six months ended June 30, 2017 and 2016, respectively. The decrease in the effective tax rate was primarily driven by the change in the mix of profits between tax jurisdictions as well as the impact of discrete items, including the excess tax benefits related to the adoption of ASU 2016-09 during the three months ended March 31, 2017. See Note 2, "Recent Accounting Standards Updates," for more information regarding the adoption of ASU 2016-09.

The effective tax rate of 29.6% for the six months ended June 30, 2017 reflects the Company's estimate of the effective tax rate for the period and was impacted by certain discrete items totaling \$3.9 million, primarily related to the \$4.1 million of excess tax benefits on share-based compensation recognized during the period, which decreased the Company's effective tax rate by 1.8 percentage points.

The Company is under examination by the IRS and other tax authorities in certain jurisdictions, including foreign jurisdictions, such as India, and states in which the Company has significant operations, such as New York. The tax years currently under examination vary by jurisdiction but include years ranging from 2005 through 2016. As a result of having previously been a member of the Morgan Stanley consolidated group, the Company may have future

settlements with Morgan Stanley related to the ultimate disposition of their New York State and New York City examination relating to the tax years 2007 and 2008 and their IRS examination relating to the tax years 2006 through 2008. The Company does not believe it has any material exposure to the New York State and New York City examinations. Additionally, the Company believes it has adequate reserves for any tax issues that may arise out of the IRS examination relating to the tax years 2006 through 2008 and therefore does not believe any related settlement with Morgan Stanley will have a material impact.

The Company regularly assesses the likelihood of additional assessments in each of the taxing jurisdictions in which it files income tax returns. The Company has established unrecognized tax benefits that the Company believes are adequate in relation to the potential for additional assessments. Once established, the Company adjusts unrecognized tax benefits only when more information is available or when an event occurs necessitating a change. As part of the Company's periodic review of unrecognized tax benefits and based on new information regarding the status of federal and state examinations, the Company's unrecognized tax benefits were remeasured. It is reasonably possible that significant changes in the balance of unrecognized tax benefits may occur within the next 12 months. At this time, however, it is not possible to reasonably estimate the expected change to the total amount of unrecognized tax benefits and the impact on the effective tax rate over the next 12 months.

## 9. SEGMENT INFORMATION

ASC Subtopic 280-10, “Segment Reporting,” establishes standards for reporting information about operating segments. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or CODM, in deciding how to allocate resources and assess performance. MSCI’s Chief Executive Officer and Chief Operating Officer, who are considered to be its CODM, review financial information presented on an operating segment basis for purposes of making operating decisions and assessing financial performance.

The CODM measures and evaluates reportable segments based on segment operating revenues as well as Adjusted EBITDA and other measures. The Company excludes the following items from segment Adjusted EBITDA: provision for income taxes, other expense (income), net, depreciation and amortization of property, equipment and leasehold improvements, amortization of intangible assets and certain transactions or adjustments that the CODM does not consider for the purposes of making decisions to allocate resources among segments or to assess segment performance. Although these amounts are excluded from segment Adjusted EBITDA, they are included in reported consolidated net income and are included in the reconciliation that follows.

The Company’s computation of segment Adjusted EBITDA may not be comparable to other similarly titled measures computed by other companies because all companies do not calculate segment Adjusted EBITDA in the same fashion.

Revenues and expenses directly associated with each segment are included in determining its operating results. Other expenses that are not directly attributable to a particular segment are allocated based upon allocation methodologies, including time estimates, headcount, sales targets, data center consumption and other relevant usage measures. Due to the integrated structure of our business, certain costs incurred by one segment may benefit other segments. A segment may use the content and data produced by another segment without incurring an arm’s-length intersegment charge.

The CODM does not review any information regarding total assets on an operating segment basis. Operating segments do not record intersegment revenue, and, accordingly, there is none to be reported. The accounting policies for segment reporting are the same as for MSCI as a whole.

The Company has four operating segments: Index, Analytics, ESG and Real Estate.

