# 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: 000-51280**

# MORNINGSTAR, INC.
(Exact Name of Registrant as Specified in its Charter)

| | |
|---|---|
| **Illinois** | **36-3297908** |
| (State or Other Jurisdiction of Incorporation or Organization) | (I.R.S. Employer 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 ☒ 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, 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 ☐<br>(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 21, 2017, there were 42,529,709 shares of the Company's common stock, no par value, outstanding.

**MORNINGSTAR, INC. AND SUBSIDIARIES**
**INDEX**

Table of Contents

**PART 1. FINANCIAL INFORMATION**
**Item 1. Financial Statements**

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

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| **(in millions except per share amounts)** | **2017** | **2016** | **2017** | **2016** |
| Revenue | $ 229.2 | $ 198.2 | $ 438.7 | $ 390.3 |
| Operating expense: | | | | |
| Cost of revenue | 95.3 | 86.1 | 192.3 | 171.4 |
| Sales and marketing | 36.7 | 25.7 | 69.1 | 48.0 |
| General and administrative | 29.7 | 24.7 | 59.9 | 50.3 |
| Depreciation and amortization | 21.5 | 17.3 | 43.0 | 33.9 |
| Total operating expense | 183.2 | 153.8 | 364.3 | 303.6 |
| Operating income | 46.0 | 44.4 | 74.4 | 86.7 |
| Non-operating income: | | | | |
| Interest income (expense), net | (0.8) | 0.1 | (1.7) | 0.3 |
| Gain on sale of investments, reclassified from other comprehensive income | 0.3 | 0.3 | 0.8 | 0.2 |
| Gain on sale of business | 17.5 | — | 17.5 | — |
| Other income (expense), net | (1.7) | 2.6 | (2.6) | 3.0 |
| Non-operating income, net | 15.3 | 3.0 | 14.0 | 3.5 |
| Income before income taxes and equity in net income (loss) of unconsolidated entities | 61.3 | 47.4 | 88.4 | 90.2 |
| Equity in net income (loss) of unconsolidated entities | (0.2) | (0.2) | (1.0) | 0.3 |
| Income tax expense | 15.0 | 15.4 | 23.3 | 30.0 |
| Consolidated net income | $ 46.1 | $ 31.8 | $ 64.1 | $ 60.5 |
| Net income per share: | | | | |
| Basic | $ 1.07 | $ 0.74 | $ 1.49 | $ 1.41 |
| Diluted | $ 1.07 | $ 0.73 | $ 1.49 | $ 1.40 |
| Dividends per common share: | | | | |
| Dividends declared per common share | $ 0.23 | $ 0.22 | $ 0.46 | $ 0.44 |
| Dividends paid per common share | $ 0.23 | $ 0.22 | $ 0.46 | $ 0.44 |
| Weighted average shares outstanding: | | | | |
| Basic | 42.9 | 43.0 | 42.9 | 43.0 |
| Diluted | 43.1 | 43.3 | 43.2 | 43.3 |

See notes to unaudited condensed consolidated financial statements.

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

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| **(in millions)** | **2017** | **2016** | **2017** | **2016** |
| Consolidated net income | $ 46.1 | $ 31.8 | $ 64.1 | $ 60.5 |
| Other comprehensive income (loss): | | | | |
| Foreign currency translation adjustment | 12.5 | (12.6) | 19.9 | (8.1) |
| Unrealized gains (losses) on securities, net of tax: | | | | |
| Unrealized holding gains arising during period | 1.0 | — | 2.6 | 0.5 |
| Reclassification gains included in net income | (0.2) | (0.3) | (0.5) | (0.2) |
| Other comprehensive income (loss) | 13.3 | (12.9) | 22.0 | (7.8) |
| Comprehensive income | $ 59.4 | $ 18.9 | $ 86.1 | $ 52.7 |

See notes to unaudited condensed consolidated financial statements.

Table of Contents

**Morningstar, Inc. and Subsidiaries**
**Unaudited Condensed Consolidated Balance Sheets**

| (in millions except share amounts) | As of June 30 2017 | As of December 31 2016 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 285.6 | $ 259.1 |
| Investments | 54.0 | 44.9 |
| Accounts receivable, less allowance of $2.6 and $2.1, respectively | 143.6 | 145.8 |
| Other current assets | 24.2 | 22.2 |
| Total current assets | 507.4 | 472.0 |
| Property, equipment, and capitalized software, less accumulated depreciation and amortization of $246.5 and $214.8, respectively | 153.9 | 152.1 |
| Investments in unconsolidated entities | 37.1 | 40.3 |
| Goodwill | 561.5 | 556.8 |
| Intangible assets, net | 105.8 | 120.9 |
| Other assets | 10.3 | 8.8 |
| Total assets | $ 1,376.0 | $ 1,350.9 |
| | | |
| **Liabilities and equity** | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | $ 46.2 | $ 44.6 |
| Accrued compensation | 63.7 | 71.7 |
| Deferred revenue | 185.3 | 165.4 |
| Other current liabilities | 6.6 | 13.2 |
| Total current liabilities | 301.8 | 294.9 |
| Accrued compensation | 10.8 | 10.3 |
| Deferred tax liability, net | 38.6 | 38.2 |
| Long-term debt | 230.0 | 250.0 |
| Deferred rent | 23.4 | 24.8 |
| Other long-term liabilities | 32.3 | 35.9 |
| Total liabilities | 636.9 | 654.1 |
| | | |
| Equity: | | |
| Morningstar, Inc. shareholders' equity: | | |
| Common stock, no par value, 200,000,000 shares authorized, of which 42,656,167 and 42,932,994 shares were outstanding as of June 30, 2017 and December 31, 2016, respectively | — | — |
| Treasury stock at cost, 10,501,079 and 10,106,249 shares as of June 30, 2017 and December 31, 2016, respectively | (697.6) | (667.9) |
| Additional paid-in capital | 589.9 | 584.0 |
| Retained earnings | 906.3 | 861.9 |
| Accumulated other comprehensive loss: | | |
| Currency translation adjustment | (61.4) | (81.3) |
| Unrealized gain (loss) on available-for-sale investments | 1.9 | (0.2) |
| Total accumulated other comprehensive loss | (59.5) | (81.5) |
| Total Morningstar, Inc. shareholders' equity | 739.1 | 696.5 |
| Noncontrolling interest | — | 0.3 |
| Total equity | 739.1 | 696.8 |
| Total liabilities and equity | $ 1,376.0 | $ 1,350.9 |

See notes to unaudited condensed consolidated financial statements.

Table of Contents

**Morningstar, Inc. and Subsidiaries**
**Unaudited Condensed Consolidated Statement of Equity**
**For the six months ended June 30, 2017**

| | Morningstar, Inc. Shareholders' Equity | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Common Stock | | | | | | | |
| (in millions, except share amounts) | Shares Outstanding | Par Value | Treasury Stock | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Loss | Non-Controlling Interest | Total Equity |
| **Balance as of December 31, 2016** | 42,932,994 | $ — | $ (667.9) | $ 584.0 | $ 861.9 | $ (81.5) | $ 0.3 | $ 696.8 |
| Net income | | — | — | — | 64.1 | — | — | 64.1 |
| Other comprehensive income (loss): | | | | | | | | |
| Unrealized gain on available-for-sale investments, net of income tax of $0.9 | | — | — | — | — | 2.6 | — | 2.6 |
| Reclassification of adjustments for gain included in net income, net of income tax of $0.3 | | — | — | — | — | (0.5) | — | (0.5) |
| Foreign currency translation adjustment, net | | — | — | — | — | 19.9 | — | 19.9 |
| Other comprehensive income, net | | — | — | — | — | 22.0 | — | 22.0 |
| Issuance of common stock related to option exercises and vesting of restricted stock units, net of shares withheld for taxes on settlements of restricted stock units | 130,086 | — | 1.0 | (4.2) | — | — | — | (3.2) |
| Stock-based compensation | | — | — | 11.0 | — | — | — | 11.0 |
| Common shares repurchased | (406,913) | — | (30.7) | — | — | — | — | (30.7) |
| Dividends declared | | — | — | — | (19.7) | — | — | (19.7) |
| Purchase of additional interest in majority-owned investment | | — | — | (0.9) | — | — | (0.3) | (1.2) |
| **Balance as of June 30, 2017** | 42,656,167 | $ — | $ (697.6) | $ 589.9 | $ 906.3 | $ (59.5) | $ — | $ 739.1 |

See notes to unaudited condensed consolidated financial statements.

Table of Contents

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

| (in millions) | Six months ended June 30 2017 | 2016 |
|---|---|---|
| **Operating activities** | | |
| Consolidated net income | $ 64.1 | $ 60.5 |
| Adjustments to reconcile consolidated net income to net cash flows from operating activities: | | |
| Depreciation and amortization | 43.0 | 33.9 |
| Deferred income taxes | (0.3) | (0.2) |
| Stock-based compensation expense | 11.0 | 7.8 |
| Provision for bad debt | 1.0 | 0.2 |
| Equity in net income (loss) of unconsolidated entities | 1.0 | (0.3) |
| Gain on sale of business | (17.5) | — |
| Other, net | 1.8 | (3.2) |
| Changes in operating assets and liabilities, net of effects of acquisitions: | | |
| Accounts receivable | 3.3 | 1.0 |
| Other assets | (5.0) | (4.0) |
| Accounts payable and accrued liabilities | (1.9) | 1.6 |
| Accrued compensation | (8.4) | (28.3) |
| Income taxes—current | (5.3) | (0.2) |
| Deferred revenue | 18.7 | 13.6 |
| Deferred rent | (1.2) | (1.4) |
| Other liabilities | (2.1) | 1.8 |
| Cash provided by operating activities | 102.2 | 82.8 |
| **Investing activities** | | |
| Purchases of investments | (16.2) | (18.0) |
| Proceeds from maturities and sales of investments | 12.2 | 15.6 |
| Capital expenditures | (33.3) | (29.4) |
| Acquisitions, net of cash acquired | (1.0) | (15.8) |
| Proceeds from sale of a business | 23.7 | — |
| Purchases of equity- and cost-method investments | (0.3) | (16.4) |
| Other, net | 0.4 | 0.1 |
| Cash used for investing activities | (14.5) | (63.9) |
| **Financing activities** | | |
| Common shares repurchased | (28.6) | (38.8) |
| Dividends paid | (19.7) | (19.0) |
| Proceeds from short-term debt | — | 40.0 |
| Repayment of long-term debt | (20.0) | — |
| Proceeds from stock-option exercises | 0.2 | 0.4 |
| Employee taxes paid from withholding of restricted stock units | (3.4) | (4.4) |
| Other, net | (0.3) | — |
| Cash used for financing activities | (71.8) | (21.8) |
| Effect of exchange rate changes on cash and cash equivalents | 10.6 | (1.8) |
| Net increase (decrease) in cash and cash equivalents | 26.5 | (4.7) |
| Cash and cash equivalents—beginning of period | 259.1 | 207.1 |
| Cash and cash equivalents—end of period | $ 285.6 | $ 202.4 |
| **Supplemental disclosure of cash flow information:** | | |

| | | | | |
|---|---|---|---|---|
| Cash paid for income taxes | $ | 28.9 | $ | 30.5 |
| Cash paid for interest | $ | 2.5 | $ | 0.5 |
| **Supplemental information of non-cash investing and financing activities:** | | | | |
| Unrealized gain on available-for-sale investments | $ | 2.7 | $ | 0.4 |
| Software and equipment obtained under long-term financing arrangement | $ | 2.0 | $ | 3.4 |

See notes to unaudited condensed consolidated financial statements.

**MORNINGSTAR, INC. AND SUBSIDIARIES**
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**1 . Basis of Presentation of Interim Financial Information**

The accompanying unaudited condensed consolidated financial statements of Morningstar, Inc. and subsidiaries (Morningstar, we, our, the company) have been prepared to conform to the rules and regulations of the Securities and Exchange Commission (SEC). The preparation of financial statements in conformity with accounting principles generally accepted in the United States (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenue, and expenses. Actual results could differ from those estimates. In the opinion of management, the statements reflect all adjustments, which are of a normal recurring nature, necessary to present fairly our financial position, results of operations, equity, and cash flows. These financial statements and notes are unaudited and should be read in conjunction with our Audited Consolidated Financial Statements and Notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2016 , filed with the SEC on February 28, 2017 (our Annual Report).

The acronyms that appear in the Notes to our Unaudited Condensed Consolidated Financial Statements refer to the following:

ASC: Accounting Standards Codification
ASU: Accounting Standards Update
FASB: Financial Accounting Standards Board

**2 . Summary of Significant Accounting Policies**

We discuss our significant accounting policies in Note 2 of our Audited Consolidated Financial Statements included in our Annual Report.

On May 28, 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* , which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The original effective date for ASU 2014-09 would have required us to adopt it beginning on January 1, 2017. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers — Deferral of the Effective Date* , which defers the effective date of ASU 2014-09 for one year and permits early adoption as early as the original effective date of ASU 2014-09. We elected the deferral, and the new standard is effective for us on January 1, 2018. The company has obtained an understanding of ASU No. 2014-09 and has begun to analyze the impact of the new standard on its financial results. We have completed a high-level assessment of the attributes within the company's contracts for its major products and services, and we have started assessing potential impacts to our internal processes, control environment, and disclosures. While the company does not currently anticipate that the adoption of ASU 2014-09 will result in a material change to the timing of when revenue is recognized and believes that it will retain similar accounting treatment used to recognize revenue under current standards, we are continuing to evaluate the impact of the new standard on our financial results and other possible impacts. The standard allows for both retrospective and modified retrospective methods of adoption. The company is in the process of determining the method of adoption it will elect and the impact on our consolidated financial statements and footnote disclosures. We will continue to provide enhanced disclosures as we continue our assessment.

On March 17, 2016, the FASB issued ASU No. 2016-08, *Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net)* , which provides guidance on assessing whether an entity is a principal or an agent in a revenue transaction and whether an entity reports revenue on a gross or net basis. On April 14, 2016, the FASB issued ASU No. 2016-10, *Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing* , which provides guidance on identifying performance obligations and accounting for licenses of intellectual property. On May 6, 2016, the FASB issued ASU No. 2016-11, *Revenue Recognition and Derivatives and Hedging: Rescission of SEC guidance because of ASU No. 2014-09 and ASU No. 2014-16 pursuant to staff announcements at the March 3, 2016 EITF Meeting* , which rescinds the following SEC Staff Observer comments from ASC 605, *Revenue Recognition* , upon an entity's early adoption of ASC 606, *Revenue from Contracts with Customers* : Revenue and expense recognition for freight services in process, accounting for shipping and handling fees and costs, and accounting for consideration given by a vendor to a customer (including a reseller of the vendor's products). On May 9, 2016, the FASB issued ASU No. 2016-12, *Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients* , which makes narrow-scope amendments to ASU No. 2014-09 and provides practical expedients to simplify the transition to the new standard and clarify certain aspects of the standard. On December 21, 2016, the FASB issued ASU No. 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers* , which makes narrow-scope amendments to ASU No. 2014-09.

The effective date and transition requirements for ASU No. 2016-08, ASU No. 2016-10, ASU No. 2016-11, ASU No. 2016-12, and ASU No. 2016-20 are the same as the effective date and transition requirements of ASU No. 2014-09. We are evaluating the effect that ASU No. 2016-08, ASU No. 2016-10, ASU No. 2016-11, ASU No. 2016-12, and ASU No. 2016-20 will have on our consolidated financial statements and related disclosures.

On February 25, 2016, the FASB issued ASU No. 2016-02, *Leases* , which will require lessees to recognize almost all leases on their balance sheet as a right-of-use asset and a lease liability. The new standard is effective for us on January 1, 2019. The new standard must be adopted using a modified retrospective transition, and provides for certain practical expedients. Transition will require application of the new guidance at the beginning of the earliest comparative period presented. We are evaluating the effect that ASU No. 2016-02 will have on our consolidated financial statements and related disclosures.

On August 26, 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments* , which reduces diversity in practice of how certain transactions are classified in the statement of cash flows. The new guidance clarifies the classification of cash activities related to debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate and bank-owned life insurance policies, distributions received from equity-method investments, and beneficial interests in securitization transactions. The guidance also describes a predominance principle in which cash flows with aspects of more than one class that cannot be separated should be classified based on the activity that is likely to be the predominant source or use of cash flow.

