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

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**FORM 8-K**

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**CURRENT REPORT**

Pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): **July 26, 2023**

**MORNINGSTAR, INC.**

(Exact name of registrant as specified in its charter)

**Illinois**  
(State or other jurisdiction  
of incorporation)

**000-51280**  
(Commission  
File Number)

**36-3297908**  
(I.R.S. Employer  
Identification No.)

**22 West Washington Street  
Chicago, Illinois**  
(Address of principal executive offices)

**60602**  
(Zip Code)

**(312) 696-6000**  
(Registrant's telephone number, including area code)

**N/A**  
(Former name or former address, if changed since last report)

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Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

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. ☐

Securities registered pursuant to Section 12(b) of the Act:

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

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**Item 2.02. Results of Operations and Financial Condition.**

On July 27, 2023, Morningstar, Inc. (the "Company") issued an amended press release announcing its financial results for the second quarter ended June 30, 2023. A copy of the amended press release is attached hereto as Exhibit 99.1.

**Item 7.01. Regulation FD Disclosure.**

On July 26, 2023, the Company published a Supplemental Presentation. The Supplemental Presentation is included as Exhibit 99.2 to this Form 8-K. On July 26, 2023, the Company published a Shareholder letter. The Shareholder letter is included as Exhibit 99.3 to this Form 8-K. The information set forth under Item 2.02, "Results of Operations and Financial Condition" is incorporated herein by reference.

**Item 9.01. Financial Statements and Exhibits.**

Include the following information:

(d) Exhibits:

<u>Exhibit No.</u>	<u>Description</u>
99.1	Amended Press Release dated July 27, 2023.
99.2	Supplemental Presentation dated July 26, 2023.
99.3	Shareholder letter dated July 26, 2023.
104	The cover page from this Current Report on Form 8-K formatted in Inline XBRL (included as Exhibit 101).

## EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</u>
<a href="#"><u>99.1</u></a>	<a href="#"><u>Amended Press Release dated July 27, 2023.</u></a>
<a href="#"><u>99.2</u></a>	<a href="#"><u>Supplemental Presentation dated July 26, 2023.</u></a>
<a href="#"><u>99.3</u></a>	<a href="#"><u>Shareholder letter dated July 26, 2023.</u></a>
104	The cover page from this Current Report on Form 8-K formatted in Inline XBRL (included as Exhibit 101).

## SIGNATURES

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 hereunto duly authorized.

MORNINGSTAR, INC.

Date: July 28, 2023

By: /s/ Jason Dubinsky  
Name: Jason Dubinsky  
Title: Chief Financial Officer

**News Release**

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Illinois 60602

*Correction Notice: On July 27, 2023, Morningstar, Inc. (Nasdaq: MORN) issued this amended press release (originally published on July 26, 2023), which corrects the calculation and related percentage changes of adjusted diluted net income per share for the quarter-ended June 30, 2023.*

**FOR IMMEDIATE RELEASE****Morningstar, Inc. Reports Second-Quarter 2023 Financial Results**

CHICAGO, July 26, 2023 - Morningstar, Inc. (Nasdaq: MORN), a leading provider of independent investment insights, posted solid second-quarter revenue growth, driven by the performance of its license-based products.

"Our license-based products continued to perform strongly, while transaction-based revenue was impacted by continued weakness in the issuance of commercial-mortgage-backed securities in the United States," said Kunal Kapoor, Morningstar's chief executive officer. "We're managing the business with a focus on returning to our historical peak margins. We are also delivering on the integration of LCD into PitchBook, and recently launched Direct Lens to broaden the capabilities available to Direct clients."

The Company is introducing a quarterly shareholder letter to provide more context on its quarterly results and business, which can be found at [shareholders.morningstar.com](https://shareholders.morningstar.com).

**Second-Quarter 2023 Financial Highlights**

- Reported revenue grew 7.3% to \$504.7 million; organic revenue grew 5.1%.
  - Reported operating income declined 22.6% to \$41.7 million; adjusted operating income declined 5.0%. Reported results included \$4.0 million in severance costs related to reorganizations in certain areas of the business, excluding activities related to our China operations. These severance costs contributed 7.4 percentage points to the decline in operating income and accounted for the full decline in adjusted operating income.
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- Diluted net income per share increased 20.0% to \$0.84 versus \$0.70 in the prior-year period; adjusted diluted net income per share increased 11.1% to \$1.30.
- Cash provided by operating activities decreased 64.3% to \$24.5 million. Free cash flow was negative \$5.8 million versus positive \$37.0 million in the prior-year period. Cash flows were negatively impacted by certain items described below totaling \$63.1 million. Excluding these items and similar items in the prior-year period for comparability, cash provided by operating activities and free cash flow would have decreased by 19.4% and 25.6%, respectively.

#### **Year-To-Date Financial Highlights**

- Reported revenue increased 6.1% to \$984.4 million; organic revenue growth was 4.0%.
- Reported operating income decreased 40.0% to \$66.2 million; adjusted operating income decreased by 22.1%.
- Diluted net income per share decreased 62.1% to \$0.67 versus \$1.77 in the prior-year period; adjusted diluted net income per share decreased by 27.1% to \$1.86.
- Cash provided by operating activities decreased 48.0% to \$47.9 million. Free cash flow was negative \$11.9 million, compared to positive \$32.5 million in the prior-year period. Cash flows were negatively impacted by certain items totaling \$74.5 million. Excluding these items and similar items in the prior-year period for comparability, cash provided by operating activities and free cash flow would have decreased by 7.4% and 13.7%, respectively.

#### **Second-Quarter 2023 Results**

Revenue grew 7.3% to \$504.7 million. Organic revenue, which excludes all M&A-related revenue and foreign currency effects, grew 5.1% versus the prior-year period, reflecting solid growth in the Company's license-based product areas, offset by declines in its transaction-based product areas, which continued to face market-driven headwinds.

License-based revenue increased 14.8% versus the prior-year period, or 12.2% on an organic basis. PitchBook, Morningstar Sustainalytics' license-based products, Morningstar Data, and Morningstar Direct, all provided meaningful contributions to reported and organic revenue growth in the quarter. Asset-based revenue declined 0.4% year-over-year, or 1.4% organically, as growth in Morningstar Indexes' asset-based products and Workplace Solutions was offset by a decline in Investment Management revenue. Transaction-based revenue declined 18.5% compared to the prior-year period, or 19.5% on an organic basis, due to continued softness in U.S. commercial-mortgage-backed securities ratings activity, weakness in Morningstar Sustainalytics' second-party opinion product, and a decline in Morningstar.com ad revenue.

Operating expense increased 11.2% to \$463.0 million, including costs of \$7.3 million as the Company continued the reduction and shift of its China operations, which are nearing successful completion. Excluding the impact of these costs and M&A-related expenses and amortization, operating expense increased 9.6%. The largest contributors to operating expense growth were compensation costs, severance costs, and depreciation.

- Compensation costs increased \$36.0 million, reflecting growth in headcount across key product areas over the past year. Headcount increased 12.6% from the prior-year period to 12,126 at the end of the quarter. The increase in headcount compared to the prior-year period was greatest for the PitchBook and Morningstar Sustainalytics product areas to support strategic growth initiatives. Headcount decreased 2.3% sequentially from Mar. 31, 2023.
- Severance costs increased \$6.1 million, including \$4.0 million related to reorganizations in certain areas of the business as the Company identified opportunities for efficiencies, as well as \$1.7 million in severance costs related to the reduction and shift of the Company's China operations.
- Depreciation increased \$5.0 million as a result of higher capitalized software costs for product enhancements in prior periods and higher leasehold improvements.

The above increases were partially mitigated by a \$7.3 million decline in stock-based compensation expense, primarily driven by the renewal of the PitchBook management bonus plan. The new three-year plan mirrors the incentive structure of prior plans, featuring lower target payouts in the first two years compared with the third year of the plan. In 2022, higher stock-based compensation was driven in large part by the overachievement of targets for the third year of the prior PitchBook management bonus plan.

Second-quarter operating income was \$41.7 million, a decline of 22.6%. Adjusted operating income was \$69.7 million, a decline of 5.0%. Second-quarter operating margin was 8.3%, compared with 11.5% in the prior-year period. Adjusted operating margin was 13.8% in the second quarter of 2023, versus 15.6% in the prior-year period. Severance costs related to certain reorganizations excluding the Company's China activities, negatively impacted operating margin and adjusted operating margin by 0.8 percentage points.

Net income in the second quarter of 2023 was \$36.1 million, or \$0.84 per diluted share, compared with net income of \$30.1 million, or \$0.70 per diluted share, in the second quarter of 2022, an increase of 20.0% on a per share basis. Adjusted diluted net income per share increased 11.1% to \$1.30 in the second quarter of 2023, compared with \$1.17 in the second quarter of the prior-year period.

The Company's effective tax rate was negative 20.7% in the second quarter of 2023 and positive 7.2% for the 2023 year-to-date period, reflecting a decrease of 40.4 and 17.3 percentage points, respectively, compared to the prior-year periods. The decrease in the second quarter was primarily due to the recognition of \$13.7 million of tax benefits related to the approval of a retroactive tax election with respect to our 2021 and 2022 tax periods, which was referenced in the fourth quarter 2022 earnings release. The tax benefit increased diluted net income per share by \$0.15.

### Product Area Highlights

On a consolidated basis, PitchBook, Morningstar Sustainalytics, Morningstar Data, and Morningstar Direct were the top four contributors to organic revenue growth in the second quarter of 2023. (For performance of the largest product areas and key metrics, refer to the Supplemental Data table contained in this release and the Supplemental Presentation included on our Investor Relations website at [shareholders.morningstar.com](https://shareholders.morningstar.com) under "Financials — Financial Summary".)

Highlights of these and other product areas are provided below. Organic revenue excludes all M&A-related revenue and foreign currency effects. Foreign currency effects accounted for the entire difference between reported and organic growth in the quarter for Morningstar Data, Morningstar Direct, Morningstar Advisor Workstation, and DBRS Morningstar.

- **PitchBook** revenue grew 21.0% on a reported and organic basis, driven by continued strength in its core investor and advisor segments, which offset some softness in the company (corporate) segment, compared to a particularly strong prior-year period. Licenses grew 16.2%, reflecting both new client users and expansion with existing clients, as well as variability driven by user maintenance activities and updates to user lists when enterprise clients renew. During the quarter, product enhancements included the addition of Leveraged Commentary & Data (LCD) news and research to the PitchBook platform, providing users with centralized access to private equity and credit coverage, while the PitchBook newsletter surpassed two million subscribers. Results exclude contributions from the LCD acquisition.

- **Morningstar Data** revenue grew 7.9%, or 8.3% on an organic basis, driven by increases in North America and supported by the addition of new asset- and wealth-management clients. At the product level, fund data continued to be the key driver of revenue growth, followed by growth in Morningstar Essentials and equity data.
- **Morningstar Direct** revenue grew by 9.0%, or 9.3% on an organic basis, reflecting growth across all geographies and supported by the addition of new asset- and wealth-management clients. Direct licenses increased 3.1%.
- **DBRS Morningstar** revenue declined 16.9%, or 15.9% on an organic basis, primarily as a result of a sharp drop in revenue from commercial mortgage-backed securities (CMBS) ratings, as U.S. CMBS new issuance ratings revenue decreased 80% compared to the prior-year period. Ratings revenue from financial institutions and sovereigns also declined. These decreases were partially mitigated by growth in revenue from asset-backed securities ratings and corporate credit ratings. Revenue related to data products also increased. Organic revenue declined sharply in the U.S. and modestly in Europe but grew in Canada.
- **Investment Management** revenue declined 2.0%, or 10.7% on an organic basis. Reported assets under management and advisement (AUMA) increased 5.6% to \$53.1 billion compared with the prior-year period, due to market gains. Despite this increase in AUMA, organic revenue decreased due to the timing of client contract billings, which were largely based on assets as of Mar. 31, 2023, and the decline in asset values across global markets over the prior 12-month period. Total AUMA included \$5.1 billion of assets related to the acquisition of Praemium's U.K. and international offerings, which closed on June 30, 2022. Organic results exclude contributions from Praemium.
- **Morningstar Sustainalytics** revenue grew 12.7% on a reported and organic basis. License-based revenue increased 26.2%, or 26.7% on an organic basis, while transaction-based revenue declined 56.5%, or 56.6% on an organic basis. License-based product revenue growth was driven by strong demand for regulatory and compliance solutions in EMEA, with somewhat slower growth in the U.S. reflecting softening in the retail asset management and wealth management segments. Although sustainable bond issuance rebounded, transaction-based revenue was impacted by constraints on demand for second-party opinions (SPOs) as some sustainable bond issuers came to market without new or updated SPOs, instead relying on Leadership in Environmental and Energy Design (LEED) certifications or SPOs initially obtained for bonds issued earlier under the same program.

