McGraw Hill Financial
1st Quarter 2016 Earnings Conference Call
Prepared Remarks
April 26, 2016

Chip Merritt
Vice President, Investor Relations
McGraw Hill Financial

Good morning. Thank you for joining us for McGraw Hill Financial's earnings call. Presenting on this morning's call are Doug Peterson, President and CEO, and Jack Callahan, Chief Financial Officer. This morning we issued a news release with our first quarter 2016 results. If you need a copy of the release and financial schedules, they can be downloaded at www.mhfi.com.

In today's earnings release and during the conference call we're providing adjusted financial information. This information is provided to enable investors to make meaningful comparisons of the Corporation's operating performance between periods and to view the Corporation's business from the same perspective as management's. The earnings release contains exhibits that reconcile the difference between the non-GAAP measures and the comparable financial measures, calculated in accordance with U.S. GAAP. In addition, I just want to remind you that we now exclude deal-related amortization from our non-GAAP results.

Before we begin, I need to provide certain cautionary remarks about forward-looking statements. Except for historical information, the matters discussed in the teleconference may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including projections, estimates, and descriptions of future events. Any such statements are based on current expectations and current economic conditions and are subject to risks and uncertainties that may cause actual results to differ materially from results anticipated in these forward-looking statements. In this regard, we direct listeners to the cautionary statements contained in our Form 10-Ks, 10-Qs, and other periodic reports filed with the U.S. Securities and Exchange Commission.

I would also like to call your attention to a European regulation. Any investor who has, or expects to obtain, ownership of 5% or more of McGraw Hill Financial should give me a call to better understand the impact of this legislation on the investor, and potentially the Company.

We're aware that we do have some media representatives with us on the call. However, this call is intended for investors and we would ask that questions from the media be directed to Jason Feuchtwanger in our New York office at (212) 438-1247 subsequent to this call.

At this time I would like to turn the call over to Doug Peterson.

Douglas L. Peterson
President and CEO
McGraw Hill Financial

Thank you, Chip. Good morning everyone and welcome to the call. This morning Jack and I will review our first quarter results. More broadly; however, I want to share the progress made at the Company as we increasingly focus on providing essential benchmarks, data, and analytics to the financial and commodity markets.

Let me begin with the highlights of the first quarter:

- The strength of our portfolio was displayed as we delivered solid EPS growth despite weak global debt issuance;
- We completed our portfolio refinement with announcements that we have reached definitive agreements to sell J.D. Power for $1.1 billion to XIO Group and Standard & Poor's Securities Evaluation, Inc. and Credit Market Analysis to Intercontinental Exchange;
- A top priority in 2016 is the integration of SNL. We made tremendous strides with both the integration and the progress on important synergy targets;
- We delivered a 130 basis-point improvement in the Company's adjusted operating profit margin;
- Our share repurchases resulted in a reduction in average diluted shares outstanding of 9 million shares over the past year;
- And finally, we are prepared for changing the name of the Company to S&P Global tomorrow. This new name better reflects the Company's global footprint and premium portfolio.

Now let's take a closer look at the first quarter results:

- While reported revenue grew 5%, organic revenue on a constant-currency-basis was unchanged.
- Weakness in S&P Ratings Services revenue was offset by growth in every other business—with particular strength in Platts and SNL.
- The Company delivered 130 basis points of adjusted operating profit margin improvement as a result of the addition of SNL and tremendous progress made toward achieving SNL integration synergy targets.
- Margin improvement and share repurchases enabled the Company to record an 8% increase in adjusted diluted EPS.

In the first quarter, every division recorded top-line growth and improvement in margins except for Standard & Poor's Ratings Services. What is most notable, however, is the financial improvement in Market Intelligence.

Market Intelligence

Now let me turn to the individual businesses. And I'll start with Market Intelligence. For division reporting purposes we have rebranded S&P Capital IQ and SNL as S&P Global Market Intelligence.

In the first quarter, revenue increased 27% primarily due to the addition of SNL. Excluding SNL revenue, organic growth was 7%. Adjusted operating profit increased 81% and the adjusted operating margin advanced 900 basis points to 30.3%.

