

FactSet Research Systems Inc

2Q24 EPS Preview: ASV recovery inevitable but timing is murky

Maintain Rating: NEUTRAL | PO: 500.00 USD | Price: 475.96 USD

FDS still navigating a tough operating environment in F2Q

FDS will report F2Q24 EPS on March 21 before the market open. Our outlook assumes its financial services customers are still tightly managing costs and grappling with a still uncertain capital markets environment. This is resulting in delayed deal closings, less robust price realization on new deals, and pressure on existing contracts. FDS' contracts with investment banks tend to be seat based, and some of its enterprise contracts have variability above the contract floors. Still, we think this dynamic is well understood by the market and factored into Street expectations. We maintain our Neutral rating.

Stock has been strong, sentiment on fundamentals less so

FDS share are up +6% since reporting F1Q, slightly underperforming the market (S&P +7%). Investors we have spoken to are not expecting an improvement in trend from F1Q. Some also see risk to FY24 Annual Subscription Value (ASV) guidance as the operating environment is still tough. Notably, several banks and investment funds cut headcount during the quarter. Meanwhile, global equity capital markets and M&A activity remains sluggish (albeit volumes are up y/y off very depressed levels). Still, we think long-term investors are looking past the near-term malaise and are focused on the eventual late 2024 / 2025 recovery, which is providing some support to the stock price.

We are slightly below the Street for F2Q24 EPS

For F2Q24, we model 6% organic ASV growth, vs. 5.5% Visible Alpha Consensus. We are also forecasting \$3.83 F2Q EPS, modestly below \$3.86 Visible Alpha consensus. Our EPS is driven by 5.9% organic sales growth and a 36.0% EBIT margin. The Street is modeling 6% (excluding an outlier at (3)%) organic sales growth and a 36.3% EBIT margin. We maintain our \$500 PO, but are rolling forward our valuation multiple to CY25. Our PO is now based on a 26.5x multiple (vs. 30x prior). This is a 3.5x discount to peers (vs. 2.5x prior). We think this discount is warranted given slowing sales growth.

We expect ASV growth near the mid-point of guidance

We are modeling 5.85% 2024 ASV growth, near the mid-point of 5-7% guidance (Street's at ~6%). We think some investors are looking for management to tighten the range on ASV towards the low-end; we think that's a possibility.

Estimates (Aug) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	13.41	14.55	15.95	18.40	20.50
GAAP EPS	10.25	12.03	14.16	16.71	18.97
EPS Change (YoY)	19.7%	8.5%	9.6%	15.4%	11.4%
Consensus EPS (Bloomberg)			16.06	17.81	19.44
DPS	3.42	3.74	4.12	4.53	4.98
Valuation (Aug)					
P/E	35.5x	32.7x	29.8x	25.9x	23.2x
GAAP P/E	46.4x	39.6x	33.6x	28.5x	25.1x
Dividend Yield	0.7%	0.8%	0.9%	1.0%	1.0%
EV / EBITDA*	27.6x	23.1x	21.1x	19.2x	17.5x
Free Cash Flow Yield*	2.6%	3.2%	3.5%	4.2%	4.7%

* For full definitions of *IQmethod*SM measures, see page 4.

18 March 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E Rev (m)	2,210.6	2,211.2
2025E Rev (m)	2,355.7	2,357.4
2026E Rev (m)	2,540.5	2,542.3
2025E EPS	18.48	18.40
2026E EPS	20.59	20.50

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Stock Data

Price	475.96 USD
Price Objective	500.00 USD
Date Established	28-Nov-2023
Investment Opinion	B-2-7
52-Week Range	377.89 USD - 487.79 USD
Mrkt Val (mn) / Shares Out (mn)	18,392 USD / 38.6
Free Float	99.8%
Average Daily Value (mn)	102.46 USD
BofA Ticker / Exchange	FDS / NYS
Bloomberg / Reuters	FDS US / FDS.N
ROE (2024E)	35.1%
Net Dbt to Eqty (Aug-2023A)	73.3%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

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Timestamp: 18 March 2024 12:30AM EDT

iQprofileSM FactSet Research Systems Inc

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	15.5%	14.3%	17.3%	18.8%	19.3%
Return on Equity	44.2%	38.4%	35.1%	34.1%	31.8%
Operating Margin	25.8%	30.2%	32.5%	34.2%	35.5%
Free Cash Flow	487	585	646	774	864

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.0x	1.1x	1.2x	1.2x	1.2x
Asset Replacement Ratio	1.4x	1.8x	1.7x	1.2x	1.2x
Tax Rate	10.5%	20.0%	16.5%	16.7%	16.9%
Net Debt-to-Equity Ratio	111.1%	73.3%	47.3%	20.6%	-1.3%
Interest Cover	16.1x	11.8x	14.0x	23.9x	40.6x

Income Statement Data (Aug)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	1,844	2,086	2,211	2,357	2,542
% Change	15.9%	13.1%	6.0%	6.6%	7.8%
Gross Profit	973	1,112	1,168	1,242	1,337
% Change	20.8%	14.3%	5.0%	6.4%	7.6%
EBITDA	662	789	865	949	1,042
% Change	18.4%	19.2%	9.6%	9.8%	9.7%
Net Interest & Other Income	(32)	(45)	(63)	(34)	(22)
Net Income (Adjusted)	519	566	617	708	791
% Change	20.2%	9.0%	9.0%	14.8%	11.6%