- **Workplace Solutions** revenue increased 3.8% on a reported and organic basis. AUMA increased 3.9% to \$210.4 billion compared with the prior-year period, reflecting market gains.
- **Morningstar Advisor Workstation** revenue grew 6.8%, or 7.3% on an organic basis. The January launch of the Investment Planning Experience, a new workflow which helps advisors meet demand for more personalized advice for investors, contributed to upsells with enterprise clients and the expansion of Advisor Workstation's footprint with individual advisors. The Company also integrated new capabilities into the App Hub and launched upgrades to the user experience for core Workstation features to provide a more robust platform experience for advisors.
- **Morningstar Indexes** revenue grew 25.3%, or 15.1% on an organic basis. The increase in revenue was driven by growth in investable product revenue, supported in part by market gains. Licensed-data revenue also increased, with contributions from LCD-related index data, which was included in organic growth for the month of June.

#### **Reduction and Shift of China Operations**

In July 2022, the Company began to significantly reduce its operations in Shenzhen, China and shift the work related to its global business functions, including global product and software development, managed investment data collection and analysis, and equity data collection and analysis, to other Morningstar locations. Costs related to this transition totaled \$7.3 million in the second quarter of 2023, including severance and personnel costs; transformation costs, which consist of professional fees and the temporary duplication of headcount as the Company hires replacement roles in other markets and continues to employ certain Shenzhen-based staff through the transition; and asset impairment costs. Cash outflows for severance paid related to the transition totaled \$3.2 million in the second quarter of 2023 and \$10.1 million for the year-to-date period.

The Company expects that these activities will be substantially complete by the end of the third quarter of 2023 and will result in lower ongoing run-rate costs from the overall net reduction in the related headcount and certain overhead expenses.

### **Balance Sheet and Capital Allocation**

As of June 30, 2023, the Company had cash, cash equivalents, and investments totaling \$378.2 million and \$1.2 billion of debt, compared with \$414.6 million and \$1.1 billion, respectively, as of Dec. 31, 2022.

Cash provided by operating activities decreased 64.3% to \$24.5 million for the second quarter of 2023, compared to the prior-year period. Free cash flow was negative \$5.8 million, compared to positive \$37.0 million in the prior-year period. The decreases in cash provided by operating activities and free cash flow were driven by the cash payment of \$59.9 million related to the termination of the license agreement with Morningstar Japan K.K. (renamed SBI Global Asset Management Co, Ltd.), which is reflected in "Other assets and liabilities" within operating activities on the Condensed Consolidated Statements of Cash Flows, and \$3.2 million in severance paid related to the reduction and shift of the Company's China operations. Excluding the impact of these items and M&A-related earn-out payments in the prior-year period, cash provided by operating activities and free cash flow would have decreased by 19.4% and 25.6%, respectively. These declines were primarily due to lower cash earnings in the quarter, which were impacted by higher interest expense. In addition, the Company paid \$16.0 million in dividends in the quarter and repurchased \$1.4 million in shares.

### **Use of Non-GAAP Financial Measures**

The tables at the end of this press release include a reconciliation of the non-GAAP financial measures used by the Company to comparable GAAP measures and an explanation of why the Company uses them.

### **Investor Communication**

Morningstar encourages all interested parties — including securities analysts, current shareholders, potential shareholders, and others — to submit questions in writing. Investors and others may send questions about Morningstar's business to [investors@morningstar.com](mailto:investors@morningstar.com). Morningstar will make written responses to selected inquiries available to all investors at the same time in Form 8-Ks furnished to the Securities and Exchange Commission, periodically.

## About Morningstar, Inc.

Morningstar, Inc. is a leading provider of independent investment insights in North America, Europe, Australia, and Asia. The Company offers an extensive line of products and services for individual investors, financial advisors, asset managers and owners, retirement plan providers and sponsors, and institutional investors in the debt and private capital markets. Morningstar provides data and research insights on a wide range of investment offerings, including managed investment products, publicly listed companies, private capital markets, debt securities, and real-time global market data. Morningstar also offers investment management services through its investment advisory subsidiaries, with approximately \$264 billion in assets under advisement and management as of June 30, 2023. The Company operates through wholly- or majority-owned subsidiaries in 32 countries. For more information, visit [www.morningstar.com/company](http://www.morningstar.com/company). Follow Morningstar on Twitter @MorningstarInc.

## Caution Concerning Forward-Looking Statements

This press release 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,” “prospects,” 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, failing to maintain and protect our brand, independence, and reputation; liability related to cybersecurity and the protection of confidential information, including personal information about individuals; compliance failures, regulatory action, or changes in laws applicable to our credit ratings operations, investment advisory, ESG and index businesses; failing to innovate our product and service offerings, or anticipate our clients’ changing needs; prolonged volatility or downturns affecting the financial sector, global financial markets, and the global economy and its effect on our revenue from asset-based fees and our credit ratings business; failing to recruit, develop, and retain qualified employees; liability for any losses that result from errors in our automated advisory tools; inadequacy of our operational risk management and business continuity programs in the event of a material disruptive event; failing to realize the expected business or financial benefits of our acquisitions and investments; failing to scale our operations and increase productivity and its effect on our ability to implement our business plan; artificial intelligence and related new technologies

may present business, compliance, and reputational risks; failing to maintain growth across our businesses in today’s fragmented geopolitical, regulatory and cultural world; liability relating to the information and data we collect, store, use, create, and distribute or the reports that we publish or are produced by our software products; the potential adverse effect of our indebtedness on our cash flows and financial flexibility; challenges in accounting for complexities in taxes in the global jurisdictions in which we operate that could materially affect our tax rate; and failing to protect our intellectual property rights or claims of intellectual property infringement against us. A more complete description of these risks and uncertainties can be found in our filings with the Securities and Exchange Commission, including our most recent Annual Report on Form 10-K and Quarterly Report on Form 10-Q. If any of these risks and uncertainties materialize, our actual future results and other future events 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.

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

(in millions, except per share amounts)	Three months ended June 30,			Six months ended June 30,		
	2023	2022	Change	2023	2022	Change
<b>Revenue</b>	\$ 504.7	\$ 470.4	7.3%	\$ 984.4	\$ 927.4	6.1%
Operating expense:						
Cost of revenue	216.4	197.6	9.5%	435.2	388.9	11.9%
Sales and marketing	109.5	91.8	19.3%	217.1	173.2	25.3%
General and administrative	90.1	87.1	3.4%	174.1	177.4	(1.9)%
Depreciation and amortization	47.0	40.0	17.5%	91.8	77.6	18.3%
Total operating expense	463.0	416.5	11.2%	918.2	817.1	12.4%
Operating income	41.7	53.9	(22.6)%	66.2	110.3	(40.0)%
Operating margin	8.3%	11.5%	(3.2)pp	6.7%	11.9%	(5.2)pp
Non-operating income (loss), net:						
Interest expense, net	(14.1)	(4.4)	NMF	(27.4)	(6.8)	NMF
Expense from equity method transaction, net	—	—	—%	(11.8)	—	NMF
Other income (loss), net	4.1	(10.2)	NMF	6.8	(1.2)	NMF
Non-operating income (loss), net	(10.0)	(14.6)	(31.5)%	(32.4)	(8.0)	NMF
Income before income taxes and equity in investments of unconsolidated entities	31.7	39.3	(19.3)%	33.8	102.3	(67.0)%
Equity in investments of unconsolidated entities	(1.8)	(1.8)	—%	(3.1)	(1.4)	NMF
Income tax expense (benefit)	(6.2)	7.4	NMF	2.2	24.7	(91.1)%
Consolidated net income	\$ 36.1	\$ 30.1	19.9%	\$ 28.5	\$ 76.2	(62.6)%
Net income per share:						
Basic	\$ 0.85	\$ 0.71	19.7%	\$ 0.67	\$ 1.78	(62.4)%
Diluted	\$ 0.84	\$ 0.70	20.0%	\$ 0.67	\$ 1.77	(62.1)%
Weighted average shares outstanding:						
Basic	42.6	42.6	—%	42.6	42.8	(0.5)%
Diluted	42.8	42.9	(0.2)%	42.8	43.1	(0.7)%

NMF - Not meaningful, pp - percentage points

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

(in millions)	As of June 30, 2023	As of December 31, 2022
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 343.3	\$ 376.6
Investments	34.9	38.0
Accounts receivable, net	321.8	307.9
Income tax receivable, net	15.1	—
Other current assets	92.2	88.3
Total current assets	807.3	810.8
Goodwill	1,584.7	1,571.7
Intangible assets, net	518.5	548.6
Property, equipment, and capitalized software, net	205.6	199.4
Operating lease assets	173.6	191.6
Investments in unconsolidated entities	114.8	96.0
Deferred tax asset, net	11.5	10.8
Other assets	41.9	45.9
Total assets	<u>\$ 3,457.9</u>	<u>\$ 3,474.8</u>
<b>Liabilities and equity</b>		
Current liabilities:		
Deferred revenue	\$ 506.3	\$ 455.6
Accrued compensation	169.4	220.1
Accounts payable and accrued liabilities	69.0	76.2
Operating lease liabilities	36.3	37.3
Current portion of long-term debt	32.1	32.1
Contingent consideration liability	—	50.0
Other current liabilities	1.8	11.2
Total current liabilities	814.9	882.5
Operating lease liabilities	160.3	176.7
Accrued compensation	23.2	20.7
Deferred tax liability, net	58.2	62.9
Long-term debt	1,121.4	1,077.5
Other long-term liabilities	44.3	47.4
Total liabilities	2,222.3	2,267.7
Total equity	1,235.6	1,207.1
Total liabilities and equity	<u>\$ 3,457.9</u>	<u>\$ 3,474.8</u>

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

(in millions)	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
<b>Operating activities</b>				
Consolidated net income	\$ 36.1	\$ 30.1	\$ 28.5	\$ 76.2
Adjustments to reconcile consolidated net income to net cash flows from operating activities	52.4	61.4	61.4	103.9
Changes in operating assets and liabilities, net	(64.0)	(22.8)	(42.0)	(87.9)
Cash provided by operating activities	24.5	68.7	47.9	92.2
<b>Investing activities</b>				
Capital expenditures	(30.3)	(31.7)	(59.8)	(59.7)
Acquisitions, net of cash acquired	—	(639.8)	—	(646.6)
Purchases of investments in unconsolidated entities	(0.8)	(25.6)	(0.9)	(26.6)
Other, net	4.0	5.8	32.9	7.9
Cash used for investing activities	(27.1)	(691.3)	(27.8)	(725.0)
<b>Financing activities</b>				
Common shares repurchased	(1.4)	(91.9)	(1.4)	(202.5)
Dividends paid	(16.0)	(15.4)	(31.9)	(30.9)
Repayments of debt	(113.2)	(190.9)	(186.3)	(220.9)
Proceeds from debt	135.0	865.0	230.0	1,040.0
Payment for acquisition-related earn-outs	—	(16.2)	(45.5)	(16.2)
Other, net	(10.5)	(13.5)	(19.8)	(20.6)
Cash provided by (used for) financing activities	(6.1)	537.1	(54.9)	548.9
Effect of exchange rate changes on cash and cash equivalents	(0.2)	(17.8)	1.5	(19.7)
Net decrease in cash and cash equivalents	(8.9)	(103.3)	(33.3)	(103.6)
Cash and cash equivalents-beginning of period	352.2	483.5	376.6	483.8
Cash and cash equivalents-end of period	\$ 343.3	\$ 380.2	\$ 343.3	\$ 380.2