In 2016, successful integration of SNL is a top priority for the Company. We made a substantial investment with the acquisition of SNL. And we recognize that we must achieve our integration synergy targets in order to deliver a return on that investment.

Our first quarter progress demonstrates our resolve to achieve these important targets. Most of the cost savings in the first quarter were the result of decreased staffing levels. Going forward, we will continue to target additional, longer lead-time synergies. Some of these items will require investment.

Let me add a bit more color on first quarter revenue growth in the Market Intelligence business lines:

- In Financial Data and Analytics, S&P Capital IQ Desktop & Enterprise Solutions revenue increased 7%, principally through a high single-digit increase in Desktop revenue.
- In addition, SNL revenue increased 13% compared to first quarter 2015, prior to our acquisition of SNL.
- Global Risk Services' revenue increased 8%, led by double-digit RatingsXpress® growth which is increasingly used by customers to meet their regulatory reporting needs.
- In the smallest category, Research & Advisory, revenue decreased 9% due to declines in Equity Research Services.

Standard & Poor's Ratings Services

Now, let me turn to Standard & Poor's Ratings Services.

During the quarter:

- Revenue decreased 9%, the forex impact was negligible;
- Adjusted operating profit decreased 12%; and
- The adjusted operating margin decreased 160 basis points to 45.6%.

The results were driven by a slow start to global issuance in the quarter. While January and February had anemic global issuance; however, market conditions improved late in the quarter and March had the largest monthly debt issuance in the past year.

Adjusted expenses declined 6% primarily due to lower incentive compensation and legal expenses. Non-transaction revenue in the quarter increased 3%, or 5% excluding forex, with strength in surveillance fees and CRISIL partially offset by declines in Rating Evaluation Service. Weak transaction revenue was caused by a 14% decline in global issuance including a 64% decrease in global high-yield issuance, partially offset by mid-teens growth in bank loan ratings. The high-yield market has been particularly volatile with weak transaction volume since the third quarter last year.

Let's take a look at issuance. U.S. issuance declined 24%, EMEA declined 10%, and Americas Ex-U.S. declined 27%. Only Asia reported an increase in issuance with an 8% gain. This marks the fourth consecutive quarter of year-on-year declining global issuance.

If we look more closely at the largest markets, first quarter issuance in the U.S. was down across the board year-on-year:

- Investment-grade decreased 13%;
- High-yield down 61%;
- Public finance was down 9%; and

- Structured finance also declined 40% with declines in every asset class.

In Europe:
- Investment-grade decreased 3%;
- High-yield was down 68%;
- While structured finance increased 7% with growth in covered bonds.

And in Asia:
- Investment-grade increased 10%;
- High-yield was down 39%; and
- Structured finance increased 4% due to RMBS and covered bonds.

During the quarter, Standard & Poor's Ratings Services issued its annual Global Refinancing Study. This yearly study shows debt maturities for the upcoming five years. This chart illustrates data from the 2015 and 2016 studies. The five-year period in the 2016 study shows a $600 billion increase in the total debt maturing versus the 2015 study. We use this study along with other market-based data to forecast and anticipate issuance.

Taking a closer look at data from the study reveals an important trend in high-yield maturities. Over the next five years, the level of high-yield debt maturing significantly increases each year which is a potential source of revenue in the coming years.

Yesterday Standard & Poor's issued their latest Global Issuance forecast. We still expect overall global issuance in 2016 to finish slightly lower than the level seen in 2015, with a decline of about 2%.

Interest rate assumptions in the U.S. have been pared back, which should give a boost to speculative-grade issuers through the remainder of the year; however, the decline of the previous three months is expected to weigh down global trends.

S&P Dow Jones Indices
Turning to S&P Dow Jones Indices:

- Revenue increased 5%;
- Adjusted operating profit increased 5%; and
- Adjusted operating margin improved slightly to 67.7%.

During the quarter, strength in revenue associated with exchange-traded derivative activity and data licenses was partially offset by weakness in average ETF AUM and OTC derivatives.