The new standard is effective for us on January 1, 2018. Early adoption is permitted, including adoption in an interim period, but requires all elements of the amendments to be adopted at once rather than individually. The new standard must be adopted using a retrospective transition method. We are evaluating the effect that ASU No. 2016-15 will have on our consolidated financial statements and related disclosures.

On January 5, 2017, the FASB issued ASU No. 2017-01, *Business Combinations: Clarifying the Definition of a Business,* which revises the definition of a business. When substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets), the assets acquired would not represent a business. To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and substantive process are present (including for early-stage companies that have not generated outputs). To be a business without outputs, there will now need to be an organized workforce. The new guidance also narrows the definition of the term outputs to be consistent with how it is described in Topic 606 *, Revenue from Contracts with Customers* . The new standard is effective for us on January 1, 2018. Early adoption is permitted. We are evaluating the effect that ASU No. 2017-01 will have on our consolidated financial statements and related disclosures.

On January 26, 2017, the FASB issued ASU No. 2017-04, *Intangibles — Goodwill and Other* , which simplifies the accounting for goodwill impairment. The guidance removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. All other goodwill impairment guidance will remain largely unchanged. Entities will continue to have the option to perform a qualitative assessment to determine if a quantitative impairment test is necessary. The same one-step impairment test will be applied to goodwill at all reporting units, even those with zero or negative carrying amounts. Entities will be required to disclose the amount of goodwill at reporting units with zero or negative carrying amounts. The new standard is effective for us on January 1, 2020. The new standard should be applied prospectively. Early adoption is permitted for any impairment tests performed after January 1, 2017. We are evaluating the effect that ASU No. 2017-04 will have on our consolidated financial statements and related disclosures.

On May 10, 2017, the FASB issued ASU No. 2017-09, *Compensation—Stock Compensation: Scope of Modification Accounting* , which clarifies when to account for a change to the terms or conditions of a share-based payment award as a modification. Under the new guidance, modification accounting is required only if the fair value, the vesting conditions, or the classification of the award (as equity or liability) changes as a result of the change in terms or conditions. The new standard is effective for us on January 1, 2018. The new standard should be applied prospectively. Early adoption is permitted. We are evaluating the effect that ASU No. 2017-09 will have on our consolidated financial statements and related disclosures.

**3 . Credit Arrangements**

Our credit agreement provides us with a three -year credit facility with a borrowing capacity of up to $300.0 million . The credit agreement also provides for issuance of up to $25.0 million of letters of credit under the revolving credit facility.

The interest rate applicable to any loan under the credit agreement is, at our option, either: (i) the applicable London interbank offered rate (LIBOR) plus an applicable margin for such loans, which ranges between 1.00% and 1.75% , based on our consolidated leverage ratio or (ii) the lender's base rate plus the applicable margin for such loans, which ranges between 2.00% and 2.75% , based on our consolidated leverage ratio.

The credit agreement also contains financial covenants under which we: (i) may not exceed a maximum consolidated leverage ratio of 3.00 to 1.00 and (ii) are required to maintain a minimum consolidated interest coverage ratio of not less than 3.00 to 1.00. We were in compliance with the financial covenants as of June 30, 2017 .

We had an outstanding principal balance of $230.0 million at a one-month LIBOR interest rate plus 100 basis points as of June 30, 2017 , leaving borrowing availability of $70.0 million .

**4 . Acquisitions, Goodwill, and Other Intangible Assets**

*2017 Acquisitions*

We did not complete any significant acquisitions in the first six months of 2017 .

*2016 Acquisitions*

In the second quarter of 2017, we did not make any significant changes to the preliminary purchase price allocation related to our acquisition of PitchBook Data, Inc. compared with the preliminary estimates at December 31, 2016. The values assigned to various assets and liabilities in the preliminary purchase price allocation are subject to change as a result of information that may become available in the future.

As of June 30, 2017, the primary areas of the preliminary purchase price allocation that are not yet finalized include the fair values of acquired intangible assets and related deferred tax liabilities, assumed deferred revenue, and assumed tax assets and liabilities.

Additional information concerning this acquisition can be found in the Audited Consolidated Financial Statements and Notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2016, filed with the SEC on February 28, 2017.

*Goodwill*

The following table shows the changes in our goodwill balances from December 31, 2016 to June 30, 2017 :

| | (in millions) |
|---|---|
| Balance as of December 31, 2016 | $ 556.8 |
| Divestiture of HelloWallet (See Note 5) | (2.4) |
| Adjustments to purchase price allocation and foreign currency translation | 7.1 |
| Balance as of June 30, 2017 | $ 561.5 |

We did not record any impairment losses in the first six months of 2017 and 2016 . We perform our annual impairment reviews in the fourth quarter.

*Intangible Assets*

The following table summarizes our intangible assets:

| | As of June 30, 2017 | | | | As of December 31, 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| (in millions) | Gross | Accumulated Amortization | Net | Weighted Average Useful Life (years) | Gross | Accumulated Amortization | Net | Weighted Average Useful Life (years) |
| Intellectual property | $ 31.3 | $ (28.3) | $ 3.0 | 9 | $ 30.9 | $ (27.4) | $ 3.5 | 9 |
| Customer-related assets | 154.9 | (103.3) | 51.6 | 12 | 152.0 | (97.7) | 54.3 | 12 |
| Supplier relationships | 0.3 | (0.2) | 0.1 | 20 | 0.2 | (0.1) | 0.1 | 20 |
| Technology-based assets | 127.4 | (76.8) | 50.6 | 7 | 133.2 | (72.1) | 61.1 | 7 |
| Non-competition agreements | 2.4 | (1.9) | 0.5 | 5 | 5.0 | (3.1) | 1.9 | 5 |
| Total intangible assets | $ 316.3 | $ (210.5) | $ 105.8 | 10 | $ 321.3 | $ (200.4) | $ 120.9 | 10 |

The following table summarizes our amortization expense related to intangible assets:

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| (in millions) | 2017 | 2016 | 2017 | 2016 |
| Amortization expense | $ 6.1 | $ 4.7 | $ 12.6 | $ 9.8 |

We amortize intangible assets using the straight-line method over their expected economic useful lives.

We expect intangible amortization expense for the remainder of 2017 and subsequent years as follows:

| | (in millions) |
|---|---|
| Remainder of 2017 (from July 1 through December 31) | $ 11.0 |
| 2018 | 20.6 |
| 2019 | 19.1 |
| 2020 | 16.3 |
| 2021 | 12.9 |
| Thereafter | 25.9 |

Our estimates of future amortization expense for intangible assets may be affected by acquisitions, divestitures, changes in the estimated average useful life, and foreign currency translation.

**5 . Divestiture**

In June 2014, we acquired the remaining 81.3% interest in HelloWallet Holdings, Inc. (HelloWallet), increasing our ownership to 100%. This valued HelloWallet at $54.0 million , an amount that included $39.2 million of goodwill and $9.5 million of intangible assets.

On June 30, 2017, we sold HelloWallet to KeyBank National Association, a bank-based financial services company. We recorded a noncash gain on the sale of $17.5 million . This gain mainly represents the sale proceeds of $23.7 million less $2.4 million of goodwill and the write-off of the remaining net book value on the acquired intangible assets. As some aspects of HelloWallet had been integrated into Morningstar's single reporting unit, the goodwill attributable to this transaction was calculated using a relative fair value allocation method.

The sale of HelloWallet did not meet the criteria to be classified as a discontinued operation because the divestiture did not represent a strategic shift that has, or will have, a major effect on our operations and financial results.

The following table summarizes the amounts included in the gain on sale of business for the three and six months ended June 30, 2017:

| **(in millions)** | | |
|---|---|---|
| Proceeds received | $ | 23.7 |
| Intangibles and internally developed software | | (4.6) |
| Goodwill | | (2.4) |
| Other assets and liabilities | | 0.8 |
| Total gain on sale of business | $ | 17.5 |

**6 . Income Per Share**

The following table shows how we reconcile our net income and the number of shares used in computing basic and diluted net income per share:

| | Three months ended June 30 | | | | Six months ended June 30 | | | |
|---|---|---|---|---|---|---|---|---|
| **(in millions, except per share amounts)** | | **2017** | | **2016** | | **2017** | | **2016** |
| **Basic net income per share:** | | | | | | | | |
| Consolidated net income | $ | 46.1 | $ | 31.8 | $ | 64.1 | $ | 60.5 |
| Weighted average common shares outstanding | | 42.9 | | 43.0 | | 42.9 | | 43.0 |
| Basic net income per share | $ | 1.07 | $ | 0.74 | $ | 1.49 | $ | 1.41 |
| **Diluted net income per share:** | | | | | | | | |
| Consolidated net income | $ | 46.1 | $ | 31.8 | $ | 64.1 | $ | 60.5 |
| Weighted average common shares outstanding | | 42.9 | | 43.0 | | 42.9 | | 43.0 |
| Net effect of dilutive stock options, restricted stock units, and performance share awards | | 0.2 | | 0.3 | | 0.3 | | 0.3 |
| Weighted average common shares outstanding for computing diluted income per share | | 43.1 | | 43.3 | | 43.2 | | 43.3 |
| Diluted net income per share | $ | 1.07 | $ | 0.73 | $ | 1.49 | $ | 1.40 |

Table of Contents

The number of weighted average restricted stock units, performance share awards, and market stock units excluded from our calculation of diluted earnings per share because their inclusion would have been anti-dilutive was immaterial during the periods presented.

**7 . Segment and Geographical Area Information**

*Segment Information*

We report our results in a single reportable segment, which reflects how our chief operating decision maker allocates resources and evaluates our financial results.

Because we have one reportable segment, all required financial segment information can be found directly in the Unaudited Condensed Consolidated Financial Statements.

The accounting policies for our single reportable segment are the same as those described in “Note 2. Summary of Significant Accounting Policies” included in the Audited Consolidated Financial Statements and Notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2016, filed with the SEC on February 28, 2017. We evaluate the performance of our reporting segment based on revenue and operating income.

*Geographical Area Information*

The tables below summarize our revenue and long-lived assets by geographical area:

**External revenue by geographical area**

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| **(in millions)** | **2017** | **2016** | **2017** | **2016** |
| United States | $ 174.7 | $ 145.3 | $ 331.6 | $ 287.1 |
| | | | | |
| United Kingdom | 15.6 | 15.3 | 30.5 | 30.6 |
| Continental Europe | 16.5 | 15.8 | 32.8 | 31.3 |
| Australia | 8.6 | 8.9 | 16.7 | 15.8 |
| Canada | 7.2 | 6.9 | 14.5 | 13.5 |
| Asia | 5.5 | 5.0 | 10.4 | 10.1 |
| Other | 1.1 | 1.0 | 2.2 | 1.9 |
| Total International | 54.5 | 52.9 | 107.1 | 103.2 |
| | | | | |
| Consolidated revenue | $ 229.2 | $ 198.2 | $ 438.7 | $ 390.3 |

**Long-lived assets by geographical area**

| (in millions) | As of June 30 2017 | As of December 31 2016 |
|---|---|---|
| United States | $ 139.6 | $ 139.1 |
| | | |
| United Kingdom | 6.3 | 6.6 |
| Continental Europe | 1.8 | 1.9 |
| Australia | 0.5 | 0.6 |
| Canada | 0.3 | 0.4 |
| Asia | 5.3 | 3.4 |
| Other | 0.1 | 0.1 |
| Total International | 14.3 | 13.0 |
| | | |
| Consolidated property, equipment, and capitalized software, net | $ 153.9 | $ 152.1 |

**8 . Investments and Fair Value Measurements**

We classify our investments into three categories: available-for-sale, held-to-maturity, and trading securities. Our investment portfolio consists of stocks, bonds, options, mutual funds, money market funds, or exchange-traded products that replicate the model portfolios and strategies created by Morningstar. These investment accounts may also include exchange-traded products where Morningstar is an index provider. We classify our investment portfolio as shown below:

| (in millions) | As of June 30 2017 | As of December 31 2016 |
|---|---|---|
| Available-for-sale | $ 31.3 | $ 27.7 |
| Held-to-maturity | 21.1 | 15.7 |
| Trading securities | 1.6 | 1.5 |
| Total | $ 54.0 | $ 44.9 |

The following table shows the cost, unrealized gains (losses), and fair value of investments classified as available-for-sale and held-to-maturity:

| (in millions) | As of June 30, 2017 Cost | Unrealized Gain | Unrealized Loss | Fair Value | As of December 31, 2016 Cost | Unrealized Gain | Unrealized Loss | Fair Value |
|---|---|---|---|---|---|---|---|---|
| Available-for-sale: | | | | | | | | |
| Equity securities and exchange-traded funds | $ 26.5 | $ 2.8 | $ (0.4) | $ 28.9 | $ 25.6 | $ 1.3 | $ (1.5) | $ 25.4 |
| Mutual funds | 2.1 | 0.3 | — | 2.4 | 2.2 | 0.1 | — | 2.3 |
| Total | $ 28.6 | $ 3.1 | $ (0.4) | $ 31.3 | $ 27.8 | $ 1.4 | $ (1.5) | $ 27.7 |
| | | | | | | | | |
| Held-to-maturity: | | | | | | | | |
| Certificates of deposit | $ 19.2 | $ — | $ — | $ 19.2 | $ 13.8 | $ — | $ — | $ 13.8 |
| Convertible note | 1.9 | — | — | 1.9 | 1.9 | — | — | 1.9 |
| Total | $ 21.1 | $ — | $ — | $ 21.1 | $ 15.7 | $ — | $ — | $ 15.7 |

As of June 30, 2017 and December 31, 2016 , investments with unrealized losses for greater than a 12-month period were not material to the Unaudited Condensed Consolidated Balance Sheets and were not deemed to have other than temporary declines in value.

The table below shows the cost and fair value of investments classified as available-for-sale and held-to-maturity based on their contractual maturities as of June 30, 2017 and December 31, 2016 .

| (in millions) | As of June 30, 2017 Cost | Fair Value | As of December 31, 2016 Cost | Fair Value |
|---|---|---|---|---|
| Available-for-sale: | | | | |
| Equity securities, exchange-traded funds, and mutual funds | $ 28.6 | $ 31.3 | $ 27.8 | $ 27.7 |
| Total | $ 28.6 | $ 31.3 | $ 27.8 | $ 27.7 |
| | | | | |
| Held-to-maturity: | | | | |
| Due in one year or less | $ 19.0 | $ 19.0 | $ 13.8 | $ 13.8 |
| Due in one to three years | 2.1 | 2.1 | 1.9 | 1.9 |
| Total | $ 21.1 | $ 21.1 | $ 15.7 | $ 15.7 |

The following table shows the realized gains and losses arising from sales of our investments classified as available-for-sale recorded in our Unaudited Condensed Consolidated Statements of Income:

| (in millions) | Three months ended June 30 2017 | 2016 | Six months ended June 30 2017 | 2016 |
|---|---|---|---|---|
| Realized gains | $ 0.4 | $ 0.6 | $ 0.9 | $ 1.1 |
| Realized losses | (0.1) | (0.3) | (0.1) | (0.9) |
| Realized gains, net | $ 0.3 | $ 0.3 | $ 0.8 | $ 0.2 |

We determine realized gains and losses using the specific identification method.

The following table shows the net unrealized gains on trading securities as recorded in our Unaudited Condensed Consolidated Statements of Income:

| (in millions) | Three months ended June 30 2017 | Three months ended June 30 2016 | Six months ended June 30 2017 | Six months ended June 30 2016 |
|---|---|---|---|---|
| Unrealized gains, net | $ 0.1 | $ 0.1 | $ 0.1 | $ 0.1 |

The table below shows the fair value of our assets subject to fair value measurements that are measured at fair value on a recurring basis using a fair value hierarchy:

Level 1: Valuations based on quoted prices in active markets for identical assets or liabilities that we have the ability to access.
Level 2: Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.
Level 3: Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

| (in millions) | Fair Value as of June 30, 2017 | Fair Value Measurements as of June 30, 2017 Using Fair Value Hierarchy Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Available-for-sale investments: | | | | |
| Equity securities and exchange-traded funds | $ 28.9 | $ 28.9 | $ — | $ — |
| Mutual funds | 2.4 | 2.4 | — | — |
| Trading securities | 1.6 | 1.6 | — | — |
| Cash equivalents | 0.3 | 0.3 | — | — |
| Total | $ 33.2 | $ 33.2 | $ — | $ — |

| (in millions) | Fair Value as of December 31, 2016 | Fair Value Measurements as of December 31, 2016 Using Fair Value Hierarchy Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Available-for-sale investments: | | | | |
| Equity securities and exchange-traded funds | $ 25.4 | $ 25.4 | $ — | $ — |
| Mutual funds | 2.3 | 2.3 | — | — |
| Trading securities | 1.5 | 1.5 | — | — |
| Cash equivalents | 0.2 | 0.2 | — | — |
| Total | $ 29.4 | $ 29.4 | $ — | $ — |

Based on our analysis of the nature and risks of our investments in equity securities and mutual funds, we have determined that presenting each of these investment categories in the aggregate is appropriate.