The Index operating segment is primarily a provider of equity indexes. The indexes are used in many areas of the investment process, including index-linked product creation and performance benchmarking, as well as portfolio construction and rebalancing and asset allocation.

The Analytics operating segment uses analytical content to create products and services which offer institutional investors an integrated view of risk and return. Its research-enhanced products and services help institutional investors understand and control for market, credit, liquidity and counterparty risk across all major asset classes, spanning short, medium and long-term time horizons. The Analytics global risk and performance platform is built for scale, enabling clients to conduct complex calculations and stress tests. Analytics offers products and services that assist institutional investors with portfolio construction, risk management, performance attribution and regulatory reporting.

The ESG operating segment offers products and services that help institutional investors understand how environmental, social and governance (“ESG”) factors can impact the long-term risk of their investments. In addition, the ESG operating segment’s data and ratings products are used in the construction of equity and fixed income indexes to help institutional investors benchmark ESG investment performance, issue index-based investment products, as well as manage, measure and report on ESG mandates.

The Real Estate operating segment is a provider of real estate performance analysis for funds, investors, managers and lenders, as well as occupiers through the disposition of the Real Estate occupiers business. This segment provides

products and offers services that include research, reporting and benchmarking. During the year ended December 31, 2016, the Company disposed of the Real Estate occupiers business.

The operating segments of ESG and Real Estate do not individually meet the segment reporting thresholds and have been combined and presented as part of All Other for disclosure purposes.



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The following table presents operating revenue by reportable segment for the periods indicated:

	Three Months Ended June 30, 2017		Six Months Ended June 30, 2017	
	2016		2016	
	(in thousands)			
Operating revenues				
Index	\$ 177,156	\$ 152,117	\$ 340,591	\$ 296,730
Analytics	113,367	112,393	225,787	222,656
All Other	25,566	26,086	50,918	50,038
Total	\$ 316,089	\$ 290,596	\$ 617,296	\$ 569,424

The following table presents segment profitability and a reconciliation to net income for the periods indicated:

	Three Months Ended June 30, 2017		Six Months Ended June 30, 2017	
	2016		2016	
	(in thousands)			
Index Adjusted EBITDA	\$ 129,476	\$ 106,518	\$ 245,113	\$ 206,567
Analytics Adjusted EBITDA	31,741	33,302	61,277	63,662
All Other Adjusted EBITDA	5,032	6,207	10,550	8,947
Total operating segment profitability	166,249	146,027	316,940	279,176
Amortization of intangible assets	11,122	11,943	22,373	23,783
Depreciation and amortization of property, equipment and leasehold improvements	9,159	8,393	17,997	16,561
Operating income	145,968	125,691	276,570	238,832
Other expense (income), net	28,457	25,147	57,434	47,511
Provision for income taxes	36,245	33,587	64,919	63,997
Net income	\$ 81,266	\$ 66,957	\$ 154,217	\$ 127,324

Revenue by geography is based on the shipping address of the ultimate customer utilizing the product. The following table presents revenue by geographic area for the periods indicated:

	Three Months Ended June 30, 2017		Six Months Ended June 30, 2017	
	2016		2016	
	(in thousands)			
Revenues				
Americas:				
United States	\$ 155,997	\$ 134,719	\$ 300,835	\$ 272,364

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Other	11,298	11,388	22,952	21,970
Total Americas	167,295	146,107	323,787	294,334
Europe, the Middle East and Africa ("EMEA"):				
United Kingdom	47,237	43,976	94,262	86,586
Other	63,786	63,435	124,088	116,874
Total EMEA	111,023	107,411	218,350	203,460
Asia & Australia:				
Japan	13,237	13,563	26,063	26,203
Other	24,534	23,515	49,096	45,427
Total Asia & Australia	37,771	37,078	75,159	71,630
Total	\$316,089	\$290,596	\$617,296	\$569,424

Long-lived assets consist of property, equipment, leasehold improvements, goodwill and intangible assets, net of accumulated depreciation and amortization. The following table presents long-lived assets by geographic area on the dates indicated:

	As of June 30, 2017 (in thousands)	December 31, 2016
Long-lived assets		
Americas:		
United States	\$ 1,854,391	\$ 1,876,366
Other	1,881	1,543
Total Americas	1,856,272	1,877,909
EMEA:		
United Kingdom	91,999	89,466
Other	23,433	23,780
Total EMEA	115,432	113,246
Asia & Australia:		
Japan	279	357
Other	7,895	7,563
Total Asia & Australia	8,174	7,920
Total	\$ 1,979,878	\$ 1,999,075

## 10. SUBSEQUENT EVENTS

On August 1, 2017, the Board of Directors declared a cash dividend of \$0.38 per share for third quarter 2017. The third quarter 2017 dividend is payable on August 31, 2017 to shareholders of record as of the close of trading on August 18, 2017.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of MSCI Inc.

We have reviewed the accompanying condensed consolidated statement of financial condition of MSCI Inc. and its subsidiaries as of June 30, 2017, and the related condensed consolidated statements of income and of comprehensive income for the three-month and six-month periods ended June 30, 2017 and June 30, 2016, and the condensed consolidated statements of cash flows for the six-month periods ended June 30, 2017 and June 30, 2016. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial condition as of December 31, 2016, and the related consolidated statements of income, of comprehensive income, of shareholders' equity and of cash flows for the year then ended (not presented herein), and in our report dated February 24, 2017, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated statement of financial condition information as of December 31, 2016, is fairly stated, in all material respects, in relation to the consolidated statement of financial condition from which it has been derived.

/s/ PricewaterhouseCoopers LLP  
New York, New York  
August 4, 2017

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of the financial condition and results of operations should be read in conjunction with the condensed consolidated financial statements and related notes included elsewhere in this Form 10-Q and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 (the "Form 10-K"). This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed below. Factors that could cause or contribute to such differences include, but are not limited to, those identified below and those discussed in "Item 1A.—Risk Factors," in our Form 10-K.

Except as the context otherwise indicates, the terms "MSCI," the "Company," "we," "our" and "us" refer to MSCI Inc., together with its subsidiaries.

### Overview

We offer products and services to support the needs of institutional investors throughout their investment processes. Clients look to us for an integrated view of the drivers of risk and return in their portfolios, broad and deep asset class coverage, quality data, an objective perspective and innovation.

Our clients include asset owners (pension funds, endowments, foundations, central banks, sovereign wealth funds, family offices and insurance companies), asset management firms (mutual funds, hedge funds, providers of exchange-traded funds ("ETFs"), private wealth managers, real estate investment trusts and financial intermediaries (banks, broker-dealers, exchanges, custodians, trust companies and investment consultants).

Our products and services include indexes and analytical models; ratings and analysis that enable institutional investors to integrate ESG factors into their investment strategies; and analysis of real estate in both privately and publicly owned portfolios. Clients use our products and services to help construct portfolios and allocate assets. The analytical content we provide through our products is enabled by applications and are the basis for the services that we provide to clients. Our analytical tools and content help clients measure and manage risk across all major asset classes. Our products and services can also be customized to meet the specific needs of our clients.

As of June 30, 2017, we had more than 6,800 clients across 88 countries. To calculate the number of clients, we may count certain affiliates, user locations, or business units within a single organization as separate clients. If we aggregate all related clients under their respective parent entity, the number of clients would be approximately 3,850, as of June 30, 2017. We had offices in 32 cities across 21 countries to help serve our diverse client base, with 52.4% of our revenues coming from clients in the Americas, 35.4% in Europe, the Middle East and Africa ("EMEA") and 12.2% in Asia and Australia.

