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3rd Quarter 2016 Earnings Conference Call
Prepared Remarks
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Vice President, Investor Relations
S&P Global

Thank you and good morning. Thanks for joining us for S&P Global's earnings call. Presenting on this morning's call are Doug Peterson, President and CEO, and Rob MacKay, Interim Chief Financial Officer. This morning we issued a news release with our third quarter 2016 results. If you need a copy of the release and financial schedules, they can be downloaded at investor.spglobal.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.

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 S&P Global 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 at (212) 438-1247.

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

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Douglas L. Peterson
President and CEO
S&P Global

Good morning. Thank you, Chip. Welcome everyone to the call. This morning Rob MacKay, our interim CFO, has joined us to cover the financial portion of our third quarter results and you'll hear from him shortly.

Let me begin with the highlights:

- We completed several business divestitures with the sales of J.D. Power, our two pricing businesses – SPSE and CMA, and the Equity Research business. This leaves us with a more focused, inter-related portfolio of market-leading businesses;
- Two tuck-in acquisitions were added during the quarter, PIRA Energy Group within Platts, and Trucost within S&P Dow Jones Indices;
- Several key management additions were announced;
- We completed the three-year $140 million cost reduction initiative that was announced during our Investor Day in 2014;
- We demonstrated continued revenue growth and productivity progress which led to an adjusted profit margin improvement of 320 basis points, with every segment delivering organic revenue growth;
- As a result of our share repurchases, we reduced average diluted shares outstanding by 3% year-over-year;
- Our bottom-line result was excellent with a 17% increase in adjusted diluted EPS over the third quarter of last year;
- We delivered YTD free cash flow of over $1 billion; and
- We increased our 2016 adjusted diluted EPS guidance to a range of $5.15 to $5.25 which Rob will cover shortly.

Before we turn to the results, I want to note three new appointees to our management team.

- Steve Kemps joined us from Quanta services as Executive Vice President, General Counsel;
- Martin Fraenkel has been promoted to President, S&P Global Platts. Martin previously led the global editorial team at Platts; and
- Ewout Steenbergen will join us from Voya Financial, Inc. as Executive Vice President and Chief Financial Officer effective November 14th.

I am pleased we have avoided any disruptions to our businesses as we put in place an excellent leadership team.

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

- Reported revenue grew 9% and organic revenue, on a constant-currency basis, increased 8%.
- In the third quarter, forex reduced revenue by $5 million yet contributed approximately $8 million to adjusted operating profit and approximately 60 basis points to the adjusted operating profit margin. Most of this benefit was realized in the Platts segment which benefited from a weaker British pound.
- The Company delivered a 320 basis-point improvement in adjusted operating profit margin. Together, revenue growth, margin improvement, and share repurchases led to a 17% increase in adjusted diluted EPS to $1.43 per share.

In the third quarter, every division recorded organic top-line growth. Profit growth, however, was most pronounced at Ratings and Market Intelligence with adjusted operating profit margin gains of 330 and 480 basis points, respectively.

S&P Global Ratings

Let me turn to the businesses and I'll start with S&P Global Ratings.

Despite initial uncertainty from the Brexit vote, third quarter issuance was strong, particularly in non-financial global corporates and U.S. public finance markets. This resulted in a 9% increase in revenue with a 1% unfavorable impact from forex.

Adjusted operating profit increased 17% due to strong revenue growth and cost containment, particularly with reduced legal and outside services spending. The adjusted operating margin increased 330 basis points to 51.3%. Forex had a negligible impact on adjusted operating profit.

Non-transaction revenue was unchanged with growth in surveillance fees offset by lower Rating Evaluation Services fees. Transaction revenue increased 23%, as a result of improved contract terms, growth in debt issuance, and a 21% increase in bank loan ratings revenue. I also want to note that as we work to re-enter the U.S. conduit fusion CMBS market, there were 13 transactions in the quarter and we rated two of them.