We measure the fair value of money market funds, mutual funds, equity securities, and exchange-traded funds based on quoted prices in active markets for identical assets or liabilities. We did not hold any securities categorized as Level 2 or Level 3 as of June 30, 2017 and December 31, 2016 .

## 9 . Stock-Based Compensation

*Stock-Based Compensation Plans*

All of our employees and our non-employee directors are eligible for awards under the Morningstar 2011 Stock Incentive Plan, which provides for a variety of stock-based awards, including stock options, restricted stock units, performance share awards, market stock units, and restricted stock.

The following table summarizes the stock-based compensation expense included in each of our operating expense categories:

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| (in millions) | 2017 | 2016 | 2017 | 2016 |
| Cost of revenue | $ 2.3 | $ 2.0 | $ 4.4 | $ 4.0 |
| Sales and marketing | 0.7 | 0.5 | 1.4 | 1.0 |
| General and administrative | 2.7 | 1.3 | 5.2 | 2.8 |
| Total stock-based compensation expense | $ 5.7 | $ 3.8 | $ 11.0 | $ 7.8 |

As of June 30, 2017 , the total unrecognized stock-based compensation cost related to outstanding restricted stock units, performance share awards, and market stock units expected to vest was $44.5 million , which we expect to recognize over a weighted average period of 34 months.

## 10 . Income Taxes

*Effective Tax Rate*

The following table shows our effective tax rate for the three and six months ended June 30, 2017 and June 30, 2016 :

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| (in millions) | 2017 | 2016 | 2017 | 2016 |
| Income before income taxes and equity in net income (loss) of unconsolidated entities | $ 61.3 | $ 47.4 | $ 88.4 | $ 90.2 |
| Equity in net income (loss) of unconsolidated entities | (0.2) | (0.2) | (1.0) | 0.3 |
| Total | $ 61.1 | $ 47.2 | $ 87.4 | $ 90.5 |
| Income tax expense | $ 15.0 | $ 15.4 | $ 23.3 | $ 30.0 |
| Effective tax rate | 24.5% | 32.7% | 26.7% | 33.2% |

Our effective tax rate in the second quarter and for the first six months of 2017 was 24.5% and 26.7% , a respective decrease of 8.2 and 6.5 percentage points compared with the same periods a year ago. The decrease in our effective tax rate primarily reflects the fact that we recorded a book gain of $17.5 million on the sale of HelloWallet that is not a gain for tax purposes. Further, we can no longer realize certain net deferred tax assets that were attributable to our investment in HelloWallet. The net effect of both of these tax impacts represents a decrease to our effective tax rate of 11.9 percentage points and 8.3 percentage points for the second quarter and for the first six months of 2017, respectively.

*Unrecognized Tax Benefits*

The table below provides information concerning our gross unrecognized tax benefits as of June 30, 2017 and December 31, 2016 , as well as the effect these gross unrecognized tax benefits would have on our income tax expense, if they were recognized.

| | As of June 30 | As of December 31 |
|---|---|---|
| (in millions) | 2017 | 2016 |
| Gross unrecognized tax benefits | $ 19.0 | $ 18.4 |
| Gross unrecognized tax benefits that would affect income tax expense | $ 15.4 | $ 14.4 |
| Decrease in income tax expense upon recognition of gross unrecognized tax benefits | $ 14.2 | $ 13.3 |

Our Unaudited Condensed Consolidated Balance Sheets include the following liabilities for unrecognized tax benefits. These amounts include interest and penalties, less any associated tax benefits.

| Liabilities for Unrecognized Tax Benefits (in millions) | As of June 30 2017 | As of December 31 2016 |
|---|---|---|
| Current liability | $ 9.1 | $ 8.9 |
| Non-current liability | 6.3 | 5.4 |
| Total liability for unrecognized tax benefits | $ 15.4 | $ 14.3 |

Because we conduct business globally, we file income tax returns in U.S. federal, state, local, and foreign jurisdictions. We are currently under audit by federal and various state and local tax authorities in the United States, as well as tax authorities in certain non-U.S. jurisdictions. It is possible, though not likely, that the examination phase of some of these audits will conclude in 2017 . It is not possible to estimate the effect of current audits on previously recorded unrecognized tax benefits.

We have not provided federal and state income taxes on accumulated undistributed earnings of certain foreign subsidiaries because these earnings have been permanently reinvested. Approximately 69% of our cash, cash equivalents, and investments balance as of June 30, 2017 was held by our operations outside of the United States. We believe that our cash balances and investments in the United States, along with cash generated from our U.S. operations, will be sufficient to meet our U.S. operating and cash needs for the foreseeable future, without requiring us to repatriate earnings from these foreign subsidiaries. It is not practical to determine the amount of the unrecognized deferred tax liability related to the undistributed earnings.

Certain of our non-U.S. operations have incurred net operating losses (NOLs), which may become deductible to the extent these operations become profitable. For each of our operations, we evaluate whether it is more likely than not that the tax benefits related to NOLs will be realized. As part of this evaluation, we consider evidence such as tax planning strategies, historical operating results, forecasted taxable income, and recent financial performance. In the year that certain non-U.S. operations record a loss, we do not recognize a corresponding tax benefit, thus increasing our effective tax rate. Upon determining that it is more likely than not that the NOLs will be realized, we reduce the tax valuation allowances related to these NOLs, which results in a reduction to our income tax expense and our effective tax rate in the period.

**11 . Contingencies**

We are involved from time to time in legal proceedings and litigation that have arisen in the normal course of our business. While it is difficult to predict the outcome of any particular proceeding, we do not believe the result of any of these matters will have a material adverse effect on our business, operating results, or financial position.

**12 . Share Repurchase Program**

We have an ongoing authorization, originally approved by our board of directors in September 2010 and subsequently amended, to repurchase up to $1.0 billion in shares of our outstanding common stock. The authorization expires on December 31, 2017. We may repurchase shares from time to time at prevailing market prices on the open market or in private transactions in amounts that we deem appropriate.

As of June 30, 2017 , we had repurchased a total of 10,435,038 shares for $703.6 million under this authorization, leaving approximately $296.4 million available for future repurchases.

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

*The discussion included in this section, as well as other sections of this Quarterly Report on Form 10-Q, contains forward-looking statements as that term is used in the Private Securities Litigation Reform Act of 1995. These statements are based on our current expectations about future events or future financial performance. Forward-looking statements by their nature address matters that are, to different degrees, uncertain, and often contain words such as "may," "could," "expect," "intend," "plan," "seek," "anticipate," "believe," "estimate," "predict," "potential," or "continue." These statements involve known and unknown risks and uncertainties that may cause the events we discuss not to occur or to differ significantly from what we expect. For us, these risks and uncertainties include, among others:*

- *liability for any losses that result from an actual or claimed breach of our fiduciary duties;*
- *failing to maintain and protect our brand, independence, and reputation;*
- *allegations about possible conflicts of interest;*
- *failing to differentiate our products and continuously create innovative, proprietary research tools;*
- *failing to respond to technological change, keep pace with new technology developments, or adopt a successful technology strategy;*
- *trends in the asset management industry, including the increasing popularity of passively managed investment vehicles;*
- *liability associated with the storage of personal information related to individuals as well as portfolio and account-level information;*
- *liability relating to the acquisition or redistribution of data or information we acquire or errors included therein;*
- *compliance failures, regulatory action, or changes in laws applicable to our investment advisory or credit rating operations;*
- *the failure of acquisitions and other investments to produce the results we anticipate;*
- *downturns in the financial sector, global financial markets, and global economy;*
- *the effect of market volatility on revenue from asset-based fees;*
- *an outage of our database, technology-based products and services, or network facilities; and*
- *challenges faced by our non-U.S. operations, including the concentration of data and development work at our offshore facilities in China and India.*

*A more complete description of these risks and uncertainties can be found in our other filings with the Securities and Exchange Commission (SEC), including our Annual Report on Form 10-K for the year ended December 31, 2016* (our Annual Report). *If any of these risks and uncertainties materialize, our actual future results may vary significantly from what we expect. We do not undertake to update our forward-looking statements as a result of new information or future events.*

*All dollar and percentage comparisons, which are often accompanied by words such as "increase," "decrease," "grew," "declined," "was up," "was down," "was flat," or "was similar" refer to a comparison with the same period in the previous year unless otherwise stated.*

## Understanding our Company

### Our Business

Our mission is to create great products that help investors reach their financial goals. We offer an extensive line of products and services for individual investors, financial advisors, asset managers, retirement plan providers and sponsors, and institutional investors in the private capital markets. We generate revenue through three main business models:

- Subscriptions and license agreements, which typically generate recurring revenue;
- Asset-based fees for our investment management business; and
- Transaction-based revenue for products that involve one-time, non-recurring revenue.

### Industry Overview

Equity markets continued their positive trend in the second quarter of 2017. The Morningstar U.S. Market Index, a broad market benchmark, was up 3.1% for the second quarter of 2017, while the Global Ex-U.S. Index finished the quarter up 5.9%.

U.S. mutual fund assets stood at $17.4 trillion in May 2017, based on data from the Investment Company Institute (ICI), compared with $15.9 trillion in May 2016. Based on Morningstar's estimated asset flow data, investors added about $175 billion to long-term open-end and exchange-traded funds during the second quarter of 2017, compared with about $35 billion in the second quarter of 2016. Continuing a long-term trend, investors continued to heavily favor lower-cost, passively managed vehicles for new inflows.

Assets in exchange-traded funds totaled $2.9 trillion in May 2017, up from $2.2 trillion in May 2016, based on data from the ICI.

Despite continued gains in the equity markets, we believe the business environment for the financial services industry remains challenging in some respects. Low interest rates and the industrywide shift to passive investment management have continued to put pressure on spending for many asset management firms.

In addition, financial advisors have been adapting to the increasing demand for solutions that are in the best interest of investors, including new fiduciary standards, an increasing emphasis on keeping fees low, and improved client communication. Despite ongoing uncertainty about the scope of potential regulatory changes, we believe recent shifts, such as a greater emphasis on serving investors' interests and lowering fees, are fundamental changes that will continue. Many industry participants have been moving toward a more client-centric business model and working to deliver solutions that put investors' interests first. We believe Morningstar is well-positioned to help financial advisors meet these needs, and we have a broad range of solutions to help them determine, demonstrate, and document that their advice is in the best interest of the investor.

**Supplemental Operating Metrics (Unaudited)**

The tables below summarize our key product metrics and other supplemental data.

| | As of June 30 | | | |
|---|---|---|---|---|
| | 2017 | 2016 | | Change |
| **Our business** | | | | |
| Morningstar.com Premium Membership subscriptions (U.S.) | 118,571 | 119,019 | | (0.4)% |
| Morningstar.com average monthly unique users (U.S.) | 1,917,739 | 1,947,247 | | (1.5)% |
| Advisor Workstation clients (U.S.) | 185 | 187 | | (1.1)% |
| Morningstar Office licenses (U.S.) | 4,274 | 4,157 | | 2.8 % |
| Morningstar Direct licenses | 13,222 | 12,064 | | 9.6 % |
| PitchBook Platform licenses | 11,309 | 8,269 | (1) | 36.8 % |
| Assets under advisement and management (approximate) ($bil) (2) | | | | |
| Workplace Solutions (Retirement) | | | | |
| Managed Accounts (3) | $ 50.2 | $ 43.3 | | 15.9 % |
| Plan Sponsor Advice | 38.2 | 32.0 | | 19.4 % |
| Custom Models | 25.8 | 19.7 | | 31.0 % |
| Workplace Solutions (total) | $ 114.2 | $ 95.0 | | 20.2 % |
| Morningstar Investment Management | | | | |
| Morningstar Managed Portfolios | $ 35.0 | $ 27.8 | (4) | 25.9 % |
| Institutional Asset Management | 53.7 | 58.6 | (5) | (8.4)% |
| Asset Allocation Services | 8.3 | 8.7 | (5) | (4.6)% |
| Manager Selection Services | 1.3 | 1.3 | (5) | — % |
| Morningstar Investment Management (total) | $ 98.3 | $ 96.4 | | 2.0 % |
| | | | | |
| **Our employees (approximate)** | | | | |
| Worldwide headcount | 4,675 (6) | 4,010 | (7) | 16.6 % |

| | Three months ended June 30 | | | Six months ended June 30 | | |
|---|---|---|---|---|---|---|
| (in millions) | 2017 | 2016 | Change | 2017 | 2016 | Change |
| **Key product revenue** (8) | | | | | | |
| Morningstar Data | $ 40.6 | $ 38.2 | 6.2 % | $ 78.9 | $ 74.8 | 5.4% |
| Morningstar Direct | 30.7 | 27.3 | 12.7 % | 59.8 | 54.3 | 10.1% |
| Morningstar Investment Management | 26.8 | 24.5 | 9.7 % | 51.8 | 49.1 | 5.5% |
| Morningstar Advisor Workstation | 22.8 | 20.6 | 10.6 % | 42.6 | 41.2 | 3.4% |
| Workplace Solutions | 19.0 | 16.7 | 13.4 % | 36.9 | 33.0 | 12.0% |

Table of Contents

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Revenue by Type** (8) | | | | | | | | | |
| License-based (9) | $ | 165.6 | $ | 142.1 | 16.5 % | $ | 321.0 | $ | 281.5 | 14.0% |
| Asset-based (10) | | 46.9 | | 41.3 | 13.5 % | | 90.5 | | 82.2 | 10.1% |
| Transaction-based (11) | | 16.7 | | 14.8 | 13.1 % | | 27.2 | | 26.6 | 2.1% |
| | | | | | | | | | | |
| **Other Metrics** | | | | | | | | | | |
| Average assets under management and advisement ($bil) | $ | 209.4 | $ | 185.7 | 12.8 % | $ | 206.6 | $ | 187.1 | 10.4% |
| Number of new-issue ratings completed (12) | | 20 | | 15 | 33.3 % | | 27 | | 26 | 3.8% |
| Asset value of new-issue ratings ($bil) (12) | $ | 8.6 | $ | 4.8 | 79.2 % | $ | 14.5 | $ | 10.3 | 40.8% |

(1) Included for informational purposes only; Morningstar did not acquire full ownership of PitchBook until December 2016.

(2) The asset totals shown above (including assets we either manage directly or on which we provide consulting or subadvisory work) only include assets for which we receive basis-point fees. Some of our client contracts include services for which we receive a flat fee, but we do not include those assets in the total reported above.

Excluding changes related to new contracts and cancellations, changes in the value of assets under advisement can come from two primary sources: gains or losses related to overall trends in market performance, and net inflows or outflows caused when investors add to or redeem shares from these portfolios.

In the majority of our Investment Management business (except for Morningstar Managed Portfolios) it's difficult for us to quantify these cash inflows and outflows. The information we receive from most of our clients does not separately identify the effect of cash inflows and outflows on asset balances for each period. We also cannot specify the effect of market appreciation or depreciation because the majority of our clients have discretionary authority to implement their own portfolio allocations.

(3) Many factors can cause changes in assets under management and advisement for our managed retirement accounts, including employer and employee contributions, plan administrative fees, market movements, and participant loans and hardship withdrawals. The information we receive from the plan providers does not separately identify these transactions or the changes in balances caused by market movement.

(4) Revised to include the assets from South Africa and Ibbotson Associates Japan K.K.

(5) Revised to include assets from Ibbotson Associates Japan K.K.

(6) Includes approximately 330 employees who joined Morningstar with the PitchBook acquisition in December 2016.

(7) Revised to exclude temporary employees and part-time employees who work less than 30 hours a week.

(8) Key product revenue and revenue by type includes the effect of foreign currency translations.

(9) License-based revenue includes Morningstar Data, Morningstar Direct, Morningstar Advisor Workstation, Morningstar Enterprise Components, Morningstar Research, PitchBook Data, and other similar products.