**Morningstar, Inc. and Subsidiaries**
**Supplemental Data (Unaudited)**

(in millions)	Three months ended June 30,				Six months ended June 30,			
	2023	2022	Change	Organic (2)	2023	2022	Change	Organic (1)
<b>Revenue by type (1)</b>								
License-based (3)	\$ 376.0	\$ 327.5	14.8%	12.2%	\$740.0	\$639.4	15.7%	13.2%
Asset-based (4)	67.3	67.6	(0.4)%	(1.4)%	132.6	136.1	(2.6)%	(3.7)%
Transaction-based (5)	61.4	75.3	(18.5)%	(19.5)%	111.8	151.9	(26.4)%	(27.3)%
<b>Key product area revenue</b>								
PitchBook	\$ 121.2	\$ 100.2	21.0%	21.0%	\$236.0	\$192.2	22.8%	22.8%
Morningstar Data	69.4	64.3	7.9%	8.3%	136.7	127.6	7.1%	9.1%
DBRS Morningstar (6)	54.2	65.2	(16.9)%	(15.9)%	101.0	134.4	(24.9)%	(23.5)%
Morningstar Direct	49.9	45.8	9.0%	9.3%	98.7	91.4	8.0%	9.5%
Investment Management	29.4	30.0	(2.0)%	(10.7)%	59.0	60.8	(3.0)%	(11.3)%
Morningstar Sustainalytics	29.2	25.9	12.7%	12.7%	56.5	50.6	11.7%	14.2%
Workplace Solutions	27.2	26.2	3.8%	3.8%	52.4	52.8	(0.8)%	(0.8)%
Morningstar Advisor Workstation	25.2	23.6	6.8%	7.3%	49.7	46.8	6.2%	6.8%

Assets under management and advisement (approximate) (\$bil)	As of June 30,		
	2023	2022	Change
Workplace Solutions			
Managed Accounts	\$ 118.1	\$ 116.2	1.6%
Fiduciary Services	55.4	49.8	11.2%
Custom Models/CIT	36.9	36.5	1.1%
Workplace Solutions (total)	\$ 210.4	\$ 202.5	3.9%
Investment Management			
Morningstar Managed Portfolios	\$ 35.1	\$ 33.0	6.4%
Institutional Asset Management	10.2	9.9	3.0%
Asset Allocation Services	7.8	7.4	5.4%
Investment Management (total)	\$ 53.1	\$ 50.3	5.6%
Asset value linked to Morningstar Indexes (\$bil)	\$ 169.8	\$ 133.9	26.8%
<b>Our employees (approximate)</b>			
Worldwide headcount	12,126	10,767	12.6%

Average assets under management and advisement (\$bil)	Three months ended June 30,			Six months ended June 30,		
	2023	2022	Change	2023	2022	Change
Average assets under management and advisement (\$bil)	\$ 258.0	\$ 258.9	(0.3)%	\$ 253.9	\$ 261.0	(2.7)%

(1) Starting with the quarter ended March 31, 2023, the Company updated its revenue-type classifications to account for product areas with more than one revenue type. Prior periods have not been restated to reflect the updated classifications. Revenue from Morningstar Sustainalytics' second-party opinions product was reclassified from license-based to transaction-based. Revenue from Morningstar Indexes data and services products was reclassified from asset-based to license-based. Revenue from DBRS Morningstar's data products was reclassified from transaction-based to license-based.

(2) Organic revenue is a non-GAAP measure that excludes acquisitions, divestitures, the impacts of the adoption of new accounting standards or revisions to accounting practices, and the effect of foreign currency translations. In addition, the calculation of organic revenue growth by product revenue type compares the three and six months ended June 30, 2023 revenue to the prior periods on the basis of the updated classifications.

(3) License-based revenue includes PitchBook, Morningstar Data, Morningstar Direct, Morningstar Sustainalytics' license-based products, Morningstar Indexes data and services products, DBRS Morningstar's data products, Morningstar Advisor Workstation, and other similar products.

(4) Asset-based revenue includes Investment Management, the majority of Workplace Solutions revenue, and Morningstar Indexes.

(5) Transaction-based revenue includes DBRS Morningstar, Morningstar Sustainalytics' second-party opinions product, Internet advertising, and Morningstar-sponsored conferences.

(6) For the three and six months ended June 30, 2023, DBRS Morningstar recurring revenue derived primarily from surveillance, research, and other transaction-related services was 49.9% and 52.5%, respectively. For the three and six months ended June 30, 2022, recurring revenue was 38.4% and 37.2%, respectively.

## Morningstar, Inc. and Subsidiaries

### Reconciliations of Non-GAAP Measures with the Nearest Comparable GAAP Measures (Unaudited)

To supplement Morningstar's condensed consolidated financial statements presented in accordance with U.S. Generally Accepted Accounting Principles (GAAP), Morningstar uses the following measures considered as non-GAAP by the Securities and Exchange Commission, including:

- consolidated revenue, excluding acquisitions, divestitures, adoption of new accounting standards or revision to accounting practices (accounting changes), and the effect of foreign currency translations (organic revenue),
- consolidated operating income, excluding intangible amortization expense, all mergers and acquisitions (M&A)-related expenses (including M&A-related earn-outs), and items related to the significant reduction and shift of the Company's operations in China (adjusted operating income),
- consolidated operating margin, excluding intangible amortization expense, all M&A-related expenses (including M&A-related earn-outs), and items related to the significant reduction and shift of the Company's operations in China (adjusted operating margin),
- consolidated diluted net income per share, excluding intangible amortization expense, all M&A-related expenses (including M&A-related earn-outs), items related to the significant reduction and shift of the Company's operations in China, and certain non-operating gains/losses (adjusted diluted net income per share), and
- cash provided by or used for operating activities less capital expenditures (free cash flow).

These non-GAAP measures may not be comparable to similarly titled measures reported by other companies.

Morningstar presents organic revenue because the Company believes this non-GAAP measure helps investors better compare period-over-period results. Morningstar excludes revenue from acquired businesses from its organic revenue growth calculation for a period of 12 months after it completes the acquisition. For divestitures, Morningstar excludes revenue in the prior-year period for which there is no comparable revenue in the current period.

Morningstar presents adjusted operating income, adjusted operating margin, and adjusted net income per share to show the effect of significant acquisition activity, better compare period-over-period results, and improve overall understanding of the underlying performance of the business absent the impact of acquisitions.

In addition, Morningstar presents free cash flow solely as supplemental disclosure to help investors better understand how much cash is available after making capital expenditures. Morningstar's management team uses free cash flow to evaluate the health of its business. Free cash flow should not be considered an alternative to any measure required to be reported under GAAP (such as cash provided by (used for) operating, investing, and financing activities).

(in millions)	Three months ended June 30,			Six months ended June 30,		
	2023	2022	Change	2023	2022	Change
Reconciliation from consolidated revenue to organic revenue:						
Consolidated revenue	\$ 504.7	\$ 470.4	7.3%	\$ 984.4	\$ 927.4	6.1%
Less: acquisitions	(12.7)	—	NMF	(30.9)	—	NMF
Less: accounting changes	—	—	—%	—	—	—
Effect of foreign currency translations	2.4	—	NMF	10.7	—	NMF
Organic revenue	<u>\$ 494.4</u>	<u>\$ 470.4</u>	5.1%	<u>\$ 964.2</u>	<u>\$ 927.4</u>	4.0%
Reconciliation from consolidated operating income to adjusted operating income:						
Consolidated operating income	\$ 41.7	\$ 53.9	(22.6)%	\$ 66.2	\$ 110.3	(40.0)%
Add: Intangible amortization expense	17.7	15.6	13.5%	35.2	29.7	18.5%
Add: M&A-related expenses	3.0	3.9	(23.1)%	7.2	8.8	(18.2)%
Add: M&A-related earn-outs (1)	—	—	—%	—	7.1	NMF
Add: Severance and personnel expenses (2)	2.9	—	NMF	4.1	—	NMF
Add: Transformation costs (2)	2.2	—	NMF	6.4	—	NMF
Add: Asset impairment costs (2)	2.2	—	NMF	2.4	—	NMF
Adjusted operating income	<u>\$ 69.7</u>	<u>\$ 73.4</u>	(5.0)%	<u>\$ 121.5</u>	<u>\$ 155.9</u>	(22.1)%
Reconciliation from consolidated operating margin to adjusted operating margin:						
Consolidated operating margin	8.3%	11.5%	(3.2) pp	6.7%	11.9%	(5.2) pp
Add: Intangible amortization expense	3.5%	3.3%	0.2 pp	3.6%	3.2%	0.4pp
Add: M&A-related expenses	0.6%	0.8%	(0.2) pp	0.7%	0.9%	(0.2) pp
Add: M&A-related earn-outs (1)	—%	—%	0.0 pp	—%	0.8%	(0.8) pp
Add: Severance and personnel expenses (2)	0.6%	—%	0.6 pp	0.4%	—%	0.4pp
Add: Transformation costs (2)	0.4%	—%	0.4 pp	0.7%	—%	0.7pp
Add: Asset impairment costs (2)	0.4%	—%	0.4 pp	0.2%	—%	0.2pp
Adjusted operating margin	<u>13.8%</u>	<u>15.6%</u>	(1.8) pp	<u>12.3%</u>	<u>16.8%</u>	(4.5) pp
Reconciliation from consolidated diluted net income per share to adjusted diluted net income per share:						
Consolidated diluted net income per share	\$ 0.84	\$ 0.70	20.0%	\$ 0.67	\$ 1.77	(62.1)%
Add: Intangible amortization expense	0.31	0.27	14.8%	0.61	0.51	19.6%
Add: M&A-related expenses	0.05	0.07	(28.6)%	0.12	0.15	(20.0)%
Add: M&A-related earn-outs (1)	—	—	—%	—	0.16	NMF
Add: Severance and personnel expenses (2)	0.05	—	NMF	0.07	—	NMF
Add: Transformation costs (2)	0.04	—	NMF	0.11	—	NMF
Add: Asset impairment costs (2)	0.04	—	NMF	0.04	—	NMF
Less: Non-operating (gains) losses (3)	(0.03)	0.13	NMF	0.24	(0.04)	NMF
Adjusted diluted net income per share	<u>\$ 1.30</u>	<u>\$ 1.17</u>	11.1%	<u>\$ 1.86</u>	<u>\$ 2.55</u>	(27.1)%
Reconciliation from cash provided by operating activities to free cash flow:						
Cash provided by operating activities	\$ 24.5	\$ 68.7	(64.3)%	\$ 47.9	\$ 92.2	(48.0)%
Capital expenditures	(30.3)	(31.7)	(4.4)%	(59.8)	(59.7)	0.2%
Free cash flow	<u>\$ (5.8)</u>	<u>\$ 37.0</u>	NMF	<u>\$ (11.9)</u>	<u>\$ 32.5</u>	NMF

NMF - Not meaningful, pp - percentage points

(1) Reflects the impact of M&A-related earn-outs included in current period operating expense (compensation expense), primarily due to the earn-out for Morningstar Sustainabilitytics.

(2) Reflects costs associated with the significant reduction of the Company's operations in Shenzhen, China, and the shift of work related to its global business functions to other Morningstar locations.

Severance and personnel expenses include severance charges, incentive payments related to early signing of severance agreements, transition bonuses, and stock-based compensation related to the acceleration of vesting of restricted stock unit and market share unit awards. In addition, the reversal of accrued sabbatical liabilities is included in this category.

