

# MSCI

J.P. Morgan Global High Yield & Leveraged Finance  
Conference

Kathleen Winters, CFO

February 28, 2017

# FORWARD - LOOKING STATEMENTS

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

- This presentation contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including without limitation, our full-year 2017 guidance and our long-term targets. These forward-looking statements relate to future events or to future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these statements. In some cases, you can identify forward-looking statements by the use of words such as “may,” “could,” “expect,” “intend,” “plan,” “seek,” “anticipate,” “believe,” “estimate,” “predict,” “potential,” or “continue,” or the negative of these terms or other comparable terminology. You should not place undue reliance on forward-looking statements because they involve known and unknown risks, uncertainties and other factors that are, in some cases, beyond our control and that could materially affect our actual results, levels of activity, performance or achievements. Other factors that could materially affect our actual results, levels of activity, performance or achievements can be found in MSCI’s Annual Report on Form 10-K for the fiscal year ended December 31, 2016, filed with the Securities and Exchange Commission (“SEC”) on February 24, 2017, and in quarterly reports on Form 10-Q and current reports on Form 8-K filed with the SEC. If any of these risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may vary significantly from what MSCI projected. Any forward-looking statement in this presentation reflects MSCI’s current views with respect to future events and is subject to these and other risks, uncertainties and assumptions relating to MSCI’s operations, results of operations, growth strategy and liquidity. MSCI assumes no obligation to publicly update or revise these forward-looking statements for any reason, whether as a result of new information, future events, or otherwise, except as required by law.

# OTHER INFORMATION

- Percentage changes and totals in this presentation may not sum due to rounding.
- Percentage changes refer to the comparable period in 2015 and exclude discontinued operations, unless otherwise noted.
- FY 2015 and FY 2016 refer to twelve months ended December 31, 2015, and twelve months ended December 31, 2016, respectively.
- Gross sales include both recurring subscription and non-recurring sales.
- Subscription revenues include the total of recurring subscription and non-recurring revenues.
- Foreign currency exchange rate fluctuations are calculated to be the difference between the current period results as reported compared to the current period results recalculated using the foreign currency exchange rates in effect for the comparable prior period. We do not provide the impact of foreign currency fluctuations on our asset-based fees tied to average AUM, of which approximately two-thirds are invested in securities denominated in currencies other than the U.S. dollar, and accordingly, the impact of any such is excluded from the disclosed foreign currency adjusted variances.
- As a result of the sales of Institutional Shareholder Services Inc. and the Center for Financial Research and Analysis, in Q1'14 MSCI began reporting its former Governance business as discontinued operations in its financial statements. Financial and operating metrics for prior periods have been updated to exclude the Governance business.
- On August 1, 2016, MSCI closed the sale of its Real Estate Occupiers benchmarking business. Unless indicated otherwise, reported financial results and operating metrics have not been updated to exclude the results of this business.

# TODAY'S PRESENTER

## Kathleen Winters

- Chief Financial Officer since May 2016
- Formerly at Honeywell International in a succession of senior finance positions, most recently served as Vice President and Chief Financial Officer for the company's Performance Materials and Technologies division
- Holds a Bachelor of Science degree in Accounting from Boston College



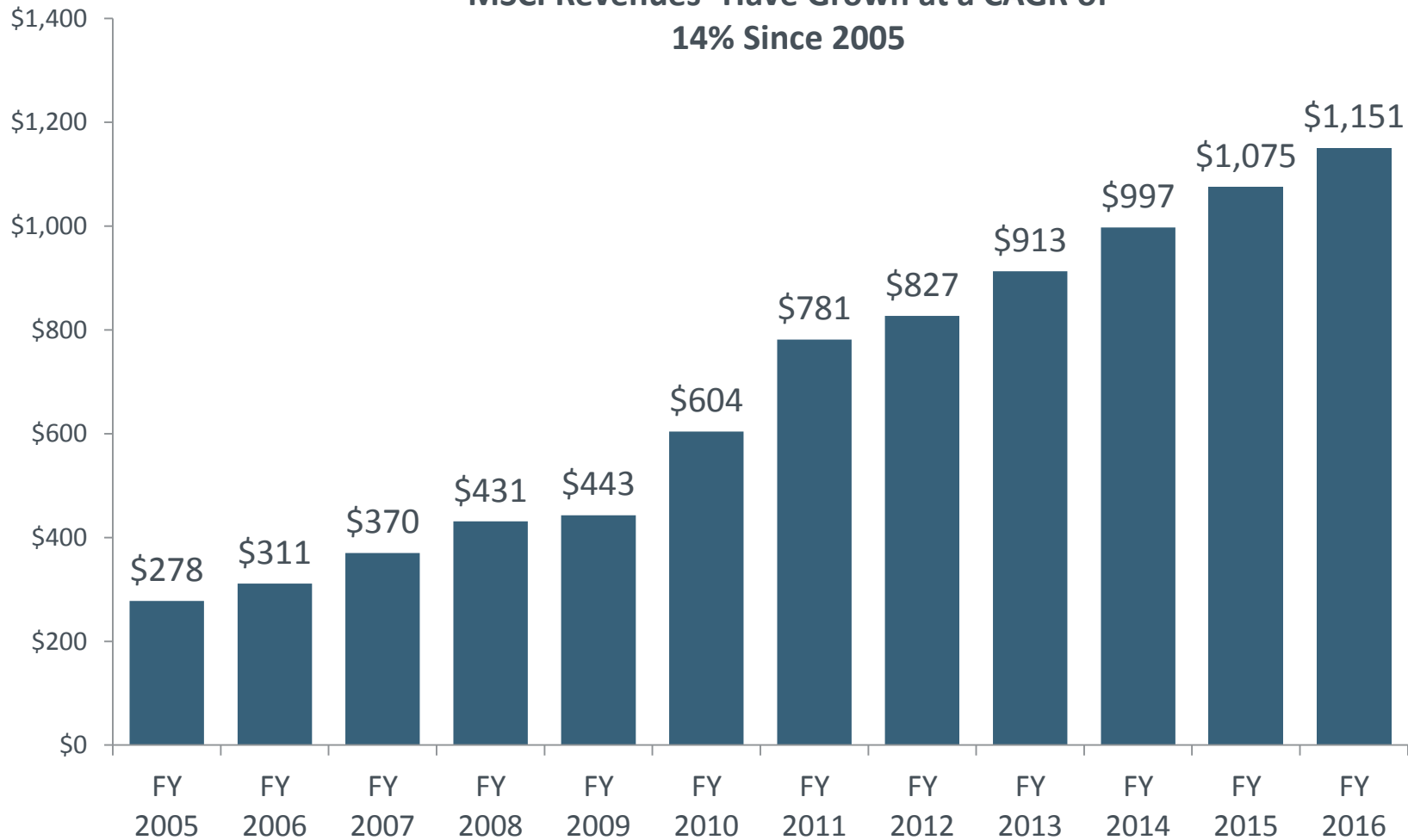
# MSCI INVESTMENT HIGHLIGHTS

- **A leading provider of mission critical investment decision support tools to the world's leading institutional investors**
- **Favorable, macro-growth trends in key product areas**
  - Global investing, growth in passive investing (ETFs), use of factors, increasing need for performance attribution / risk reporting, integration of ESG into the mainstream of the investment process
- **Compelling business model**
  - Strong track record of delivering revenue growth
  - 98% of revenue is recurring / revenue retention at 93% (FY 2016)
  - High margin / low capital requirements
  - Strong cash generation
- **Strong competitive position**
  - \$10 trillion in assets<sup>(1)</sup> benchmarked to MSCI indexes globally
  - A leader in cross-border index licensing, ex-home country bias
  - #1 in number of equity ETFs linked to equity indexes (910 as of Q4'16)
  - World-class research enhanced content and proprietary IP
- **Strong balance sheet and liquidity**
- **Management strength**
  - Focus on consistent, quality growth / strong accountability
  - Solid stewardship of capital / focus on shareholder value creation

# STRONG TRACK RECORD OF REVENUE GROWTH

(US\$ in millions)

**MSCI Revenues<sup>1</sup> Have Grown at a CAGR of  
14% Since 2005**



# MSCI FINANCIAL MODEL

## REVENUE GROWTH

Recurring, Visible Revenue Model

98% recurring revenues and 82% subscription revenues FY 2016

Strong Historical Retention Rates

90%+ annually since 2011 and 93% FY 2016

## OPERATIONAL EFFICIENCY

Scalable Cost Structure

FY 2016 Adjusted EBITDA margin of 49.5%

Aligning Tax Structure With Operating Footprint

FY 2016 Effective Tax Rate of 32.4%

## CAPITAL OPTIMIZATION

High Cash Generation

Free Cash Flow of \$392m for FY 2016

Low Capital Expenditures

Capex of \$43m for FY 2016

***Long-Term Shareholder Value Creation***

# A TRULY GLOBAL PRESENCE

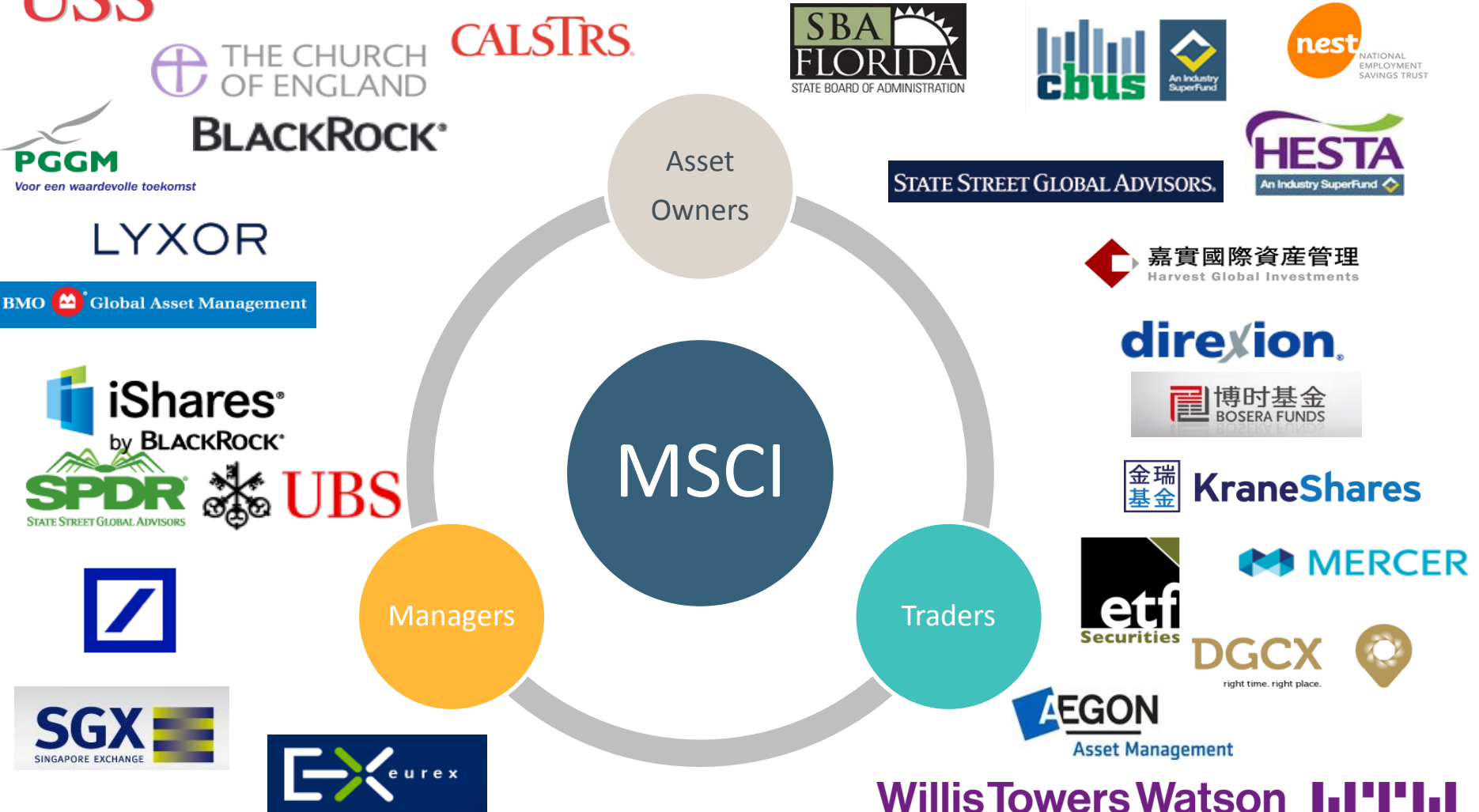


<i>% of Total Employees</i>	<b>Q4'13</b>	<b>Q4'14</b>	<b>Q4'15</b>	<b>Q4'16</b>
Developed Market Centers	54%	49%	47%	44%
Emerging Market Centers	46%	51%	53%	56%