(10) Asset-based revenue includes Morningstar Investment Management, Workplace Solutions, and Morningstar Indexes.

(11) Transaction-based revenue includes Morningstar Credit Ratings, Internet advertising sales, and Conferences.

(12) Includes commercial mortgage-backed securities, residential mortgage-backed securities, and other asset-backed securities.

**Three and Six Months Ended June 30, 2017 vs. Three and Six Months Ended June 30, 2016**

**Consolidated Results**

| Key Metrics (in millions) | Three months ended June 30 2017 | 2016 | Change | Six months ended June 30 2017 | 2016 | Change |
|---|---|---|---|---|---|---|
| Revenue | $ 229.2 | $ 198.2 | 15.6 % | $ 438.7 | $ 390.3 | 12.4 % |
| Operating income | $ 46.0 | $ 44.4 | 3.4 % | $ 74.4 | $ 86.7 | (14.2)% |
| Operating margin | 20.0% | 22.4% | (2.4) pp | 17.0% | 22.2% | (5.2) pp |
| | | | | | | |
| Cash provided by operating activities | $ 55.7 | $ 71.4 | (22.0)% | $ 102.2 | $ 82.8 | 23.4 % |
| Capital expenditures | (19.0) | (15.9) | 19.5 % | (33.3) | (29.4) | 13.3 % |
| Free cash flow | $ 36.7 | $ 55.5 | (33.9)% | $ 68.9 | $ 53.4 | 29.0 % |

*NMF - not meaningful, pp — percentage points*

To supplement our consolidated financial statements presented in accordance with U.S. Generally Accepted Accounting Principles (GAAP), we use the following non-GAAP measures:

- consolidated revenue excluding acquisitions, divestitures, and the effect of foreign currency translations (organic revenue);
- consolidated international revenue excluding acquisitions, divestitures, and the effect of foreign currency translations (international organic revenue);
- consolidated operating income excluding PitchBook (adjusted operating income);
- consolidated operating margin excluding PitchBook (adjusted operating margin); and
- free cash flow.

These non-GAAP measures may not be comparable to similarly titled measures reported by other companies and should not be considered an alternative to any measure of performance as promulgated under GAAP.

We define free cash flow as cash provided by or used for operating activities less capital expenditures. We present free cash flow solely as supplemental disclosure to help investors better understand how much cash is available after making capital expenditures. Our management team uses free cash flow to evaluate our business. Free cash flow is not equivalent to any measure required to be reported under GAAP.

**Consolidated Revenue**

| (in millions) | Three months ended June 30 2017 | 2016 | Change | Six months ended June 30 2017 | 2016 | Change |
|---|---|---|---|---|---|---|
| Consolidated revenue | $ 229.2 | $ 198.2 | 15.6% | $ 438.7 | $ 390.3 | 12.4% |

In the second quarter of 2017 , consolidated revenue increased 15.6% to $229.2 million . Our acquisition of PitchBook Data, Inc. (PitchBook) in December 2016 contributed $15.1 million of revenue during the second quarter of 2017. Foreign currency movements had a negative effect in the quarter, lowering revenue by approximately $2.5 million .

During the second quarter , we experienced continued growth rates for license-based products such as Morningstar Data and Morningstar Direct. Revenue from Morningstar Direct rose $3.5 million, reflecting growth in licenses for both new and existing clients. Morningstar Data revenue also increased $2.4 million, mainly reflecting new contracts and renewals for managed products data.

Products and services that mainly generate revenue from asset-based fees increased $5.6 million during the second quarter, mainly driven by strong growth in Workplace Solutions and Morningstar Managed Portfolios, which continued to show healthy momentum in both the United States and the United Kingdom.

Revenue from Morningstar Credit Ratings also increased $1.7 million during the second quarter of 2017.

For the first six months of 2017, consolidated revenue was up 12.4% to $438.7 million , compared with $390.3 million in the same period of 2016. PitchBook contributed $28.2 million of revenue during the first six months of 2017. Morningstar Direct, Morningstar Data, and Workplace Solutions were also positive contributors during the first half of the year.

Positive results for these products were offset by a decrease in Internet advertising sales on Morningstar.com. Revenue from Internet advertising sales on Morningstar.com declined $1.1 million as advertisers have been shifting to programmatic buying platforms that target users on other sites. This has been an ongoing trend for several quarters.

Revenue from asset-based fees made up approximately 16% of consolidated revenue in the second quarter of 2017, compared with approximately 17% for the same period in 2016. Revenue from asset-based fees made up approximately 17% of consolidated revenue in the first six months of both 2017 and 2016.

*Organic revenue*

To allow for more meaningful comparisons of our results in different periods, we provide information about organic revenue, which reflects our underlying business excluding acquisitions, divestitures, and the effect of foreign currency translations. In the second quarter of 2017 , organic revenue increased 9.2% after excluding an unfavorable effect of $2.5 million from foreign currency translations and $15.2 million of incremental revenue from acquisitions, primarily from PitchBook.

For the first six months of 2017 , organic revenue increased 6.2% after excluding an unfavorable effect of $4.4 million from foreign currency translations and $28.5 million of incremental revenue from acquisitions, almost entirely from PitchBook.

The table below reconciles consolidated revenue with organic revenue (revenue excluding acquisitions, divestitures, and the effect of foreign currency translations):

| | Three months ended June 30 | | | Six months ended June 30 | | |
|---|---|---|---|---|---|---|
| **(in millions)** | **2017** | **2016** | **Change** | **2017** | **2016** | **Change** |
| Consolidated revenue | $ 229.2 | $ 198.2 | 15.6% | $ 438.7 | $ 390.3 | 12.4% |
| Less: acquisitions | (15.2) | — | NMF | (28.5) | — | NMF |
| Less: divestitures | — | — | NMF | — | — | NMF |
| Unfavorable effect of foreign currency translations | 2.5 | — | NMF | 4.4 | — | NMF |
| Organic revenue | $ 216.5 | $ 198.2 | 9.2% | $ 414.6 | $ 390.3 | 6.2% |

Table of Contents

*Revenue by region*

| (in millions) | Three months ended June 30 2017 | 2016 | Change | Six months ended June 30 2017 | 2016 | Change |
|---|---|---|---|---|---|---|
| United States | $ 174.7 | $ 145.3 | 20.2 % | $ 331.6 | $ 287.1 | 15.5 % |
| | | | | | | |
| United Kingdom | 15.6 | 15.3 | 2.0 % | 30.5 | 30.6 | (0.3)% |
| Continental Europe | 16.5 | 15.8 | 4.4 % | 32.8 | 31.3 | 4.8 % |
| Australia | 8.6 | 8.9 | (3.4)% | 16.7 | 15.8 | 5.7 % |
| Canada | 7.2 | 6.9 | 4.3 % | 14.5 | 13.5 | 7.4 % |
| Asia | 5.5 | 5.0 | 10.0 % | 10.4 | 10.1 | 3.0 % |
| Other | 1.1 | 1.0 | 10.0 % | 2.2 | 1.9 | 15.8 % |
| Total International | 54.5 | 52.9 | 3.0 % | 107.1 | 103.2 | 3.8 % |
| | | | | | | |
| Consolidated revenue | $ 229.2 | $ 198.2 | 15.6 % | $ 438.7 | $ 390.3 | 12.4 % |

International revenue made up about 25% of our consolidated revenue in the first six months of 2017 and 2016. About 60% of this amount is from Continental Europe and the United Kingdom, with most of the remainder from Australia, Canada, and Asia.

Revenue from international operations increased $1.6 million , or 3.0% , in the second quarter , and international organic revenue increased 7.8% , mainly reflecting growth in Morningstar Data and Morningstar Direct. For the first six months of 2017 , revenue from international operations was up $3.9 million , or 3.8% , and international organic revenue increased 8.0% .

**Consolidated Operating Expense**

| (in millions) | Three months ended June 30 2017 | 2016 | Change | Six months ended June 30 2017 | 2016 | Change |
|---|---|---|---|---|---|---|
| Cost of revenue | $ 95.3 | $ 86.1 | 10.7% | $ 192.3 | $ 171.4 | 12.2% |
| *% of consolidated revenue* | *41.6%* | *43.4%* | *(1.8) pp* | *43.8%* | *43.9%* | *(0.1) pp* |
| Sales and marketing | 36.7 | 25.7 | 42.8% | 69.1 | 48.0 | 43.9% |
| *% of consolidated revenue* | *16.0%* | *13.0%* | *3.0 pp* | *15.7%* | *12.3%* | *3.4 pp* |
| General and administrative | 29.7 | 24.7 | 20.3% | 59.9 | 50.3 | 19.2% |
| *% of consolidated revenue* | *13.0%* | *12.5%* | *0.5 pp* | *13.7%* | *12.9%* | *0.8 pp* |
| Depreciation and amortization | 21.5 | 17.3 | 24.6% | 43.0 | 33.9 | 27.1% |
| *% of consolidated revenue* | *9.4%* | *8.7%* | *0.7 pp* | *9.8%* | *8.7%* | *1.1 pp* |
| Total operating expense | $ 183.2 | $ 153.8 | 19.2% | $ 364.3 | $ 303.6 | 20.0% |
| *% of consolidated revenue* | *80.0%* | *77.6%* | *2.4 pp* | *83.0%* | *77.8%* | *5.2 pp* |

Consolidated operating expense increased $29.4 million , or 19.2% , in the second quarter of 2017 and $60.7 million , or 20.0% , in the first six months of 2017. Because of the continued strength in the U.S. dollar, foreign currency translations had a favorable effect of $2.5 million and $4.8 million on operating expense during the second quarter and first six months of 2017, respectively.

PitchBook contributed $16.7 million and $35.4 million of operating expense, primarily for salaries, amortization expense, capitalized software development, and management bonus plan expense, during the second quarter and first six months of 2017, respectively.

Compensation expense (including salaries and other company-sponsored benefits) increased $12.5 million in the second quarter of 2017 and $25.9 million in the first six months of 2017. We had approximately 4,675 employees worldwide as of June 30, 2017 , compared with 4,010 as of June 30, 2016 . This increase reflects our continued investment in our key growth initiatives and mainly includes technology and analyst roles in the United States, India, and China. The increase also includes appropriately 330 employees who joined Morningstar as a result of the PitchBook acquisition in December 2016. Since then, the rate of hiring has slowed, with total headcount increasing by 3% for the year-to-date period in 2017.

Bonus expense increased $4.3 million in second quarter of 2017 and $8.9 million during the first six months of 2017. Bonus expense was higher mainly because our results were closer to the full-year targets we established for the bonus plan in 2017 versus 2016.

Sales commission expense increased $2.0 million in the second quarter of 2017 and $5.2 million in the first six months of 2017, reflecting stronger sales growth in both periods, particularly in the United States.

Professional fees, depreciation expense, and advertising expense increased as we continue to invest in our business. We have also accelerated development of our major software platforms and therefore had an increase in capitalized software development, which reduced operating expense. For the first six months of 2017 , we capitalized $23.6 million of software development expense, compared with $12.4 million in the first six months of 2016.

*Cost of revenue*

Cost of revenue is our largest category of operating expense, representing about one-half of our total operating expense. Our business relies heavily on human capital, and cost of revenue includes the compensation expense for employees who produce our products and deliver our services. We include compensation expense for approximately 80% of our employees in this category.

Cost of revenue increased $9.2 million in the second quarter of 2017 . Higher salary expense of $5.4 million was the largest contributor to the increase and was mainly driven by additional headcount. Higher professional fees and bonus expense also contributed to the growth in this category.

Partially offsetting the increases in salary expense, professional fees, and bonus expense was an increase in internally developed capitalized software. During the second quarter of 2017 , we capitalized $13.2 million associated with software development activities, mainly related to Morningstar Data, Workplace Solutions, PitchBook, and additional enhancements to reporting, financial planning, and other capabilities in our products. In comparison, we capitalized $6.7 million in the second quarter of 2016.

For the first six months of 2017 , cost of revenue was up $ 20.9 million . Higher salary expense of $11.9 million was the largest contributor to the increase and was mainly driven by additional headcount. Higher professional fees and bonus expense also contributed to the growth in this category.

Partially offsetting the increases in salary expense, professional fees, and bonus expense was an increase in internally developed capitalized software. We capitalized $23.6 million associated with software development activities related to the same products mentioned above in the first six months of 2017 compared to $12.4 million in the first six months of 2016 .

PitchBook contributed $1.9 million and $6.3 million of operating expense in this cost category, primarily for salary expense, in the second quarter of 2017 and first six months of 2017 , respectively.

As a percentage of revenue, cost of revenue decreased 1.8 percentage points in the second quarter of 2017 and 0.1 percentage points in the first six months of 2017.

*Sales and marketing*

Sales and marketing expense increased $11.0 million in the second quarter of 2017 , reflecting a $4.4 million increase in compensation expense (including salaries and other company-sponsored benefits), a $2.0 million increase in sales commission expense, and a $2.0 million increase in advertising and marketing spend. Bonus expense also increased $1.8 million during the second quarter of 2017.

For the first six months of 2017 , sales and marketing expense was up about $ 21.1 million , reflecting a $9.1 million increase in compensation expense (including salaries and other company-sponsored benefits), a $5.1 million increase in sales commission expense, and a $3.0 million increase in advertising and marketing spend. Bonus expense increased $2.7 million during the first half of 2017.

PitchBook contributed $7.9 million and $15.5 million of operating expense in this cost category, primarily for salary and sales commission expense, in the second quarter of 2017 and first six months of 2017 , respectively.

As a percentage of revenue, sales and marketing expense increased 3.0 percentage points in the second quarter of 2017 and 3.4 percentage points in the first half of 2017.

*General and administrative*

General and administrative expense increased $5.0 million during the second quarter. Stock-based compensation increased $1.3 million and rent expense increased $0.9 million. Compensation expense (including salaries and other company-sponsored benefits) and professional fees also increased during the second quarter of 2017.

For the first six months of 2017 , general and administrative expense was up $ 9.6 million . Stock-based compensation expense increased $2.4 million and rent expense increased $1.5 million. Compensation expense (including salaries and other company-sponsored benefits) and bonus expense also increased during the first half of 2017.

PitchBook contributed $4.1 million and $8.0 million of operating expense in this cost category, primarily for salary expense, management bonus plan expense, and professional fees, in the second quarter of 2017 and first six months of 2017 , respectively.

As a percentage of revenue, general and administrative expense increased 0.5 percentage points in the second quarter of 2017 and 0.8 percentage points in the first six months of 2017.

*Depreciation and amortization*

Depreciation expense rose $ 2.8 million in the second quarter, mainly driven by depreciation expense related to capitalized software development, computer software, and leasehold improvements over the past several years. Intangible amortization expense increased $1.4 million .

For the first six months of 2017 , depreciation expense was up $6.3 million , largely driven by the same factors that contributed to growth in depreciation in the second quarter of 2016. Intangible amortization expense was up $2.8 million , as certain intangible assets from some of our earlier acquisitions are now fully amortized.

We expect that amortization of intangible assets will be an ongoing cost for the remaining lives of the assets. We estimate that aggregate amortization expense for intangible assets will be approximately $ 11.0 million for the remainder of 2017 . These estimates may be affected by additional acquisitions, dispositions, changes in the estimated average useful lives, and foreign currency translation.

PitchBook contributed $2.7 million and $5.5 million of operating expense in this cost category, primarily for amortization expense, in the second quarter of 2017 and first six months of 2017 , respectively.

As a percentage of revenue, depreciation and amortization expense increased 0.7 percentage points in the first quarter of 2017 and 1.1 percentage points in the first half of 2017.

**Consolidated Operating Income and Operating Margin**

| | Three months ended June 30 | | | Six months ended June 30 | | |
|---|---|---|---|---|---|---|
| (in millions) | 2017 | 2016 | Change | 2017 | 2016 | Change |
| Operating income | $ 46.0 | $ 44.4 | 3.4% | $ 74.4 | $ 86.7 | (14.2)% |
| % of revenue | 20.0% | 22.4% | (2.4) pp | 17.0% | 22.2% | (5.2) pp |

Consolidated operating income increased $1.6 million in the second quarter of 2017 , as revenue increased $31.0 million and operating expense increased $29.4 million . Operating margin was 20.0% , down 2.4 percentage points compared with the second quarter of 2016 .

Consolidated operating income decreased $12.3 million in the first six months of 2017 as revenue increased $48.4 million and operating expense increased $ 60.7 million . Operating margin was 17.0% , down 5.2 percentage points compared with the first six months of 2016 .