Transformation costs include professional fees and the temporary duplication of headcount. As the Company hires replacement roles in other markets and shifts capabilities, it expects to continue to employ certain Shenzhen-based staff through the transition period, which will result in elevated compensation costs on a temporary basis.

Asset impairment costs include the write-off or accelerated depreciation of fixed assets in the Shenzhen, China office that are not redeployed, in addition to lease abandonment costs as the Company plans to downsize its office space prior to the lease termination date.

(3) Non-operating (gains) losses in the three and six months ended June 30, 2023 and June 30, 2022, related to unrealized gains and losses on investments and interest expense. In addition, non-operating (gains) losses for the six months ended June 30, 2023 also includes expense from an equity method transaction, net.



Second Quarter 2023  
Supplemental Presentation

July 26, 2023

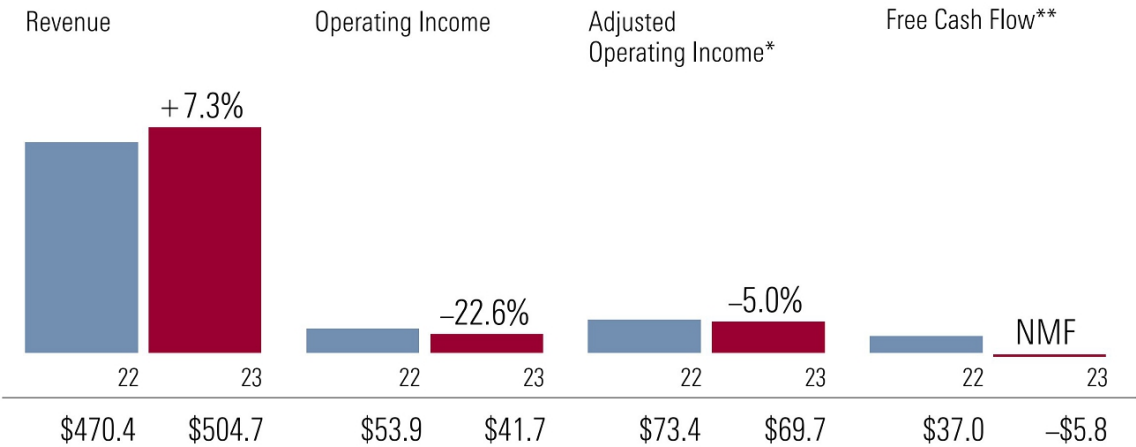


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This presentation contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on our current expectations about future events or future financial performance. Forward-looking 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,” “prospects,” 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. More information about factors that could affect Morningstar’s business and financial results are in our filings with the SEC, including our most recent 8-K, 10-K, and 10-Q. Morningstar undertakes no obligation to publicly update any forward-looking statements as a result of new information, future events, or otherwise, except as required by law.

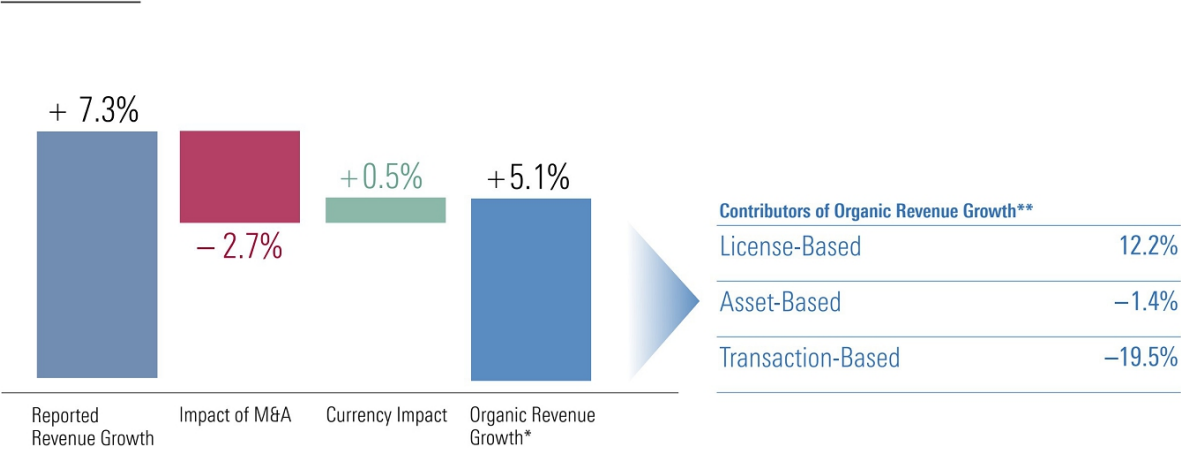
In addition, this presentation references non-GAAP financial measures including, but not limited to, organic revenue, adjusted operating income, adjusted operating margin, adjusted operating expense, and free cash flow. These non-GAAP measures may not be comparable to similarly titled measures reported by other companies. A reconciliation of non-GAAP financial measures to the most directly comparable GAAP financial measures is provided in the appendix to this presentation and in our filings with the SEC, including our most recent 8-K, 10-K, and 10-Q.

Q2 2023 Financial Performance (\$mil)



3 \* Adjusted operating income is a non-GAAP measure and excludes intangible amortization expense, other merger and acquisition (M&A) related expenses and earn-outs, and items related to the significant reduction and shift of the Company's operations in China. In addition, the Company incurred \$4.0 million of severance costs for reorganizations not related to the shift of its China operations, which contributed 7.4 percentage points to the decline in operating income and accounted for the full decline in adjusted operating income. \*\* Free cash flow is a non-GAAP measure and is defined as cash provided by or used for operating activities less capital expenditures. Excluding the termination agreement payment of \$59.9 million and \$3.2 million in severance related to the Company's China activities, and similar items in the prior-year period, free cash flow would have declined 25.6% over the prior-year period.

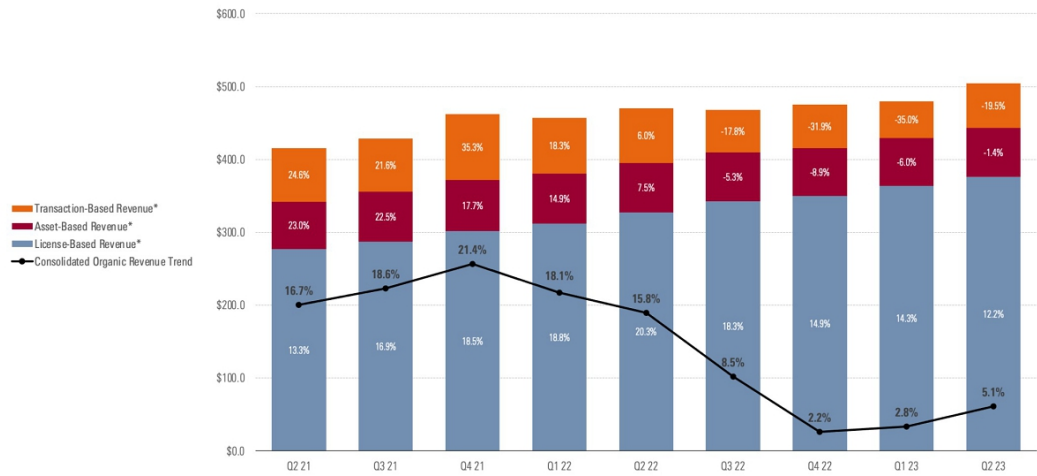
# Q2 2023 Revenue Walk



4 \* Organic revenue, a non-GAAP measure, excludes revenue from acquisitions for a period of 12 months upon completion of the acquisition, accounting changes, and the effect of foreign currency translations. \*\*Starting with the quarter ended March 31, 2023, the Company updated its revenue-type classifications to account for product areas with more than one revenue type, impacting Morningstar Sustainalytics, Morningstar Indexes, and DBRS Morningstar. The calculation of organic revenue growth by revenue type compares second quarter 2023 revenue to second quarter 2022 revenue on the basis of the updated classifications.

MORNINGSTAR®

# Quarterly Revenue Trend (\$mil)

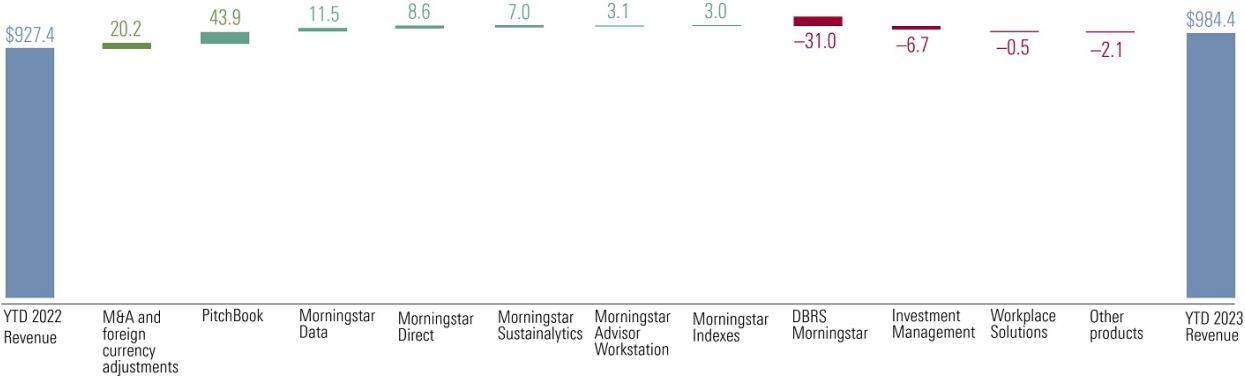


Bars represent reported revenue. Percentages represent YOY organic revenue growth (decline). \*Starting with the quarter ended March 31, 2023, the Company updated its revenue-type classifications to account for product areas with more than one revenue type, impacting Morningstar Sustainability, Morningstar Indexes, and DBRS Morningstar. The calculation of organic revenue growth by revenue type compares first and second quarter 2023 revenue to first and second quarter 2022 revenue, respectively, on the basis of the updated classifications.



# YTD 2023 Organic Revenue

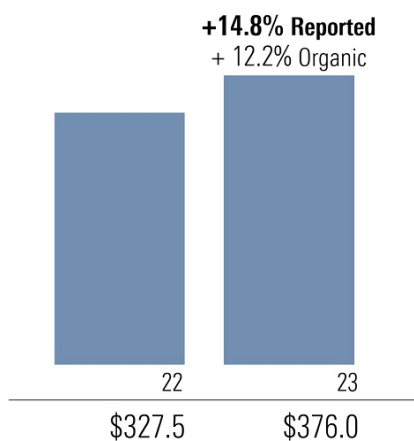
## Walk\* (\$ mil)



\* Organic revenue, a non-GAAP measure, excludes revenue from acquisitions for a period of 12 months upon completion of the acquisition, accounting changes, and the effect of foreign currency translations.



## Q2 2023 Revenue Drivers: License-Based Revenue Trend\* (\$mil)



### License-Based Q2 23 Organic Revenue Drivers:

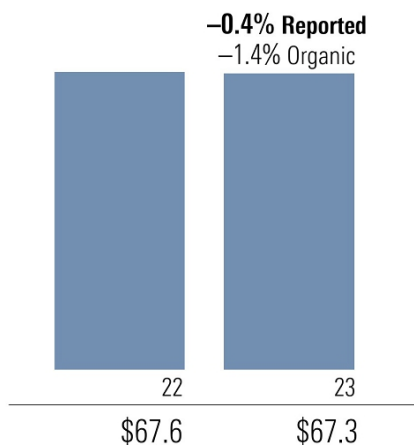
- ▷ PitchBook (+21.0%), Morningstar Sustainalytics' license-based products (+26.7%), Morningstar Data (+8.3%), and Morningstar Direct (+9.3%) were the primary contributors to organic revenue growth in Q2 23.
- ▷ Strength in PitchBook's core investor and advisor segments offset some softening in the company (corporate) segment. Morningstar Sustainalytics' license-based revenue growth was driven by strong demand for regulatory and compliance solutions in EMEA, with somewhat slower growth in the U.S.

