S&P Global

S&P Global
Third Quarter Earnings Conference Call
Prepared Remarks
October 26, 2017

Chip Merritt
Vice President, Investor Relations
S&P Global

Thank you and good morning. And welcome to S&P Global's earnings call. Presenting on this morning's call are Doug Peterson, President and CEO, and Ewout Steenbergen, Executive Vice President and Chief Financial Officer. This morning we issued a news release with our third quarter 2017 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 draw 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.

Douglas L. Peterson
President and CEO
S&P Global

Good morning. Thank you, Chip. Welcome to the call today.

Consistent with the first half of the year, the Company delivered another solid quarter. The underlying environment for our businesses is favorable with global GDP growth in every geography, higher and stable commodity prices, strong equity markets, and modest growth in U.S. bond issuance. With this backdrop, S&P Global is doing well.

Let me begin with the third quarter highlights:

- We attained strong organic revenue and adjusted operating profit growth in every segment;
- We delivered 190 basis points of adjusted profit margin improvement and adjusted diluted EPS growth of 19%;
- As a result of our YTD performance and our expectations for the remainder of the year, we are increasing our adjusted diluted EPS guidance to a range of $6.55 to $6.70;
- We will complete our $500 million ASR by month-end and believe that reinvesting in our stock represents a great investment and a good use of our cash;
- We returned $604 million through share repurchases and dividends, bringing our YTD total to $1.2 billion;
- We continue to focus on delivering meaningful revenue growth, launching new products, investing in productivity, and returning capital to shareholders.

Looking more closely at the financial results:

- The Company reported 5% revenue growth and achieved 12% growth on an organic basis.
- The Company achieved a 190 basis-point improvement in adjusted operating profit margin due to strong organic revenue growth, the sale of lower margin businesses, and productivity initiatives.
- We delivered 19% adjusted diluted EPS growth. There were some puts and takes to this figure as we recorded 3 cents a share unfavorable impact from forex and 14 cents a share favorable impact from stock option exercises, both of which Ewout will discuss in a moment.

What I would like to do first is provide a bit more color on some of the current and future drivers of our businesses.

And let me start with bank loan ratings which have been a growing part of the Ratings business over the past few years. Bank loan ratings are primarily issued on leveraged loans typically rated BB+ or lower. Over the past few years, both the volume of leveraged loans and the percent of leveraged loans rated by S&P have increased. During the quarter, bank loan revenue of $83 million was a key factor in the revenue growth of the Ratings segment.

This chart shows the U.S. leveraged loan inventory with each bar depicting leveraged loans maturing in the next eight years, as of the end of each period. At the end of 2014, for example, $809 billion was going to mature in the following 8 years. At the end of 2015, $850 billion was going to mature in the next 8 years, and so on. The total amount of outstanding leveraged loans has increased each year at a compounded annual growth rate of 11% since 2011.

When tracking issuance data, we always try to point out that where issuance takes place, which type of issuance, and the size of the deals, make a difference in the revenue we realize. Global issuance in the third quarter, excluding sovereign debt, decreased slightly. Structured finance, however, was quite strong.

Geographically, issuance in the United States increased 5% in the third quarter, with:

- Investment-grade increasing 9%;
- High-yield increasing 1%;
- Public finance down 19%; and
- Structured finance increasing 26% due primarily to strength in CLOs and CMBS.

In Europe, issuance decreased 17% in the quarter with:

- Investment-grade declining 22%;
- High-yield decreasing 29%; and
- Structured finance increasing 13% with strength in CLOs and RMBS.

In Asia, issuance increased 4%. The vast majority of Asian issuance, however, is made up of local China debt that we don't rate.

Ratings recently published its final issuance forecast for 2017 combined with its initial 2018 forecast. This forecast provides a range of issuance estimates for each of the major issuance categories. For 2017, excluding International Public Finance which is not material to our results, we expect a median increase of approximately 2% in 2017 and approximately 1% in 2018 in overall issuance.