We reported adjusted operating income, which excludes PitchBook, of $47.7 million in the second quarter of 2017 and $81.6 million for the six months of 2017. Adjusted operating income is a non-GAAP measure; the table below shows a reconciliation to the comparable GAAP measure.

| | Three months ended June 30 | | | Six months ended June 30 | | |
|---|---|---|---|---|---|---|
| ($000) | 2017 | 2016 | Change | 2017 | 2016 | Change |
| Operating income | $ 46.0 | $ 44.4 | 3.4% | $ 74.4 | $ 86.7 | (14.2)% |
| Add back: management bonus plan expense | 1.8 | — | — | 3.5 | — | — |
| Add back: intangible amortization | 2.7 | — | — | 5.3 | — | — |
| Add back: other operating income, net for PitchBook | (2.8) | — | — | (1.6) | — | — |
| Adjusted operating income | $ 47.7 | $ 44.4 | 7.1% | $ 81.6 | $ 86.7 | (5.9)% |

We present adjusted operating income (operating income excluding PitchBook) to show the effect of this acquisition, better reflect period-over-period comparisons, and improve overall understanding of our current and future financial performance.

We reported an adjusted operating margin, which excludes PitchBook, of 22.2% in the second quarter of 2017 and 19.9% in the first six months of 2017. Adjusted operating margin is a non-GAAP measure; the table below shows a reconciliation to the comparable GAAP measure.

| | Three months ended June 30 | | | Six months ended June 30 | | |
|---|---|---|---|---|---|---|
| ($000) | 2017 | 2016 | Change | 2017 | 2016 | Change |
| Operating margin | 20.0% | 22.4% | (2.4) pp | 17.0% | 22.2% | (5.2) pp |
| Add back: management bonus plan expense | 0.6% | —% | 0.6 pp | 0.7% | —% | 0.7 pp |
| Add back: intangible amortization | 1.0% | —% | 1.0 pp | 1.1% | —% | 1.1 pp |
| Add back: other operating income, net for PitchBook | 0.6% | —% | 0.6 pp | 1.1% | —% | 1.1 pp |
| Adjusted operating margin | 22.2% | 22.4% | (0.2) pp | 19.9% | 22.2% | (2.3) pp |

We present adjusted operating margin (operating margin excluding PitchBook) to show the effect of this acquisition, better reflect period-over-period comparisons, and improve overall understanding of our current and future financial performance.

**Non-Operating Income, Equity in Net Income (Loss) of Unconsolidated Entities, and Effective Tax Rate and Income Tax Expense**

***Non-operating income***

| (in millions) | Three months ended June 30 2017 | Three months ended June 30 2016 | Six months ended June 30 2017 | Six months ended June 30 2016 |
|---|---|---|---|---|
| Interest income | $ 0.5 | $ 0.4 | $ 0.8 | $ 0.8 |
| Interest expense | (1.3) | (0.3) | (2.5) | (0.5) |
| Gain on sale of investments, net | 0.3 | 0.3 | 0.8 | 0.2 |
| Gain on sale of business | 17.5 | — | 17.5 | — |
| Other income (expense), net | (1.7) | 2.6 | (2.6) | 3.0 |
| Non-operating income, net | $ 15.3 | $ 3.0 | $ 14.0 | $ 3.5 |

Interest income reflects interest from our investment portfolio. Interest expense mainly relates to the outstanding principal balance on our credit facility. Gain on sale of business relates to our sale of HelloWallet in June 2017.

Other income, net primarily includes foreign currency exchange gains and losses resulting from U.S. dollar denominated short-term investments held in non-U.S. jurisdictions.

***Equity in net income (loss) of unconsolidated entities***

| (in millions) | Three months ended June 30 2017 | Three months ended June 30 2016 | Six months ended June 30 2017 | Six months ended June 30 2016 |
|---|---|---|---|---|
| Equity in net income (loss) of unconsolidated entities | $ (0.2) | $ (0.2) | $ (1.0) | $ 0.3 |

Equity in net income (loss) of unconsolidated entities primarily reflects income from Morningstar Japan K.K. (MJKK) offset by losses in our other equity method investments.

***Effective tax rate and income tax expense***

| (in millions) | Three months ended June 30 2017 | Three months ended June 30 2016 | Six months ended June 30 2017 | Six months ended June 30 2016 |
|---|---|---|---|---|
| Income before income taxes and equity in net income (loss) of unconsolidated entities | $ 61.3 | $ 47.4 | $ 88.4 | $ 90.2 |
| Equity in net income (loss) of unconsolidated entities | (0.2) | (0.2) | (1.0) | 0.3 |
| Total | $ 61.1 | $ 47.2 | $ 87.4 | $ 90.5 |
| Income tax expense | $ 15.0 | $ 15.4 | $ 23.3 | $ 30.0 |
| Effective tax rate | 24.5% | 32.7% | 26.7% | 33.2% |

Our effective tax rate in the second quarter and for the first six months of 2017 was 24.5% and 26.7% , a respective decrease of 8.2 and 6.5 percentage points compared with the same periods a year ago. The decrease in our effective tax rate primarily reflects the fact that we recorded a book gain of $17.5 million on the sale of HelloWallet that is not a gain for tax purposes. Further, we can no longer realize certain net deferred tax assets that were attributable to our investment in HelloWallet. The net effect of both of these tax impacts represents a decrease to our effective tax rate of 11.9 percentage points and 8.3 percentage points for the second quarter and for the first six months of 2017, respectively.

**Liquidity and Capital Resources**

As of June 30, 2017 , we had cash, cash equivalents, and investments of $339.6 million, an increase of $35.6 million compared with $304.0 million as of December 31, 2016 . The increase reflects cash provided by operating activities and proceeds of $23.7 million related to the sale of HelloWallet, partially offset by $33.3 million of capital expenditures, $28.6 million used to repurchase common stock through our share repurchase program, of which $0.7 million was repurchased in the fourth quarter of 2016 but settled and paid early in the first half of 2017. Repayments of long-term debt of $20.0 million , $19.7 million of dividends paid, and $4.0 million of purchases of investments, net of proceeds from sale of investments, also offset the cash inflows.

Cash provided by operating activities is our main source of cash. In the first six months of 2017 , cash provided by operating activities was $102.2 million, reflecting $104.1 million of net income, adjusted for non-cash items, and offset by $1.9 million in negative changes from our net operating assets and liabilities, which included bonus payments of $38.4 million.

In November 2016, we expanded our single-bank revolving credit facility in the United States, which we intend to use for general corporate purposes, from $100.0 million to $300.0 million . We had an outstanding principal balance of $230.0 million as of June 30, 2017 , leaving borrowing availability of $70.0 million . The credit agreement also contains financial covenants under which we: (i) may not exceed a maximum consolidated leverage ratio of 3.00 to 1.00 and (ii) are required to maintain a minimum consolidated interest coverage ratio of not less than 3.00 to 1.00. We were in compliance with the financial covenants at June 30, 2017 .

We believe our available cash balances and investments, along with cash generated from operations and our line of credit, will be sufficient to meet our operating and cash needs for at least the next 12 months. We invest our cash reserves in cash equivalents and investments and maintain a conservative investment policy. We invest a portion of our investment balance (approximately $32.9 million, or 61% of our total investments balance as of June 30, 2017 ) in stocks, bonds, options, mutual funds, money market funds, or exchange-traded products that replicate the model portfolios and strategies created by Morningstar. These investment accounts may also include exchange-traded products where Morningstar is an index provider.

Approximately 69% of our cash, cash equivalents, and investments balance as of June 30, 2017 and December 31, 2016 was held by our operations outside the United States. We do not expect to repatriate earnings from our international subsidiaries in the foreseeable future. We have not recognized deferred tax liabilities for the portion of the outside basis differences (including unremitted earnings) relating to international subsidiaries because the investment in these subsidiaries is considered permanent in duration. It is not practical to quantify the deferred tax liability associated with these outside basis differences.

We intend to use our cash, cash equivalents, and investments for general corporate purposes, including working capital and funding future growth.

In May 2017, our board of directors approved a regular quarterly dividend of 23.0 cents per share payable on July 28, 2017 to shareholders of record as of July 7, 2017 . We paid a quarterly dividend of approximately $9.8 million on July 28, 2017 .

In December 2015, our board approved a $300.0 million increase to our share repurchase program, bringing the total amount authorized under the program to $1.0 billion. We may repurchase shares from time to time at prevailing market prices on the open market or in private transactions in amounts that we deem appropriate. In the first six months of 2017 , we repurchased a total of 406,913 shares for $30.7 million . As of June 30, 2017 , we have repurchased a total of 10.4 million shares for $703.6 million and had approximately $296.4 million available for future repurchases as of June 30, 2017 .

We expect to continue making capital expenditures in 2017 , primarily for computer hardware and software, internally developed software, and leasehold improvements for new and existing office locations.

Table of Contents

**Consolidated Free Cash Flow**

As described in more detail above, we define free cash flow as cash provided by or used for operating activities less capital expenditures.

| | Three months ended June 30 | | | Six months ended June 30 | | |
|---|---|---|---|---|---|---|
| (in millions) | 2017 | 2016 | Change | 2017 | 2016 | Change |
| Cash provided by operating activities | $ 55.7 | $ 71.4 | (22.0)% | $ 102.2 | $ 82.8 | 23.4% |
| Capital expenditures | (19.0) | (15.9) | 19.5 % | (33.3) | (29.4) | 13.3% |
| Free cash flow | $ 36.7 | $ 55.5 | (33.9)% | $ 68.9 | $ 53.4 | 29.0% |

We generated free cash flow of $36.7 million in the second quarter of 2017 , a decrease of $18.8 million compared with the second quarter of 2016 . The change reflects a $15.7 million decrease in cash provided by operating activities as well as a $3.1 million increase in capital expenditures.

In the first six months of 2017 , we generated free cash flow of $68.9 million , an increase of $ 15.5 million compared with free cash flow of $53.4 million in the same period of 2016. The increase reflects a $ 19.4 million increase in cash provided by operating activities as well as a $ 3.9 million increase in capital expenditures.

**Application of Critical Accounting Policies and Estimates**

We discuss our critical accounting policies and estimates in Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations, included in our Annual Report. We also discuss our significant accounting policies in Note 2 of the Notes to our Audited Consolidated Financial Statements included in our Annual Report.

**Rule 10b5-1 Sales Plans**

Our directors and executive officers may exercise stock options or purchase or sell shares of our common stock in the market from time to time. We encourage them to make these transactions through plans that comply with Exchange Act Rule 10b5-1(c). Morningstar will not receive any proceeds, other than proceeds from the exercise of stock options, related to these transactions. The following table, which we are providing on a voluntary basis, shows the Rule 10b5-1 sales plans entered into by our directors and executive officers that were in effect as of July 15, 2017:

| Name and Position | Date of Plan | Plan Termination Date | Number of Shares to be Sold under the Plan | Timing of Sales under the Plan | Number of Shares Sold under the Plan through July 15, 2017 | Projected Beneficial Ownership (1) |
|---|---|---|---|---|---|---|
| Bevin Desmond Head of Global Markets & HR | 5/26/2017 | 12/31/2017 | 3,002 | Shares to be sold under the plan on specified dates | — | 29,363 |
| Steven Kaplan Director | 4/25/2017 | 12/21/2017 | 7,500 | Shares to be sold under the plan on specified dates | — | 43,003 |
| Gail Landis Director | 11/15/2016 | 2/28/2018 | 1,500 | Shares to be sold under the plan if the stock reaches specified prices | — | 4,703 |
| Tricia Rothschild Chief Product Officer | 5/16/2017 | 8/31/2017 | 500 | Shares to be sold under the plan on a specified date | — | 4,840 |

(1) This column reflects an estimate of the number of shares each identified director and executive officer will beneficially own following the sale of all shares under the Rule 10b5-1 sales plan. This information reflects the beneficial ownership of our common stock on June 30, 2017 , and includes shares of our common stock subject to options that were then exercisable or that will have become exercisable by August 29, 2017 and restricted stock units that will vest by August 29, 2017. The estimates do not reflect any changes to beneficial ownership that may have occurred since June 30, 2017 . Each director and executive officer identified in the table may amend or terminate his or her Rule 10b5-1 sales plan and may adopt additional Rule 10b5-1 plans in the future.

### Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our investment portfolio is actively managed and may suffer losses from fluctuating interest rates, market prices, or adverse security selection. These accounts may consist of stocks, bonds, options, mutual funds, money market funds, or exchange-traded products that replicate the model portfolios and strategies created by Morningstar. These investment accounts may also include exchange-traded products where Morningstar is an index provider. As of June 30, 2017 , our cash, cash equivalents, and investments balance was $339.6 million. Based on our estimates, a 100 basis-point change in interest rates would not have a material effect on the fair value of our investment portfolio.

We are subject to risk from fluctuations in the interest rates related to our long-term debt. The interest rates are based upon the applicable LIBOR rate plus an applicable margin for such loans or the lender's base rate plus an applicable margin for such loans. On an annualized basis, based on LIBOR rates around June 30, 2017 , we estimate a 100 basis-point change in the LIBOR rate would have a $2.3 million impact on our interest expense.

We are subject to risk from fluctuations in foreign currencies from our operations outside of the United States. To date, we have not engaged in currency hedging, and we do not currently have any positions in derivative instruments to hedge our currency risk.

The table below shows our exposure to foreign currency denominated revenue and operating income for the six months ended June 30, 2017 :

| | Six months ended June 30, 2017 | | | |
|---|---|---|---|---|
| **(in millions, except foreign currency rates)** | **Euro** | **British Pound** | **Australian Dollar** | **Other Foreign Currencies** |
| Currency rate in U.S. dollars as of June 30, 2017 | 1.1424 | 1.3004 | 0.7687 | — |
| | | | | |
| Percentage of revenue | 4.9% | 6.9 % | 3.7% | 8.9 % |
| Percentage of operating income (loss) | 10.9% | (0.1)% | 4.6% | (9.3)% |
| | | | | |
| Estimated effect of a 10% adverse currency fluctuation on revenue | $ (1.1) | $ (2.2) | $ (1.4) | $ (3.1) |
| Estimated effect of a 10% adverse currency fluctuation on operating income (loss) | $ (0.4) | $ — | $ (0.3) | $ 0.8 |

The table below shows our net investment exposure to foreign currencies as of June 30, 2017 :

| | As of June 30, 2017 | | | |
|---|---|---|---|---|
| **(in millions)** | **Euro** | **British Pound** | **Australian Dollar** | **Other Foreign Currencies** |
| Assets, net of unconsolidated entities | $ 83.6 | $ 137.9 | $ 77.2 | $ 156.4 |
| Liabilities | 34.6 | 35.2 | 52.1 | 52.8 |
| Net currency position | $ 49.0 | $ 102.7 | $ 25.1 | $ 103.6 |
| | | | | |
| Estimated effect of a 10% adverse currency fluctuation on equity | $ (4.9) | $ (10.3) | $ (2.5) | $ (10.4) |

## Item 4. Controls and Procedures

### (a) Evaluation and Disclosure Controls and Procedures

Disclosure controls and procedures are designed to reasonably assure that information required to be disclosed in the reports filed or submitted under the Securities Exchange Act of 1934 (Exchange Act) is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to reasonably assure that information required to be disclosed in the reports filed under the Exchange Act is accumulated and communicated to management, including the chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

We carried out an evaluation, under the supervision and with the participation of management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act of 1934, as of June 30, 2017 . Based on that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized, and reported as and when required and is accumulated and communicated to management, including the chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

### (b) Changes in Internal Control Over Financial Reporting

On December 1, 2016, the Company completed the acquisition of PitchBook Data, Inc. (PitchBook). As a result, in its Annual Report on Form 10-K for the period ended December 31, 2016, management excluded PitchBook from its assessment of internal control over financial reporting. Management is in the process of documenting and testing PitchBook's internal controls over financial reporting and will incorporate PitchBook into its annual assessment of internal control over financial reporting for its fiscal year ending December 31, 2017. PitchBook is a wholly owned subsidiary whose total assets and total revenues represent 20% and 6%, respectively, of the related unaudited condensed consolidated financial statement amounts as of and for the six months ended June 30, 2017 .

Other than the change noted above, there were no changes in our internal control over financial reporting during the quarter ended June 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART 2. OTHER INFORMATION

### Item 1. Legal Proceedings

We incorporate by reference the information regarding legal proceedings set forth in Note 11 , Contingencies, of the Notes to our Unaudited Condensed Consolidated Financial Statements contained in Part 1, Item 1 of this Quarterly Report on Form 10-Q.