Free Cash Flow Data (Aug)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	397	468	547	643	732
Depreciation & Amortization	38	34	55	58	61
Change in Working Capital	(100)	(17)	(1)	(20)	(11)
Deferred Taxation Charge	(9)	(31)	7	0	0
Other Adjustments, Net	212	192	130	163	159
Capital Expenditure	(51)	(61)	(92)	(71)	(76)
Free Cash Flow	487	585	646	774	864
% Change	-1.4%	20.0%	10.5%	19.8%	11.7%
Share / Issue Repurchase	(19)	(177)	(250)	(247)	(247)
Cost of Dividends Paid	(126)	(139)	(158)	(174)	(192)
Change in Debt	1,404	(375)	(247)	(121)	0

Balance Sheet Data (Aug)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	503	425	472	780	1,282
Trade Receivables	204	238	246	262	283
Other Current Assets	163	107	109	109	109
Property, Plant & Equipment	81	86	131	143	159
Other Non-Current Assets	3,063	3,107	3,038	2,953	2,875
Total Assets	4,014	3,963	3,996	4,247	4,707
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	438	484	531	563	601
Long-Term Debt	1,982	1,613	1,367	1,246	1,246
Other Non-Current Liabilities	262	246	208	179	155
Total Liabilities	2,683	2,343	2,106	1,987	2,002
Total Equity	1,331	1,620	1,890	2,260	2,705
Total Equity & Liabilities	4,014	3,963	3,996	4,247	4,707

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Business Services

Company Description

FactSet is a market data provider of financial information and analytical applications for both buy-side and sell-side professionals (including wealth managers). It offers access to a broad spectrum of information, including company and industry analysis, portfolio analysis, predictive risk measurement, and real-time news and quotes.

Investment Rationale

We rate FactSet at Neutral. We think risk / reward for the stock is fairly balanced. Industry challenges impacting FactSet's financial services customer base remains a sentiment and valuation overhang. There's risk that sell-side and buy-side firms taper their data budgets and investment banks reduce headcount and hiring. However, we think the company already appropriately adjusted its outlook on its F2Q23 call.

Stock Data

Average Daily Volume 215,270

Quarterly Earnings Estimates

	2023	2024
Q1	3.99A	4.12A
Q2	3.80A	3.83E
Q3	3.79A	3.99E
Q4	2.93A	4.01E

Price objective basis & risk

FactSet Research Systems Inc (FDS)

Our \$500 price objective is based on a 26.5x CY25E P/E multiple (based on 4 quarters ending in November 2025). This is a 3.5x discount to peers, in line with its historical average. We think potential upside on cost control is balanced by near-term sales headwinds in terms of risk/reward.

Downside risks to our price objective are: 1) longer than expected sales cycles and cancellations due to sellside and buy-side clients tightening their budgets and investment banks slowing hiring, 2) longer than expected slowdown in capital markets activity, 3) adoption of new products slower than expected, and 4) higher than expected costs associated with investment spend that could impact margins

Upside risks to our price objectives are: 1) higher than expected sales from new logos and cross-selling opportunities, 2) greater than expected demand for deep sector, ESG, and private company raw data and content, 3) better than expected margin expansion sales and cost productivity initiatives and 4) greater than expected share buybacks.

Analyst Certification

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	APi Group	APG	APG US	Heather Balsky
	Aramark	ARMK	ARMK US	Heather Balsky
	Cintas	CTAS	CTAS US	Heather Balsky
	CoStar Group	CSGP	CSGP US	Heather Balsky
	Driven Brands	DRVN	DRVN US	Robert F. Ohmes, CFA
	Dun & Bradstreet Holdings, Inc.	DNB	DNB US	Heather Balsky
	Equifax	EFX	EFX US	Heather Balsky
	Gartner	IT	IT US	Heather Balsky
	Moody's Corp.	MCO	MCO US	Heather Balsky
	Petco	WOOF	WOOF US	Kendall Toscano
	Rollins Inc.	ROL	ROL US	Heather Balsky
	S&P Global	SPGI	SPGI US	Heather Balsky
	Strategic Education	STRA	STRA US	Heather Balsky
	Thomson Reuters	YTRI	TRI CN	Heather Balsky
	Thomson Reuters	TRI	TRI US	Heather Balsky
NEUTRAL				
	AutoZone Inc.	AZO	AZO US	Robert F. Ohmes, CFA
	FactSet Research Systems Inc	FDS	FDS US	Heather Balsky
	First Advantage Corporation	FA	FA US	Heather Balsky
	Verisk Analytics	VRSK	VRSK US	Heather Balsky
UNDERPERFORM				
	ASGN Inc.	ASGN	ASGN US	Heather Balsky
	Clarivate PLC	CLVT	CLVT US	Heather Balsky
	ManpowerGroup	MAN	MAN US	Heather Balsky



US - Business, Education & Professional Services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	MSCI Inc	MSCI	MSCI US	Heather Balsky
	Robert Half	RHI	RHI US	Heather Balsky
	TransUnion	TRU	TRU US	Heather Balsky

iQ^{method} SM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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FactSet (FDS) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Business Services Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	26	55.32%	Buy	17	65.38%
Hold	8	17.02%	Hold	3	37.50%
Sell	13	27.66%	Sell	11	84.62%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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