If we turn to the key business drivers, market volatility, particularly early in the quarter, resulted in increased trading activity of exchange-traded derivatives. The average daily volume of exchange-traded derivative products based on S&P Dow Jones Indices increased 29%. Two key products, the E-mini S&P 500 futures and the CBOE Volatility Index options and futures, known as the VIX, had volume increases of 29% and 43%, respectively.

The exchange-traded products industry continues to show strength recording inflows of $70 billion in the first quarter. Despite AUM based on S&P DJI's indices reaching $828 billion at the quarter end, the highest since year-end 2014, average AUM during the quarter decreased 5% year-over-year. It is a testament to our business model and product scope that with the year-over-year declines in ETF average AUM, increased volatility has generated sufficient trading related revenue to enable S&P Dow Jones Indices to deliver top-line grow.

Commodities & Commercial Markets

On to Commodities & Commercial Markets.

- Organic revenue increased 8% adjusted for the NADA Used Car Guide and Petromedia acquisitions;
- Adjusted operating profit increased 21%; and
- The adjusted operating margin improved 280 basis points to 42.2%.

Strength in Global Trading Services helped Platts deliver revenue growth of 10%.

Clearly the biggest news is the announcement that we have reached a definitive agreement to sell J.D. Power with an expected close in the third quarter. J.D. Power is an iconic brand and Finn O'Neill and his team have built a strong business over the past decade as part of McGraw Hill Financial. We wish Finn and all of the J.D. Power employees continued success.

Turning to Platts, Global Trading Services booked double-digit revenue gains, primarily due to the timing of license fees and strong license revenue from the Singapore and ICE exchanges. This license revenue tends to be erratic from quarter to quarter based on trading activity.

The core subscription business delivered high single-digit revenue growth led by the Petroleum sector which had mid-teens growth due to strength in market data for oil price assessments, shipping data, and forward price curve products. Metals, Agriculture & Petrochemicals (MAPS) revenue grew mid-single digit primarily due to strength of the Singapore Exchange listed TSI Iron Ore contract. Over the course of the year, we anticipate revenue growth will moderate as low oil prices have led to consolidations and restructurings in the oil and energy industry.

On the business development front, we have great news. Mexico has entered into an exclusive agreement with Platts to utilize its oil and natural gas price data in the nation's pricing formulas as part of the energy reform policy. Mexico is one of the largest exporters of gas globally. It has vast resources of oil and gas, and influences flow patterns not just in North America but around the world.

In closing, the breadth of our portfolio enabled the Company to weather market volatility and still deliver solid results. With the strength of our portfolio we are off to a good start in 2016 and our adjusted diluted EPS guidance remains unchanged at $5.00 to $5.15.

While we have made progress with the integration of SNL, it remains a top priority for the Company with much more to do.

The next time I speak with you we will be named S&P Global with SPGI as our new ticker symbol. We will be ringing the Opening Bell at the New York Stock Exchange on Thursday to mark the occasion.

With that, I want to thank you all for joining the call this morning and now I'm going to hand it over to Jack Callahan, our Chief Financial Officer.

Jack Callahan
Executive Vice President and CFO
McGraw Hill Financial

Thank you, Doug, and good morning to everyone on the call.

First, I will recap key financial results. I also want to discuss the impact from adjustments to earnings and outline a reporting change we made to bring greater clarity to the disclosure of our recurring revenue. Then, I will update you on the balance sheet, free cash flow, and return of capital. In wrapping up, I will provide some color on our guidance.

Let's start with the consolidated first quarter income statement. There are just a couple items I want to highlight:

- As you have just heard from Doug, we are off to a good start in 2016, despite weak bond issuance which resulted in a year on year revenue decline in S&P Ratings Services. The balance of the portfolio, excluding Ratings, delivered strong 18% top-line growth driven by both organic growth and acquisitions.
- Taken in total, reported revenue grew 5%. We have faced several quarters in a row of relatively weak global issuance and once again, thanks to the strength and breadth of our portfolio, combined with the timely addition of SNL Financial, we were able to sustain solid top-line growth.
- Our adjusted operating margin increased 130 basis points led by the outstanding profit growth and margin improvement at Market Intelligence. This division recorded an adjusted margin of 30%, an improvement of nine points versus a year ago. This was driven by strong top-line growth, realized cost synergies, and the addition of SNL profits. Looking forward, we anticipate Markets Intelligence's adjusted margins to generally continue in this new range. Adjusted margins across Commodities & Commercial also improved almost three points.
- Interest expense was up over $24 million due to our highly successful bond offerings last year. This stepped up level of interest expense will continue to create a difficult year-over-year comparison until the fourth quarter.
- Share repurchases over the past year have resulted in an over 3% decline in average diluted shares outstanding.
- So, overall, sustained top-line growth, margin improvement, and share count reduction delivered an 8% increase in adjusted diluted earnings per share.