### Item 1A. Risk Factors

There have been no material changes to the risk factors disclosed in Item 1A. Risk Factors in our Annual Report.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

Subject to applicable law, we may repurchase shares at prevailing market prices directly on the open market or in privately negotiated transactions in amounts that we deem appropriate.

We have an ongoing authorization, originally approved by our board of directors in September 2010, and subsequently amended, to repurchase up to $1.0 billion in shares of our outstanding common stock. The authorization expires on December 31, 2017.

The following table presents information related to repurchases of common stock we made during the three months ended June 30, 2017 :

| Period: | Total number of shares purchased | | Average price paid per share | Total number of shares purchased as part of publicly announced programs | | Approximate dollar value of shares that may yet be purchased under the programs |
|---|---|---|---|---|---|---|
| Cumulative through March 31, 2017 | 10,030,919 | $ | 67.09 | 10,030,919 | $ | 326,849,705 |
| April 1, 2017 - April 30, 2017 | — | | — | — | $ | 326,849,705 |
| May 1, 2017 - May 31, 2017 | 163,214 | | 73.95 | 163,214 | $ | 314,777,579 |
| June 1, 2017 - June 30, 2017 | 240,905 | | 76.29 | 240,905 | $ | 296,393,814 |
| Total | 10,435,038 | $ | 67.41 | 10,435,038 | | |

### Item 6. Exhibits

Incorporated by reference to Exhibit Index included herewith.

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MORNINGSTAR, INC.

| | | |
|---|---|---|
| Date: July 28, 2017 | By: | /s/ Jason Dubinsky |
| | | Jason Dubinsky<br>Chief Financial Officer |

**EXHIBIT INDEX**

| Exhibit No | Description of Exhibit |
|---|---|
| 10.1 | Form of Morningstar 2011 Stock Incentive Plan Market Stock Unit Award Agreement |
| 31.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended |
| 31.2 | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended |
| 32.1 | Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2 | Certification of Chief Financial Officer Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101 | The following financial information from Morningstar, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2017, filed with the SEC on July 28, 2017 formatted in XBRL: (i) Unaudited Condensed Consolidated Statements of Income, (ii) Unaudited Condensed Consolidated Statements of Comprehensive Income (iii) Unaudited Condensed Consolidated Balance Sheets, (iv) Unaudited Condensed Consolidated Statement of Equity, (v) Unaudited Condensed Consolidated Statements of Cash Flows and (vi) the Notes to Unaudited Condensed Consolidated Financial Statements |

# MORNINGSTAR, INC.

## 2011 STOCK INCENTIVE PLAN

## MARKET STOCK UNIT AWARD AGREEMENT

**THIS MARKET STOCK UNIT AWARD AGREEMENT** , which includes the Online Grant Acceptance form (the "Grant Notice") provided to the Participant named therein and any special terms and conditions for the Participant's country set forth in the Addendum attached hereto (together, the "Award Agreement"), is made under the Morningstar, Inc. 2011 Stock Incentive Plan (the "Plan") as of the Grant Date specified in the Grant Notice. Any term capitalized but not defined in this Award Agreement will have the meaning set forth in the Plan. For purposes of this Award Agreement, "Employer" means the entity (the Company or Affiliate) that employs the Participant.

**BETWEEN:**

**(1)** **MORNINGSTAR, INC.,** an Illinois corporation (the "Company"); and

**(2)** The Participant identified in the Grant Notice.

**1 GRANT OF MARKET STOCK UNITS**

1.1 In accordance with the terms of the Plan and subject to the terms and conditions of this Award Agreement, the Company hereby grants to the Participant a Market Stock Unit Award with respect to the target number of Market Stock Units ("MSUs") set forth in the Grant Notice (the "Target MSUs"). The number of MSUs that are earned shall be equal to a percentage of the Target MSUs, which shall be determined in accordance with the performance conditions specified in Section 2 (the "Performance Conditions"). The MSUs shall constitute performance-based Restricted Stock Units granted pursuant to Section 3.3 of the Plan.

1.2 Each MSU is a notional amount that represents one unvested share of common stock, no par value, of the Company (a "Share"). Each MSU constitutes the right, subject to the terms and conditions of the Plan and this Award Agreement, to distribution of a Share if and to the extent the Performance Conditions are satisfied and the MSUs become vested.

Notwithstanding the foregoing, if the Participant is resident or employed outside of the United States, the Company, in its sole discretion, may settle the MSUs in the form of a cash payment to the extent settlement in Shares: (i) is prohibited under local law; (ii) would require the Participant, the Company and/or its Affiliates to obtain the approval of any governmental and/or regulatory body in the Participant's country; (iii) would result in adverse tax consequences for the Participant, the Company or any Affiliate; or (iv) is administratively burdensome. Alternatively, the Company, in its sole discretion, may settle the MSUs in the form of Shares but require the Participant to sell such Shares immediately or within a specified period following the Participant's termination Service (in which case, this Award Agreement shall give the Company the authority to issue sales instructions on the Participant's behalf).

1.3 This Award Agreement is subject to the provisions of the Plan and shall be interpreted in accordance therewith. The Participant hereby agrees to be bound by the terms of this Award Agreement and the Plan.

1.4 Further details of the MSUs granted to the Participant under the terms of this Award Agreement are set forth in the Grant Notice.

**2 <u>PERFORMANCE CONDITIONS</u>**

2.1 Subject to the terms of the Award Agreement and the Plan, the number of MSUs that are earned shall be based on the Company's Cumulative Total Shareholder Return for the Performance Period set forth in the Grant Notice (the "Company Cumulative TSR"), as follows:

| | Company Cumulative TSR | Shares Earned as a Percentage of Target MSUs |
|---|---|---|
| Threshold TSR | [ ] | [ ] |
| Target TSR | [ ] | [ ] |
| Maximum TSR | [ ] | [ ] |

2.2 If the Company TSR exceeds the Threshold TSR and is less than the Target TSR, the percentage of the Target MSUs earned shall be [ ]%, reduced by [ ]% for each [ ]% decrease in Company TSR below [ ]%. For example, if the Company TSR is [ ]%, then [ ]% of Target MSUs would be earned. If the Company TSR exceeds the Target TSR and is less than the Maximum TSR, the percentage of the Target MSUs earned shall be [ ]%, increased by [ ]%

for each [ ]% increase in Company TSR above [ ]%. For example, if the Company TSR is [ ]%, then [ ]% of the Target MSUs shall be earned. The number of MSUs that are earned shall be rounded down to the nearest whole Share.

2.3 No MSUs shall be earned pursuant to this Award Agreement if the Company TSR is less than [ ]%, and the maximum number of MSUs earned pursuant to this Award Agreement shall be [ ]% of the Target MSUs.

2.4 For purposes of this Award Agreement, the Company TSR for the Performance Period shall be measured by dividing (A) the sum of (i) the increase or decrease in the Stock Price, as defined below, from the beginning of the Performance Period to the end of the Performance Period, and (ii) the cumulative value of dividends paid during the Performance Period, assuming such dividends are reinvested in Shares, by (B) the Stock Price determined at the beginning of the Performance Period.

2.5 For purposes of computing Company TSR, the "Stock Price" at the beginning of the Performance Period shall be the average closing price of a Share over the 30 consecutive calendar days immediately prior to the first day of the Performance Period, and the "Stock Price" at the end of the Performance Period shall be the average closing price of a Share over the 30 consecutive calendar days ending on and including the last day of the Performance Period, adjusted for changes in capitalization in accordance with Section 5.7 of the Plan.

2.6 The Committee may, in its sole discretion, reduce, but not increase, the percentage of MSUs that are earned at any level of performance.

2.7 Subject to, and except as otherwise provided by, the Award Agreement, including Section 4.2 and Section 4.3 thereof, the MSUs that are earned pursuant to the attainment of the Performance Conditions set forth in Section 2 shall vest only if the Participant has remained in continuous Service until the last day of the Performance Period.

**3 <u>RIGHTS AS A SHAREHOLDER</u>**

3.1 Unless and until an MSU has been earned and vested and the Share underlying it has been distributed to the Participant, the Participant will not be entitled to vote that Share or have any right to dividends, dividend equivalents or other distributions with respect to that Share; provided that the number and class of securities subject to this Award Agreement shall be subject to adjustment in accordance with Section 5.7 of the Plan.

**4 <u>TERMINATION OF SERVICE AND OTHER CHANGES IN SERVICE STATUS</u>**

4.1 If the Participant's Service (as defined in Section 4.7) terminates for any reason other than Disability (as defined in Section 4.6), death or a termination by the Company without Cause (as defined in Section 4.5), the Participant will forfeit the right to receive Shares underlying any MSUs that have not been earned and vested at that time.

4.2 If the Participant's Service terminates on account of the Disability or death of the Participant, the Performance Conditions shall be deemed to have been satisfied at the target levels set forth in Section 2, and the Participant shall become vested in a prorated number of MSUs, based on the number of whole months in the Performance Period prior to the termination of the Participant's Service. The Shares underlying such vested MSUs shall be distributed to the Participant or the Participant's beneficiary under the Plan as soon as practicable, but in no event later than 2½ months after the last day of the calendar year in which the Participant's Service terminates in accordance with this Section 4.2.

4.3 If the Participant's Service is terminated by the Company without Cause, the Participant at the end of the Performance Period shall be entitled to receive the number of MSUs that would have been earned had the Participant's employment continued through the last day of the Performance Period, based on the actual attainment of the Performance Conditions for the entire Performance Period, but prorated to reflect the number of whole months in the Performance Period prior to the termination of the Participant's Service. The Shares underlying such vested MSUs shall be distributed to the Participant in accordance with Section 5.1 of this Award Agreement.

4.4 For purposes of this Award Agreement, " Affiliate " means an entity that is (directly or indirectly) controlled by, or controls, the Company.

4.5 For purposes of this Award Agreement, " Cause " shall mean the Participant's: (i) willful neglect of or continued failure to substantially perform his or her duties with or obligations for the Company or an Affiliate in any material respect (other than any such failure resulting from his or her incapacity due to physical or mental illness); (ii) commission of a willful or grossly negligent act or the willful or grossly negligent omission to act that causes or is reasonably likely to cause material harm to the Company or an Affiliate; or (iii) commission or conviction of, or plea of nolo contendere to, any felony or any crime significantly injurious to the Company or an Affiliate. An act or omission is "willful" for this purpose if it was knowingly done, or knowingly omitted, by the Participant in bad faith and without reasonable belief that the act or omission was in the best interest of the Company or an Affiliate. Determination of Cause shall be made by the Committee in its sole discretion.

4.6 Notwithstanding anything in the Plan to the contrary, for purposes of this Award Agreement, " Disability " shall mean the condition of being "disabled" as provided in Code Section 409A(a)(2)(C).

4.7 For purposes of this Award Agreement " Service " means the provision of services to the Company or its Affiliates in the capacity of an employee or a member of the Board but not as a consultant to the Company or an Affiliate. For purposes of this Award Agreement, the transfer of an employee from the Company to an Affiliate, from an Affiliate to the Company or from an Affiliate to another Affiliate shall not be a termination of Service. However, if the Affiliate for which an employee is providing services ceases to be an Affiliate of the Company due to a sale, transfer or other reason, and the employee ceases to perform services for the Company or any Affiliate, the employee shall incur a termination of Service.

For purposes of this Award Agreement, the Participant's Service will be considered terminated as of the date the Participant is no longer actively providing services to the Company or any Affiliate (regardless of the reason for such termination and whether or not later found to be invalid or in breach of employment laws in the jurisdiction where the Participant is employed or the terms of the Participant's employment or service agreement, if any), and unless otherwise expressly provided in this Award Agreement or determined by the Company, the Participant's right to vest in MSUs under the Plan, if any, will terminate as of such date and will not be extended by any notice period (e.g., the Participant's period of Service would not include any contractual notice period or any period of "garden leave" or similar period mandated under employment laws in the jurisdiction where the Participant is employed or the terms of the Participant's employment or service agreement, if any). The Committee shall have the exclusive discretion to determine when the Participant is no longer actively providing services for purposes of his or her MSU award (including whether the Participant may still be considered to be providing services while on a leave of absence).

**5 TIMING AND FORM OF PAYMENT**

5.1 Once an MSU is earned and vested and the Committee has certified in writing the achievement of the Performance Conditions, the Participant will be entitled to receive a Share in its place. Delivery of the Share will be made as soon as administratively feasible after its associated MSU vests, but no later than 2½ months from the end of the calendar year in which such vesting occurs. Shares delivered under this Award Agreement shall be subject to the Company's share retention policy, as in effect from time to time.

**6 RESPONSIBILITY FOR TAXES AND TAX WITHHOLDING OBLIGATIONS**

6.1 The Participant acknowledges that, regardless of any action taken by the Company or the Employer, the ultimate liability for all income tax, social insurance, payroll tax, fringe benefits tax, payment on account or other tax-related items related to the Participant's participation in the Plan and legally applicable to the Participant ("Tax-Related Items"), is and remains the Participant's responsibility and may exceed the amount actually withheld by the Company or the Employer. Further, notwithstanding any contrary provision of this Award Agreement, no Shares will be issued to the Participant, unless and until satisfactory arrangements (as determined by the Committee) will have been made by the Participant with respect to the payment of any Tax-Related Items which the Company determines must be withheld with respect to the MSUs. The Participant further acknowledges that the Company and/or the Employer (i) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the MSUs, including, but not limited to, the grant, vesting or settlement of the MSUs, the subsequent sale of Shares acquired pursuant to such settlement and the receipt of any dividends; and (ii) do not commit to and are under no obligation to structure the terms of the grant or any aspect of the MSUs to reduce or eliminate the Participant's liability for Tax-Related Items or achieve any particular tax result. In addition, if the Participant is subject to Tax-Related Items in more than one jurisdiction, the Participant acknowledges that the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

6.2 The Participant shall, upon occurrence of any tax withholding event, pay to the Company or the Employer or make arrangements satisfactory to the Company for payment of any Tax-Related Items required by law to be withheld on account of such taxable event. Without limiting the Company's power or rights pursuant to Section 5.5 of the Plan, amounts required by law or regulation to be withheld by the Company with respect to any taxable event arising under this Award Agreement will be satisfied by having Shares withheld in accordance with Section 5.5 of the Plan. In addition, the Participant may elect to deliver to the Company the necessary funds to satisfy the withholding obligation, in which case there will be no reduction in the Shares otherwise distributable to the Participant.

6.3 Depending on the withholding method, the Company may withhold or account for Tax-Related Items by considering applicable minimum statutory withholding rates or other applicable withholding rates, including maximum applicable rates, in which case the Participant may receive a refund of any over-withheld amount in cash and will have no entitlement to the Share equivalent. If the obligation for Tax-Related Items is satisfied by withholding in Shares, for tax purposes, the Participant is deemed to have been issued the full number of Shares subject to the vested MSUs, notwithstanding that a number of the Shares are held back solely for the purpose of paying the Tax-Related Items.

**7 NOTICES**

7.1 Any notice or other communication required or permitted under this Award Agreement must be in writing and must be delivered personally, sent by certified, registered or express mail, or sent by overnight courier, at the sender's expense. Notice will be deemed given when delivered personally or, if mailed, three days after the date of deposit or, if sent by overnight courier, on the regular business day following the date sent. Notice to the Company should be sent to Morningstar, Inc., 22 West Washington Street, Chicago, Illinois, 60602, USA, Attention: General Counsel. Notice to the Participant should be sent to the address of the Participant contained in the Company's records. Either party may change the person and/or address to whom the other party must give notice by giving such other party written notice of such change, in accordance with the procedures described above.