While both Financial Services and Structured Finance are forecast to increase in both years, U.S. Public Finance is forecast to decline in both years. Our cautious outlook is primarily due to:

- The expectation that most developed countries' central banks will begin to rein in their monetary stimulus and unconventional monetary programs; and
- Many financial markets have reached new highs amid low-volatility and it's become more likely that in 2018 market volatility will increase.

Here's a new chart that shows how U.S. investment-grade corporations utilize bond proceeds. Issuance for M&A, buybacks, and refinancing, depicted in the bottom three colors of each bar, has increased considerably in recent years. There has been a material rise in debt-financed M&A and share buybacks since 2013 as investors have become more comfortable with blockbuster offerings. Note that of the largest 40 deals ever printed, nearly all have been transacted since 2013 for M&A or buybacks.

Please also note that investment-grade financial-sector issuance, which can make up as much as half of total issuance, is included in the general corporate purposes category.

If we take look at U.S. high-yield issuance over the same time frame, we see that high-yield issuance is much more heavily dependent on refinancing needs than the investment-grade market. High-yield borrowers generally issue in response to maturing debt or for specific M&A or recapitalization efforts.

Finally, for Ratings I want to share some of the progress we have made with our Green Evaluations. Propelled by the 2015 Paris Climate Agreement, and the impetus it created to finance $1 trillion a year in investments for renewable energy and other initiatives to limit global warming, green investment is on a firm upward trajectory. S&P Global Ratings launched its Green Evaluations in April and includes evaluations of buildings, transport, energy efficiency, water, traditional power plants, and nuclear. We are encouraged by the acceptance of our Green Evaluations in the market. This slide includes some of the global bonds we have evaluated to date, such as the Mexico City Airport Trust and Greater Orlando Aviation Authority Subordinated Revenue Bonds.

Within Market Intelligence, we continued to extend the capabilities of our offering during the quarter.

- First, we launched RatingsDirect Monitor which features real-time, visually interactive and intuitive ways for end-users to receive information that is relevant to the companies in their investment and counterparty portfolios.
- Second is an expansion of SNL data available via data feeds. Historically, SNL had a very small data feed business. Earlier this year, we began adding certain SNL data sets to Xpressfeed, our data feed management system. During the third quarter, we rolled out new alternative and unstructured datasets through Xpressfeed, such as bank regulatory data, bank branch data, real estate property data, and corporate transcripts. This should prove valuable to investors seeking new sources of alternative data that can help uncover relationships and new alpha generating ideas.
- Third is Enhanced Credit Analytics workflow which facilitates counterparty analysis and integration of SNL data. It also expands model coverage to include Loss Given Default for Europe and the Middle East, as well as Relative Contribution Analysis and 30-year term structures.

Turning to Platts, we often share new product launches but today I want to share with you progress made on a launch from a few years ago.

In the past, we have discussed the increasingly important role that LNG will play in unifying global natural gas markets. Platts Japan Korea Marker is the LNG benchmark price assessment for spot physical cargoes delivered into Japan and South Korea. As these two countries take the largest share of LNG imports in the world, Platts JKM™ has become a key reference price for these physical shipments. As is often the case, when a physical market develops, market participants want to be able to hedge their positions. This chart shows the surge in monthly JKM swaps volume on ICE.

Volume depicted here represents the total amount of trading activity or contracts that have changed hands during the month. Open interest is the total number of outstanding contracts that are held by market participants.

Next, I'd like to share with you several new products in S&P Dow Jones Indices.