Organic revenue is a non-GAAP measure. The bars represent reported revenue.

\* Starting with the quarter ended March 31, 2023, the Company updated its revenue-type classifications to account for product areas with more than one revenue type, impacting Morningstar Sustainalytics, Morningstar Indexes, and DBRS Morningstar. The calculation of organic revenue growth by revenue type compares second quarter 2023 revenue to second quarter 2022 revenue on the basis of the updated classifications.



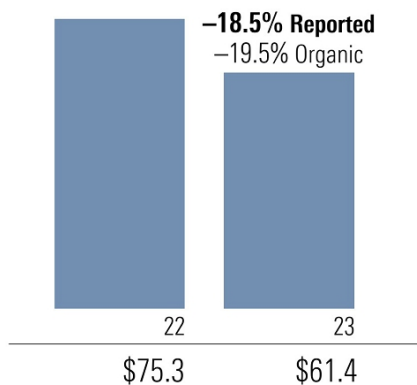
## Q2 2023 Revenue Drivers: Asset-Based Revenue Trend\* (\$mil)



### Asset-Based Q2 23 Organic Revenue Drivers:

- ▷ Declines in Investment Management organic revenue (-10.7%) reflected the timing of client billings, which were largely based on assets as of March 31, 2023, when most markets were still down over the trailing 12-months.
- ▷ These declines were offset by the organic increase in Morningstar Indexes' revenue (+15.1%), driven by growth in investable product revenue, and an organic increase in Workplace Solutions revenue (+3.8%), which reflected higher AUM due to market gains.

## Q2 2023 Revenue Drivers: Transaction-Based Revenue Trend\* (\$mil)

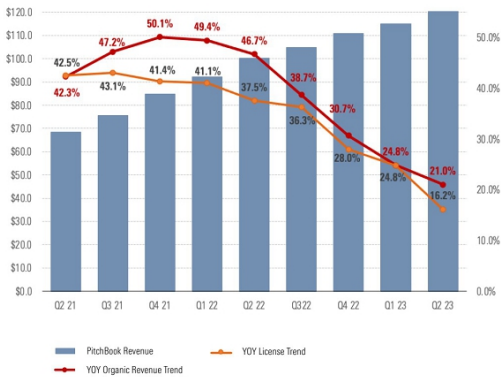


### Transaction-Based Q2 23 Organic Revenue Drivers:

- ▷ DBRS Morningstar revenue decreased 15.9% on an organic basis, with a 17.4% organic decline in its transaction-based revenue, due primarily to an 80% decrease in US commercial-mortgage-backed securities new issuance revenue.
- ▷ Revenue declines from Morningstar Sustainalytics' second-party opinion product and lower ad sales also contributed to the decrease.

# Quarterly Product Trends

PitchBook\* (\$mil)



Morningstar Data (\$mil)

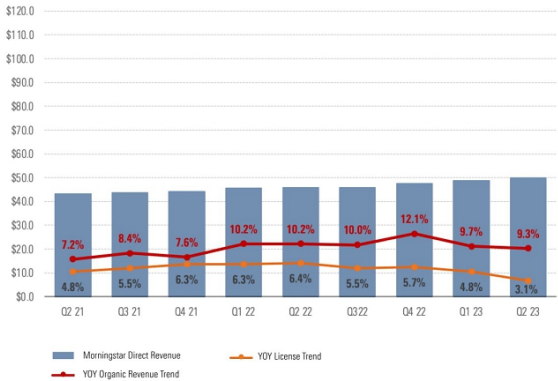


Organic revenue is a non-GAAP measure. \*PitchBook licenses totaled 102,522 as of the second quarter of 2023, compared to 88,261 in the prior-year quarter. License counts reflect active users, including Morningstar active users. The timing of activities such as user maintenance, user audits, provisioning access, shutting off of users, and updates to user lists when enterprise clients renew results in fluctuations in license counts over time. As a result, license growth trends are best assessed on a rolling 12-month basis.

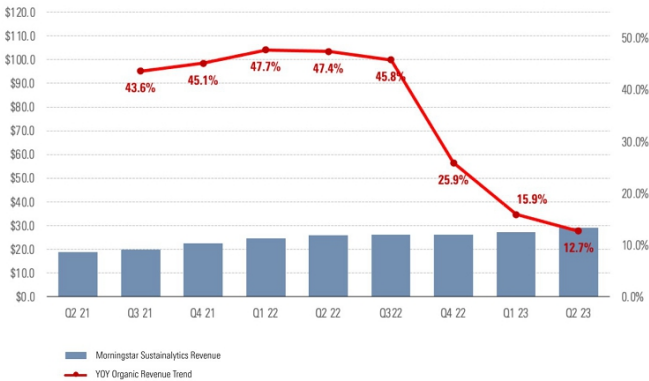


# Quarterly Product Trends

Morningstar Direct\* (\$mil)



Morningstar Sustainalytics\*\* (\$mil)

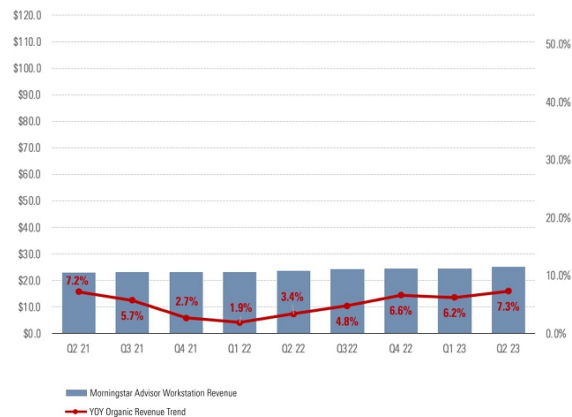


Organic revenue is a non-GAAP measure. \*Morningstar Direct licenses totaled 18,570 as of the second quarter of 2023, compared to 18,008 in the prior-year quarter. \*\*Revenue for Morningstar Sustainalytics' license-based products increased 26.7% on an organic basis in the second quarter of 2023, while revenue for Morningstar Sustainalytics' transaction-based products (second-party opinions) declined 56.6% on an organic basis.



# Quarterly Product Trends

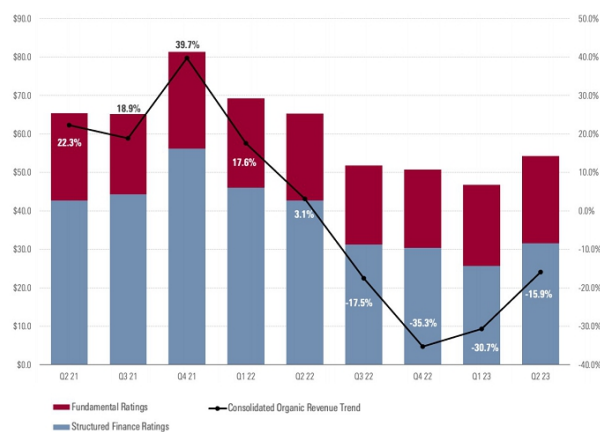
Morningstar Advisor Workstation (\$mil)



Organic revenue is a non-GAAP measure.



## Quarterly Product Trends: DBRS Morningstar Revenue by Asset Class (\$mil)



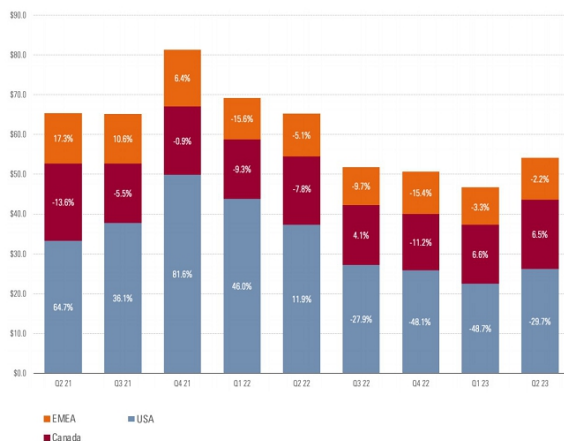
### DBRS Morningstar Q2 2023 Organic Revenue Drivers:

- ▷ Category mix in Q2 2023 was 58% Structured Finance\* v. 42% Fundamental Ratings.\*\*
- ▷ Recurring revenue, which is derived primarily from surveillance, research, and other transaction related services, represented 49.9% of total DBRS Morningstar revenue.

\*Structured Finance (Asset-Backed Securities, Commercial Mortgage-Backed Securities, Residential Mortgage-Backed Securities). \*\*Fundamental Ratings (Corporate, Financial Institutions, Sovereign) & Other.



## Quarterly Product Trends: DBRS Morningstar Revenue Trend by Geography (\$mil)



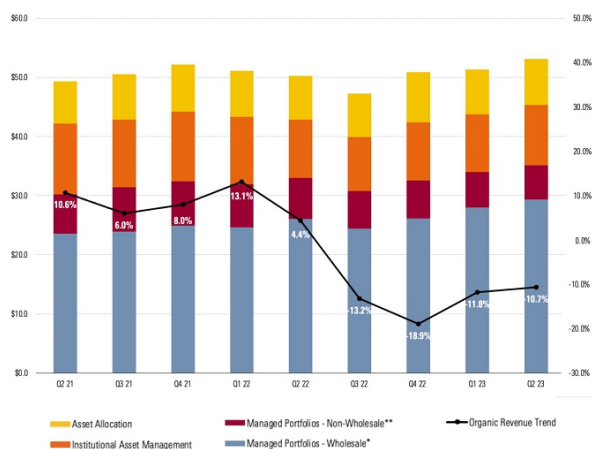
### DBRS Morningstar Q2 2023 Organic Revenue Drivers:

- ▷ Organic revenue declined 29.7% in the U.S. due primarily to a sharp decrease in ratings of commercial-mortgage-backed securities.
- ▷ Organic revenue increased 6.5% in Canada due primarily to strength in corporate and asset-backed securities ratings partially offset by weakness in financial institution and sovereign ratings.
- ▷ Organic revenue declined 2.2% in EMEA, primarily due to weakness in residential- and commercial-mortgage-backed securities ratings.

Bars represent reported revenue. Percentages represent organic revenue growth (decline). Organic revenue is a non-GAAP measure.



## Quarterly Product Trends: Investment Management (\$bil)



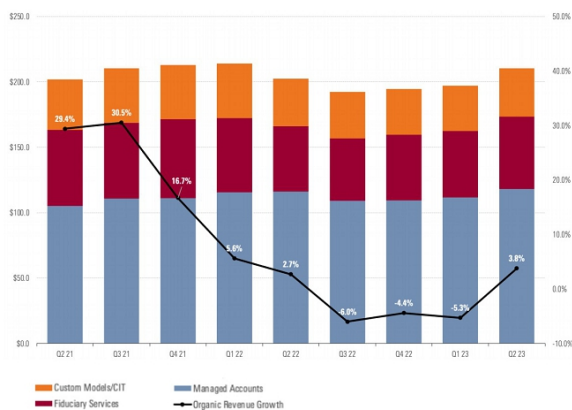
### Investment Management Q2 2023 AUM/A:

- Investment Management assets increased 5.6% over the prior year period, due to market gains.
- Declines in Investment Management organic revenue (-10.7%) reflected the timing of client billings, which were largely based on assets as of March 31, 2023, when most markets were still down over the trailing 12-months.

\* Managed Portfolios – Wholesale: Through our distribution sales team, the Company offers investment strategies and services directly to financial advisors in bank, broker dealers with a corporate RIA, who have a corporate RIA, insurance, and RIA channels that offer the Company's investment strategies and services to their clients (the end investor). This remains the Company's strategic focus. \*\*Managed Portfolios – Non-Wholesale: The Company sells services directly to financial institutions such as broker dealers, discount brokers, and wirehouses. Our distribution sales team is not involved with the advisers of these firms.