**8 NATURE OF GRANT**

In accepting the MSU award grant, the Participant acknowledges, understands and agrees that:

a. the Plan is established voluntarily by the Company, it is discretionary in nature and it may be modified, amended, suspended or terminated by the Company at any time, to the extent permitted by the Plan;

b. the grant of MSUs is voluntary and occasional and does not create any contractual or other right to receive future grants of MSUs, or benefits in lieu of MSUs, even if MSUs have been granted in the past;

c. all decisions with respect to future MSU or other award grants, if any, will be at the sole discretion of the Committee;

d. the Participant is voluntarily participating in the Plan;

e. the Participant's participation in the Plan shall not create a right to further Service with the Employer and shall not interfere with the ability of the Employer to terminate Participant's Service at any time with or without Cause;

f. an MSU grant will not be interpreted to form an employment or service contract or relationship with the Company or an Affiliate;

g. the grant of MSUs, the Shares subject to the MSUs, and the income and value of same, are not intended to replace any pension rights or compensation;

h. the grant of MSUs, the Shares subject to the MSUs, and the income and value of same, are not part of normal or expected compensation for purposes of calculating any severance, resignation, termination, redundancy, dismissal, end-of-service payments, bonuses, long-service awards, pension or retirement or welfare benefits or similar payments;

i. the future value of the underlying Shares is unknown, indeterminable and cannot be predicted with certainty;

j. unless otherwise provided in the Plan or by the Company in its discretion, the MSUs and the benefits evidenced by this Award Agreement do not create any entitlement to have the MSUs or any such benefits transferred to, or assumed by, another company nor be exchanged, cashed out or substituted for, in connection with any corporate transaction affecting the Shares;

k. unless otherwise agreed with the Company, the MSUs and the Shares subject to the MSUs, and the income and value of same, are not granted as consideration for, or in connection with, the Service the Participant may provide as a director of an Affiliate;

l. no claim or entitlement to compensation or damages shall arise from forfeiture of the MSUs resulting from the termination of the Participant's Service (for any reason whatsoever, whether or not later found to be invalid or in breach of employment laws in the jurisdiction where the Participant is employed or the terms of the Participant's employment or service agreement, if any), and in consideration of the grant of MSUs, the Participant agrees not to institute any claim against the Company or any Affiliate; and

m. neither the Company, the Employer nor any Affiliate shall be liable for any foreign exchange rate fluctuation between the Participant's local currency and the United States Dollar that may affect the value of the MSUs or of any amounts due to the Participant pursuant to the vesting of MSUs or the sale of Shares.

**9 DATA PRIVACY**

*The Participant hereby explicitly and unambiguously consents to the collection, use and transfer, in electronic or other form, of Participant's personal data as described in any MSU award grant materials by and among, as applicable, the Employer, the Company, and its other Affiliates for the exclusive purpose of implementing, administering and managing the Participant's participation in the Plan.*

*The Participant understands that the Company and the Employer may hold certain personal information about the Participant, including, but not limited to, the Participant's name, home address and telephone number, email address, date of birth, social insurance, passport or other identification number (e.g., resident registration number), salary, nationality, job title, any Shares or directorships held in the Company, details of all MSU awards or any other entitlement to Shares awarded, cancelled, exercised, vested, unvested or outstanding in the Participant's favor ("Data"), for the exclusive purpose of implementing, administering and managing the Plan.*

*The Participant understands that Data will be transferred to the Company's designated broker and/or stock plan service provider that is assisting the Company (presently or in the future) with the implementation, administration and management of the Plan. The Participant understands that the recipients of the Data may be located in the United States or elsewhere, and that the recipients' country (e.g., the United States) may have different data privacy laws and protections than the Participant's country. The Participant understands that he or she may request a list with the names and addresses of any potential recipients of the Data by contacting his or her local human resources representative.*

*The Participant authorizes the Company, the Employer and any other possible recipients which may assist the Company (presently or in the future) with implementing, administering and managing the Plan to receive, possess, use, retain and transfer the Data, in electronic or other form, for the sole purpose of implementing, administering and managing the Participant's participation in the Plan. The Participant understands that Data will be held only as long as is necessary to implement, administer and manage the Participant's participation in the Plan. The Participant understands that he or she may, at any time, view Data, request additional information about the storage and processing of Data, require any necessary amendments to Data or refuse or withdraw the consents herein, in any case without cost, by contacting in writing his or her local human resources representative.*

***Further, the Participant understands that he or she is providing the consents herein on a purely voluntary basis. If the Participant does not consent, or later seeks to revoke the Participant's consent, the Participant's employment or Service status with the Employer will not be affected. The only consequence of refusing or withdrawing consent is that the Company would not be able to grant MSUs or other equity awards to the Participant or administer or maintain such awards. Therefore, the Participant understands that refusing or withdrawing the Participant's consent may affect the Participant's ability to participate in the Plan. For more information on the consequences of the Participant's refusal to consent or withdrawal of consent, the Participant understands that he or she may contact his or her local human resources representative.***

**10 ELECTRONIC DELIVERY AND ACCEPTANCE**

10.1 The Company may, in its sole discretion, decide to deliver any documents related to MSUs awarded under the Plan or future MSUs that may be awarded under the Plan by electronic means or request the Participant's consent to participate in the Plan by electronic means. The Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through any on-line or electronic system established and maintained by the Company or a third party designated by the Company.

**11 SEVERABILITY**

11.1 The provisions of the Award Agreement (including the Country-Specific Terms and Conditions attached hereto as an Addendum), are severable and if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.

**12 NO ADVICE REGARDING GRANT**

12.1 The Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding the Participant's participation in the Plan, or the Participant's acquisition or sale of the underlying Shares. The Participant should consult with his or her own personal tax, legal and financial advisors regarding the Participant's participation in the Plan before taking any action related to the Plan.

**13 IMPOSITION OF OTHER REQUIREMENTS**

13.1 The Company reserves the right to impose other requirements on the Participant's participation in the Plan, on MSUs and on any Shares acquired under the Plan, to the extent the Company determines it is necessary or advisable for legal or administrative reasons, and to require the Participant to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

**14 LANGUAGE**

14.1 If the Participant received any document related to the Plan translated into a language other than English and if the meaning of the translated version is different than the English version, the English version will control.

**15 INSIDER TRADING/MARKET ABUSE LAWS**

15.1 The Participant acknowledges that the Participant may be subject to insider trading restrictions and/or market abuse laws, which may affect the Participant's ability to acquire or sell Shares or rights to Shares (e.g., MSUs) under the Plan during such times as the Participant is considered to have "inside information" regarding the Company (as defined by the laws in the Participant's country). Any restrictions under these laws or regulations are separate from and in addition to any restrictions that may be imposed under any applicable Company insider trading policy. The Participant acknowledges that it is Participant's responsibility to be informed of and compliant with such regulations, and Participant should speak to his or her personal advisor on this matter.

**16 FOREIGN ASSET/ACCOUNT REPORTING REQUIREMENTS AND EXCHANGE CONTROLS**

16.1 The Participant acknowledges that the Participant's country may have certain foreign asset and/or foreign account reporting requirements and exchange controls which may affect the Participant's ability to acquire or hold Shares acquired under the Plan or cash received from participating in the Plan (including from any dividends paid on Shares or sales proceeds from the sale of Shares acquired under the Plan) in a brokerage or bank account outside the Participant's country. The Participant may be required to report such accounts, assets or transactions to the tax or other authorities in the Participant's country. The Participant also may be required to repatriate sale proceeds or other funds received as a result of the Participant's participation in the Plan to the Participant's country through a designated bank or broker within a certain time after receipt. The Participant acknowledges that it is the Participant's responsibility to be compliant with such regulations, and the Participant should consult his or her personal legal advisor for any details.

**17 ADDENDUM**

17.1 Notwithstanding any provisions in the Award Agreement, MSUs shall also be subject to the Country-Specific Terms and Conditions for the Participant's country, if any, set forth in the Addendum attached hereto. Moreover, if the Participant relocates to one of the countries included in the Addendum, the special terms and conditions for such country will apply to the Participant, to the extent that the Company determines that the application of such terms and conditions is necessary or advisable for legal or administrative reasons.

**18 CONSTRUCTION**

18.1 The MSUs granted hereunder are subject to any rules and regulations promulgated by the Committee pursuant to the Plan, now or hereafter in effect.

18.2 The Company and the Participant may amend this Award Agreement only by a written instrument signed by both parties, provided, that the Company may amend this Award Agreement without further action by the Participant if (i) such amendment is deemed by the Company to be advisable or necessary to comply with applicable law, rule, or, regulation, including Section 409A of the Code, or (ii) if such amendment is not to the detriment of the Participant.

18.3 The Participant shall agree to the terms of this Award Agreement by accepting the Grant Notice at the time and in the manner specified by the Company.

18.4 The Plan, the MSUs and this Award Agreement, and all determinations made and actions taken pursuant thereto, to the extent not otherwise governed by the Code or the laws of the United States, shall be governed by the laws of the State of Illinois and construed in accordance therewith without giving effect to principles of conflicts of laws.

**ADDENDUM**

**COUNTRY-SPECIFIC TERMS AND CONDITIONS**

Certain capitalized terms used but not defined in this Addendum have the meanings set forth in the Plan and/or in the Award Agreement.

***Terms and Conditions***

This document includes additional terms and conditions that govern MSUs granted under the Plan if the Participant works and/or resides in one of the countries listed below. If the Participant is a citizen or resident of a country other than the one in which the Participant currently is residing and/or working, transfers employment and/or residency after the Grant Date or is considered a resident of another country for local law purposes, the Company shall, in its discretion, determine to what extent the terms and conditions contained herein shall apply to the Participant.

***Notifications***

This document also includes information regarding exchange controls and certain other issues of which the Participant should be aware with respect to the Participant's participation in the Plan. The information is based on the securities, exchange control and other laws in effect in the respective countries as of April 2017. Such laws are often complex and change frequently. As a result, the Participant should not rely on the information noted in this document as the only source of information relating to the consequences of the Participant's participation in the Plan because the information may be out of date by the time the Participant vests in MSUs or sells Shares acquired under the Plan.

In addition, the information contained herein is general in nature and may not apply to the Participant's particular situation, and the Company is not in a position to assure the Participant of a particular result. Accordingly, the Participant should seek appropriate professional advice as to how the relevant laws in the Participant's country may apply to his or her situation.

If the Participant is a citizen or resident of a country other than the one in which the Participant currently is residing and/or working, transfers employment and/or residency after the Grant Date or is considered a resident of another country for local law purposes, the notifications contained herein may not apply to the Participant.

**AUSTRALIA**

***Terms and Conditions***

Australian Offer Document . The Participant understands that the offering of the Plan in Australia is intended to qualify for exemption from the prospectus requirements under Class Order 14/1000 issued by the Australian Securities and Investments Commission. Participation in the Plan is subject to the terms and conditions set forth in the Australian Offer Document and the Plan documentation provided to the Participant.

***Notifications***

Tax Notification . The Plan is a plan to which Subdivision 83A-C of the Income Tax Assessment Act 1997 (Cth) applies (subject to conditions in the Act).

Exchange Control Information . Exchange control reporting is required for cash transactions exceeding AUD 10,000 and international fund transfers. The Australian bank assisting with the transaction will file the report for the Participant. If there is no Australian bank involved in the transfer, the Participant will be required to file the report on his/her own.

**CANADA**

***Terms and Conditions***

Form of Settlement . Notwithstanding any terms and conditions in the Plan, Award Agreement or any other grant materials, the MSUs will be settled in Shares only, not cash.

Termination of Service . This provision replaces Section 4.8 of the Award Agreement:

For purposes of the MSUs, the Participant's Service is considered terminated as of the earlier of (a) the date the Participant's Service with the Company or any Affiliate is terminated; (b) the date on which the Participant ceases to provide active Service to the Company or any Affiliate; or (c) the date on which the Participant receives a notice of termination of Service from the Employer (in all cases regardless of the reason for such termination and whether or not later found to be invalid or in breach of employment laws in the jurisdiction where the Participant is employed or rendering services or the terms of the Participant's employment or service contract, if any). The Participant's rights to participate in the Plan will not be extended by any notice period (e.g., Service would not include any contractual notice or any period of "garden leave" or period of pay in lieu of such notice required under any employment law in the country where the Participant resides (including, but not limited to, statutory law, regulatory law and/or common law)). The Committee shall have the exclusive discretion to determine when the Participant is no longer actively providing Services for purposes of the MSUs (including whether the Participant may still be considered to be providing Services while on a leave of absence).

*The following provisions apply to residents of Quebec:*

Language Consent. The parties acknowledge that it is their express wish that the Award Agreement, as well as all documents, notices and legal proceedings entered into, given or instituted pursuant hereto or relating directly or indirectly hereto, be drawn up in English.

*Les parties reconnaissent avoir expressément souhaité la rédaction en anglais du Contrat d'Attribution, ainsi que tous les documents exécutés, avis donnés et procédures judiciaires intentées, en vertu du, ou liés directement ou indirectement, au présent Contrat d'Attribution.*

Data Privacy. The following provision supplements Section 9 of the Award Agreement:

***The Participant authorizes the Company and the Company's representatives to discuss with and obtain all relevant information from all personnel, professional or non-professional, involved with the administration of the Plan. The Participant further authorizes the Company, any Affiliate of the Company, the Employer, any broker, or any stock plan service provider as may be selected by the Company from time to time to assist with the Plan, to disclose and discuss the Plan with their advisors. The Participant also authorizes the Company and the Employer to record such information and to keep such information in the Participant's employee file.***

***Notifications***

Securities Law Information. The Participant is permitted to sell Shares acquired under the Plan through the designated broker, if any, provided the resale of such Shares takes place outside of Canada through the facilities of a stock exchange on which the Shares are listed (i.e., Nasdaq Stock Market).

Foreign Asset/Account Reporting Information. The Participant is required to report his or her foreign property on Form T1135 (Foreign Income Verification Statement) if the total cost of the foreign property exceeds CAD 100,000 at any time during the year. Foreign property includes Shares acquired under the Plan, and their cost generally is the adjusted cost base ("ACB") of the Shares. The ACB would normally equal the Fair Market Value of the Shares at vesting, but if the Participant owns other Shares, this ACB may have to be averaged with the ACB of the other Shares. If due, the Form must be filed by April 30 of the following year. The Participant should speak with a personal tax advisor to determine the scope of foreign property that must be considered for purposes of this requirement.

**CHINA**

The following provisions apply only if the Participant is subject to exchange control restrictions or regulations in China, as determined by the Company in its sole discretion.

***Terms and Conditions***

Settlement of MSUs and Sale of Shares . To facilitate compliance with exchange control regulations in China, the MSUs may be settled in the form of a cash payment. Alternatively, the MSUs may be settled in Shares, in which case, the Participant agrees that the Company is authorized to sell the Shares immediately upon settlement or after termination of Participant's Service, as described below, and the Participant expressly authorizes the Company's designated broker to complete the sale of such Shares (on the Participant's behalf pursuant to this authorization without further consent). The Participant agrees to sign any agreements, forms and/or consents that may be reasonably requested by the Company (or the designated broker) to effectuate the sale of the Shares and shall otherwise cooperate with the Company with respect to such matters, provided that Participant shall not be permitted to exercise any influence over how, when or whether the sales occur. The Participant acknowledges that the Company's designated broker is under no obligation to arrange for the sale of the Shares at any particular price.

Upon the sale of the Shares, the Company agrees to pay the cash proceeds from the sale of Shares (less any applicable Tax-Related Items, brokerage fees or commissions) to the Participant in accordance with applicable exchange control laws and regulations including, but not limited to, the restrictions set forth below under "Exchange Control Requirements."

Treatment of MSUs Upon Termination of Service . Due to exchange control regulations in China, the Participant understands and agrees that any Shares held by the Participant under the Plan must be sold within six (6) months following the Participant's termination of Service, or within such other period as determined by the Company or required by the China State Administration of Foreign Exchange ("SAFE") (the "Mandatory Sale Date"). This includes any portion of Shares that vest upon the Participant's termination of Service. The Participant understands that any Shares held by the Participant under the Plan that have not been sold by the Mandatory Sale Date will automatically be sold by the Company's designated broker at the Company's direction (on the Participant's behalf pursuant to this authorization without further consent).

Exchange Control Requirements . The Participant understands and agrees that, to facilitate compliance with exchange control requirements, the Participant is required to immediately repatriate to China the cash proceeds from the sale of the Shares and any dividends paid on such Shares. The Participant further understands that such repatriation of the cash proceeds will be effectuated through a special exchange control account established by the Company or its Affiliates, and the Participant hereby consents and agrees that the proceeds may be transferred to such special account prior to being delivered to the Participant. The Company may deliver the proceeds to the Participant in U.S. dollars or local currency at the Company's discretion. If the proceeds are paid in U.S. dollars, the Participant understands that he or she will be required to set up a U.S. dollar bank account in China so that the proceeds may be deposited into this account. If the proceeds are converted to local currency, there may be delays in delivering the proceeds to the Participant and due to fluctuations in the Share trading price and/or the U.S. dollar/PRC exchange rate between the sale/payment date and (if later) when the proceeds can be converted into local currency, the proceeds that the Participant receives may be more or less than the market value of the Shares on the sale/payment date (which is the amount relevant to determining the Participant's tax liability). The Participant agrees to bear the risk of any currency fluctuation between the sale/payment date and the date of conversion of the proceeds into local currency.