If we look more closely at the largest markets, third quarter issuance in the U.S. was up 7%, with:

- Investment-grade decreasing 3%;
- High-yield soaring 49%;
- Public finance up 16%; and
- Structured finance increasing 11% due to a 44% increase in ABS transactions driven especially by credit card ABS.

In Europe, issuance increased 14% with:

- Investment-grade climbing 42% driven by large M&A transactions;
- High-yield rising 37%; and
- Structured finance decreasing 46% primarily due to a 59% decline in covered bonds.

In Asia, issuance more than doubled. However; excluding domestic China issuance which we do not rate, Asian issuance increased 64%:

- Investment-grade surged 166%, however excluding domestic China it increased 67%.
- Japan was the country with the largest increase due to the Bank of Japan's negative interest rate policy.
- Finally, structured finance increased 2%.

Two weeks ago, S&P Global Ratings released its latest global issuance forecast. In the three months since the Brexit vote, debt markets have reacted very positively, with unexpected levels of new issuance, especially in the nonfinancial corporate, financial services, and international public finance sectors. We now expect global issuance to increase 24% in 2016. This compares to the July forecast issued on the heels of the Brexit vote which anticipated a decline of approximately 4%.

If we remove sovereign issuance from the forecast, however, we anticipate issuance in 2016 to increase approximately 10%. Looking ahead to 2017, we expect an overall increase in global issuance of 5%, driven by the ECB extending its quantitative-easing policies longer than currently anticipated and further growth out of China. Excluding sovereign issuance, we anticipate issuance in 2017 to increase 3% to 6%.

S&P Global Market Intelligence

Now let me turn to S&P Global Market Intelligence.

In the third quarter, revenue increased 21% primarily due to the addition of SNL. Excluding SNL, organic revenue growth was 7%. Adjusted operating profit increased 43% and the adjusted operating margin advanced 480 basis points to 31.4%. This improvement was due to progress on SNL integration synergies, operating leverage from strong organic revenue growth, and continued efficiency gains. Forex had a negligible impact on revenue and adjusted operating profit in the quarter.

As we have stated before, in 2016, successful integration of SNL and delivery of synergies is a top priority for the Company. We have made tremendous progress, as evident in the margin improvement, and remain committed to achieving our integration synergy targets and deliver on our expected return on investment in SNL.

Let me add a bit more color on third quarter revenue growth in Market Intelligence. In Financial Data and Analytics, S&P Capital IQ Desktop & Enterprise Solutions revenue increased 6% with high-single digit growth in S&P Capital IQ Desktop. In addition, on a comparable basis which includes revenue prior to our acquisition, SNL revenue increased 12% over the third quarter 2015. SNL and S&P Capital IQ Desktop experienced year-over-year user percentage growth in the low teens and high-single digit, respectively.

Risk Services' revenue increased 10%, led by double-digit RatingsXpress® growth. In the smallest category, Research & Advisory, revenue decreased 8% due to declines in Equity Research. With the sale of Equity Research, the only remaining asset in this category is Investment Advisory. Therefore, in the future we will report Investment Advisory as part of Financial Data & Analytics.

S&P Dow Jones Indices

Now let's turn to S&P Dow Jones Indices.

- Revenue increased 6%;
- Adjusted operating profit increased 1%; and
- Adjusted operating margin declined 320 basis points to 66.2%. This is a sizable decline as the third quarter of 2015 benefited from a sharp increase in exchange-traded derivative volume that did not repeat this quarter. Also, I want to point out that the adjusted margin this quarter is comparable to the 66.0% figure we reported last quarter.

During the third quarter, revenue increased primarily due to mutual fund and ETF license fees and steady data license growth. Operating costs increased to support revenue growth and business initiatives as well as increased costs for purchased data. One notable example is connectivity expenses, as we recently started up a third data center to provide additional backup capabilities.

Often on our earnings calls I cite new products that we have launched. Last quarter I highlighted the launch of the JPX/S&P CAPEX & Human Capital Index in Japan. The new ETF that was launched based on this index has turned out to be one of the fastest growing new ETFs of the year. It already has over $700 million in AUM.