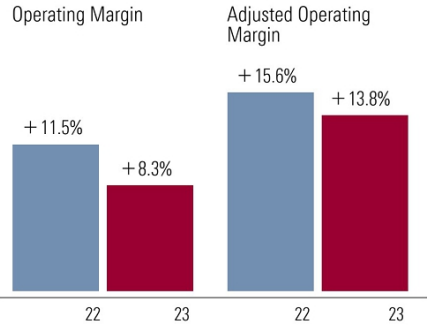
## Quarterly Product Trends: Workplace Solutions (\$bil)



### Workplace Solutions Q2 2023 AUM/A:

Workplace Solutions assets under management and advisement increased 3.9% versus the prior-year period, reflecting market gains.

# Q2 2023 Operating Margins



## Operating Margin Drivers:

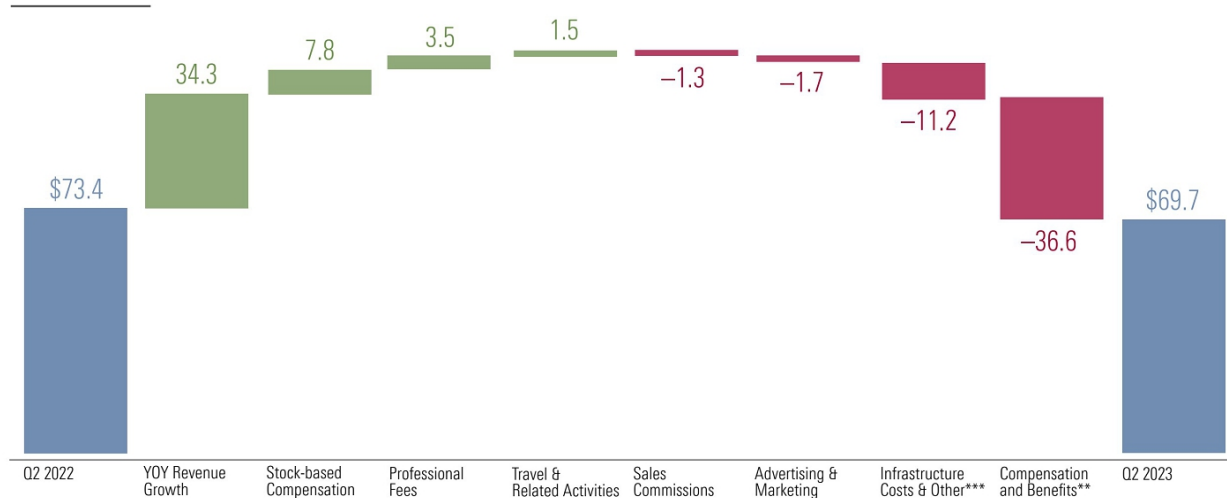
Operating expense included \$7.3 million of costs related to the Company's significant reduction and shift of its China operations, which are excluded from adjusted operating income and are nearing their successful completion.

Key drivers of expense growth included:

- Compensation costs increased \$36.0 million, reflecting growth in headcount across key product areas over the past year. Headcount increased 12.6% from the prior-year period and decreased 2.3% sequentially from March 31, 2023.
- Severance costs increased \$6.1 million. That included \$4.0 million related to reorganizations in certain areas of the business, which negatively impacted operating margin and adjusted operating margin by 0.8 percentage points, and \$1.7 million in severance costs related to the reduction and shift of its China activities.
- Depreciation increased \$5.0 million as a result of higher capitalized software costs for product enhancements in prior periods and higher leasehold improvements.

Adjusted operating margin is a non-GAAP measure.

## Adjusted Operating Income\* Walk Q2 2022 to Q2 2023 (\$ mil)

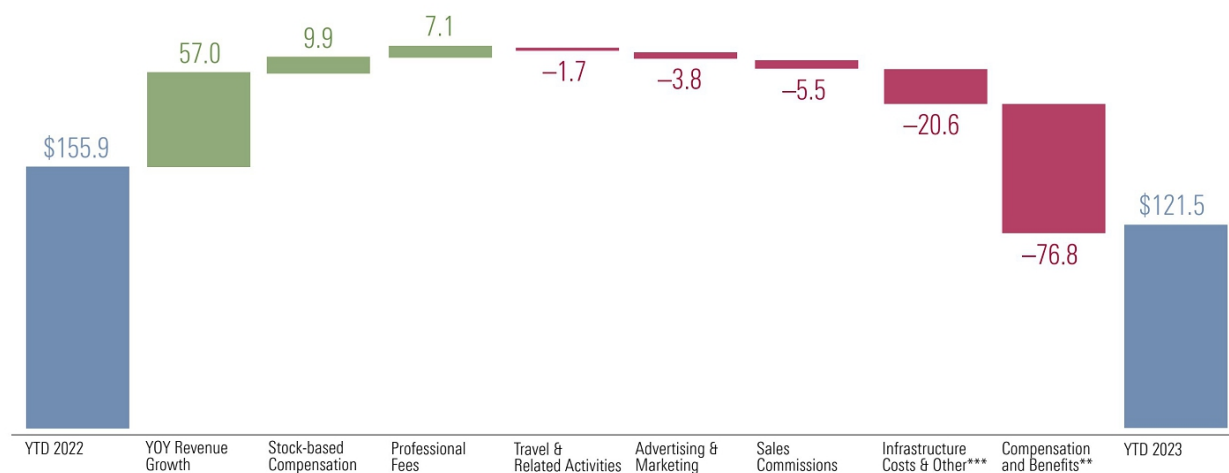


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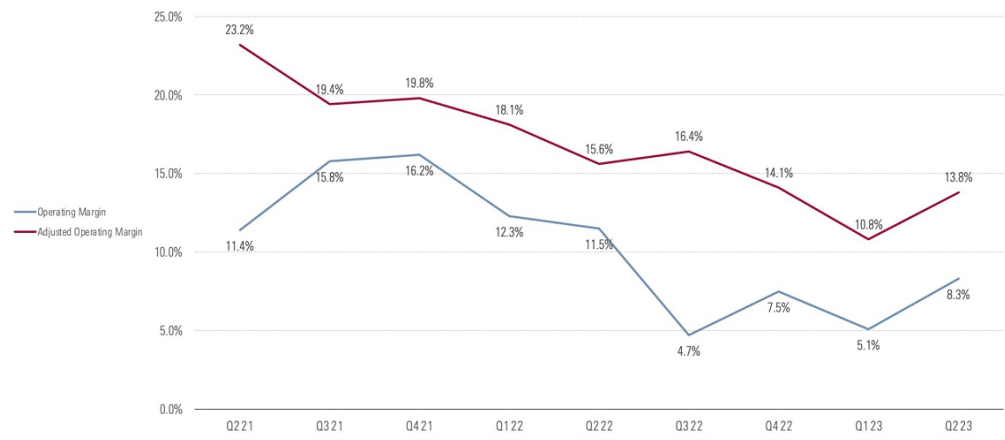
\* Adjusted operating income, a non-GAAP measure, excludes intangible amortization expenses, all mergers and acquisitions (M&A)-related expenses (including M&A earn-outs), and items related to the significant reduction and shift of the Company's operations in China. \*\*Includes salaries, cash bonus, and company-sponsored benefits. This line also includes severance-related expenses including \$4.0 million for reorganizations not related to the shift of the Company's China activities, and sign-on and retention bonuses. \*\*\*Includes infrastructure costs, (including third party contracts with data providers, AWS cloud costs to house data collection and products, and subscriptions to SaaS-based software), facilities, depreciation/amortization, and capitalized labor.



## YTD Adjusted Operating Income\* Walk Q2 2022 to Q2 2023 (\$ mil)



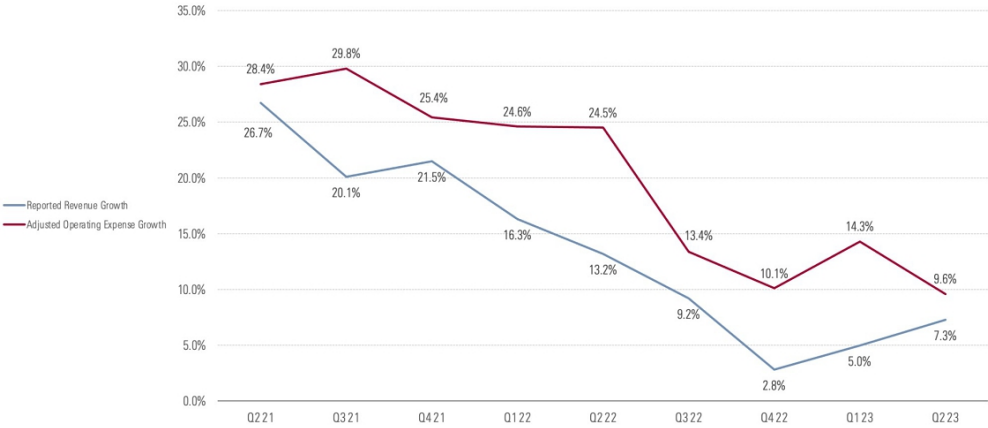
# Quarterly Operating Margin Trends



Adjusted operating margin is a non-GAAP measure. Severance costs related to certain reorganizations, and excluding expenses related to the shift of the Company's China activities, negatively impacted operating margin and adjusted operating margin by 0.8 percentage points in Q2 23.



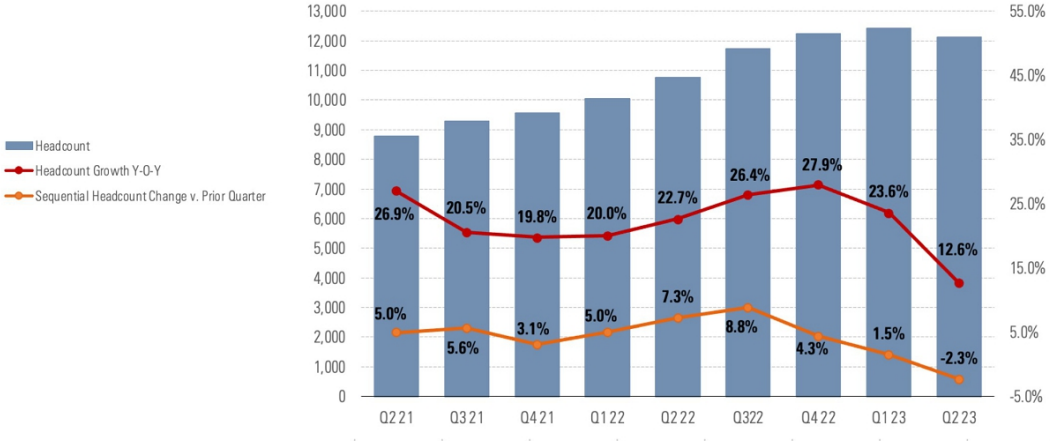
# Revenue vs. Adjusted Operating Expense Growth



Adjusted operating expense is a non-GAAP measure and is defined as operating expense excluding intangible amortization expense, all mergers and acquisition related expenses (including M&A-related amounts), and items related to the significant reduction and shift of the Company's operations in China. Excluding severance costs related to certain reorganizations and excluding the Company's China activities, adjusted total operating expense growth would have been 8.6%.



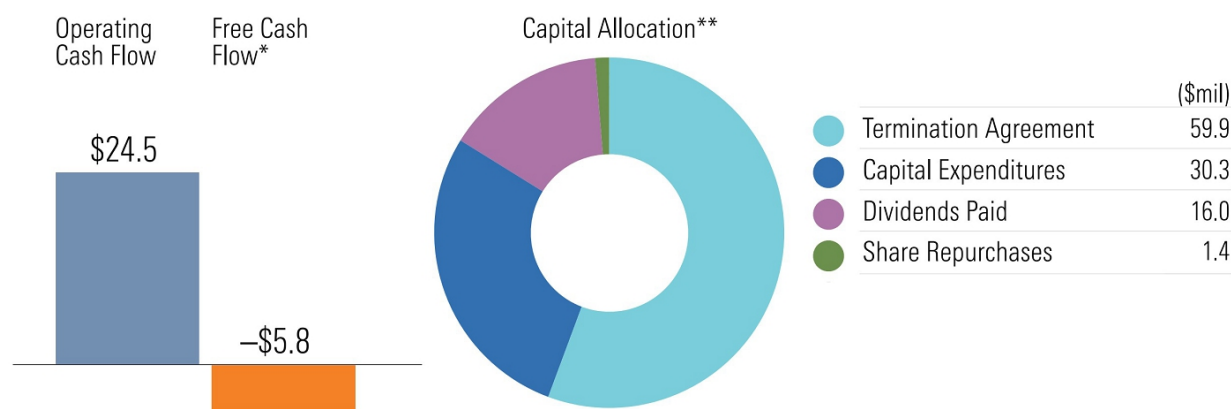
# Headcount Trends



Headcount represents permanent, full-time employees.