# WE ARE AT THE CENTER OF THE INVESTMENT PROCESS

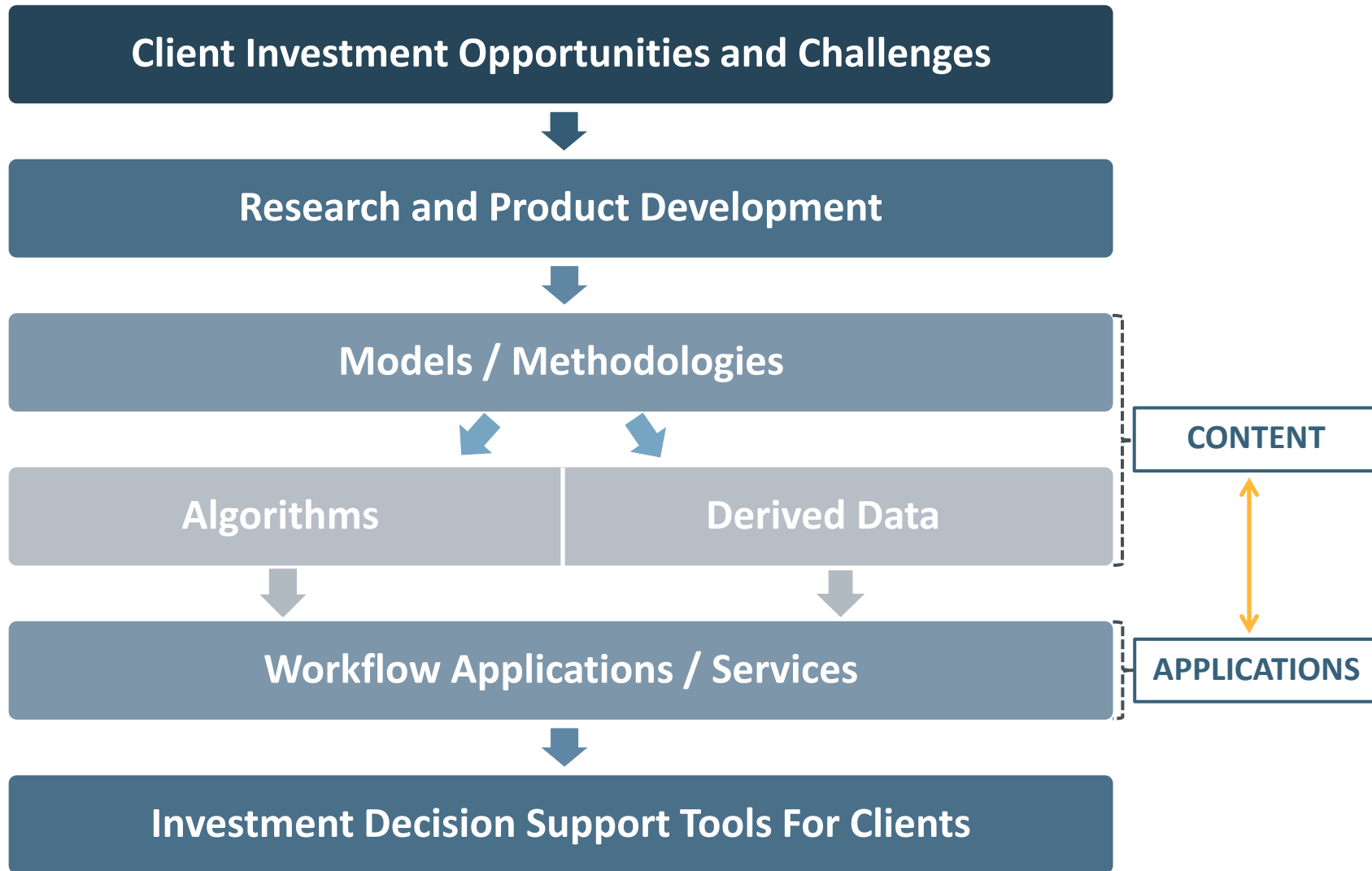
**USS** Relationships With 97 of the Top 100 Global Asset Managers\*



~ 6,800 Clients Across 88 countries

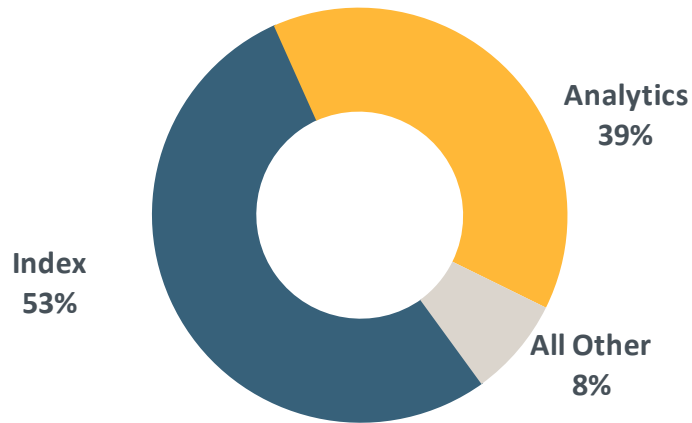
\*Source: Most recent P&I ranking.

# MSCI – POWER OF THE INTEGRATED FRANCHISE

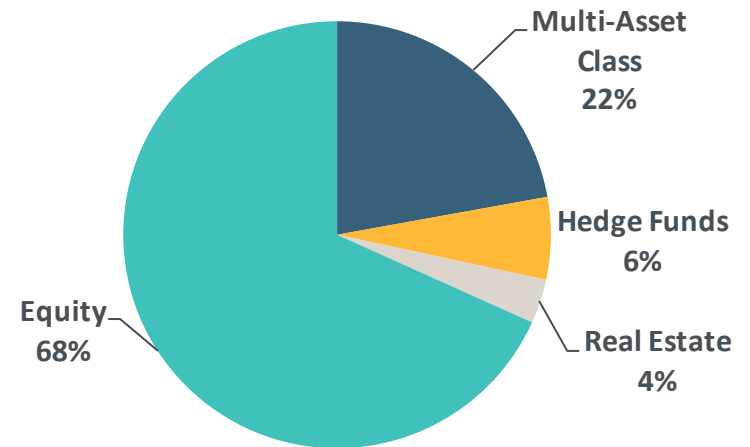


# BROAD ASSET COVERAGE / STRONG RECURRING REVENUES

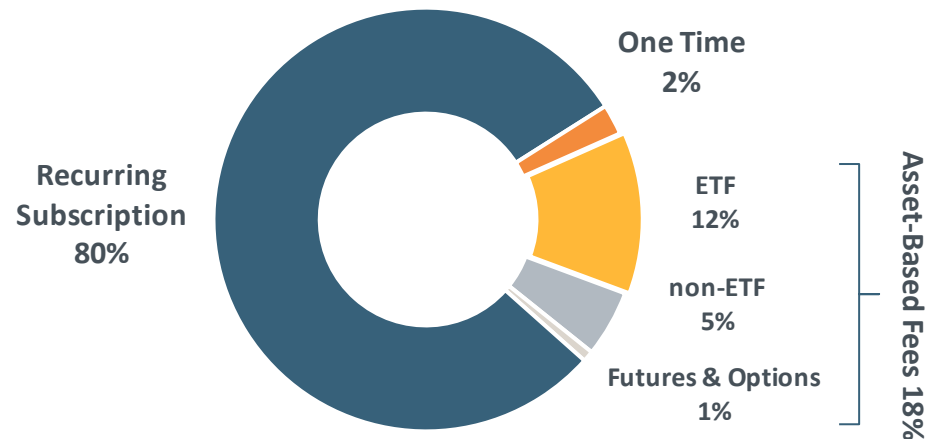
## FY 2016 Revenues by Segment



## \$1,163m Run Rate by Asset Class in FY'16



## FY 2016 Revenues by Type

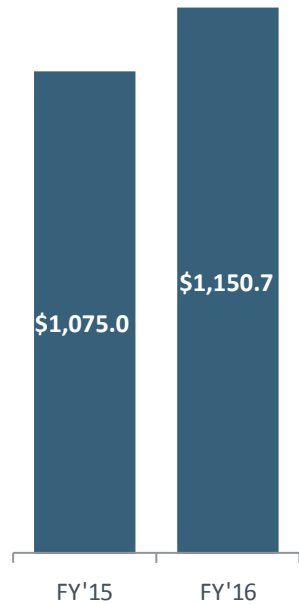


# FY 2016 FINANCIAL SUMMARY

(US\$ in millions, except for EPS)

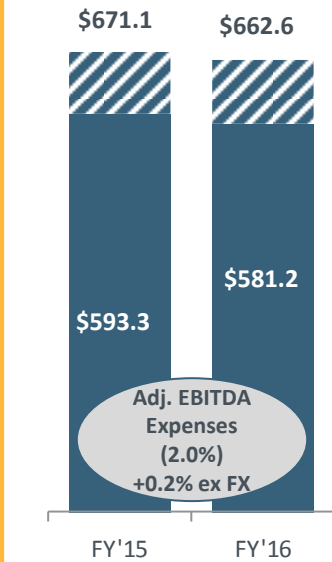
## Operating Revenue

+7.0%  
+7.5% ex FX<sup>1</sup>



## Operating Expenses

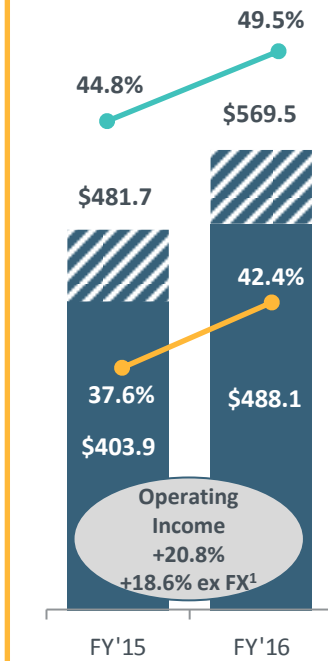
Operating Expenses  
(1.3%)  
+0.8% ex FX



= Depreciation and Amortization

## Operating Income

Adj. EBITDA  
+18.2%  
+16.6% ex FX<sup>1</sup>

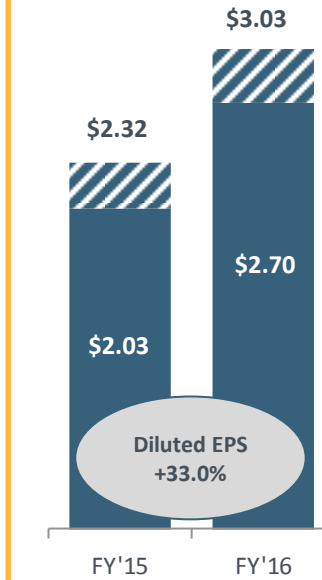


= Depreciation and Amortization

= Adj. EBITDA Margin  
 = Operating Margin

## Earnings Per Share

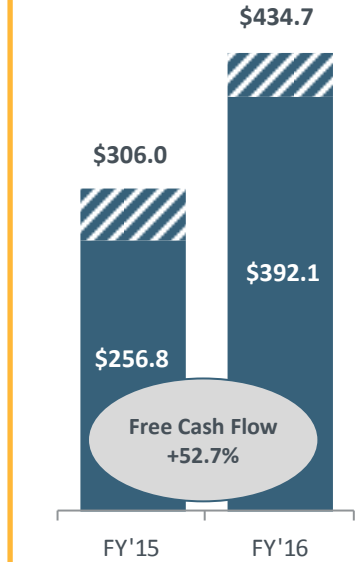
Adj. EPS  
+30.6%



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

## Cash Generation

Cash from Operations  
+42.1%



= Capex



**Strong Financial Performance Across All Metrics**

<sup>1</sup> MSCI does not provide the impact of foreign currency fluctuations on our asset-based fees tied to average AUM, of which approximately two-thirds are invested in securities denominated in currencies other than the U.S. dollar, and accordingly, the impact of any such fluctuation is excluded from the disclosed foreign currency adjusted variances.

