



## **Morningstar Annual Report 2019**

**Form 10-K (NASDAQ:MORN)**

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

**FORM 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2018**

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: 000-51280

**MORNINGSTAR, INC.**

(Exact Name of Registrant as Specified in its Charter)

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**Illinois**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**36-3297908**  
(I.R.S. Employer  
Identification Number)

**22 West Washington Street  
Chicago, Illinois  
60602**  
(Address of Principal Executive Offices)

**(312) 696-6000**  
(Registrant's Telephone Number, Including Area Code)  
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common stock, no par value	The Nasdaq Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 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  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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  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

The aggregate market value of shares of common stock held by non-affiliates of the Registrant as of June 30, 2018 was \$2.4 billion. As of February 15, 2019, there were 42,587,504 shares of the Registrant's common stock, no par value, outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Certain parts of the Registrant's Definitive Proxy Statement for the 2019 Annual Meeting of Shareholders are incorporated into Part III of this Form 10-K.

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## Part I

### Item 1. Business

#### Overview

Morningstar, Inc. is a leading provider of independent investment research in North America, Europe, Australia, and Asia. Our core competencies are data, research, and design, and we employ each of these to create products that clearly convey complex investment information to investors of all kinds. We started with affordable publications for individuals, then moved to creating technology solutions for professionals to help them research and select investments for clients. Today, we offer a suite of cloud-based solutions that serve individuals, financial advisors, asset managers, retirement plan providers and sponsors, and institutional investors in the private capital markets. In addition, we apply our valuation-based investing approach to managing assets for clients who prefer not to make investment decisions themselves. Since our founding in 1984, we've expanded our presence in global markets where investors need an independent view they can trust.

We help investors in two simple ways. First, we support individual investors and financial professionals who make their own investment decisions with an extensive product line of web-based tools, investment data, and research that helps investors make the most suitable choices and recommendations. Our customers have access to a wide selection of fundamental equity research, manager research, credit ratings, and private capital markets research directly on our proprietary desktop or web-based software platforms, through subscriptions, data feeds, and third-party distributors.

Second, we provide investment management services, investment analysis platforms, and portfolio management and accounting software tools to advisors and financial institutions. Our managed portfolio offerings help financial institutions deliver investor-friendly products based on our valuation-driven, goals-based approach to investing. Applying our expertise in asset allocation, investment selection, and portfolio construction, our global investment team creates long-term investment strategies built on Morningstar's expertise. We help retirement plan sponsors build high-quality savings programs for employees. Our financial technology solutions allow advisors to continually demonstrate their value to clients, from creating an initial investment proposal to reporting portfolio performance and providing automated rebalancing tools.

As of December 31, 2018, we served approximately 255,000 financial advisors, 1,500 asset management firms, 30 retirement plan providers, 248,000 retirement plans, and 10 million individual investors. We also provide data on the private capital markets to approximately 3,700 institutional clients.

Our independence and our history of innovation make us a trusted resource for investors. While other companies may offer research, ratings, data, software products, or investment management services, we are one of the few companies that can deliver all of these with the best interest of the investor in mind. We believe putting investors first, paired with the way we use information design and technology to communicate complex financial information, sets us apart from our peers in the financial services industry.

Morningstar covers a wide range of investment offerings, including managed investment products, publicly listed companies, fixed-income securities, private capital markets, and real-time global market data. We focus our data and research efforts on several different areas:

*Manager research (including mutual funds, exchange-traded funds, separate accounts, and other vehicles)*

We've been providing independent analyst research on managed investment strategies since the mid-1980s. We use this analysis to provide research reports and qualitative, forward-looking Morningstar Analyst Ratings for approximately 4,800 funds, ETFs, and separately managed accounts globally. We also publish qualitative research and ratings on state-sponsored college savings plans, target-date funds, and health-savings accounts. This analysis augments other quantitative ratings and analytics, such as the Morningstar Rating for funds (the "star rating"), which ranks managed investment strategies such as mutual funds based on their past performance versus peers. In addition, the Morningstar Style Box visually depicts a strategy's underlying investment style, making it easier to compare investments and build portfolios. The star rating and style box have become important tools that millions of investors and advisors use in making investment decisions.

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In recent years, we've launched several new ratings. The Morningstar Sustainability Rating helps investors evaluate funds based on environmental, social, and governance factors. Morningstar now provides Sustainability Ratings for approximately 45,000 investment vehicles. The Morningstar Quantitative Rating is a forward-looking rating that uses algorithmic techniques to evaluate mutual funds. It employs machine-learning to infer patterns in the way Morningstar's manager-research analysts assign ratings to funds and then applies those learnings to rate funds the analysts don't cover. It significantly expands the breadth of our forward-looking ratings.