Asset-linked fee revenue increased 10 percent during the quarter. The exchange-traded products industry recorded massive inflows of $126 billion in the third quarter, almost triple the inflows in the second quarter. Of the $126 billion of industry inflows, $58 billion went into U.S. equity products with S&P Dow Jones Indices capturing about 60% of those inflows.

Average ETF AUM associated with our indices increased 15% year-over-year with inflows of 10% and the remainder from market appreciation. The quarter-ending ETF AUM associated with our indices reached a new record of $914 billion.

Transaction revenue from exchange-traded derivatives decreased primarily due to a 14% decrease in average daily volume of products based on our indices. The E-mini S&P 500 futures, CBOE Volatility Index options and futures (VIX), and CME equity complex contracts all decreased 10% to 25% compared to the volatile third quarter of 2015.

Subscription revenue, which consists primarily of data subscriptions and custom indices, increased due to growth in data subscription revenue and the timing of subscription revenue. During the quarter, the Company launched 161 new indices and our partners launched 11 new ETFs based on our indices.

S&P Global Platts

Now, on to the S&P Global Platts segment, which included J.D. Power results for July and August.

- Because this quarter had one less month of J.D. Power revenue than the third quarter of 2015, segment revenue declined 8%. Segment organic revenue, though, increased 4%;
- Adjusted operating profit decreased 4%, reflecting one less month of J.D Power results; and
- The adjusted operating margin increased 170 basis points to 40.9%.

Organic revenue increased 4% due to growth in subscriptions, partially offset by declines in Global Trading Services.

The core subscription business delivered mid-single digit revenue growth led by the Petroleum sector. Global Trading Services' double-digit revenue decrease was primarily due to the timing of license fees. Gas & Power revenue was flat with modest gains in subscriptions offset by lower Global Trading Services' revenue. Metals, Agriculture & Petrochemicals revenue declined low single-digit primarily due to lower revenue from SGX-listed TSI Iron Ore contracts. We continue to expect modest growth in the remainder of 2016 as many customers continue to face pressure from low oil prices.

On the business development front, we are building a world-class capability in energy supply and demand information. The acquisition of PIRA Energy Group added to the capabilities of Commodities Flow and RigData which we acquired earlier this year.

PIRA is a leader in worldwide energy market analysis and a great complement to our existing benchmarks. PIRA offers research and analysis in oil, gas, power, natural gas liquids, biofuels, coal, environmental, and agricultural markets. They also provide data tools to help customers analyze prices, supply, demand, trade flows, product balances, and refining activity. And I'm pleased that Executive Chairman and founder of PIRA, Dr. Gary Ross, has joined our team and is already generating new product ideas.

In addition, Platts worked with CME to launch a new futures contract. Alumina FOB Australia futures will be a 100 metric tons contract and will be financially settled each month against the daily price index published for Alumina FOB Australia by S&P Global Platts. Alumina is aluminum oxide, a white granular material, a little finer than table salt, that is transformed into aluminum metal in the smelting process. This new futures contract is in addition to the three existing CME aluminum futures contracts based on Platts benchmarks.

And finally, Brazil's Cetip, Latin America's largest depositary of private fixed-income securities and Brazil's largest private assets clearinghouse, is going to make Platts benchmark price assessments available as settlement mechanisms for the development of domestic derivatives contracts. Historically, Brazil's only hedging tools tended to be similar, but not necessarily matching commodity indices, or they were international, rather than domestic, contracts.

Investors are increasingly seeking new insights into environmental, social and governance factors and both our Index and Ratings businesses are taking action to address these needs. First, our S&P Dow Jones Indices acquired Trucost. Trucost has become a leading brand in the ESG information sector. They provide the gold-standard carbon and natural capital investment metrics that financial institutions need to assess the risks and opportunities presented by climate change and capitalize on the transition to a low carbon, resource efficient economy. The complementary nature of our two businesses allows us to combine Trucost's industry-leading environmental impact data with our world-class benchmarking capabilities to develop new ESG solutions.