## Q2 2023 Cash Flow and Capital Allocation (\$mil)



23

\* Free cash flow, a non-GAAP measure, is defined as cash provided by or used for operating activities less capital expenditures.\*\* Total capital deployed in the second quarter of 2023 was higher than operating cash flow due to the use of excess cash on hand and an increase in debt. The Company's outstanding debt increased by a net of \$22.0 million as of the end of the second quarter of 2023 compared to the end of the first quarter of 2023. Excluding the termination agreement payment of \$59.9 million and \$3.2 million in severance related to the Company's China activities, free cash flow would have been \$57.3 million for the quarter ended June 30, 2023.

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## Appendix



## Q2 2023 Operating and Free Cash Flow Excluding Certain Items

	Q2 2023	Q2 2022	% Change
Cash provided by operating activities	\$24.5	\$68.7	(64.3%)
Capital expenditures	(30.3)	(31.7)	
<b>Free cash flow</b>	<b>(\$5.8)</b>	<b>\$37.0</b>	<b>NMF</b>
Items included in cash provided by operating activities			
Payments related to the Termination Agreement	\$59.9	—	
Severance paid for reduction and shift of China operations	\$3.2	—	
Contingent consideration related to acquisitions*	—	\$40.0	
<b>Cash provided by operating activities, excluding certain items</b>	<b>\$87.6</b>	<b>\$108.7</b>	<b>(19.4%)</b>
<b>Free cash flow, excluding certain items</b>	<b>\$57.3</b>	<b>\$77.0</b>	<b>(25.6%)</b>

Free cash flow is a non-GAAP measure and is defined as cash provided by or used for operating activities less capital expenditures. \* Includes the impact of the Sustainalytics earn-out payment in 2022.

## YTD 2023 Operating and Free Cash Flow Excluding Certain Items

	YTD 2023	YTD 2022	% Change
Cash provided by operating activities	\$47.9	\$92.2	(48.0%)
Capital expenditures	(59.8)	(59.7)	
<b>Free cash flow</b>	<b>(\$11.9)</b>	<b>\$32.5</b>	<b>NMF</b>
Items included in cash provided by operating activities			
Payments related to the Termination Agreement	\$59.9	—	
Severance paid for reduction and shift of China operations	\$10.1	—	
Contingent consideration related to acquisitions*	\$4.5	\$40.0	
<b>Cash provided by operating activities, excluding certain items</b>	<b>\$122.4</b>	<b>\$132.2</b>	<b>(7.4%)</b>
<b>Free cash flow, excluding certain items</b>	<b>\$62.6</b>	<b>\$72.5</b>	<b>(13.7%)</b>

## Reconciliation from Reported to Organic Revenue Change by Revenue Type

<b>Consolidated</b>	<b>Q2 21</b>	<b>Q3 21</b>	<b>Q4 21</b>	<b>Q1 22</b>	<b>Q2 22</b>	<b>Q3 22</b>	<b>Q4 22</b>	<b>Q1 23</b>	<b>Q2 23</b>
Reported Change in Revenue	26.7%	20.1%	21.5%	16.3%	13.2%	9.2%	2.8%	5.0%	7.3%
less: M&A, accounting changes, and currency	10.0%	1.5%	0.1%	-1.8%	-2.6%	0.7%	0.6%	2.2%	2.2%
M&A and accounting changes				-0.4%	0.5%	4.1%	3.6%	4.0%	2.7%
Currency				-1.4%	-3.1%	-3.4%	-3.0%	-1.8%	-0.5%
Organic Revenue Change	16.7%	18.6%	21.4%	18.1%	15.8%	8.5%	2.2%	2.8%	5.1%
<b>License-Based</b>	<b>Q2 21</b>	<b>Q3 21</b>	<b>Q4 21</b>	<b>Q1 22</b>	<b>Q2 22</b>	<b>Q3 22</b>	<b>Q4 22</b>	<b>Q1 23</b>	<b>Q2 23</b>
Reported Change in Revenue	25.4%	18.2%	18.3%	17.2%	18.1%	19.4%	16.0%	16.7%	14.8%
less: M&A, accounting changes, and currency	12.1%	1.3%	-0.2%	-1.6%	-2.2%	1.1%	1.1%	2.4%	2.6%
M&A and accounting changes				0.0%	1.2%	5.0%	4.6%	4.4%	2.8%
Currency				-1.6%	-3.4%	-3.9%	-3.5%	-2.0%	-0.2%
Organic Revenue Change	13.3%	16.9%	18.5%	18.8%	20.3%	18.3%	14.9%	14.3%	12.2%

Organic revenue is a non-GAAP measure.



## Reconciliation from Reported to Organic Revenue Change by Revenue Type

<b>Asset-Based</b>	<b>Q2 21</b>	<b>Q3 21</b>	<b>Q4 21</b>	<b>Q1 22</b>	<b>Q2 22</b>	<b>Q3 22</b>	<b>Q4 22</b>	<b>Q1 23</b>	<b>Q2 23</b>
Reported Change in Revenue	25.1%	23.5%	18.4%	11.6%	4.3%	-1.6%	-6.1%	-4.7%	-0.4%
less: M&A, accounting changes, and currency	2.1%	1.0%	0.7%	-3.3%	-3.2%	3.7%	2.8%	1.3%	1.0%
M&A and accounting changes				-2.3%	-1.7%	5.0%	3.9%	2.1%	5.2%
Currency				-1.0%	-1.5%	-1.3%	-1.1%	-0.8%	-4.2%
Organic Revenue Change	23.0%	22.5%	17.7%	14.9%	7.5%	-5.3%	-8.9%	-6.0%	-1.4%
<b>Transaction-Based</b>	<b>Q2 21</b>	<b>Q3 21</b>	<b>Q4 21</b>	<b>Q1 22</b>	<b>Q2 22</b>	<b>Q3 22</b>	<b>Q4 22</b>	<b>Q1 23</b>	<b>Q2 23</b>
Reported Change in Revenue	33.5%	24.8%	36.7%	17.3%	2.6%	-20.7%	-34.5%	-34.2%	-18.5%
less: M&A, accounting changes, and currency	8.9%	3.2%	1.4%	-1.0%	-3.4%	-2.9%	-2.6%	0.8%	1.0%
M&A and accounting changes				0.0%	0.0%	0.0%	0.0%	2.4%	0.0%
Currency				-1.0%	-3.4%	-2.9%	-2.6%	-1.6%	1.0%
Organic Revenue Change	24.6%	21.6%	35.3%	18.3%	6.0%	-17.8%	-31.9%	-35.0%	-19.5%

Organic revenue is a non-GAAP measure.

## Reconciliation from Reported to Organic Revenue Change by Product Area

<b>Morningstar Data</b>	<b>Q2 21</b>	<b>Q3 21</b>	<b>Q4 21</b>	<b>Q1 22</b>	<b>Q2 22</b>	<b>Q3 22</b>	<b>Q4 22</b>	<b>Q1 23</b>	<b>Q2 23</b>
Reported Change in Revenue	13.1%	13.5%	11.9%	7.7%	6.6%	3.3%	1.6%	6.3%	7.9%
less: M&A, accounting changes, and currency	5.5%	2.1%	-0.1%	-2.0%	-5.1%	-6.3%	-5.3%	-3.7%	-0.4%
M&A and accounting changes				0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Currency				-2.0%	-5.1%	-6.3%	-5.3%	-3.7%	-0.4%
Organic Revenue Change	7.6%	11.4%	12.0%	9.7%	11.7%	9.6%	6.9%	10.0%	8.3%
<b>Morningstar Direct</b>	<b>Q2 21</b>	<b>Q3 21</b>	<b>Q4 21</b>	<b>Q1 22</b>	<b>Q2 22</b>	<b>Q3 22</b>	<b>Q4 22</b>	<b>Q1 23</b>	<b>Q2 23</b>
Reported Change in Revenue	11.6%	9.8%	7.0%	8.3%	6.0%	4.8%	7.7%	7.0%	9.0%
less: M&A, accounting changes, and currency	4.4%	1.4%	-0.6%	-1.9%	-4.2%	-5.2%	-4.4%	-2.7%	-0.3%
M&A and accounting changes				0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Currency				-1.9%	-4.2%	-5.2%	-4.4%	-2.7%	-0.3%
Organic Revenue Change	7.2%	8.4%	7.6%	10.2%	10.2%	10.0%	12.1%	9.7%	9.3%

Organic revenue is a non-GAAP measure.

## Reconciliation from Reported to Organic Revenue Change by Product Area

Investment Management	Q2 21	Q3 21	Q4 21	Q1 22	Q2 22	Q3 22	Q4 22	Q1 23	Q2 22
Reported Change in Revenue	13.6%	6.9%	8.3%	4.8%	-3.2%	-10.2%	-15.3%	-3.9%	-2.0%
less: M&A, accounting changes, and currency	3.0%	0.9%	0.3%	-8.3%	-7.6%	3.0%	3.6%	7.9%	8.7%
M&A and accounting changes				-6.7%	-5.8%	4.5%	5.4%	9.4%	10.0%
Currency				-1.6%	-1.8%	-1.5%	-1.8%	-1.5%	-1.3%
Organic Revenue Change	10.6%	6.0%	8.0%	13.1%	4.4%	-13.2%	-18.9%	-11.8%	-10.7%
Morningstar Advisor Workstation	Q2 21	Q3 21	Q4 21	Q1 22	Q2 22	Q3 22	Q4 22	Q1 23	Q2 23
Reported Change in Revenue	8.0%	6.0%	3.1%	1.8%	3.1%	4.8%	5.6%	5.6%	6.8%
less: M&A, accounting changes, and currency	0.8%	0.3%	0.4%	-0.1%	-0.3%	0.0%	-1.0%	-0.6%	-0.5%
M&A and accounting changes				0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Currency				-0.1%	-0.3%	0.0%	-1.0%	-0.6%	-0.5%
Organic Revenue Change	7.2%	5.7%	2.7%	1.9%	3.4%	4.8%	6.6%	6.2%	7.3%
Morningstar Sustainalytics		Q3 21	Q4 21	Q1 22	Q2 22	Q3 22	Q4 22	Q1 23	Q2 23
Reported Change in Revenue		45.6%	43.0%	42.0%	36.3%	32.3%	15.9%	10.5%	12.7%
less: M&A, accounting changes, and currency		2.0%	-2.1%	-5.7%	-11.1%	-13.5%	-10.0%	-5.4%	0.0%
M&A and accounting changes				0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Currency				-5.7%	-11.1%	-13.5%	-10.0%	-5.4%	0.0%
Organic Revenue Change		43.6%	45.1%	47.7%	47.4%	45.8%	25.9%	15.9%	12.7%

Organic revenue is a non-GAAP measure.