# INDEX PRODUCTS

## How MSCI Generates Value



### Products & Services

- Data & Content
- Research & Services

### Asset Owners and their Advisors

- Use our indexes in asset allocation as performance benchmarks for mandates and as the basis for indexed strategies

### Managers

- Active Managers use our indexes as benchmarks
- Indexed Managers and ETF providers use our indexes for indexed strategies

### Traders

- Use our data to support Managers in index trades and to support trading of financial products

# INDEX PRODUCTS HIGHLIGHTS

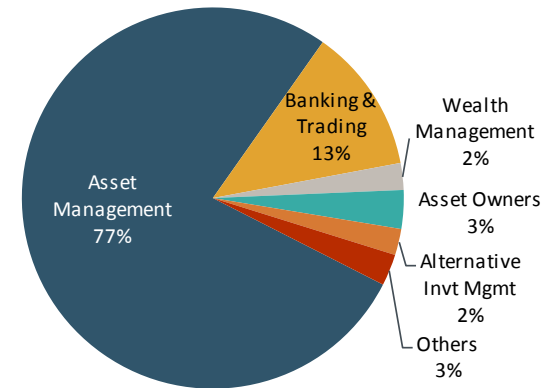
(US\$ in millions)

## Key Trends / Highlights

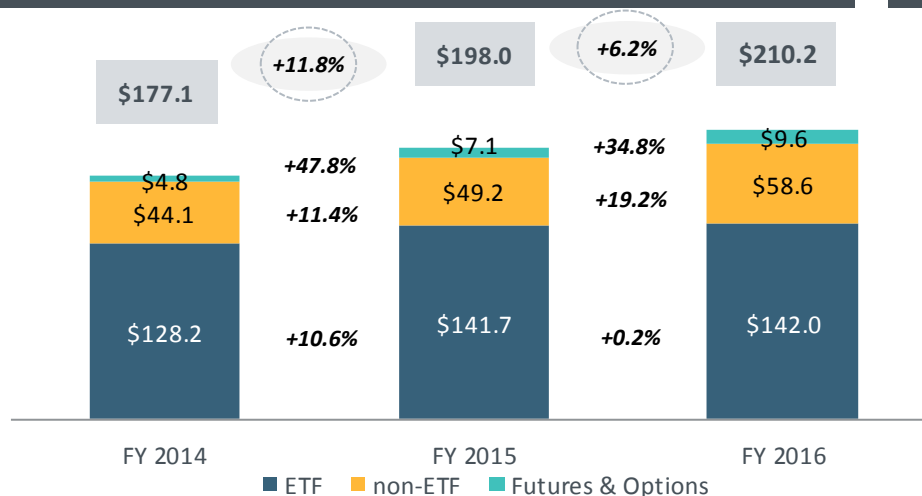
- Demand for MSCI index families, enhancements & data products continues to be driven by global investing trends and MSCI's seamless / global index framework
- Investments in ABF products driving growth in AUM in MSCI-linked equity ETFs
- Continuing to build momentum in Factors
- Futures & options total trading volume growing double-digits

## Run Rate by Client Type

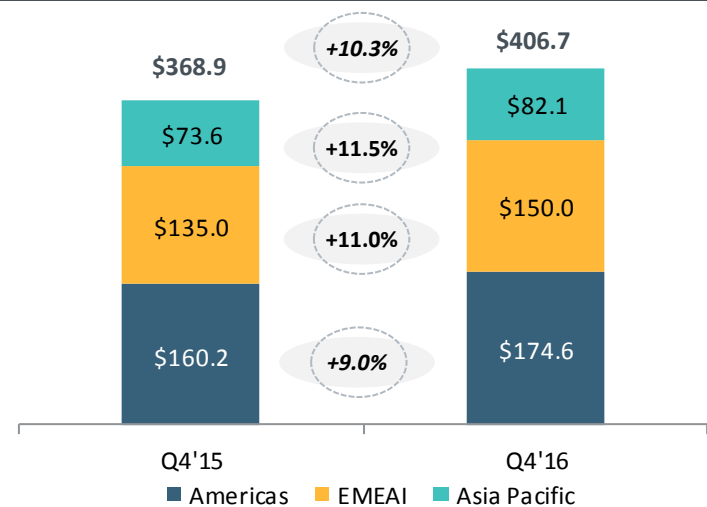
% of segment Run Rate of \$624m at end of Q4'16



## ABF Revenue



## Subscription Run Rate By Region



# INDEX SUBSCRIPTION – THE POWER OF COMPOUNDING





## Waves of Innovation

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

## Strategy

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

## MSCI Index Subscription Run Rate Growth

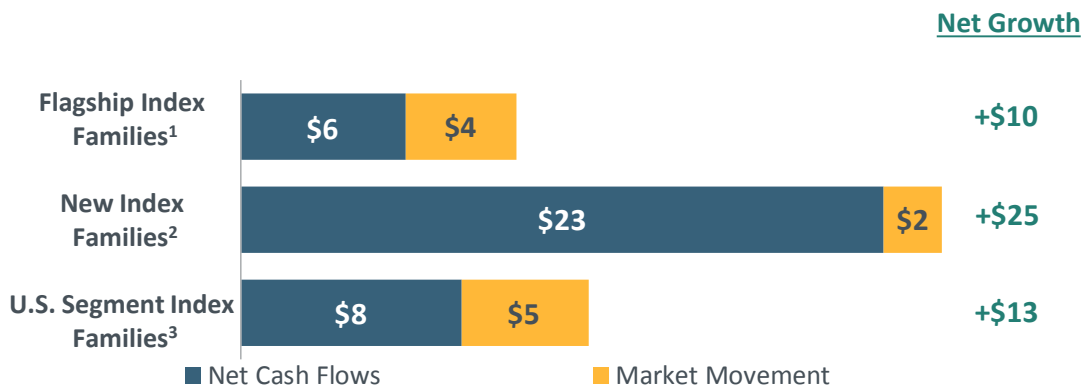
Product	Contribution to \$407m Run Rate	FY'11-FY'16 10% CAGR	Global Demand	Key Growth Drivers
Factor, ESG & Thematic		15%	↑	Investors seeking indexes that reflect new strategies
Developed Market		8%	→	Investors focused on pursuing opportunities in international and developed stocks
Emerging Market		10%	→	Investors broadening exposure to international, emerging and global stocks
Custom & Specialized		12%	↗	Expanding use cases for Indexes

# ETFs LINKED TO MSCI INDEXES – DIFFERENTIATED LICENSING

(US\$ in billions)

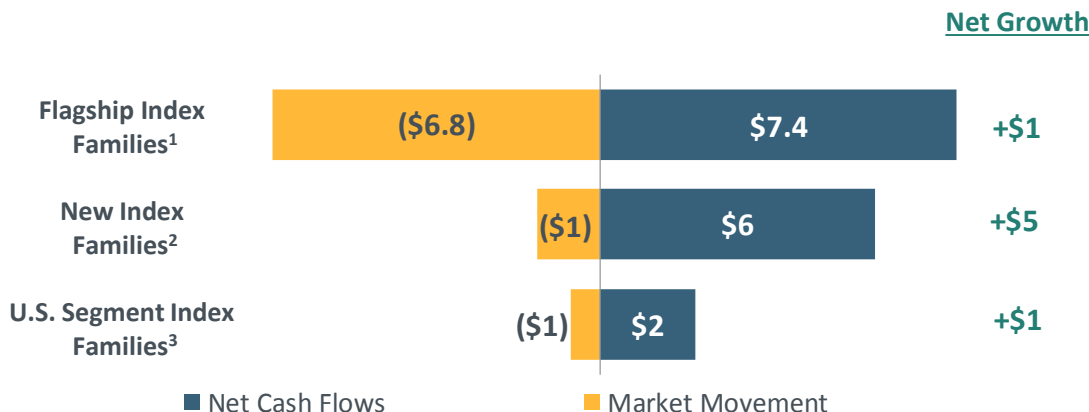
## Growth in ETF AUM Linked to MSCI Indexes

12/31/15 AUM	% of Total
\$335.6	77%
\$35.5	8%
\$62.3	15%



12/31/16 AUM	% of Total
\$345.2	72%
\$61.1	13%
\$75.1	15%

09/30/16 AUM	% of Total
\$344.6	73%
\$56.7	12%
\$73.6	15%



12/31/16 AUM	% of Total
\$345.2	72%
\$61.1	13%
\$75.1	15%

**Well Positioned Product Portfolio to Capture Growth From Innovation**



<sup>1</sup>Flagship Index Families, e.g., ACWI, EM, EAFE, Japan etc.

<sup>2</sup>New Index Families, e.g., Developed Market IMI (all market caps), US Minimum Volatility etc.

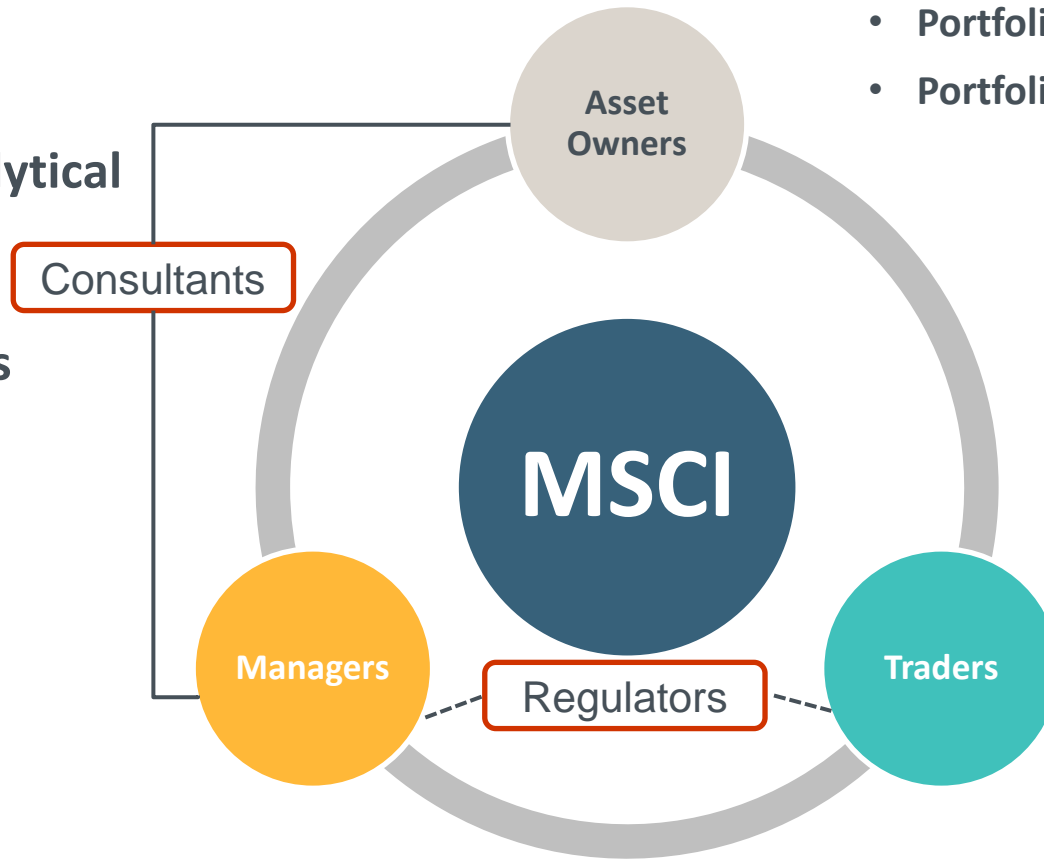
<sup>3</sup>U.S. Segment Index Families, e.g., US REIT, US Sectors etc.



# ANALYTICS PRODUCTS

## How MSCI Generates Value

- Data & Analytical Content
- Applications



### Asset Owners and Their Consultants

- Portfolio Construction
- Portfolio Performance & Risk

### Managers

- Portfolio Management
- Risk Management
- Performance Attribution
- Product Creation

### Traders

- Order Execution
- Risk Management

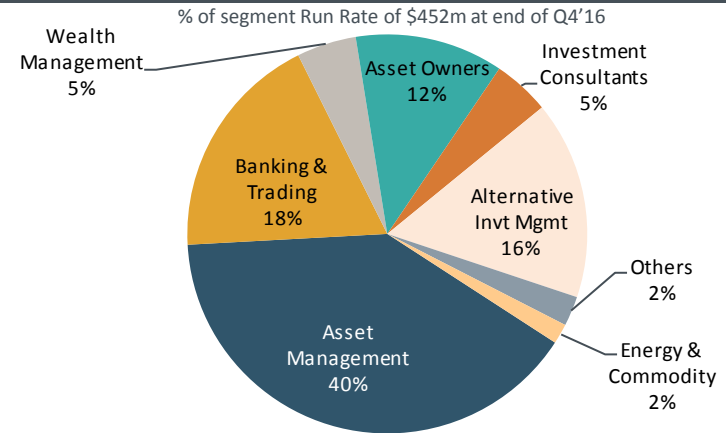
# ANALYTICS PRODUCTS HIGHLIGHTS

(US\$ in millions)

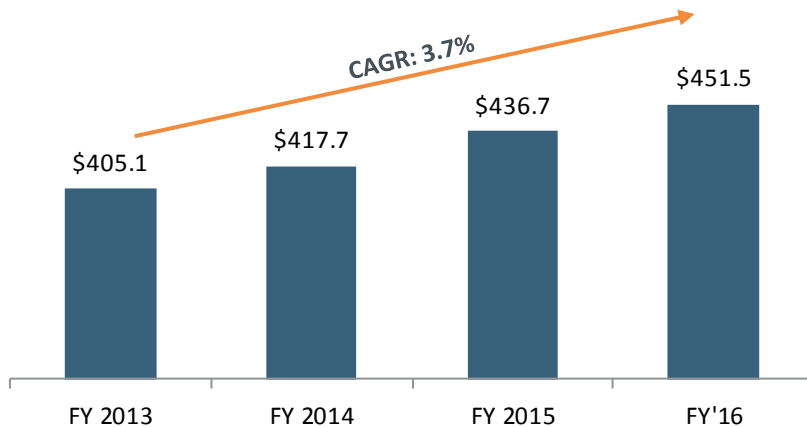
## Key Trends / Highlights

- Favorable industry trends are solid foundation for driving higher revenue growth and improved financial performance. For example, investing is become more complex not less complex. Very few firms trade in a single asset class
- Development of fixed income analytics capability to complement leadership in equity analytics
- Increasing focus on managed services to help our clients become more operationally efficient
- Development of new Analytics platform
- Hedge funds are increasing their usage of factors, driving demand for our products