- The first is launch of the S&P/BMV IPC VIX Index in conjunction with the Mexican Stock Exchange. This index utilizes the same methodology as the CBOE Volatility Index.
- Second is the launch of the Corporate Carbon Pricing Tool which helps companies assess exposure to regional carbon pricing mechanisms. The tool combines a company's greenhouse gas emissions and financial performance data with Trucost's regional carbon pricing information to provide insights on carbon pricing risks out to 2030. Trucost has curated a global database of current carbon regulations, emissions trading schemes, fuel taxes, and potential future carbon pricing scenarios designed to achieve the goals of the Paris Agreement to limit global warming to 2°C or less.
- Third, Transamerica Asset Management has launched four new strategic beta ETFs designed to provide core equity strategies with an embedded risk management feature. Called the Deltashares by Transamerica Suite, the new ETFs are the first to track the S&P Managed Risk 2.0 Index Series, which offers exposure to a given segment of the equity market while seeking to control volatility. Even though these ETFs were only launched in July, two of them have market caps that are among the top 10 of new ETF launches this year.

- And fourth, is a strategic investment in Algomi. Algomi is an innovative fintech company that has created a bond information network that enables buy-side and sell-side firms, as well as exchanges, to harness data to improve financial trading decisions allowing for greater transparency and artificial intelligence-powered trade facilitation.

With that color, let me turn the call over to Ewout who will provide more specifics on our business results during the quarter.

Ewout Steenbergen
Executive Vice President and CFO
S&P Global

Thank you, Doug, and good morning to everyone on the call. This morning, I would like to discuss the third quarter results, and then provide specifics on our increased 2017 guidance.

Doug already discussed the 12% growth in organic revenue and the 19% increase in adjusted diluted EPS. I would like to touch on a few other line items.

First, I would like to put the $12 million increase in adjusted unallocated expense into perspective.

- About one-third was due to a Company-wide IT project to replace our order-to-cash system,
- About one-third was for professional service fees incurred to identify additional growth and productivity opportunities. We believe that this will be the peak quarter of spending on both of these initiatives.
- The final one-third was for performance-related incentive compensation.

Second, the adjusted effective tax rate of 27.9% improved primarily due to the discrete tax benefit from stock option exercises which I will review in a moment. And third, our ongoing share repurchase program, coupled with our recent ASR, led to a 7.4 million decrease, or 3% decline, in average diluted shares outstanding.

During our fourth quarter of 2016 earnings call, we noted a recent FASB guidance change for accounting for stock payments to employees which we estimated at the time could increase 2017 EPS by 10 to 15 cents depending on SPGI's share price and option exercise activity. This change also impacts EPS whenever the fair market value of employee stock grants exceeds the grant price. The impact is recorded as a reduction in tax expense.

Due to exceptionally high levels of option exercises during the third quarter from current and recently retired employees, we recorded a reduction in tax expenses that improved third quarter adjusted EPS by 14 cents.

It is difficult to estimate the impact in future quarters but let me make two observations that should be helpful.

- First, the Company no longer grants stock options and at the end of the third quarter there were 2.1 million employee stock options outstanding. When those stock options are exercised, assuming that they are still in-the-money, there would be a tax benefit.
- Second, the Company continues to grant restricted stock. Each year in the fourth quarter, another tranche of restricted stock units will vest and provide a tax benefit whenever the fair market value of the stock exceeds the grant price. For the fourth quarter of 2017, if we assume no stock options are exercised and the stock remains at today's stock price, we estimate we would record a tax

benefit of approximately 7 cents in the fourth quarter associated with restricted stock. This amount is included in our updated guidance.

Net of hedges, foreign exchange rates had a $4 million positive impact on the Company's revenue and a $12 million negative impact on adjusted operating profit or about 3 cents per share in the third quarter. The bulk of the impact was in the Ratings segment. Ratings adjusted operating profit was primarily impacted by the Australian Dollar and British Pound.

Taken together, the quarter included a 14 cent gain from stock option exercises, a 3 cent loss from forex, and adjusted unallocated expenses that were much higher than our annual run-rate.

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 loss of $19 million in the quarter and included restructuring actions in Ratings and Corporate. We anticipate that these restructuring actions will result in annual savings of approximately $30 million. Despite strong YTD results, we are continuously looking for opportunities to transition to leaner, more effective organizations.

In addition, we excluded $24 million in deal-related amortization expense.

