Morningstar, Inc. Form 10-Q October 26, 2018

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION Washington D.C. 20549

#### FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED September 30, 2018

OR

o 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: 000-51280

#### MORNINGSTAR, INC.

(Exact Name of Registrant as Specified in its Charter)
Illinois 36-3297908
(State or Other Jurisdiction of (I.R.S. Employer Incorporation or Organization) Identification Number)

22 West Washington Street

Chicago, Illinois 60602 (Address of Principal Executive Offices) (Zip Code)

(312) 696-6000

(Registrant's Telephone Number, Including Area Code)

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 x No o Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes x No o

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 Non-accelerated filer Smaller reporting Emerging growth company o

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. o

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

As of October 19, 2018, there were 42,660,038 shares of the Company's common stock, no par value, outstanding.

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PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements

and Subsidiaries Unaudited Condensed Consolidated Statements of Income				
Chaudited Condensed Consolidated Statements of Income			Nine months or ended September 30,	
(in millions, except per share amounts)	2018	2017	2018	2017
Revenue	\$261.3	\$229.9	\$757.2	\$668.6
Operating expense:				
Cost of revenue	100.0	90.9	302.2	283.2
Sales and marketing	35.8	31.1	113.7	100.2
General and administrative	35.4	33.3	103.6	93.2
Depreciation and amortization	24.7	21.8	71.2	64.8
Total operating expense	195.9	177.1	590.7	541.4
Operating income	65.4	52.8	166.5	127.2
Non-operating income (expense), net:				
Interest expense, net	(0.2)	(0.9)	(1.2)	(2.6)
Gain on sale of investments, reclassified from other comprehensive income	0.3	0.3	0.9	1.1
Gain on sale of business		_	_	17.5
Gain on sale of product line	_	_	10.5	_
Gain on sale of equity investments	5.6		5.6	
Other income (expense), net	1.6	(1.4)	2.2	(4.0)
Non-operating income (expense), net	7.3		18.0	12.0
Income before income taxes and equity in net income (loss) of unconsolidated entities	72.7	50.8	184.5	139.2
Equity in net income (loss) of unconsolidated entities	0.3	_	(1.6)	(1.0 )
Income tax expense	16.1	16.9	42.3	40.2
Consolidated net income	\$56.9	\$33.9	\$140.6	\$98.0
Net income per share:				
Basic	\$1.33	\$0.80	\$3.30	\$2.29
Diluted	\$1.32	\$0.79	\$3.27	\$2.28
Dividends per common share:				
Dividends declared per common share	<b>\$</b> —	\$—	\$0.50	\$0.46
Dividends paid per common share	\$0.25	\$0.23	\$0.75	\$0.69
Weighted average shares outstanding:				
Basic	42.6	42.5	42.6	42.8
Diluted	43.1	42.8	43.0	43.1

See notes to unaudited condensed consolidated financial statements.

Morningstar, Inc. and Subsidiaries Unaudited Condensed Consolidated Statements of Comprehensive Income

	Three months ended September 30,		ended September	
(in millions)	•	2017		2017
Consolidated net income	\$56.9	\$33.9	\$140.6	\$98.0
Other comprehensive (loss) income: Foreign currency translation adjustment Unrealized gains (losses) on securities, net of tax:	(6.1)	10.0	(20.2 )	29.9
Unrealized holding gains arising during period	0.5	0.9	0.8	3.5
Reclassification gains included in net income	(0.2)	(0.3)	(0.7)	(0.8)
Other comprehensive (loss) income	(5.8)	10.6	(20.1)	32.6
Comprehensive income	\$51.1	\$44.5	\$120.5	\$130.6

See notes to unaudited condensed consolidated financial statements.