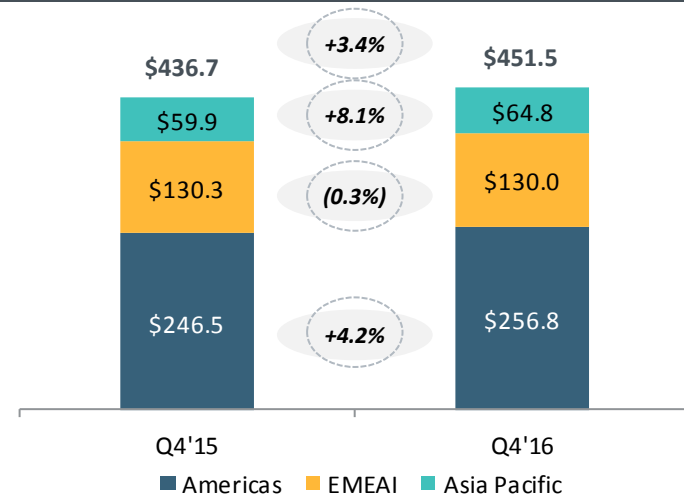
## Run Rate by Client Type



## Subscription Run Rate<sup>(1)</sup>



## Run Rate By Region



# ANALYTICS – GROSS SALES AND CANCELS

(US\$ in millions)

**Aggregate  
Retention Rate**

**91.8%**

**93.0%**

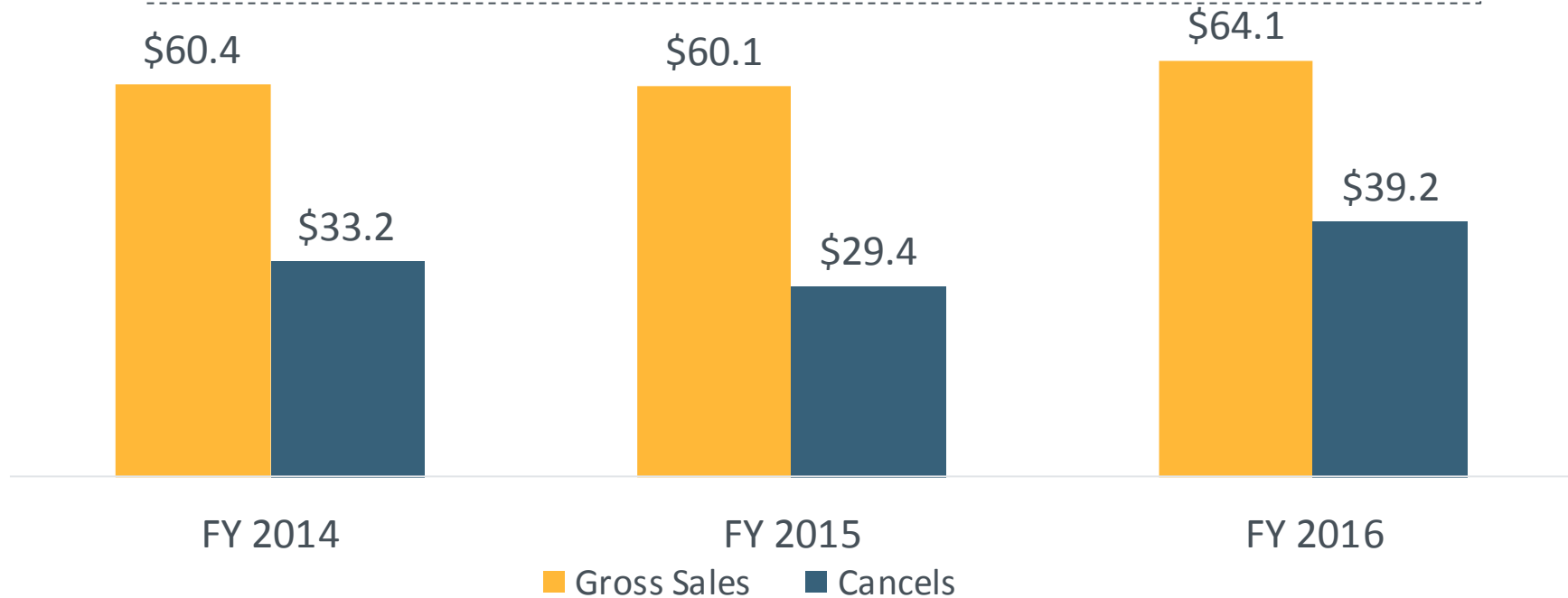
**91.0%**

**Run Rate**

**\$417.7**

**\$436.7**

**\$451.5**



***Higher Level of Sales Driven By Banking Segment  
Elevated Cancels Due to Market Conditions For Select Client Segments***

# ALL OTHER PRODUCTS HIGHLIGHTS

(US\$ in millions)

## Key Trends / Highlights

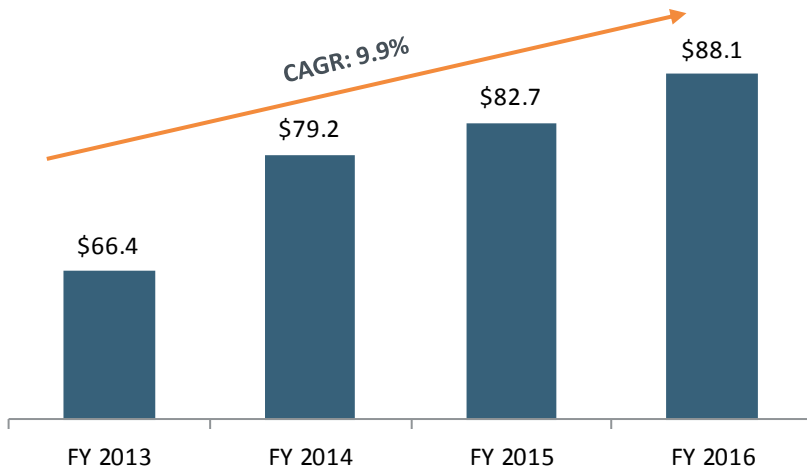
### ESG

- ESG integration into mainstream of investment process as asset owners across the globe are raising the importance of selecting and managing asset managers based on ESG criteria
- Asset managers responding with new product launches, with 47 of 104 ESG-themed ETFs linked to MSCI indexes
- Low carbon investing is one of the fastest growing areas within ESG, resulting in the largest asset owners making significant allocations

### Real Estate

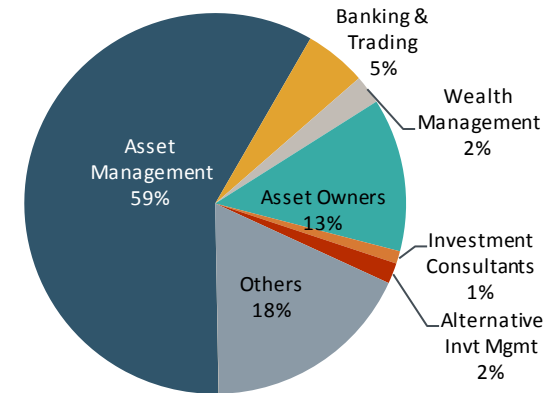
- Continue to transform Real Estate product offering with integrated web-based analytical tools and Analytics portal
- Refine focus on core markets, core client segments, core products and leverage broader MSCI infrastructure to drive efficiencies

## Subscription Run Rate<sup>(1)</sup>

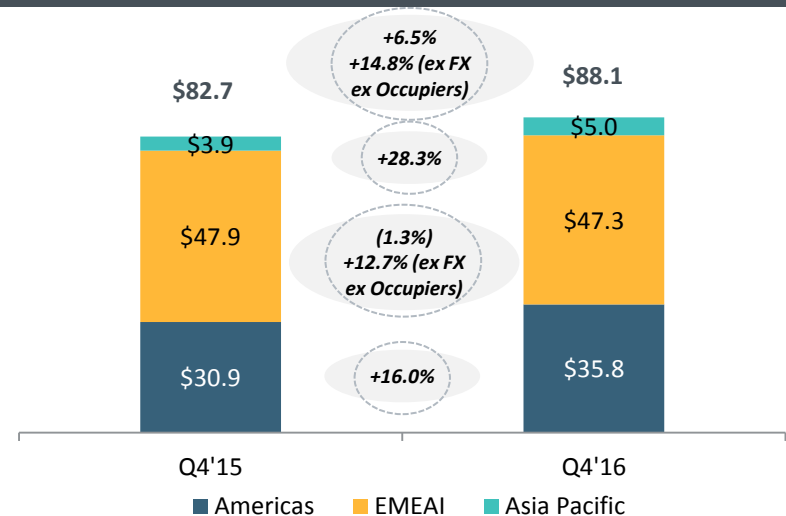


## Run Rate by Client Type

% of segment Run Rate of \$88m at end of Q4'16

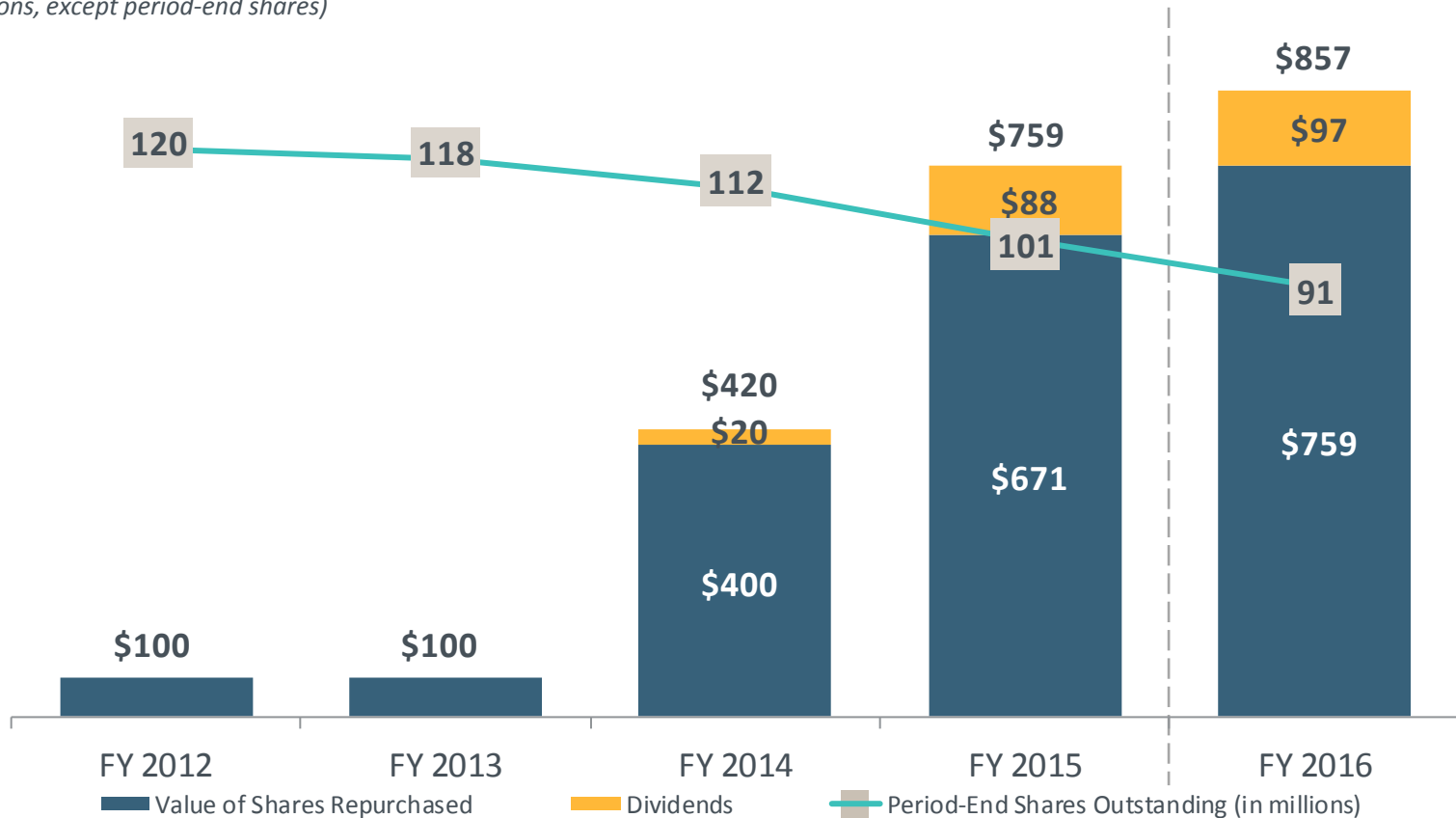


## Run Rate By Region



# STRONG TRACK RECORD OF RETURNING CAPITAL

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



- Total capital returned since 2012: \$2.3B
- Total shares repurchased since 2012: ~35m
- In fourth quarter 2016 and through February 17, 2017, a total of 4.4m shares were repurchased at an average price of \$80.37 per share for a total value of \$353.1m
- \$0.8B remains on outstanding share repurchase authorization as of 02/17/17

# CORPORATE FINANCIAL POLICIES

## Target Leverage

- Optimize long-term leverage in order to enhance cost of capital while maintaining operational flexibility

## Target Liquidity

- Maintain \$125 – \$150 million of cash in the U.S. and \$75 – \$100 million internationally for operational purposes
- Target minimum liquidity will increase with the growth of the business
- International cash may increase due to tax planning