## Reconciliation from Reported to Organic Revenue Change by Product Area

<b>DBRS Morningstar Canada</b>	<b>Q2 21</b>	<b>Q3 21</b>	<b>Q4 21</b>	<b>Q1 22</b>	<b>Q2 22</b>	<b>Q3 22</b>	<b>Q4 22</b>	<b>Q1 23</b>	<b>Q2 23</b>
Reported Change in Revenue	-2.4%	0.0%	2.4%	-9.4%	-11.2%	-0.5%	-17.6%	-0.1%	1.1%
less: M&A, accounting changes, and currency	11.2%	5.5%	3.3%	-0.1%	-3.4%	-4.6%	-6.4%	-6.7%	-5.4%
M&A and accounting changes				0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Currency				-0.1%	-3.4%	-4.6%	-6.4%	-6.7%	-5.4%
Organic Revenue Change	-13.6%	-5.5%	-0.9%	-9.3%	-7.8%	4.1%	-11.2%	6.6%	6.5%
<b>DBRS Morningstar EMEA</b>	<b>Q2 21</b>	<b>Q3 21</b>	<b>Q4 21</b>	<b>Q1 22</b>	<b>Q2 22</b>	<b>Q3 22</b>	<b>Q4 22</b>	<b>Q1 23</b>	<b>Q2 23</b>
Reported Change in Revenue	31.3%	17.6%	7.2%	-18.5%	-15.4%	-22.8%	-25.4%	-9.9%	-1.5%
less: M&A, accounting changes, and currency	14.0%	7.0%	0.8%	-2.9%	-10.3%	-13.1%	-10.0%	-6.6%	0.7%
M&A and accounting changes				0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Currency				-2.9%	-10.3%	-13.1%	-10.0%	-6.6%	0.7%
Organic Revenue Change	17.3%	10.6%	6.4%	-15.6%	-5.1%	-9.7%	-15.4%	-3.3%	-2.2%

Organic revenue is a non-GAAP measure.



## Reconciliation from Operating Margin to Adjusted Operating Margin

	Q2 21	Q3 21	Q4 21	Q1 22	Q2 22	Q3 22	Q4 22	Q1 23	Q2 23
<b>Operating Margin</b>	11.4%	15.8%	16.2%	12.3%	11.5%	4.7%	7.5%	5.1%	8.3%
Add: intangible amortization and all M&A-related expenses (including M&A-related earn-outs), and items related to the significant reduction and shift in the Company's operations in China	11.8%	3.6%	3.6%	5.8%	4.1%	11.7%	6.6%	5.7%	5.5%
<b>Adjusted Operating Margin</b>	23.2%	19.4%	19.8%	18.1%	15.6%	16.4%	14.1%	10.8%	13.8%

Adjusted operating margin is a non-GAAP measure.



## Reconciliation from Total Operating Expenses to Adjusted Operating Expenses

	Q2 21	Q3 21	Q4 21	Q1 22	Q2 22	Q3 22	Q4 22	Q1 23	Q2 23
<b>Operating Expense</b>	368.2	361.1	387.4	400.6	416.5	446.2	439.5	455.2	463.0
Less: intangible amortization and all M&A-related expenses (including M&A-related earn-outs), and items related to the significant reduction and shift in the Company's operations in China	49.2	15.7	16.4	26.1	19.5	54.6	30.9	27.3	28.0
<b>Adjusted Operating Expense</b>	<b>319.0</b>	<b>345.4</b>	<b>371.0</b>	<b>374.5</b>	<b>397.0</b>	<b>391.6</b>	<b>408.6</b>	<b>427.9</b>	<b>435.0</b>

Adjusted operating expense is a non-GAAP measure.





MORNINGSTAR

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## Letter from Kunal Kapoor

### Second-Quarter Earnings 2023

Dear Morningstar shareholders,

It was good to see many of you at this year's shareholder meeting. A number of you shared that you'd like to hear from me more frequently, so, starting this quarter, I'll pen a letter alongside our earnings release that addresses a few timely themes.

The headline is that, after a period of heavy investment, we are moving quickly to return margins to historical levels. Without rehashing too much of the earnings release, revenue grew 7.3% to \$504.7 million, an increase of 5.1% on an organic basis compared to the prior-year period. Our license-based businesses were growth drivers, while asset-based product areas were nearly flat, and DBRS Morningstar continued to face a challenging issuance environment. I'll use this quarter's letter to focus on margins and Morningstar Sustainalytics, in particular, and will then highlight some other areas in upcoming missives.

#### A deliberate focus on growing margins

You heard in our shareholder meeting in May that the executive team and I are focusing on durable growth and profitability. As a people-intensive business, our largest expense category is compensation, and we are taking a hard look at whether we have the right-sized teams for the current market opportunity.

This has led to targeted reorganizations as well as close management of our hiring process for both backfills and new roles. For example, we recently reallocated analytical resources at DBRS Morningstar away from the North American commercial real estate market where we have less confidence in a short-term rebound. In Morningstar Sustainalytics, we narrowed our focus to concentrate on more mature ESG markets and are refocusing our efforts around global solutions. As of June 30, 2023, our headcount was 12,126, a decline of 2.3% sequentially from March 31, 2023 that reflects these reorganizations and deliberate hiring process. Beyond headcount, we are controlling costs elsewhere, including discretionary costs like professional fees and travel. We are also focused on optimizing our real estate footprint, and we recently terminated our DBRS Morningstar lease in London and brought the team into our larger Morningstar location.

You're starting to see those efforts bear fruit in our second-quarter results. While operating income fell 22.6% to \$41.7 million and our operating margin was down to 8.3% from 11.5% in the prior-year period, our adjusted operating income was down a more modest 5.0% to \$69.7 million and our adjusted operating margin was 13.8%, compared to 15.6% in the second quarter of 2022. We incurred \$4.0 million in severance costs related to reorganizations in certain areas of the business (excluding those related to the transition and shift of our China activities), and these costs had a negative 0.8 percentage point impact on our operating and adjusted operating margin in the quarter. We're working to get back to our historical peak margins and believe we've laid the foundation to accelerate toward that goal. Importantly, we expect that our business will keep growing even as profitability expands.

#### Aligning Morningstar Sustainalytics and Morningstar Indexes

One of the product areas that provides a significant opportunity to expand our overall margins is Morningstar Sustainalytics. We've invested heavily here, first by acquiring Sustainalytics in 2020 and then with organic investments to support its growth. That period of heavy investment is largely complete, and we're now moving to fully realize the benefits of those investments as we integrate the business more fully with other product areas.

In June, we [aligned Morningstar Sustainalytics and Morningstar Indexes](#) under the leadership of Ron Bundy. These two product areas operate in similar markets, serve a similar set of institutional and asset management clients, and have collaborated closely in recent years. As separate teams, they have worked hand-in-hand to introduce a range of ESG product and service offerings. As an aligned team, we will bring investors a more holistic set of ESG products and services in an even faster and more focused way, while tightening execution on some key priorities.

We'll retain a focus on what's working well, including in Europe where we have a strong competitive position, and on products including the flagship ESG Risk Rating, which continues to help investors understand and manage material ESG issues. We also believe there's a long runway for our recently launched Low Carbon Transition Rating, which provides a forward-looking, science-based assessment of a company's current alignment to a net-zero pathway, as well as our newly enhanced Physical Climate Risk Metrics. In other areas, we have some work to do to realize our vision. Notably, it's clear that the political environment around ESG in the U.S. has meaningfully impacted the pace of adoption here. This is particularly true in the wealth- and asset-management segments, which tend to follow asset owners on these matters. For instance, while we have a healthy pipeline for our recently introduced climate solutions, the conversion process is extending longer than we have typically experienced.

## Letter from Kunal Kapoor

### Second-Quarter Earnings 2023

Against that backdrop, our approach is aligned with a long-term investor trend toward more choice and personalization at a time when we are on the verge of a generational wealth transfer. We believe that ESG data, analytics, and research support personalization and choice and that they will drive engagement—and, likely, a higher propensity towards savings and investing in the years ahead. The choices investors make are ultimately up to them, but we have the tools they need to make those judgements. We are concentrating on strengthening core offerings across the Morningstar Sustainalytics portfolio globally, improving our sales cadence, and expanding our regulatory and index solutions.

#### License-based product strength

I'll conclude by highlighting further solid progress in the remainder of our license-based product areas.

First, PitchBook continues to make significant contributions to our overall growth. We're experiencing robust demand in our core investor and advisor client segments (including private equity and venture capital), even as the corporate segment remains more challenging. Lead generation remains strong and, while conversion rates are a little slower than they were in the particularly strong markets of 2021 and early 2022, they are in line with the long-term trend. We're making good progress integrating Leveraged Commentary & Data (LCD), and in the quarter, we added LCD research and news on the leveraged loan, bond, and private credit markets to the PitchBook platform. Our long-term vision is to create a unified PitchBook platform with centralized access to private equity and private credit research, data, and analysis, and we're hearing good feedback from LCD clients with PitchBook access and from PitchBook customers who have been anxious to get access to the LCD content. One note on PitchBook's reported results: The license trend doesn't fully reflect the growth trajectory this quarter due in part to user rationalization related to a single renewal that resulted in a sharp drop in users even as total annual contract value (ACV) increased in that instance. Additionally, there was some ongoing variability driven by user maintenance and other updates to user lists. We're also experiencing strong increases in revenue coming from the direct data product, a nicely growing part of the PitchBook product suite, which isn't reflected in user counts.

Elsewhere, Morningstar Direct, Morningstar Data, and Morningstar Advisor Workstation all continue to grow at healthy rates, reflecting added value we've been bringing to these offerings. Recent enhancements include the launch of Direct Lens, which introduces new capabilities for portfolio management and portfolio analysis workflows and expands access to new datasets (including ESG) at the instrument level. With these products, it's all about expanding the value we bring to clients so we're even more essential to their workflows. We're also digging into the technology transformation that's underway with AI, and you should expect to see us meaningfully leverage the technology to further improve customer engagement, drive innovation, and expand use cases for our library of data and content.

#### Summer reading

If you're looking for summer reading, here's a smattering of commentary by our researchers that I especially enjoyed:

- [What Beat the S&P 500 Over the Past Three Decades? Doing Nothing.](#) Jeffrey Ptak, April 17, 2023
- [The Inflation Hedge That Cost Investors 17% of Their Purchasing Power.](#) Jeffrey Ptak, June 12, 2023
- [The Best Robo-Advisors of 2023.](#) Amy Arnott, June 22, 2023
- [Pumping the Brakes: PitchBook Quantitative Perspectives Q2 2023.](#) Andrew Akers and Parker Dean, June 22, 2023
- [What the New ISSB Climate Standard Means for Investors.](#) Aurthur Carabia and Jonathan Feldman, June 26, 2023
- [DBRS Morningstar CMBS Monthly Highlights — June Remittance: Delinquency and Special Servicing Rates Move Higher on Continued Office Underperformance.](#) Steve Jellinek and Erin Stafford, July 14, 2023

You may also appreciate these recent pieces that share more about our strategy and recent product innovations:

- [Australian Financial Review: Industry needs to lure back Robinhood generation: Morningstar CEO.](#) April 10, 2023
- [Barron's: Morningstar Beefs Up Model Portfolio Lineup for Advisors.](#) April 25, 2023
- [CEO keynote at the U.S. Morningstar Investment Conference.](#) April 26, 2023
- [Chicago Sun-Times: Morningstar's AI chatbot gets investors closer to mostly right answers.](#) May 22, 2023
- [South China Morning Post: Climate change: Asian firms must accelerate decarbonisation efforts to catch up with global warming targets. Morningstar Sustainalytics says.](#) June 12, 2023

## Letter from Kunal Kapoor

### Second-Quarter Earnings 2023

I hope you found this letter helpful — please do share your feedback.

Best regards,  
Kunal



This letter contains forward-looking statements within the meaning of 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,” “prospects,” 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. More information about factors that could affect Morningstar’s business and financial results are in our filings with the SEC, including our most recent 8-K, 10-K and 10-Q. Morningstar undertakes no obligation to publicly update any forward-looking statements as a result of new information, future events, or otherwise, except as required by law. In addition, this presentation references non-GAAP financial measures including, but not limited to, organic revenue, adjusted operating income and adjusted operating margin. These non-GAAP measures may not be comparable to similarly titled measures reported by other companies. A reconciliation of non-GAAP financial measures to the most directly comparable GAAP financial measures is provided in our filings with the SEC, including our earnings release for the three months ended June 30, 2023.

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