As of December 31, 2018, we had about 120 manager research analysts globally, including teams in North America, Europe, Australia, and Asia.

#### *Equity research*

As part of our research efforts on individual stocks, we popularized the concepts of economic moat, a measure of competitive advantage originally developed by Warren Buffett, and margin of safety, which reflects the size of the discount in a stock's price relative to its estimated value. The Morningstar Rating for stocks is based on the stock's current price relative to our analyst-generated fair value estimates, as well as the company's level of business risk and economic moat. Our analysts cover approximately 1,500 companies using a consistent, proprietary methodology that focuses on fundamental analysis, competitive advantage assessment, and intrinsic value estimation. Morningstar's data and research on publicly traded companies is used extensively in products throughout the company, such as institutional equity research, Morningstar Indexes such as the Morningstar Wide Moat Focus Index, our Global Market Barometer, and as a basis for equity portfolio strategies used in our managed portfolios.

PitchBook, which we acquired in December 2016, focuses on private capital markets. PitchBook Analyst Research taps into proprietary data, such as valuations, deal multiples, and fund returns, to deliver analysis that allows clients to quickly gauge trends, map industries, and identify notable company sets in the private capital markets. In 2017, we integrated our publicly traded company fundamental data into the PitchBook platform, allowing institutional investors to better evaluate opportunities in both public and private markets. Morningstar's institutional equity research is also available on the PitchBook platform.

As of December 31, 2018, we had about 110 public equity analysts and 20 private equity analysts globally, making us one of the largest providers of independent equity research. In addition to our analyst-driven coverage, we provide quantitative ratings and reports for approximately 55,000 publicly traded companies globally. These quantitative public equity ratings draw on the fundamental research of our equity analyst team and provide a forward-looking statistical view of the valuation, competitive advantage, and level of uncertainty for stocks that are often under-followed by other research firms.

#### *Credit ratings*

Morningstar Credit Ratings, LLC, our credit ratings subsidiary, is a Nationally Recognized Statistical Rating Organization (NRSRO) that is focused on structured finance and credit ratings for corporate issuers and financial institutions. We bring transparency, unique perspectives, and superior client service to investors across the fixed-income markets. We provide new issue and surveillance ratings and analysis for commercial mortgage-backed securities (CMBS), residential mortgage-backed securities (RMBS), and other types of asset-backed securities (ABS), as well as credit ratings on corporate and financial issuers and their individual debt issuances.

As of December 31, 2018, we had about 70 U.S.-based credit analysts.

#### *Portfolio advice methodologies*

Since our beginning, Morningstar has provided individual investors with tools to monitor their own investments, such as the Ownership Zone, Sector Delta, and Portfolio X-Ray. These do-it-yourself applications allow investors to see how different investments work together to form a portfolio and to track its progress.

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We also continue to improve our total wealth approach to investing and asset allocation capabilities, which are mainly used in the investment management products we offer to professional investors. We also look for ways to infuse these capabilities into decision support tools. Whereas traditional asset allocation methodologies focus solely on financial assets (such as stocks and bonds), our investment management group has developed methodologies that provide a more holistic view of all sources of wealth, including financial capital, human capital, housing assets, and retirement and pension benefits. Our investment management group offers in-depth advice on asset allocation, portfolio construction, and security selection to meet the needs of investors and professionals looking for integrated portfolio solutions. We've also published research on "gamma," an innovative measure that quantifies how much additional retirement income investors can generate by making better financial planning decisions.

The following graphics describe some of our portfolio advice methodologies in greater detail:

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## **Our Mission**

Our mission is to empower investor success. Everything we do at Morningstar is in the service of the investor. The investing ecosystem is complex and navigating it with confidence requires a trusted, independent voice. Our perspective--built every day by more than 5,000 employees across the globe--is delivered to institutions, advisors, and individuals with a single-minded purpose: to empower every investor with the conviction that he or she can make better-informed decisions and realize success on his or her own terms.

## **Our Strategy**

Our strategy is to deliver insights and experiences to clients that are essential to investing. Proprietary data sets, meaningful analytics, independent research and effective investment strategies are at the core of the powerful digital solutions that investors across client segments rely on.

We execute our strategy through four connected elements: our people, our work, our clients, and our brand. The interaction between these four elements has enabled Morningstar to establish a position in the industry that is differentiated from our competition. We believe that our intangible assets, including the strength of our brand and our unique intellectual property, are difficult for competitors to replicate. Additionally, we strive to ensure our customers receive demonstrable value from our solutions causing them to be reluctant to undertake the cost of switching to other providers.

## **Trends Defining Our Business**

We are focusing our strategy plan around three secular trends that are shaping the investment industry and defining the solutions we expect our customers to demand in the future.