Our principal business model is to license annual, recurring subscriptions to our products and services for use at specified locations, often by a given number of users or for a certain volume of services, for a fee, which is, in a majority of cases, paid up front. Additionally, our recurring subscription offerings include our managed services offering, whereby we oversee the production of risk and performance reports on behalf of our clients. Fees attributable to annual, recurring subscriptions are recorded as deferred revenues on our Consolidated Statement of Financial Condition and are recognized on our Consolidated Statement of Income as the service is rendered. Furthermore, a portion of our revenues comes from clients who use our indexes as the basis for index-linked investment products such as ETFs or as the basis for passively managed funds and separate accounts. These clients commonly pay us a license fee, primarily in arrears, for the use of our intellectual property, based on the investment product's assets. We also generate revenues from certain exchanges that use our indexes as the basis for futures and options contracts and pay us a license fee, primarily in arrears, for the use of our intellectual property based on their volume of trades. In addition, we generate revenues from subscription agreements for the receipt of periodic benchmark reports, digests and other publications, which are most often associated with our real estate products, that are recognized upon delivery of such reports or data updates. Fees are primarily paid in arrears after the product is delivered. We also

realize one-time fees related to customized reports, historical data sets and certain implementation and consulting services, as well as from certain products and services that are purchased on a non-renewal basis.

In evaluating our financial performance, we focus on revenue and profit growth, including GAAP and non-GAAP measures, for the Company as a whole as well as by operating segment. In addition, we focus on operating metrics, including Run Rate, subscription sales and Aggregate Retention Rate to manage the business. Our business is not highly capital intensive and, as such, we expect to continue to convert a high percentage of our profits into excess cash in the future. Our growth strategy includes: (a) expanding and deepening our relationships with investment institutions worldwide; (b) developing new and enhancing existing product offerings by integrating our content; and (c) seeking to acquire products, technologies, services and companies that will enhance, complement or expand our client base and product offerings.

In the discussion that follows, we provide certain variances excluding the impact of foreign currency exchange rate fluctuations. 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.

The discussion of our results of operations for the three months ended June 30, 2017 and 2016 are presented below. The results of operations for interim periods may not be indicative of future results.

## Results of Operations

### Three Months Ended June 30, 2017 Compared to the Three Months Ended June 30, 2016

The following table presents the results of operations for the periods indicated:

	Three Months Ended June 30,		Increase/(Decrease)		
	2017	2016	(in thousands, except per share data)		
Operating revenues	\$316,089	\$290,596	\$ 25,493	8.8	%
Operating expenses:					
Cost of revenues	68,595	62,130	6,465	10.4	%
Selling and marketing	41,594	41,854	(260)	(0.6)	%
Research and development	18,203	18,566	(363)	(2.0)	%
General and administrative	21,448	22,019	(571)	(2.6)	%
Amortization of intangible assets	11,122	11,943	(821)	(6.9)	%
Depreciation and amortization of property, equipment and leasehold improvements	9,159	8,393	766	9.1	%
Total operating expenses	170,121	164,905	5,216	3.2	%
Operating income	145,968	125,691	20,277	16.1	%
Other expense (income), net	28,457	25,147	3,310	13.2	%
Income before provision for income taxes	117,511	100,544	16,967	16.9	%
Provision for income taxes	36,245	33,587	2,658	7.9	%
Net income	\$81,266	\$66,957	\$ 14,309	21.4	%
Earnings per basic common share	\$0.90	\$0.69	\$ 0.21	30.4	%
Earnings per diluted common share	\$0.89	\$0.69	\$ 0.20	29.0	%
Operating margin	46.2	% 43.3	%		

## Operating Revenues

Our revenues are grouped by the following types: recurring subscriptions, asset-based fees and non-recurring. We also group revenues by major product or reportable segment as follows: Index, Analytics and All Other, which includes the ESG and Real Estate product lines.

The following table presents operating revenues by type for the periods indicated:

	Three Months Ended June 30,		Increase/(Decrease)		
	2017	2016			
	(in thousands)				
Recurring subscriptions	\$242,445	\$232,732	\$ 9,713	4.2	%
Asset-based fees	67,230	49,634	17,596	35.5	%
Non-recurring	6,414	8,230	(1,816 )	(22.1	%)
Total operating revenues	\$316,089	\$290,596	\$ 25,493	8.8	%



Total operating revenues grew 8.8% to \$316.1 million for the three months ended June 30, 2017 compared to \$290.6 million for the three months ended June 30, 2016.