## M&A Strategy

- Opportunistically pursue bolt-on transactions that fit with our strategy and meet our financial criteria
- Recent example acquisitions:
  - Insignis (\$7 million, closed October 2015): strengthened MSCI's position in collecting, aggregating and managing complex data for performance and risk reporting, improving the entire data value chain for clients
  - GMI Ratings (\$15 million, closed August 2014): enhanced MSCI's position as a leader in ESG (environmental, social and governance) research and ratings
- Example Divestitures:
  - ISS (\$363 million, closed April 2014): focus on core business of performance and risk systems
  - CFRA (amount not disclosed, closed March 2013): forensic accounting research not core to our offering of performance and risk tools
  - Real Estate Occupiers (amount not disclosed, closed August 2016): focus on corporates versus core investing clients

## Capital Distribution

- \$2.3 billion returned to shareholders to date
- Board of Directors approved quarterly dividend increase in Q3'16 from \$0.22 to \$0.28 per share
  - Plan to maintain dividend payout between 30% - 40% of adj. EPS
- \$0.8 billion remains on outstanding repurchase authorization as of 2/17/17

# BALANCE SHEET AND LIQUIDITY

(US\$ in millions)

As of December 31, 2016

<b>Cash &amp; Cash Equivalents</b>		<b>\$791.8</b>
Cash & Cash Equivalents in the US <sup>1</sup>	\$583.6	
Cash & Cash Equivalents held outside of the US	\$208.2	
<b>Total Debt<sup>2</sup></b>		<b>\$2,100.0</b>
5.25% \$800m senior unsecured notes due 11/2024	\$800.0	
5.75% \$800m senior unsecured notes due 8/2025	\$800.0	
4.75% \$500m senior unsecured notes due 8/2026	\$500.0	
\$220m unsecured revolving credit facility terminating 8/2021	\$0.0	
<b>Net Debt</b>		<b>\$1,308.2</b>
<b>Total Debt / Adj. EBITDA</b>		<b>3.7x</b>
<b>Net Debt / Adj. EBITDA</b>		<b>2.3x</b>
<b>Credit Ratings*(S&amp;P / Moody's)</b>		<b>BB+ / Ba2</b>

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

- Target gross leverage remains 3.0x – 3.5x and we expect to return to within the stated range in the coming quarters
- Commitment to deploy capital quickly in the most efficient method to achieve the highest return for shareholders

***Strong Balance Sheet***

# FY 2017 GUIDANCE

(US\$ in millions)

<b>Metric</b>	<b><u>FY 2016 Actual</u></b>	<b><u>FY 2017 Guidance</u></b>
Operating expenses	\$663	\$690 - \$705
Adjusted EBITDA expenses	\$581	\$605 - \$620
Interest expense	\$102	\$116
Net cash provided by operating activities	\$435	\$360 - \$410
Capex	<u>(\$43)</u>	<u>(\$50 - \$40)</u>
Free cash flow	\$392	\$310 - \$370

- Effective tax rate expected to be in the range of 31.5% to 32.5%
- Dividend pay-out in the range of 30% - 40% of Adjusted EPS

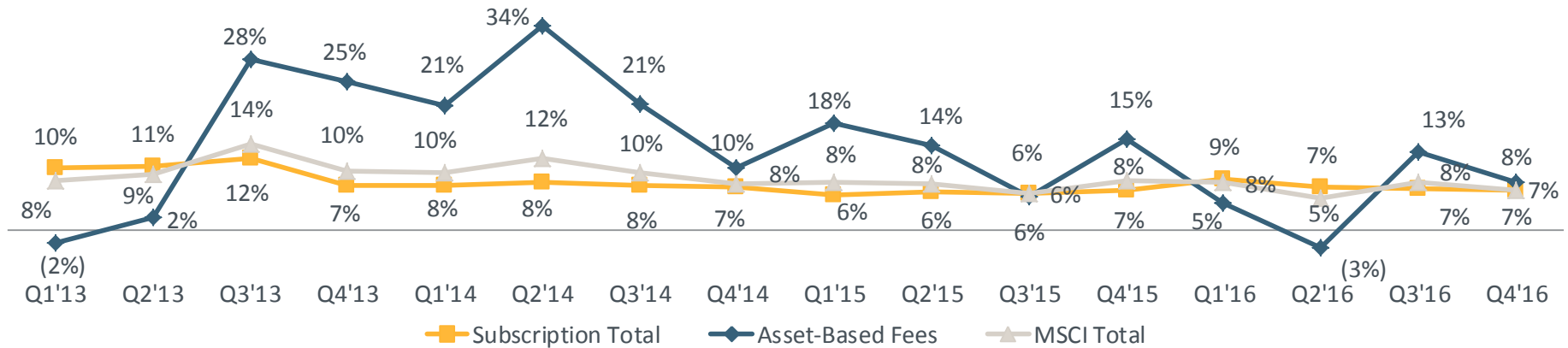


# *APPENDIX*

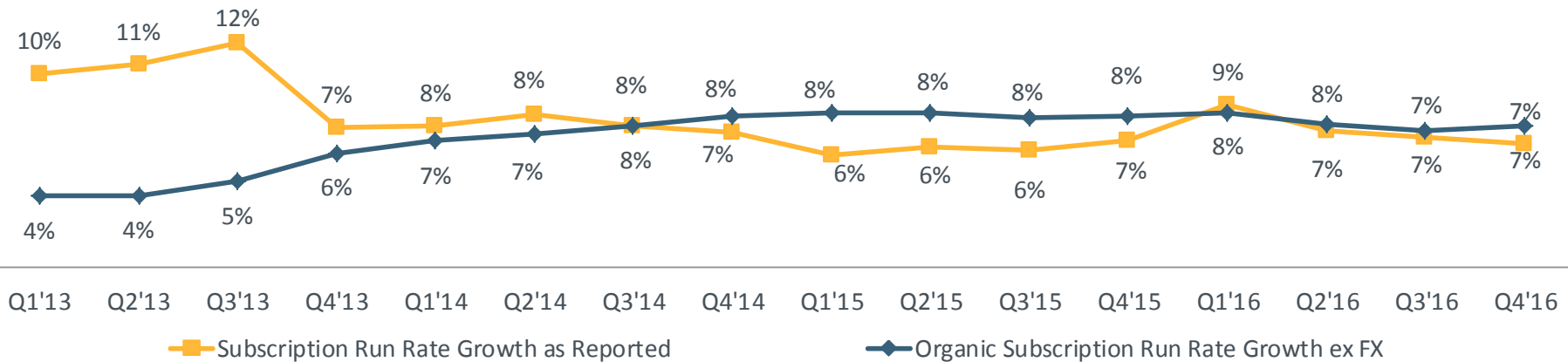
## Supplemental Disclosures & Reconciliation of Non-GAAP Measures to GAAP Measures

# Q1'13 – Q4'16 YoY RUN RATE GROWTH TREND

## YoY Run Rate Growth as Reported

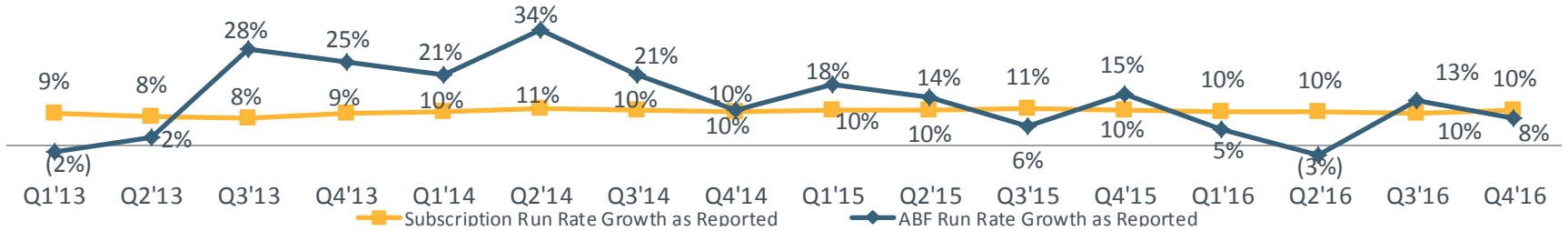


## YoY Subscription Run Rate Growth as Reported vs. Organic Growth (excluding FX Impact and Acquisitions/Divestitures)

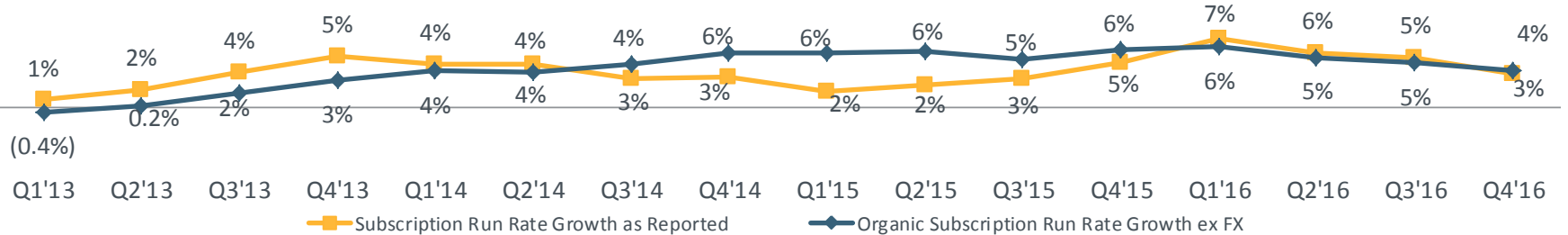


# Q1'13 – Q4'16 YoY SEGMENT RUN RATE GROWTH TREND

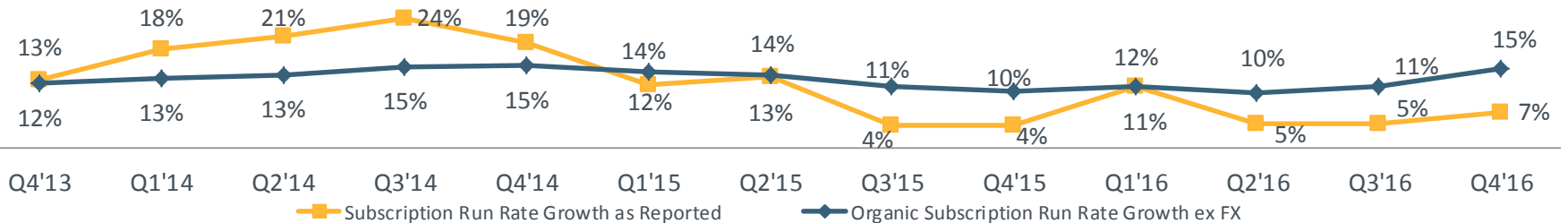
## Index



## Analytics



## All Other



# FY 2016 – STRONG EXECUTION<sup>1</sup>

## REVENUE GROWTH

Operating Revenues +7.0%

## OPERATIONAL EFFICIENCY

Lower Operating Expenses / Adj. EBITDA Expenses (1.3%) / (2.0%)

Growth in Operating Income / Adj. EBITDA +20.8% / +18.2%

Operating Margin / Adj. EBITDA Margin Improvement 480bps / 470bps

Lower Full-Year Effective Tax Rate (180bps)

## CAPITAL OPTIMIZATION

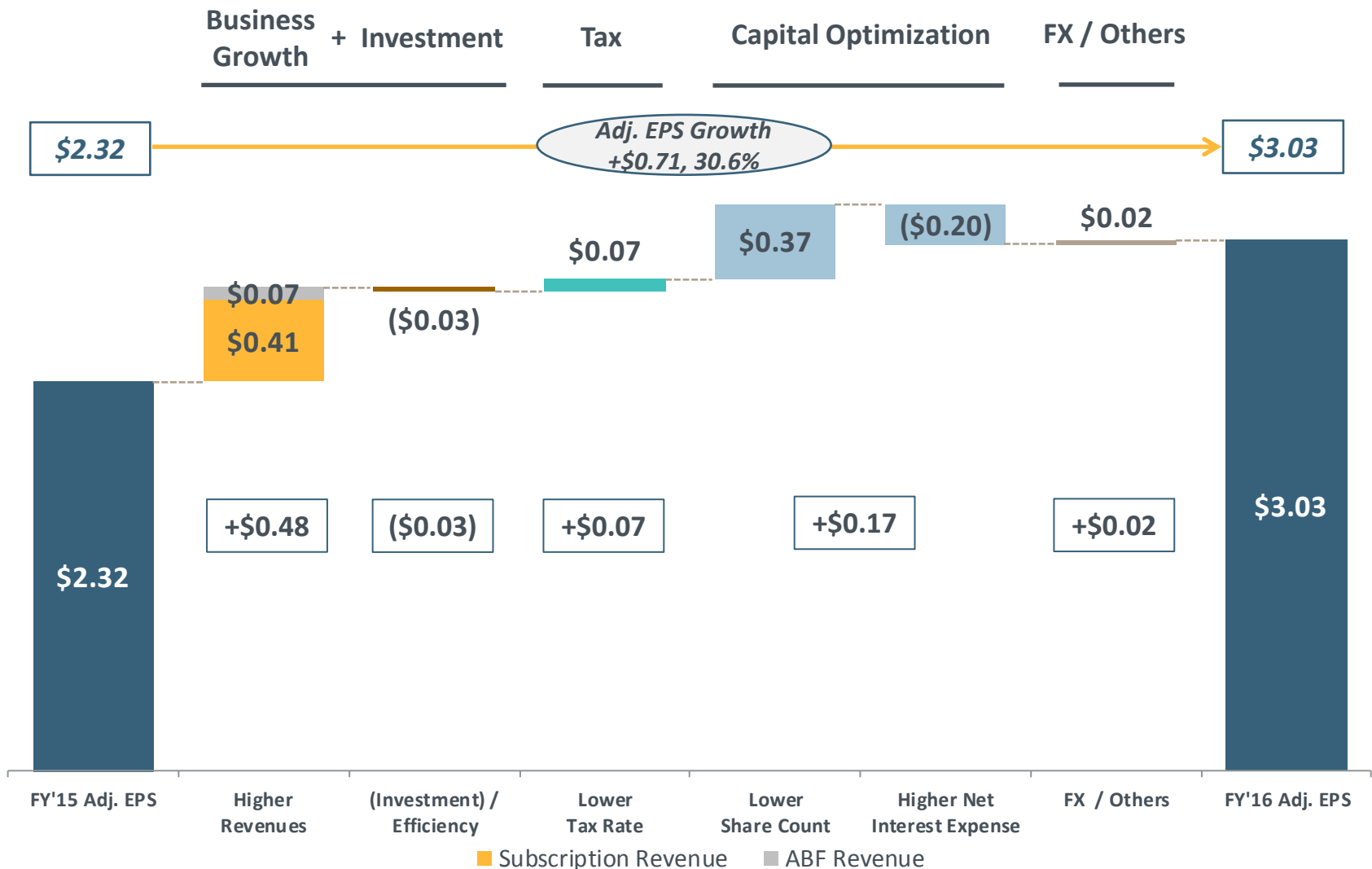
Lower Diluted Share Count (12.2%)