The Participant further agrees to comply with any other requirements that may be imposed by the Company in the future to facilitate compliance with exchange control requirements in China.

***Notifications***

Foreign Asset/Account Reporting Information . PRC residents are required to report to SAFE details of their foreign financial assets and liabilities, as well as details of any economic transactions conducted with non-PRC residents, either directly or through financial institutions. Under these rules, the Participant may be subject to reporting obligations for the MSUs and any cash proceeds acquired under the Plan and Plan-related transactions. It is the Participant's responsibility to comply with this reporting obligation and the Participant should consult his or her personal advisor in this regard.

**DENMARK**

***Terms and Conditions***

Danish Stock Option Act . Notwithstanding any provisions in the Award Agreement to the contrary, if the Participant is determined to be an "Employee" as defined in section 2 of the Danish Act on the Use of Rights to Purchase or Subscribe for Shares etc. in Employment Relationships (the "Stock

Option Act"), the treatment of MSUs upon the Participant's termination of Service shall be governed by Section 4 and 5 of the Stock Option Act. However, if the provisions in the Award Agreement or the Plan governing the treatment of the MSUs upon a termination of Service are more favorable, the provisions of the Award Agreement or the Plan will govern. By accepting the MSUs, the Participant acknowledges having received an "Employer Statement" in Danish which is being provided to comply with the Danish Stock Option Act.

***Notifications***

Foreign Asset and Account Reporting Notification . If the Participant is a Danish resident and holds Shares acquired under the Plan in a safety-deposit account (e.g., a brokerage account) with either a Danish bank or with an approved foreign broker or bank, he or she may be required to inform the Danish Tax Administration about such account. For this purpose, the Participant must file a Declaration V (Erklaering V) with the Danish Tax Administration. The bank or broker and the Participant must sign the Declaration V. By signing the Declaration V, the bank or broker undertakes an obligation, without further request each year not later than on February 1 of the year following the calendar year to which the information relates, to forward certain information to the Danish Tax Administration concerning the content of the safety-deposit account. In the event that the applicable broker or bank with which the safety-deposit account is held does not wish to, or, pursuant to the laws of the country in question, is not allowed to assume such obligation to report, the Participant will be solely responsible for providing certain details regarding the foreign brokerage or bank account and any Shares acquired at vesting and held in such account to the Danish Tax Administration as part of the Participant's annual income tax return. By signing the Form V, the Participant at the same time authorizes the Danish Tax Administration to examine the account. A sample of the Declaration V can be found at the following website: **www.skat.dk/getFile.aspx?Id=47392** .

In addition, when the Participant opens a deposit account or a brokerage account for the purpose of holding cash outside Denmark, the bank or brokerage account, as applicable, will be treated as a deposit account because cash can be held in the account. Therefore, the Participant must also file a Declaration K (Erklaering K) with the Danish Tax Administration. The bank or broker and the Participant must sign the Declaration K. By signing the Declaration K, the bank or broker undertakes an obligation, without further request each year, not later than on February 1 of the year following the calendar year to which the information relates, to forward certain information to the Danish Tax Administration concerning the content of the deposit account. In the event that the applicable financial institution (broker or bank) with which the account is held, does not wish to, or, pursuant to the laws of the country in question, is not allowed to assume such obligation to report, the Participant will be solely responsible for providing certain details regarding the foreign brokerage or bank account to the Danish Tax Administration as part of the Participant's annual income tax return. By signing the Declaration K, the Participant at the same time authorizes the Danish Tax Administration to examine the account. A sample of Declaration K can be found at the following website: **www.skat.dk/getFile.aspx?Id=42409&newwindow=true** .

**FRANCE**

***Terms and Conditions***

Type of Grant . The MSUs are not granted as "French-qualified" awards and are not intended to qualify for the special tax and social security treatment applicable to shares granted for no consideration under Sections L. 225-197 and seq. of the French Commercial Code, as amended.

Language Acknowledgement . By accepting the MSUs, the Participant confirms having read and understood the documents relating to the MSUs which were provided to Participant in English.

*En acceptant l'attribution de « Market Stock Units » (« MSUs »), le Participant confirme avoir lu et compris les documents relatifs aux MSUs qui ont été communiqués au Participant en langue anglaise.*

***Notifications***

Foreign Asset/Account Reporting Information . If the Participant holds Shares outside of France or maintains a foreign bank account, the Participant is required to report such accounts (including any accounts that were opened or closed during the year) to the French tax authorities when filing the Participant's annual tax return. Failure to comply could trigger significant penalties.

**GERMANY**

***Notifications***

Exchange Control Information . Cross-border payments in excess of EUR 12,500 must be reported monthly to the German Federal Bank. The German Federal Bank no longer will accept reports in paper form and all reports must be filed electronically. The electronic "General Statistics Reporting Portal" (Allgemeines Meldeportal Statistik) can be accessed on the German Federal Bank's website: **www.bundesbank.de** .

## HONG KONG

***Terms and Conditions***

Restrictions on Sale and Transferability . In the event that Shares are vested pursuant to MSUs within six months after the Grant Date, the Participant (and the Participant's heirs) hereby agrees that such Shares may not be offered for sale to the public or otherwise disposed of prior to the six-month anniversary of the Grant Date. Any Shares acquired under the Plan are accepted as a personal investment.

Form of Settlement . Notwithstanding any terms and conditions in the Plan, Award Agreement or any other grant materials, the MSUs will be settled in Shares only, not cash.

***Notifications***

Securities Warning . MSUs and any Shares issued thereunder do not constitute a public offering of securities under Hong Kong law and are available only to employees of the Company or its Affiliates. The Plan, the Plan prospectus and any other incidental communication materials (i) have not been prepared in accordance with and are not intended to constitute a "prospectus" for a public offering of securities under the applicable securities legislation in Hong Kong, (ii) have not been reviewed by any regulatory authority in Hong Kong, and (iii) are intended only for the Participant's personal use and may not be distributed to any other person. If the Participant is in any doubt about any of the contents of the Plan or the Plan prospectus, the Participant should obtain independent professional advice.

Occupational Retirement Schemes Ordinance Information . The Company specifically intends that the Plan will not be an occupational retirement scheme for purposes of the Occupational Retirement Schemes Ordinance ("ORSO"). To the extent that any court, tribunal or legal/regulatory body in Hong Kong determines that the Plan constitutes an occupational retirement scheme for the purposes of ORSO, the grant of MSUs shall be null and void.

## INDIA

***Notifications***

Exchange Control Information . The Participant must repatriate all proceeds received from the sale of Shares to India within 90 days of receipt and any cash dividends paid on such Shares within 180 days of receipt (or within any other time frame prescribed under applicable Indian exchange control laws as may be amended from time to time). The Participant will receive a foreign inward remittance certificate ("FIRC") from the bank where the Participant deposits the foreign currency. The Participant should maintain the FIRC as evidence of the repatriation of funds in the event that the Reserve Bank of India or the Employer requests proof of repatriation. It is the Participant's responsibility to comply with applicable exchange control laws in India.

Foreign Account/Asset Reporting Information . The Participant is required to declare in his or her annual tax return (a) any foreign assets held by the Participant or (b) any foreign bank accounts for which the Participant has signing authority. Increased penalties for failing to report these assets/accounts have been implemented. It is the Participant's responsibility to comply with this reporting obligation, and the Participant should confer with his or her personal tax advisor in this regard.

**ITALY**

***Terms and Conditions***

Data Privacy . The following provision replaces in its entirety Section 9 of the Award Agreement:

***The Participant understands that the Employer, the Company, and any Affiliate may hold certain personal information about the Participant, including his or her name, home address and telephone number, e-mail address, date of birth, social insurance, passport or other identification number, salary, nationality, job title, any Shares or directorships the Participant holds in the Company, details of the MSUs or any other entitlement to Shares awarded, cancelled, exercised, vested, unvested or outstanding in the Participant's favor ("Data"), for the exclusive purpose of managing and administering the Plan.***

***The Participant also understands that providing the Company with the Data is necessary for the performance of the Plan and that the Participant's refusal to provide such Data would make it impossible for the Company to perform its contractual obligations and may affect the Participant's ability to participate in the Plan. The Controller of personal data processing is Morningstar, Inc., with registered offices at 22 West Washington Street, Chicago, Illinois, 60602, USA and Morningstar Italy, S.R.L., Via Pergolesi, 25, Milan, MI 20124, Italy, which is also the Company's representative in Italy for privacy purposes pursuant to Legislative Decree no. 196/2003.***

***The Participant understands that his or her Data will not be publicized, but it may be transferred to banks, other financial institutions or brokers involved in the management and administration of the Plan. The Participant further understands that the Company and any Affiliate will transfer Data amongst themselves as necessary for the purpose of implementation, administration and management of the Participant's participation in the Plan, and that the Company and any Affiliate may each further transfer Data to third parties assisting the Company in the implementation,***

***administration and management of the Plan, including any requisite transfer to a broker or another third party with whom the Participant may elect to deposit any Shares acquired under the Plan. Such recipients may receive, possess, use, retain and transfer the Data in electronic or other form, for the purposes of implementementing, administering and managing the Participant's participation in the Plan. The Participant understands that these recipients may be located in the European Economic Area, or elsewhere, such as the United States. Should the Company exercise its discretion in suspending all necessary legal obligations connected with the management and administration of the Plan, it will delete the Participant's Data as soon as it has accomplished all the necessary legal obligations connected with the management and administration of the Plan.***

***The Participant understands that Data processing related to the purposes specified above shall take place under automated or non-automated conditions, anonymously when possible, that comply with the purposes for which Data is collected and with confidentiality and security provisions as set forth by applicable laws and regulations, with specific reference to Legislative Decree no. 196/2003.***

***The processing activity, including communication, the transfer of the Participant's Data abroad, including outside of the European Economic Area, as herein specified and pursuant to applicable laws and regulations, does not require the Participant's consent thereto as the processing is necessary to performance of contractual obligations related to implementation, administration and management of the Plan. The Participant understands that, pursuant to Section 7 of the Legislative Decree no. 196/2003, the Participant has the right to, including but not limited to, access, delete, update, ask for rectification of the Participant's Data and cease, for legitimate reason, the Data processing. Furthermore, the Participant is aware that his or her Data will not be used for direct marketing purposes. In addition, the Data provided may be reviewed and questions or complaints can be addressed by contacting the Plan administrator or its designee.***

Plan Document Acknowledgment . The Participant acknowledges that the Participant has read and specifically and expressly approves the following Sections of the Award Agreement: Section 6 (Responsibility for Taxes and Tax Withholding Obligations); Section 8 (Nature of Grant); Section 10 (Electronic Delivery and Acceptance); Section 13 (Imposition of Other Requirements); Section 14 (Language); Section 17 (Addendum) and the Data Privacy provision above in this Addendum for Italy.

*Notifications*

Foreign Asset/Account Reporting Information . If the Participant is an Italian resident who, at any time during the fiscal year, holds foreign financial assets (including cash and Shares) which may generate income taxable in Italy, the Participant is required to report these assets on the Participant's annual tax return for the year during which the assets are held, or on a special form if no tax return is due. These reporting obligations also apply if the Participant is the beneficial owner of foreign financial assets under Italian money laundering provisions.

**JAPAN**

*Notifications*

Foreign Asset/Account Reporting Information . If the Participant is a resident of Japan, the Participant will be required to report details of any assets (including any Shares acquired under the Plan) held outside of Japan as of December 31st of each year, to the extent such assets have a total net fair market value exceeding JPY 50,000,000. Such report will be due by March 15th of the following year. The Participant should consult with his or her personal tax advisor as to whether the reporting obligation applies to the Participant and whether he or she will be required to report details of any outstanding MSUs or Shares held by the Participant in the report.

**NETHERLANDS**

*Terms and Conditions*

Exclusion of Claim . By accepting the MSUs, the Participant acknowledges and agrees that the Participant will have no entitlement to compensation or damages insofar as such entitlement arises or may arise from the Participant ceasing to have rights under or to be entitled to the MSUs, whether or not as a result of the Participant's termination of Service (whether the termination is in breach of contract or otherwise), or from the loss or diminution in value of the MSUs. Upon acceptance of the MSUs, the Participant shall be deemed irrevocably to have waived any such entitlement.

**SOUTH AFRICA**

*Terms and Conditions*

Responsibility for Taxes and Tax Withholding Obligations . This provision supplements Section 6 of the Award Agreement:

By accepting the MSUs, the Participant agrees to immediately notify the Employer of the amount of any gain realized upon vesting of the MSUs. If the Participant fails to advise the Employer of the gain realized at vesting, the Participant may be liable for a fine. The Participant will be responsible for paying any difference between the actual tax liability and the amount withheld.

***Notifications***

Securities Law Notification . In compliance with South African securities laws, the documents listed below are available on the following websites:

i. a copy of the Company's most recent annual report (i.e., Form 10-K) is available at: **https://shareholders.morningstar.com/investor-relations/financials/sec-filings/default.aspx** ; and

***ii.*** a copy of the Plan is available on the Company's stock plan service provider's website;

***iii.*** a copy of the Plan Prospectus is available on the Company's stock plan service provider's website.

A copy of the above documents will be sent to the Participant free of charge on written request to Morningstar, Inc., 22 West Washington Street, Chicago, Illinois, 60602, USA, Attention: General Counsel.

The Participant is advised to carefully read the materials provided before making a decision whether to participate in the Plan. In addition, the Participant should contact his or her tax advisor for specific information concerning the Participant's personal tax situation with regard to Plan participation.

Exchange Control Information . The Participant is responsible for complying with applicable South African exchange control regulations. Since the exchange control regulations change frequently and without notice, the Participant should consult his or her legal advisor prior to the acquisition or sale of Shares acquired under the Plan to ensure compliance with current regulations. As noted, it is the Participant's responsibility to comply with South African exchange control laws, and neither the Company nor any Affiliate will be liable for any fines or penalties resulting from the Participant's failure to comply with applicable laws.

**SWEDEN**

There are no country-specific provisions.

## UNITED KINGDOM

***Terms and Conditions***

Responsibility for Taxes and Tax Withholding Obligations . This provision supplements Section 6 of the Award Agreement:

Without limitation to Section 6 of the Award Agreement, the Participant agrees that the Participant is liable for all Tax-Related Items and hereby covenants to pay all such Tax-Related Items as and when requested by the Company or the Employer or by Her Majesty's Revenue and Customs ("HMRC") (or any other tax authority or any other relevant authority). The Participant also agrees to indemnify and keep indemnified the Company and the Employer against any taxes that they are required to pay or withhold on the Participant's behalf or have paid or will pay to HMRC (or any other tax authority or any other relevant authority).

Exclusion of Claim . By accepting the MSUs, the Participant acknowledges and agrees that the Participant will have no entitlement to compensation or damages insofar as such entitlement arises or may arise from the Participant ceasing to have rights under or to be entitled to the MSUs, whether or not as a result of the Participant's termination of Service (whether the termination is in breach of contract or otherwise), or from the loss or diminution in value of the MSUs. Upon acceptance of the MSUs, the Participant shall be deemed irrevocably to have waived any such entitlement.

**EXHIBIT 31.1**

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Kunal Kapoor, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Morningstar, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 28, 2017

/s/ Kunal Kapoor

Kunal Kapoor
Chief Executive Officer

**EXHIBIT 31.2**

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Jason Dubinsky, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Morningstar, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 28, 2017

/s/ Jason Dubinsky

Jason Dubinsky

Chief Financial Officer

**EXHIBIT 32.1**

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF
THE SARBANES-OXLEY ACT OF 2002

Kunal Kapoor, as Chief Executive Officer of Morningstar, Inc. (the Company), certifies, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the Report) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Kunal Kapoor

Kunal Kapoor
Chief Executive Officer

Date: July 28, 2017

**EXHIBIT 32.2**

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF
THE SARBANES-OXLEY ACT OF 2002

Jason Dubinsky, as Chief Financial Officer of Morningstar, Inc. (the Company), certifies, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the Report) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Jason Dubinsky

Jason Dubinsky
Chief Financial Officer

Date: July 28, 2017