### **Investors embracing a new generation of solutions require differentiated data, research, and analytics**

A new generation of approaches and technologies is creating simpler and more personal experiences for the end investor. Established financial solution providers are competing against both startups and diversifying competitors to provide these experiences. Data and analytics are driving this trend, and we are well-positioned to provide these resources.

### **Investors demand advice providers deliver more value to earn their fees**

This change in investor expectations is driving change for all participants across the financial services industry. Therefore, we are focused on delivering digitized advice solutions that enable advisors to become more efficient, allowing them to allocate more time to the highest value activities. As part of this, we anticipate that investment decisions by all market participants will increasingly be influenced by third-party expertise and that the importance of financial planning will continue to grow.

### **Convergence of public and private markets**

The private markets have become increasingly important and are influencing the public markets more than ever. Private companies are currently staying private longer, leading to a structurally lower level of public companies and the shift of a large portion of company capital (market capitalization) out of the public view. In response, new insights and solutions will be required to help sophisticated investors and their service providers navigate investment strategies that will be increasingly reliant on both public and private investment opportunities. Our unique ability to combine our leading private market data and insights along with our expanding public market data coverage puts us in a position to capitalize on this market convergence.

## **Major Customer Groups**

Given our strategy and core capabilities discussed above, we focus on five primary customer groups:

- Advisor (including independent financial advisors and those affiliated with broker/dealers or other intermediaries);
  - Asset management (including fund companies, insurance companies, and other companies that build and manage portfolios of securities for their clients);
  - Workplace/retirement (including retirement plan providers and plan sponsors);
  - Individual investor; and
  - Private market/venture capital investors.
-

### *Advisor*

Financial advisors work with individual investors to help them reach their financial goals. This customer group includes independent advisors at registered investment advisor (RIA) firms, advisors affiliated with independent broker/dealers, dually registered advisors, and "captive" advisors who are employees of a broker/dealer. These broker/dealers include wirehouses, regional broker/dealers, and banks. The advisor landscape is broad in both the U. S. and in other parts of the world where we focus. Our largest market is the U.S., where Cerulli Associates estimates there were almost 312,000 financial advisors as of the end of 2018.

We believe our deep understanding of individual investors' needs allows us to work with advisors to help them make more efficient use of their time and deliver better investment outcomes for their clients. Our advisor solutions also draw on Morningstar's proprietary investment research methodologies and research insights.

We sell our advisor-related solutions both directly to independent financial advisors and through enterprise licenses, which allow financial advisors associated with the licensing firm to use our products.

We are expanding the range of services we offer to help financial advisors with all aspects of their daily workflow needs, including investment decision-making, portfolio construction, client monitoring and reporting, practice management, portfolio rebalancing that connects with custodial and trading interfaces, and financial planning. Because advisors are increasingly outsourcing investment management, we're continuing to enhance Morningstar Managed Portfolios to help advisors save time and reduce compliance risk.

Our main products for financial advisors are Morningstar Advisor Workstation, Morningstar Office, and Morningstar Managed Portfolios.

### *Asset management*

Asset management firms manufacture financial products and manage and distribute investment portfolios. We estimate that there are more than 3,200 asset management firms globally, ranging from large, global firms to firms with small fund lineups and operations in a single market or region. The asset management customer group includes individuals involved in sales, marketing, product development, business intelligence, and distribution, as well as investment management (often referred to as the "buy side"), which includes portfolio management and research.

Our asset management offerings help companies connect with their clients because of Morningstar's strong brand presence with both financial advisors and individual investors. We offer a global reach and have earned investors' trust in our unbiased approach, investor-centric mission, and thought leadership.

The key products we offer for asset management firms include Morningstar Direct for Asset Management, Morningstar Data, and Morningstar Indexes. For the buy side, key products include Morningstar Research, Morningstar Credit Ratings, Morningstar Data, and Morningstar Direct.

### *Workplace/retirement*

In the U.S., 401(k) retirement plans and other defined contribution (DC) plan types, such as 403(b)s and the Thrift Savings Plan, are becoming the dominant plan type offered by employers. According to the Investment Company Institute, there were \$8.1 trillion in assets in DC plans at end of the third quarter of 2018, compared to \$3.2 trillion in private-sector defined benefit (DB) plans and \$6.1 trillion in government DB plans.

DC plans are now helping millions of workers in the U.S. save for retirement and significant strides have been made to roll out automated plan design features, such as auto-enrollment and auto-savings increases. The industry continues to struggle to boost employee savings rates and retirement readiness. We believe that a significant market exists for solutions, such as our managed accounts offering, that are designed to address these shortcomings by providing personalized advice that helps individuals build assets for retirement and beyond.