Increased Leverage<sup>2</sup> +0.4x

**Growth in Diluted EPS / Adj. EPS +33.0% / +30.6%**

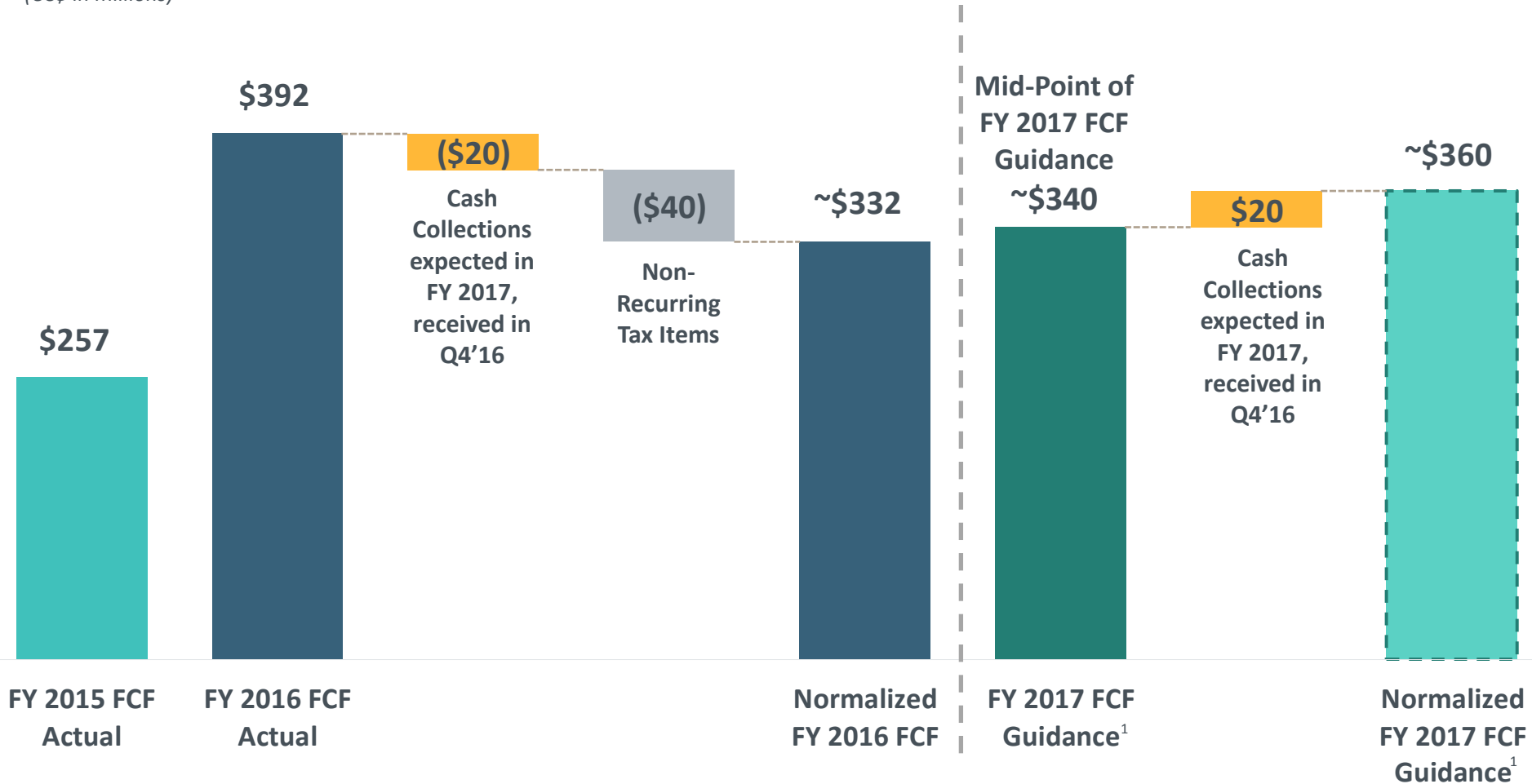
***Long - Term Shareholder Value Creation***

# FY 2016 VS. FY 2015 ADJUSTED EPS BRIDGE



# FY 2016 STRONG FREE CASH FLOW (FCF) GENERATION

(US\$ in millions)



***FY 2016 Benefit From Accelerated Cash Collections / Discrete Cash Tax Related Benefits***



<sup>1</sup> Includes \$16m of additional after-tax cash interest expense not incurred prior to FY 2017.

# Q4'16 FINANCIAL SUMMARY

(US\$ in millions, except for EPS)

## Operating Revenue

+7.3%  
+8.3% ex FX<sup>1</sup>



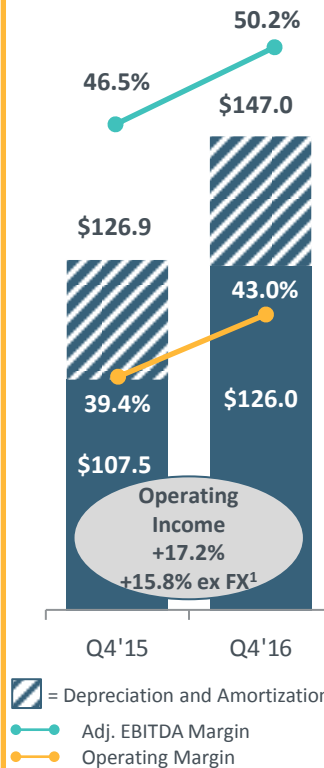
## Operating Expenses

Operating Expenses  
+0.9%  
+3.5% ex FX



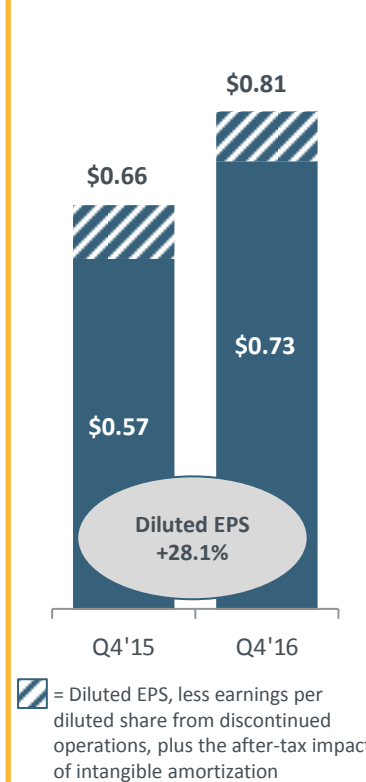
## Operating Income

Adj. EBITDA  
+15.8%  
+14.9% ex FX<sup>1</sup>



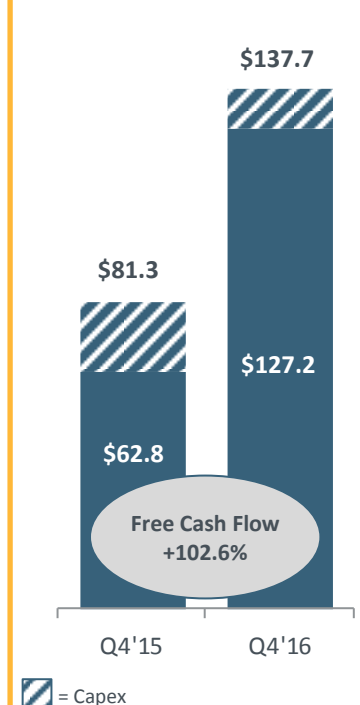
## Earnings Per Share

Adj. EPS  
+22.7%



## Cash Generation

Cash from Operations  
+69.3%



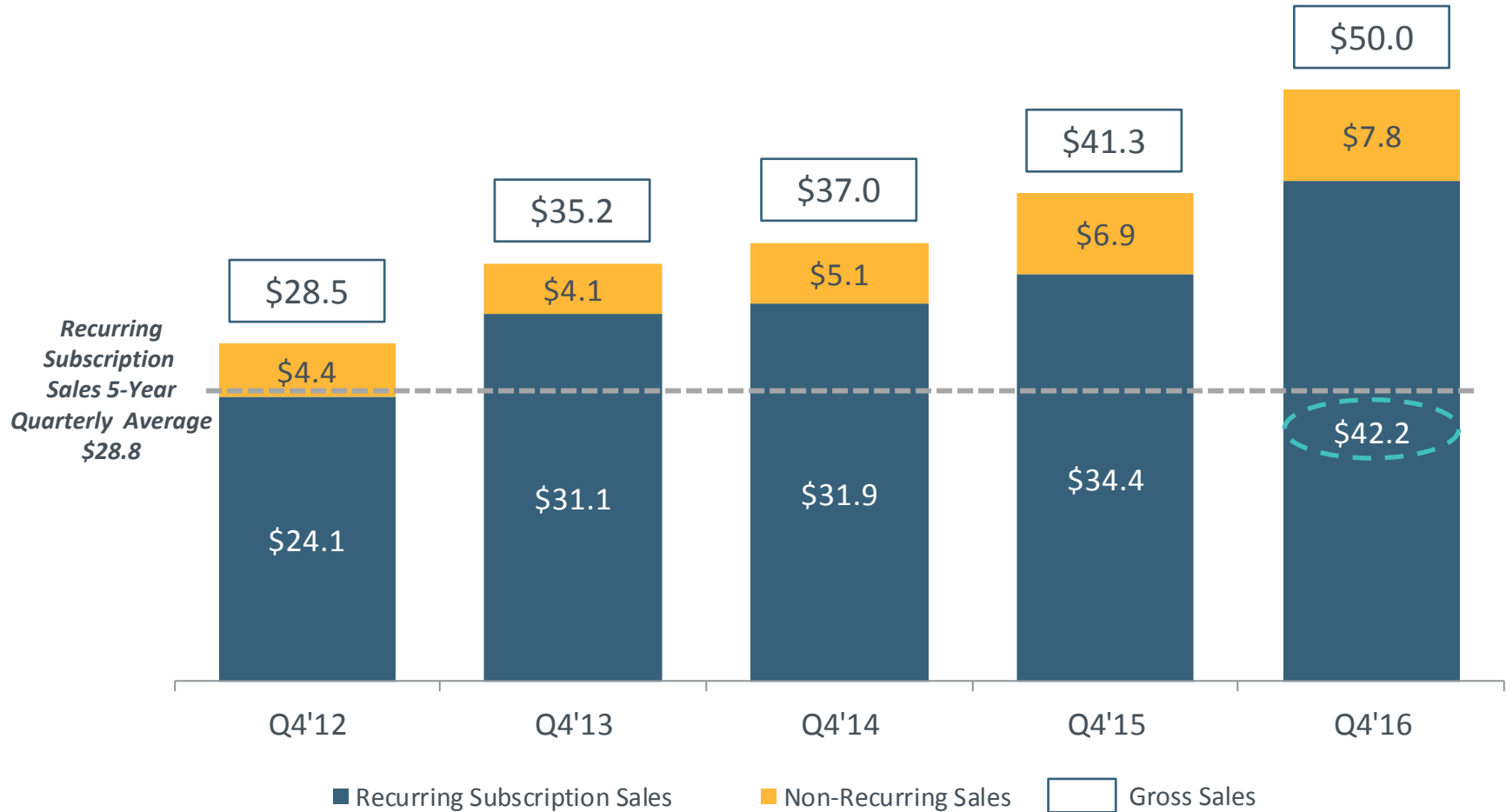
**Strong Financial Performance Across All Metrics**



<sup>1</sup> MSCI does not provide the impact of foreign currency fluctuations on our asset-based fees tied to average AUM, of which approximately two-thirds are invested in securities denominated in currencies other than the U.S. dollar, and accordingly, the impact of any such fluctuation is excluded from the disclosed foreign currency adjusted variances.