Second, Ratings is developing a Green Bond Evaluation Tool to provide an analysis and estimate of the environmental impact of projects financed by a bond's proceeds. Our proposed approach would address mitigation, such as reducing negative environmental impact, and adaptation to look at resiliency to the impact of climate change. The output of the Green Bond Evaluation would include scores from the categories listed here amalgamated into an overall final Green Bond Evaluation.I am encouraged by the innovative thinking underway in the Company to help tackle increased ESG needs of investors.

Before I conclude, I need to point out a reporting change. Beginning in in the fourth quarter we will report our results under three segments: Ratings, Indices, and Market and Commodities Intelligence. We are doing this to be consistent with how we manage our businesses.

In summary:

- We completed sales of J.D. Power, two pricing businesses, and Equity Research;
- We had consistent results with all segments delivering organic revenue growth;
- Bond issuance was robust in the third quarter despite the Brexit vote;
- Our focus on revenue growth and productivity performance led to continued margin improvement;
- Integration of SNL is progressing well and remains a top priority in 2016; and
- Our adjusted diluted EPS guidance is increased to a range of $5.15 to $5.25 and includes dilution from the sale of J.D. Power, the pricing businesses, and Equity Research.

With that, let me turn the call over to Rob.

Robert MacKay
Interim Chief Financial Officer
S&P Global

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

This morning, I will recap key financial results and discuss the impact from adjustments to earnings. Then, I will update you on the balance sheet, free cash flow, and return of capital. Next I'll discuss the completion of our $140 million productivity program, the financial impact of our recent divestitures, and update our 2016 guidance. Before wrapping up, I will explain the new segment reporting that will be effective beginning in the fourth quarter and the data we will provide.

Let's start with the consolidated third quarter income statement. There are just a couple items I want to highlight. As you have just heard from Doug, all of our segments delivered top-line organic growth. Collectively, that led to an increase in reported revenue of 9%, with organic growth on a constant-currency basis of 8%. The difference is largely due to the SNL acquisition.

Foreign exchange rates reduced revenue by $5 million and had a favorable impact of $8 million on operating profit. Our adjusted operating margin increased 320 basis points. Approximately 60 basis points was due to forex. The balance was primarily due to outstanding top-line growth and margin improvement at S&P Global Ratings and S&P Global Market Intelligence.

The adjusted tax rate in the third quarter was 31.3%, an increase of 220 basis points over the third quarter of 2015 due to one-time benefits recorded in the prior period. Share repurchases over the past year have resulted in a 3% decline in average diluted shares outstanding. Taken together, top-line growth, margin improvement, and share count reduction combined to deliver a 17% 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 to a gain of $732 million in the quarter.

- The largest item is a gain on the sale of J.D. Power;
- The next item is a net gain from insurance proceed recoveries; and
- The last item includes net acquisition and disposition related costs primarily related to the sale of our SPSE and CMA pricing businesses to ICE and J.D. Power to the XIO Group.

And, as we discussed earlier this year, our adjusted results now exclude deal-related amortization, which totaled $23 million during the quarter. All adjustments are detailed on Exhibit 5 of today's earnings release.

Now, let's turn to the balance sheet. At the end of the quarter, we had $2.4 billion of cash and cash equivalents, of which approximately $1.6 billion was held outside the United States. We also had $3.6 billion of long-term debt and $400 million of short-term debt. The short-term debt is the value of the 2017 Notes that were redeemed in October.

One other item that I want to point out is that the cash proceeds from the sale of J.D. Power were recorded in the quarter; however, the tax on the gain will not be paid until later in the fourth quarter.

Free cash flow during the first nine months was approximately $1 billion. 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, free cash flow from the first nine months was approximately $1.1 billion.