In the third quarter, led by Ratings, every business segment contributed to gains in organic revenue. The reported revenue decline in Market and Commodities Intelligence was due to several divestitures. Each business segment reported adjusted operating profit growth. Market and Commodities Intelligence reported a 1% gain in adjusted operating profit as organic growth and synergies more than made up for the lost profitability associated with the divestitures.

I am pleased with the adjusted operating margin improvement in Ratings and Market and Commodities Intelligence. While I will discuss Indices margins in more detail in a moment, let me just say that we want to invest intelligently in such a high-margin business while simultaneously maintaining a disciplined cost structure.

Let me now turn to the individual segments' performance and start with Ratings.

S&P Global Ratings
Ratings revenue increased 15%, or 14% excluding a favorable impact from forex. Adjusted operating profit increased 19%, while the adjusted operating margin increased 170 basis points to 53%.

As we have said in the past, we manage the Ratings business on a rolling 4-quarters basis and you can see, on that basis, the adjusted operating margin increased 270 basis points.

Both transaction and non-transaction revenue recorded strong growth.

- Non-transaction revenue increased 7% due primarily to growth in fees associated with surveillance, entity ratings, and short-term debt — including commercial paper.
- Transaction revenue increased 24% primarily from gains in U.S. corporate bonds, global structured products, and European bank loans.

If we look at Ratings revenue by its various markets, you can see the greatest gains were in corporates and structured finance. Bank loan ratings are part of corporates and boosted results in this market. Structured finance increased primarily due to strong CLO activity in both the U.S. and Europe as well as increased CMBS activity in the U.S. The only market that declined was governments due to the 19% decline in U.S. public finance issuance that Doug mentioned.

Let me now turn to Market and Commodities Intelligence.

Market and Commodities Intelligence
This segment includes S&P Global Market Intelligence and S&P Global Platts.

In the third quarter, reported revenue declined 6% due to divestitures. Excluding divestiture and acquisition activity, organic revenue increased 7%. Despite the loss of earnings associated with divestitures, adjusted operating profit improved 1% due to organic growth and synergies realization. Adjusted operating margin improved 270 basis points primarily due to strong organic revenue growth, the sale of lower margin businesses, and SNL integration synergies.

Turning to Market Intelligence, excluding recent divestitures organic revenue grew 8%. There are three primary reasons behind this growth.

- First, we serve a diverse set of client segments beyond Wall Street including corporations, banks, insurance, professional service firms, and others. Several of these have better underlying growth characteristics than investment banks and investment management.
- Second, we serve all of those segments, from the largest to smaller companies, and grow our contract values as our clients grow.
- Third, our renewal rates and sales performance are strong as we enhance the product, train customers, and leverage our unique and proprietary content.

One area where this growth can be seen is in the number of SNL, S&P Capital IQ, and Risk Services desktop users, which expanded 13% year-over-year. Emphasis continues to be on instituting enterprise-wide commercial agreements and combining desktop platforms. Approximately one-third of Ratings Direct and Cap IQ desktop businesses have been converted to enterprise-wide commercial agreements.

With respect to combining desktop platforms, two events will occur in early November. First, we will launch a production version of the new Market Intelligence desktop for all SNL customers. This will have an updated look and feel, will contain all SNL content, and some new Capital IQ content and functionality. Second, we will launch an official beta release of the new combined platform for Investment Banking customers after just completing a successful preview campaign with selected users.

Looking more deeply at Market Intelligence revenue, all three components delivered strong organic revenue growth.

- Desktop products grew 8%.
- Enterprise Solutions has been renamed Data Management Solutions. Revenue increased 9% leading growth for Market Intelligence.
- Risk Services grew 5%, with RatingsXpress and RatingsDirect providing high- and mid-single digits, respectively.
- And finally, note that there was $37 million of revenue in the third quarter of 2016 from businesses that were divested.