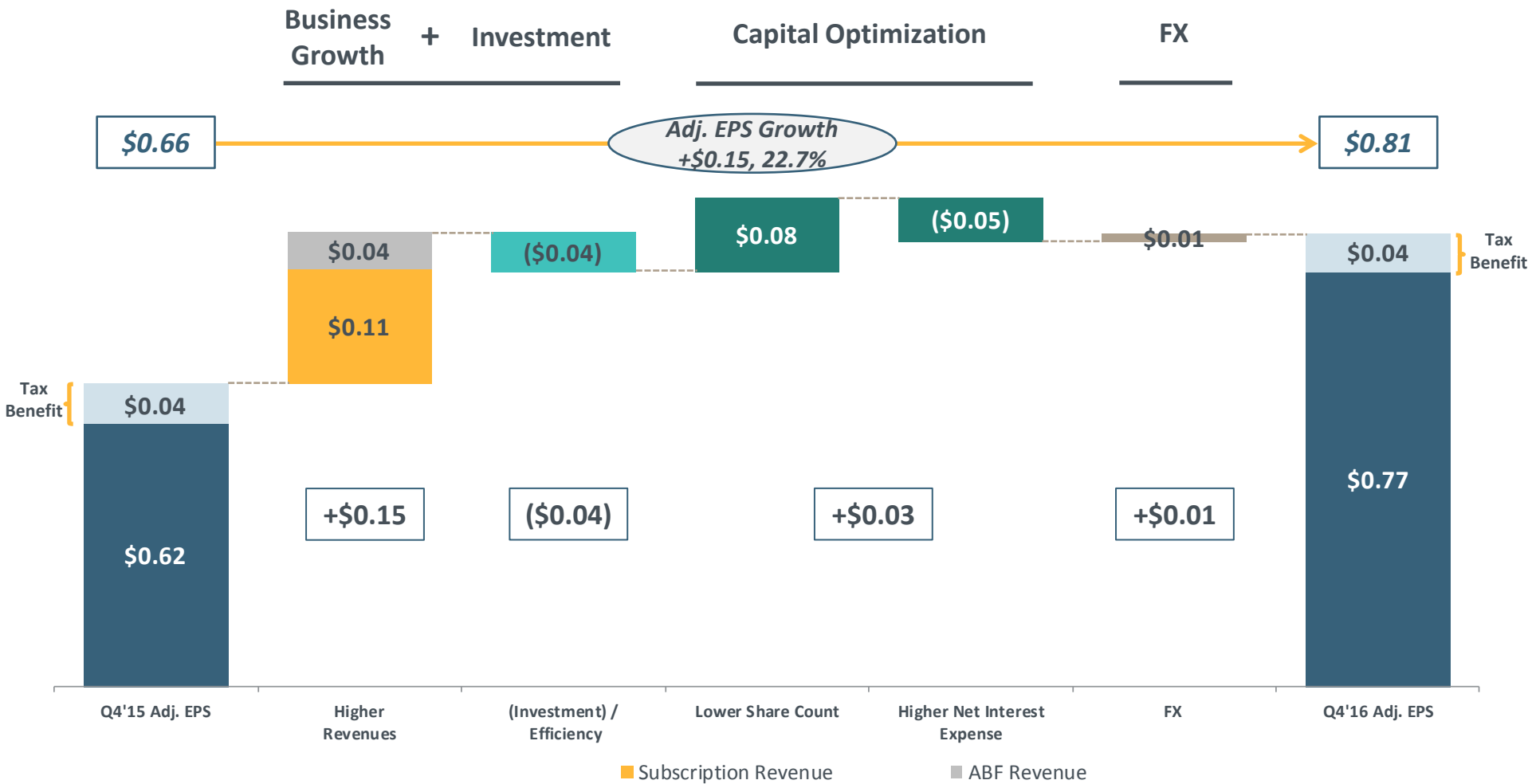
# Q4'16 – RECORD SALES

(US\$ in millions)





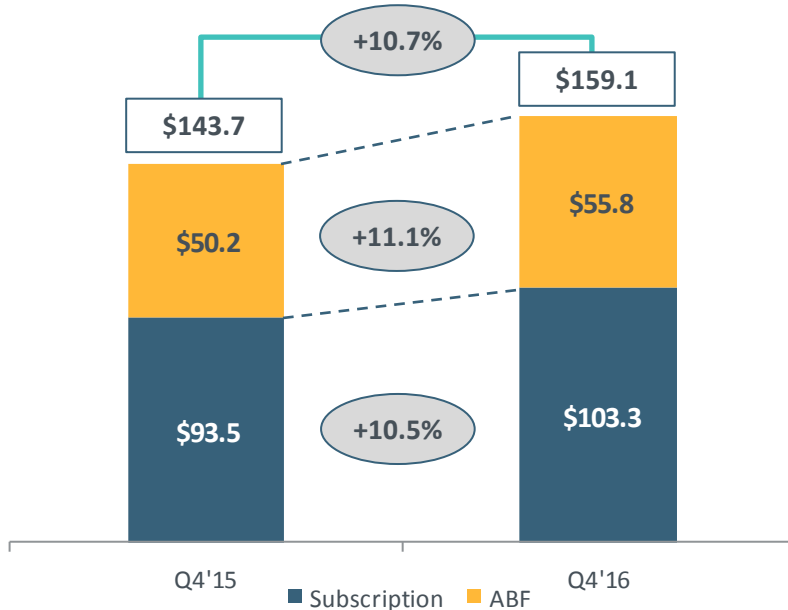
# Q4'16 VS. Q4'15 ADJUSTED EPS BRIDGE



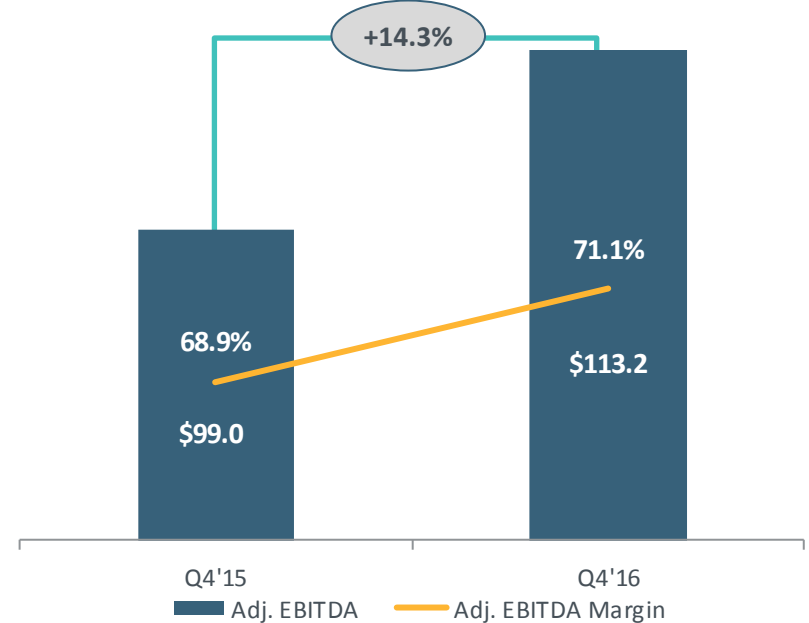
# INDEX SEGMENT

(US\$ in millions)

## Operating Revenue



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



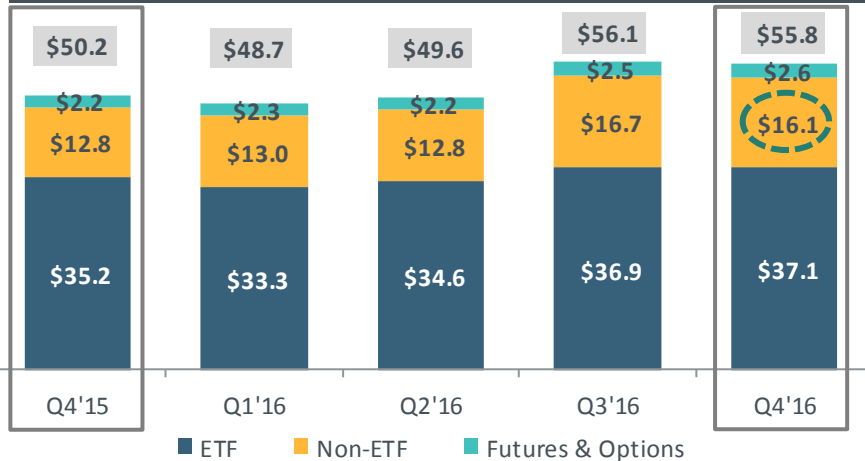
- Strong growth across all revenue types – recurring, asset-based fees (ABF) and non-recurring
- Higher recurring subscription revenues driven by benchmark and data product growth; strength in small cap
- ABF revenue growth driven by non-ETF passive funds, as well as ETF and exchange traded futures and options related revenues

- Double-digit growth in adjusted EBITDA and higher adjusted EBITDA margin
- Margin expansion while continuing to invest in new products and enhance existing products

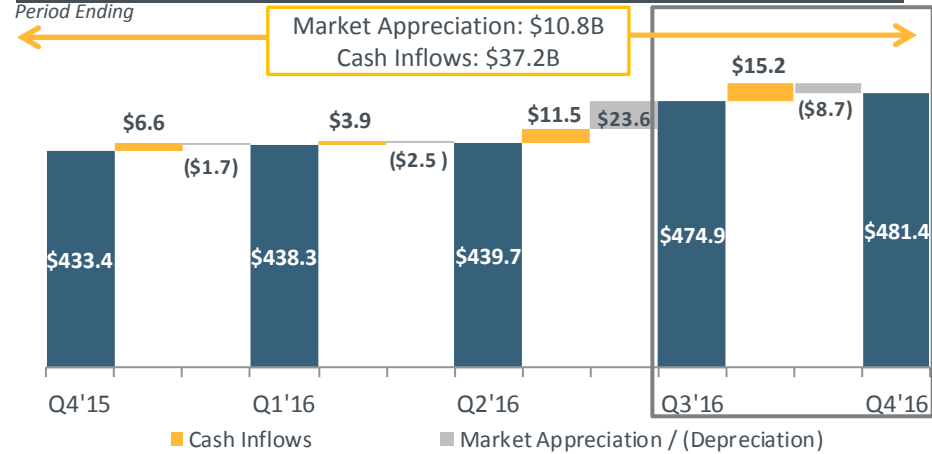
# INDEX SEGMENT – ASSET-BASED FEE DETAIL

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

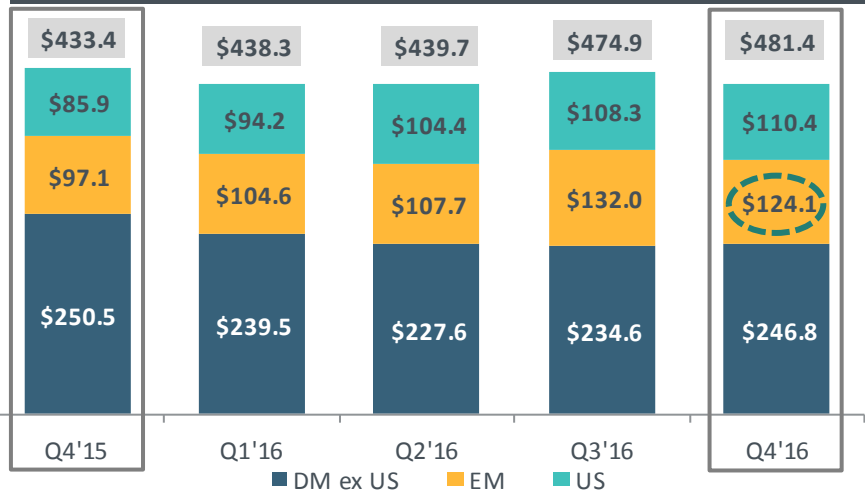
### Quarterly Asset-Based Fee Revenue Trend



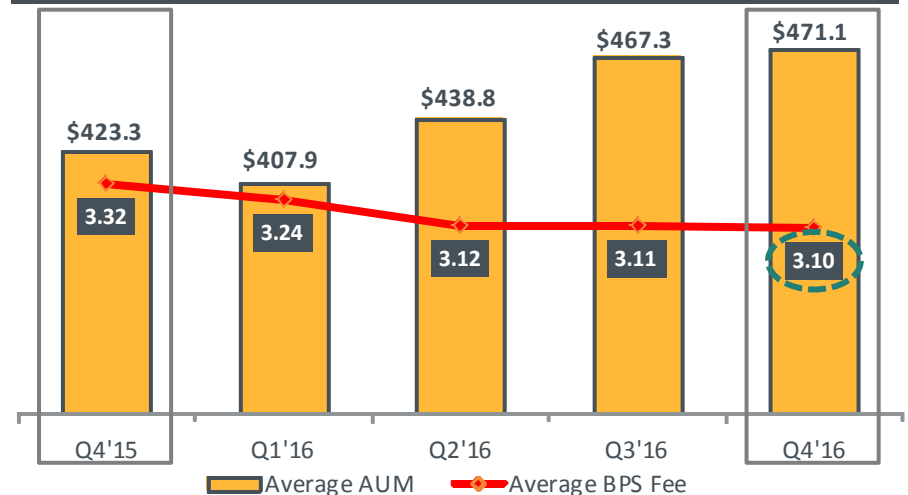
### Quarterly AUM & Market Movement of MSCI-Linked ETFs