Morningstar, Inc. and Subsidiaries Condensed Consolidated Balance Sheets

(in millions, except share amounts)	As of September 30, 2018 (unaudited)	As of December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$323.0	\$308.2
Investments	43.7	45.1
Accounts receivable, less allowance of \$4.5 and \$3.2, respectively	172.4	148.2
Income tax receivable	7.8	
Deferred commissions	14.2	
Other current assets	22.8	28.3
Total current assets	583.9	529.8
Property, equipment, and capitalized software, less accumulated depreciation and		
amortization of \$333.1 and \$284.7, respectively	144.5	147.4
Investments in unconsolidated entities	58.4	62.0
Goodwill	559.2	564.9
Intangible assets, net	79.3	95.4
Deferred commissions, non-current	9.8	<i>9</i> 3. <del>4</del>
Other assets	9.6 4.4	6.2
Total assets		
Total assets	\$ 1,439.5	\$1,405.7
Liabilities and equity Current liabilities: Accounts payable and accrued liabilities Accrued compensation Deferred revenue Other current liabilities Total current liabilities Accrued compensation Deferred tax liability, net Long-term debt	\$ 42.5 85.6 189.0 4.2 321.3 11.9 30.2 90.0	\$49.2 92.0 171.3 10.7 323.2 11.7 23.6 180.0
Deferred rent	25.3	26.9
Deferred revenue, non-current	14.6	14.2
Other long-term liabilities	18.6	21.2
Total liabilities	511.9	600.8
Equity: Morningstar, Inc. shareholders' equity: Common stock, no par value, 200,000,000 shares authorized, of which 42,670,728 and 42,547,707 shares were outstanding as of September 30, 2018 and December 31, 2017, respectively Treasury stock at cost, 10,728,410 and 10,633,637 shares as of September 30, 2018 and December 31, 2017, respectively Additional paid-in capital	— (717.0 ) 616.3	— (708.2 ) 601.0

Retained earnings	1,095.0	958.7	
Accumulated other comprehensive loss:			
Currency translation adjustment	(68.1	) (47.9	)
Unrealized gain on available-for-sale investments	1.4	1.3	
Total accumulated other comprehensive loss	(66.7	) (46.6	)
Total equity	927.6	804.9	
Total liabilities and equity	\$ 1,439.5	\$1,405.	.7

See notes to unaudited condensed consolidated financial statements.

Morningstar, Inc. and Subsidiaries Unaudited Condensed Consolidated Statement of Equity For the nine months ended September 30, 2018

Morningstar, Inc. Shareholders' Equity Accumulated Common Stock Other Additional Shares Par Treasury Paid-in Retained Comprehensi**Fe**tal (in millions, except share amounts) Outstanding ValuStock Earnings Loss Capital Equity Balance as of December 31, 2017 42,547,707 \$ -\$(708.2) \$601.0 \$958.7 \$ (46.6 ) \$804.9 Cumulative effect of accounting change 17.0 17.0 related to the adoption of ASU No. 2014-09 Net income 140.6 140.6 Other comprehensive income (loss): Unrealized gain on available-for-sale 0.8 0.8 investments, net of income tax of \$0.1 Reclassification of adjustments for gain included in net income, net of income tax of (0.7)) (0.7 \$0.2 Foreign currency translation adjustment, net (20.2)) (20.2) Other comprehensive income (loss) ) (20.1) (20.1)Issuance of common stock related to option exercises and vesting of restricted stock 232,310 1.7 (13.1)(11.4)units, net of shares withheld for taxes on settlements of restricted stock units Reclassification of awards previously liability-classified that were converted to 4.5 4.5 equity 23.9 Stock-based compensation 23.9 Common shares repurchased (109,289)(10.5)(10.5)Dividends declared (21.3)(21.3)

42,670,728

-\$(717.0) \$616.3

\$1,095.0 \$ (66.7

See notes to unaudited condensed consolidated financial statements.

Balance as of September 30, 2018

7

) \$927.6

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Morningstar, Inc. and Subsidiaries Unaudited Condensed Consolidated Statements of Cash Flows

Nine months

ended

September 30,

(in millions) 2018 2017

Operating activities

Consolidated net income \$ 140.6 \$