Now let me turn to adjustments to earnings to help you better assess the underlying performance of the business.

Pre-tax adjustments to earnings totaled $15 million in the quarter. The first item consisted of a $24 million technology-related, non-cash impairment charge in Market Intelligence. This write down is based on a change in strategy. The division was working toward sourcing certain data internally. Now, we have secured this data more economically from an outside source and are shutting down our internal capabilities. The second item is a net gain from insurance recoveries. And the last item is primarily disposition-related costs incurred to sell J.D. Power. Also, as Chip pointed out earlier in the call, our adjusted results now exclude deal-related amortization. All adjustments are detailed on Exhibit 5 of today's earnings release.

In exhibit 6 of today's press release tables, we have modified the way that we report recurring revenue to provide investors with more granularity in understanding our revenue mix. In the past, we reported ETF and mutual fund AUM-based licensing revenue in S&P Dow Jones Indices as non-subscription revenue. Because of the ongoing nature of this revenue, we are now classifying it as "Asset-linked fees." Admittedly, there is some volatility in assets under management; but, the nature of this revenue stream is not as transaction-oriented as bond issuance. With this modified classification, more than 70% of our revenue is largely recurring in nature.

Now let's turn to the balance sheet. At the end of the quarter, we had $1.6 billion of cash and cash equivalents, of which approximately 90% was held outside the United States. We also had $3.5 billion of long-term debt and $472 million of short-term debt in commercial paper and from a draw down on our credit facility. Going forward, our level of short-term debt will fluctuate as we periodically tap into the short-term debt market to fund our share repurchase program and meet other corporate needs.

Our first quarter free cash flow was $84 million; however, to get a better sense of our underlying cash generation from operations, it is important to exclude the after-tax impact of legal and regulatory settlements and related insurance recoveries. On that basis, first quarter free cash flow was $192 million. As a reminder, the first quarter free cash flow is seasonally weak due to payment of annual incentives.

Now I want to review our return of capital. During the quarter, the Company bought approximately 2.2 million shares for $200 million. These purchases, combined with our dividend, totaled to approximately $296 million of cash returned to shareholders in the quarter. The share repurchase program remains an important component of the Company's overall capital allocation. In addition, we anticipate leveraging share repurchases to help mitigate the dilution from our recently announced asset sales, subject to market conditions.

Now we'll provide some additional perspective on our 2016 guidance. At this time, we are leaving all of our 2016 guidance unchanged and is summarized on this slide. This guidance continues to include the full-year results of J.D. Power, S&P Securities Evaluation, and Credit Market Analysis, all of which are pending sale. We will update guidance as necessary once these transactions are closed. While we will likely need to adjust our revenue guidance based on the timing of the divestiture of these assets, we anticipate using cash proceeds and ongoing share repurchase activity to mitigate the earnings per share dilution.

So, in summary, we are off to a good start in 2016. The strength of our portfolio, with its high proportion of recurring revenue combined with the continued progress on our cost reduction programs, positions us well to manage through these volatile market conditions.