Revenues from recurring subscriptions increased 4.2% to \$242.4 million for the three months ended June 30, 2017 compared to \$232.7 million for the three months ended June 30, 2016, driven by increases of \$8.5 million, or 8.8%, in Index recurring subscriptions, \$1.6 million, or 1.5%, in Analytics recurring subscriptions and \$2.6 million, or 23.7%, in ESG recurring subscriptions, partially offset by a decrease of \$3.0 million, or 20.9%, in Real Estate recurring subscriptions. Adjusting for the impact from foreign currency exchange rate fluctuations, revenues from total recurring subscriptions would have increased 4.9%.

Revenues from asset-based fees increased 35.5% to \$67.2 million for the three months ended June 30, 2017 compared to \$49.6 million for the three months ended June 30, 2016. The increase in asset-based fees was driven by growth across all products. An \$11.1 million, or 32.2%, growth in revenue from ETFs linked to MSCI indexes was the result of a 35.6% increase in average assets under management (“AUM”) that was partially offset by the impact of a change in the product mix resulting from our differentiated licensing strategy, and a \$5.2 million, or 40.9%, increase in revenue from non-ETF passive products that was driven by higher AUM and an increased contribution from higher fee products including factor indexes. In addition, revenues from exchange traded futures and options contracts based on MSCI indexes grew \$1.2 million, or 54.0%, driven by a very strong increase in total trading volumes. Approximately two-thirds of the underlying securities included in the AUM of our index-linked investment products are denominated in currencies other than the U.S. dollar and subject to foreign currency exchange rate fluctuations.

The following table presents the value of AUM in ETFs linked to MSCI indexes and the sequential change of such assets as of the end of each of the periods indicated:

	Period Ended(1)					
	2016				2017	
	March	June	September	December	March	June
(in billions)	31,	30,	30,	31,	31,	30,
AUM in ETFs linked to MSCI indexes(2)	\$438.3	\$439.7	\$474.9	\$481.4	\$555.7	\$624.3
Sequential Change in Value						
Market Appreciation/(Depreciation)	\$(1.7)	\$(2.5)	\$23.7	\$(8.7)	\$35.8	\$23.6
Cash Inflows	6.6	3.9	11.5	15.2	38.5	45.0
Total Change	\$4.9	\$1.4	\$35.2	\$6.5	\$74.3	\$68.6

Source: Bloomberg and MSCI

(1) The historical values of the AUM in ETFs linked to our indexes as of the last day of the month and the monthly average balance can be found under the link “AUM in ETFs Linked to MSCI Indexes” on our Investor Relations homepage at <http://ir.msci.com>. This information is updated on or about the second U.S. business day of each month. Information contained on our website is not incorporated by reference into this Quarterly Report on Form 10-Q or any other report filed with the SEC.

(2) The value of AUM in ETFs linked to MSCI indexes is calculated by multiplying the ETF net asset value by the number of shares outstanding.

The following table presents the average value of AUM in ETFs linked to MSCI indexes for the periods indicated:

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(in billions)	Quarterly Average				2017	
	2016					
	March	June	September	December	March	June
AUM in ETFs linked to MSCI indexes	\$407.9	\$438.8	\$ 467.3	\$ 471.1	\$524.1	\$595.0

Non-recurring revenues decreased 22.1% to \$6.4 million for the three months ended June 30, 2017 compared to \$8.2 million for the three months ended June 30, 2016, primarily due to a payment for the use of our indexes in connection with derivative products received in the three months ended June 30, 2016.

The following table presents operating revenues by reportable segment and revenue type for the periods indicated:

	Three Months Ended June 30, 2017	2016	Increase/(Decrease)
	(in thousands)		
Operating revenues:			
Index			