Now, I will review our return of capital. During the quarter, the Company initiated a $750 million accelerated share repurchase plan. This resulted in the repurchase of 5.3 million shares during the quarter; however, the final share count reduction will not be determined until the ASR is completed. In addition, the Company paid a dividend of $95 million during the quarter. Year-to-date, the Company has returned $1.4 billion to shareholders through share repurchases and dividends.

In March of 2014, we initiated a productivity target of greater than $100 million in cost reduction initiatives during 2014 to 2016. We subsequently increased the target to $140 million. Today we are pleased to announce the successful completion of this program. We delivered slightly more than $140 million in savings. If you look at the chart on the right you can see that our adjusted operating margin has increased by 900 basis points since 2013. The successful achievement of this $140 million productivity target was a key contributor to this improvement.

While we are pleased with our recent divestitures, we want to make sure all of you understand the loss of revenue and profitability associated with these transactions. J.D. Power, the SPSE and CMA pricing businesses, and Equity Research combined to generate $310 million of revenue, $108 million of pro forma adjusted EBITDA, and approximately $0.25 of pro forma adjusted diluted EPS to our 2016 results before they were sold. This equates to approximately $100 million of revenue and 8 cents of adjusted diluted EPS that will be foregone each quarter.

The recently announced ASR should help offset some of this dilution. We estimate that the ASR will increase diluted adjusted earnings per share by about $0.10 over the next year. We hope these figures will help you with your modeling of our future results.

Based upon our strong results year-to-date and the expectation that debt issuance remains strong for the remainder of the year we are increasing our adjusted EPS guidance to a range of $5.15 to $5.25.

We have also made changes to other components of guidance as follows:

- Adjusted unallocated expense is reduced to $135 million due primarily to reduced professional fees.
- The adjusted operating margin increase over 2015 is now expected to be approximately 200 basis points. This is largely due to the excellent performance in Ratings and Market Intelligence.
- The adjusted tax rate is increased to approximately 31.5% primarily due to the timing and size of past years' tax settlements.
- Free cash flow, excluding after-tax legal and regulatory settlements and insurance recoveries, is increased to $1.4 billion due to strong financial results.

Overall this guidance reflects our expectation that 2016 will be another strong year for the Company.

The final item that I want to discuss is the upcoming change to our reporting segments. Beginning in the fourth quarter, S&P Global Market Intelligence and S&P Global Platts will be included in a new segment called Market and Commodities Intelligence. Both fourth quarter results and full-year 2016 results of both businesses will be reported in this new segment.

To facilitate analysis, in the next few weeks we will provide a pro-forma schedule with results of this new segment for all quarters of 2015 and 2016 as if it had existed this way. This should help investors model 2017 appropriately.

With that, let me turn the call back over to Chip for your questions.

To access the accompanying slides online, go to:
http://investor.spglobal.com/CustomPage/Index?KeyGenPage=1073751596&event=18425

"Safe Harbor" Statement Under the Private Securities Litigation Reform Act of 1995
These remarks contain "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 report 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:

- worldwide economic, financial, political and regulatory conditions, including economic conditions and regulatory changes that may result from the United Kingdom's likely exit from the European Union;
- the rapidly evolving regulatory environment, in the United States and abroad, affecting S&P Global Ratings, S&P Global Platts, S&P Dow Jones Indices, and S&P Global Market Intelligence, including new and amended regulations and the Company's compliance therewith;
- our ability to make acquisitions and dispositions and successfully integrate the businesses we acquire;
- the outcome of litigation, government and regulatory proceedings, investigations and inquiries;
- the health of debt and equity markets, including credit quality and spreads, the level of liquidity and future debt issuances;
- 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 effect of competitive products and pricing, including the level of success of new product developments and global expansion;
- 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 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;
- our ability to incentivize and retain key employees;
- 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 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;
- the level of the Company's future cash flows and capital investments;

- the impact on the Company's revenue and net income caused by fluctuations in foreign currency exchange rates; 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 domestic 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.