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



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

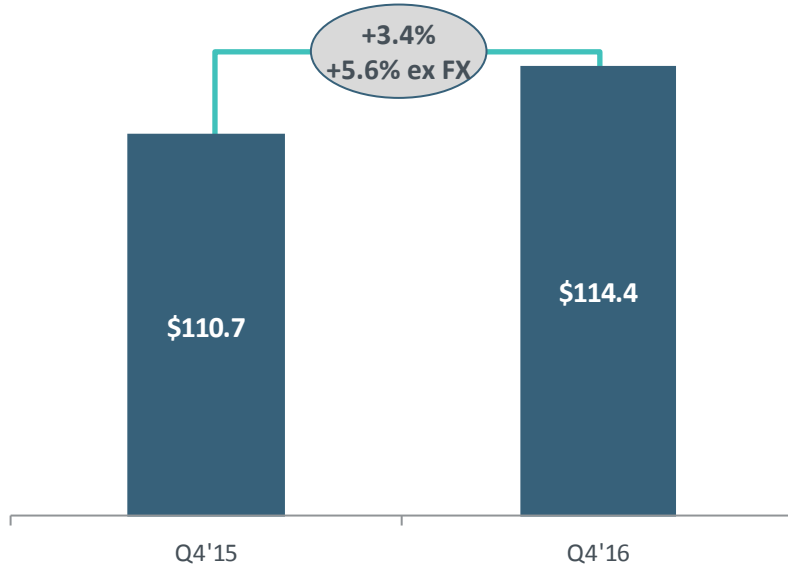


<sup>1</sup> Note: US = ETFs linked to MSCI indexes the majority of whose weight is comprised of securities in MSCI Developed Market (DM) countries, primarily or exclusively in the US.  
 DM ex US = ETFs linked to MSCI indexes the majority of whose weight is comprised of securities in MSCI DM countries other than the US.  
 EM = ETFs linked to MSCI indexes the majority of whose weight is comprised of securities that are not in MSCI DM countries.  
 Prior periods have been reclassified to conform to the current period classification.  
<sup>2</sup> Average BPS fee based on Run Rate and period-end AUM.

# ANALYTICS SEGMENT

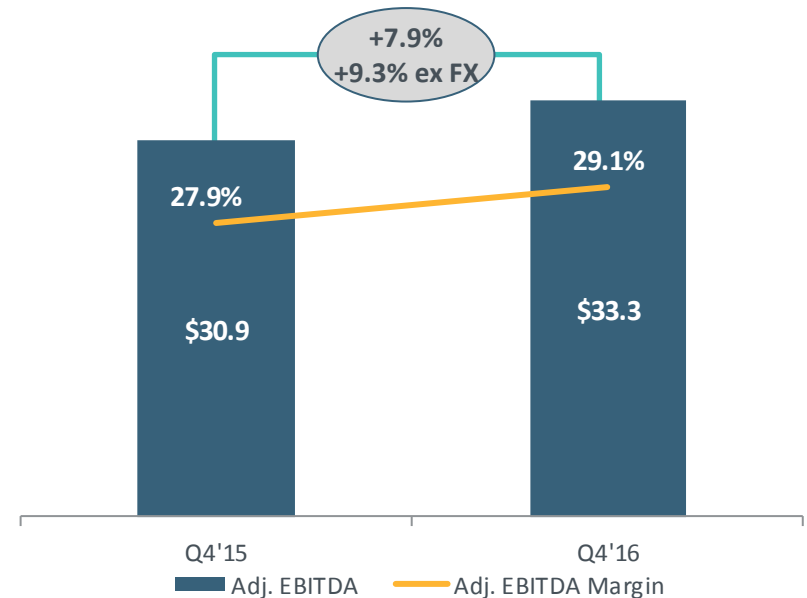
(US\$ in millions)

## Operating Revenue



- Higher RiskManager revenues and strong contribution from equity models and BarraOne due to increasing use of factors to explain performance
- Solid performance despite challenging market conditions for select client segments

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

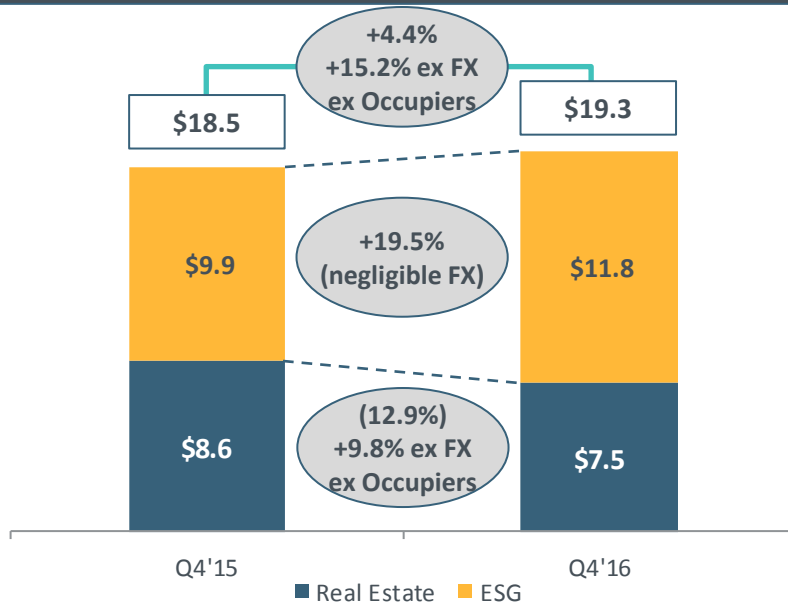


- Focus on profitability has delivered strong growth in operating leverage
- Reinvestment of cost savings into new growth opportunities
- Investing to drive future growth: fixed income, services and launch of the first client-facing version of new Analytics platform

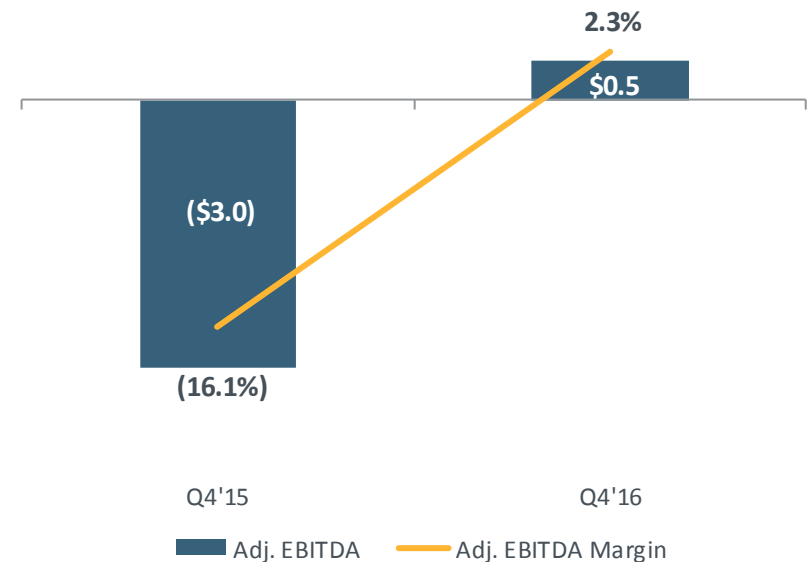
# ALL OTHER SEGMENT

(US\$ in millions)

## Operating Revenue



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



- Strong growth in ESG driven by record quarterly sales – 33% growth in ESG ratings Run Rate
- ESG integration driving new client sales
- Real Estate impacted by FX – revenues up 10% on organic basis, excluding FX impact
- Real Estate market information product Run Rate up by 12%

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

# RECONCILIATION OF ADJUSTED EBITDA TO NET INCOME

In thousands	Three Months Ended			Year Ended	
	Dec. 31, 2016	Dec. 31, 2015	Sep. 30, 2016	Dec. 31, 2016	Dec. 31, 2015
Index adjusted EBITDA	\$ 113,161	\$ 98,990	\$ 111,750	\$ 431,478	\$ 392,987
Analytics adjusted EBITDA	33,344	30,908	31,501	128,507	95,468
All Other adjusted EBITDA	452	(2,984)	73	9,472	(6,758)
<b>Consolidated adjusted EBITDA</b>	<b>146,957</b>	<b>126,914</b>	<b>143,324</b>	<b>569,457</b>	<b>481,697</b>
Amortization of intangible assets	11,498	11,803	11,752	47,033	46,910
Depreciation and amortization of property, equipment and leasehold improvements	9,447	7,568	8,312	34,320	30,889
<b>Operating income</b>	<b>126,012</b>	<b>107,543</b>	<b>123,260</b>	<b>488,104</b>	<b>403,898</b>
Other expense (income), net	28,917	22,107	25,738	102,166	54,344
Provision for income taxes	28,845	25,437	32,241	125,083	119,516
<b>Income from continuing operations</b>	<b>68,250</b>	<b>59,999</b>	<b>65,281</b>	<b>260,855</b>	<b>230,038</b>
Income (loss) from discontinued operations, net of income taxes	—	(593)	—	—	(6,390)
<b>Net income</b>	<b>\$ 68,250</b>	<b>\$ 59,406</b>	<b>\$ 65,281</b>	<b>\$ 260,855</b>	<b>\$ 223,648</b>

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

	Three Months Ended			Year Ended	
	Dec. 31, 2016	Dec. 31, 2015	Sep. 30, 2016	Dec. 31, 2016	Dec. 31, 2015
<b>In thousands, except per share data</b>					
Net income	\$ 68,250	\$ 59,406	\$ 65,281	\$ 260,855	\$ 223,648
Less: Income (loss) from discontinued operations, net of income taxes	—	(593)	—	—	(6,390)
Income from continuing operations	68,250	59,999	65,281	260,855	230,038
Plus: Amortization of intangible assets	11,498	11,803	11,752	47,033	46,910
Less: Gain on sale of investment	—	—	—	—	(6,300)
Less: Income tax effect	(3,403)	(3,534)	(3,873)	(15,243)	(16,039)
<b>Adjusted net income</b>	<b>\$ 76,345</b>	<b>\$ 68,268</b>	<b>\$ 73,160</b>	<b>\$ 292,645</b>	<b>\$ 254,609</b>
Diluted EPS	\$ 0.73	\$ 0.57	\$ 0.68	\$ 2.70	\$ 2.03
Less: Earnings per diluted common share from discontinued operations	—	(0.01)	—	—	(0.06)
Earnings per diluted common share from continuing operations	\$ 0.73	\$ 0.58	\$ 0.68	\$ 2.70	\$ 2.09
Plus: Amortization of intangible assets	0.12	0.11	0.12	0.49	0.43
Less: Gain on sale of investment	—	—	—	—	(0.06)
Less: Income tax effect	(0.04)	(0.03)	(0.03)	(0.16)	(0.14)
<b>Adjusted EPS</b>	<b>\$ 0.81</b>	<b>\$ 0.66</b>	<b>\$ 0.77</b>	<b>\$ 3.03</b>	<b>\$ 2.32</b>

# RECONCILIATION OF ADJUSTED EBITDA EXPENSES TO OPERATING EXPENSES

In thousands	Three Months Ended			Year Ended		Full-Year
	Dec. 31, 2016	Dec. 31, 2015	Sep. 30, 2016	Dec. 31, 2016	Dec. 31, 2015	2017 Outlook
Index adjusted EBITDA expenses	\$ 45,909	\$ 44,712	\$ 46,001	\$ 182,073	\$ 165,977	
Analytics adjusted EBITDA expenses	81,062	79,760	79,790	319,846	337,956	
All Other adjusted EBITDA expenses	18,884	21,507	19,318	79,293	89,383	
<b>Consolidated adjusted EBITDA expenses</b>	<b>145,855</b>	<b>145,979</b>	<b>145,109</b>	<b>581,212</b>	<b>593,316</b>	<b>\$605,000 - \$620,000</b>
Amortization of intangible assets	11,498	11,803	11,752	47,033	46,910	
Depreciation and amortization of property, equipment and leasehold improvements	9,447	7,568	8,312	34,320	30,889	85,000
<b>Total operating expenses</b>	<b>\$ 166,800</b>	<b>\$ 165,350</b>	<b>\$ 165,173</b>	<b>\$ 662,565</b>	<b>\$ 671,115</b>	<b>\$690,000 - \$705,000</b>



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

	Three Months Ended			Year Ended		Full-Year
	Dec. 31, 2016	Dec. 31, 2015	Sep. 30, 2016	Dec. 31, 2016	Dec. 31, 2015	2017 Outlook
In thousands						
Net cash provided by operating activities	\$ 137,708	\$ 81,322	\$ 146,923	\$ 434,738	\$ 305,994	\$360,000 - \$410,000
Capital expenditures	(8,140)	(16,127)	(10,867)	(32,284)	(40,652)	
Capitalized software development costs	(2,395)	(2,438)	(2,861)	(10,344)	(8,500)	
Capex	(10,535)	(18,565)	(13,728)	(42,628)	(49,152)	(50,000 - 40,000)
<b>Free cash flow</b>	<b>\$ 127,173</b>	<b>\$ 62,757</b>	<b>\$ 133,195</b>	<b>\$ 392,110</b>	<b>\$ 256,842</b>	<b>\$310,000 - \$370,000</b>

# USE OF NON-GAAP FINANCIAL MEASURES AND OPERATING METRICS

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

**MSCI**