To access the accompanying slides online, go to:
http://investor.spglobal.com/IRW/CustomPage/4023623/Index?KeyGenPage=1073751596&event=1073747963

"Safe Harbor" Statement Under the Private Securities Litigation Reform Act of 1995
This presentation contains "forward-looking statements," as defined in the Private Securities Litigation Reform Act of 1995. These statements, which express management's current views concerning future events, trends, contingencies or results, appear at various places in this presentation and use words like "anticipate," "assume," "believe," "continue," "estimate," "expect," "forecast," "future," "intend," "plan," "potential," "predict," "project," "strategy," "target" and similar terms, and future or conditional tense verbs like "could," "may," "might," "should," "will" and "would." For example, management may use forward-looking statements when addressing topics such as: the outcome of contingencies; future actions by regulators; changes in the Company's business strategies and methods of generating revenue; the development and performance of the Company's services and products; the expected impact of acquisitions and dispositions; the Company's effective tax rates; and the Company's cost structure, dividend policy, cash flows or liquidity.

Forward-looking statements are subject to inherent risks and uncertainties. Factors that could cause actual results to differ materially from those expressed or implied in forward-looking statements include, among other things:

- the impact of mergers, acquisitions or other business combinations, including the integration of SNL and the disposition of J.D. Power, the Company's ability to successfully integrate acquired businesses, unexpected costs, charges or expenses resulting from any business combination, and any failure to attract and retain key employees or to realize the intended tax benefits of any business combination;
- the health of debt and equity markets, including credit quality and spreads, the level of liquidity and future debt issuances;
- the rapidly evolving regulatory environment, in the United States and abroad, affecting Standard & Poor's Ratings Services, Platts, S&P Dow Jones Indices, Market Intelligence, and the Company's other businesses, including new and amended regulations and the Company's compliance therewith;
- the outcome of litigation, government and regulatory proceedings, investigations and inquiries;
- worldwide economic, financial, political and regulatory conditions;
- the level of interest rates and the strength of the credit and capital markets in the United States and abroad;
- the demand and market for credit ratings in and across the sectors and geographies where the Company operates;
- concerns in the marketplace affecting the Company's credibility or otherwise affecting market perceptions of the integrity or utility of independent credit ratings;
- the Company's ability to maintain adequate physical, technical and administrative safeguards to protect the security of confidential information and data, and the potential of a system or network disruption that results in regulatory penalties, remedial costs or improper disclosure of confidential information or data;
- the effect of competitive products and pricing;
- consolidation in the Company's end-customer markets;
- the impact of cost-cutting pressures across the financial services industry;
- a decline in the demand for credit risk management tools by financial institutions;
- the level of success of new product developments and global expansion;
- the level of merger and acquisition activity in the United States and abroad;
- the volatility of the energy marketplace;
- the health of the commodities markets;
- the impact of cost-cutting pressures and reduced trading in oil and other commodities markets;
- the strength and performance of the U.S. and international automotive markets;
- the impact on the Company's revenue and net income caused by fluctuations in foreign currency exchange rates;

- the level of restructuring charges the Company incurs;
- the level of the Company's capital investments;
- the level of the Company's future cash flows;
- the Company's ability to make acquisitions and dispositions and to integrate, and realize expected synergies, savings or benefits from the businesses it acquires;
- the Company's ability to successfully recover should it experience a disaster or other business continuity problem from a hurricane, flood, earthquake, terrorist attack, pandemic, security breach, cyber-attack, power loss, telecommunications failure or other natural or man-made event;
- changes in applicable tax or accounting requirements; and
- the Company's exposure to potential criminal sanctions or civil penalties if it fails to comply with foreign and U.S. laws and regulations that are applicable in the U.S. and international jurisdictions in which it operates, including sanctions laws relating to countries such as Iran, Russia, Sudan and Syria, anti-corruption laws such as the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act of 2010, and local laws prohibiting corrupt payments to government officials, as well as import and export restrictions.

The factors noted above are not exhaustive. The Company and its subsidiaries operate in a dynamic business environment in which new risks emerge frequently. Accordingly, the Company cautions readers not to place undue reliance on any forward-looking statements, which speak only as of the dates on which they are made. The Company undertakes no obligation to update or revise any forward-looking statement to reflect events or circumstances arising after the date on which it is made, except as required by applicable law. Further information about the Company's businesses, including information about factors that could materially affect its results of operations and financial condition, is contained in the Company's filings with the SEC, including the "Risk Factors" section in the Company's most recently filed Annual Report on Form 10-K and any subsequently filed Quarterly Report on Form 10-Q.