Turning to Platts, organic revenue growth ticked higher. After 4% growth in the first half of the year, Platts delivered 6% organic revenue growth in the third quarter. This growth was due to the core subscription business which grew mid-single-digit, and Global Trading Services revenue which increased by more than 20%. Derivative trading was strong at the Intercontinental Exchange in oil and at the Singapore Exchange with iron ore.

If we look at Platts revenue by its four primary markets, you can see that Petroleum and Power & Gas make up the majority of the business. Platts growth this quarter came primarily from Petroleum which benefited from solid subscription growth and strong global trading activity. In addition, Petrochemicals contributed 6% growth, and Metals & Agriculture returned to growth with the strong recovery in Global Trading Services revenues. Please note that there was $9 million of revenue in the third quarter of 2017 from the PIRA acquisition.

Let me now turn to Indices.

S&P Dow Jones Indices

Revenue increased 14% mostly due to continued growth in ETF assets under management. Adjusted operating profit increased 10%. Adjusted operating margin decreased 190 basis points to 64.3% as revenue gains were partially offset by increased expenses related to performance driven costs, and investments.

Performance driven costs include sales royalties paid to our partners, sales commissions, and incentives. Investments include Trucost expenses, expansions in India and Mexico, and technology.

- Asset-linked fees, which are principally derived from ETFs, mutual funds, and certain OTC derivatives, experienced the greatest growth in the third quarter, rising 17% driven by a 31% increase in average ETF AUM.
- Subscription revenue increased 6% due to growth in data subscriptions and custom indices.
- Exchange-traded derivative revenue rose 6% with gains in S&P 500 index options and VIX futures and options activity.

The trend of assets moving into passive investments was again very strong in the third quarter with the exchange-traded products industry reaching net inflows of $124 billion.

The quarter-ending ETF AUM tied to our indices totaled $1,214 billion, up 33% versus the third quarter of 2016. As the chart shows, this was the result of $150 billion of net inflows and $150 billion of market appreciation over the last 12 months. The $1,214 billion was a new record. The third-quarter average AUM associated with our indices increased 31% year-over-year. This is a better proxy for revenue changes than the quarter-end figures.

Exchange-traded derivatives volume was mixed. Key contracts include increased S&P 500 index options and VIX futures and options activity which experienced robust activity and a decline in activity at the CME equity complex.

Now, turning to our capital position, there was little change from the end of the fourth quarter of 2016. We now have $2.3 billion of cash, and $3.6 billion of long-term debt. $2.1 billion of this cash was held outside the United States at the end of the third quarter. Our debt coverage, as measured by adjusted gross leverage to adjusted EBITDA, was 2.0 times versus 2.1 times at the end of 2016.

Year-to-date free cash flow was $1.1 billion, of which nearly $500 million was generated during the third quarter.

As for return of capital, the Company returned $604 million to shareholders in the third quarter: $500 million through an accelerated share repurchase program, with 2.8 million shares received in the third quarter and additional shares expected when the program is completed at the end of October, and $104 million in dividends.

Now, I will review our updated 2017 guidance.

Based upon strong year-to-date results, and our expectations for the remainder of 2017, we have made several changes to our 2017 guidance. This slide depicts our GAAP guidance and the changes that we have made. Please keep in mind that our guidance reflects current spot market forex rates.

This slide shows our updated adjusted guidance. The changes are highlighted on this slide. I am going to discuss the changes to our adjusted guidance which were as follows:

- We have increased our organic revenue growth from high single-digit to low double-digit growth, with contributions by every business segment;
- We have increased our unallocated expense from a range of $130 to $135 million, to a range of $135 to $140 million, driven by continued IT spend and higher incentive compensation;
- We have increased our operating profit margin guidance from a range of 45% to 46% to a range of 46% to 47%;
- We have lowered interest expense by $5 million to $145 million; and
- We have increased diluted EPS, which excludes deal-related amortization, from a prior range of $6.15 to $6.30 to a new range of $6.55 to $6.70.

Overall, this guidance reflects our expectation that 2017 will be a very strong year for the Company. 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/4023623/Index?KeyGenPage=1073751596&event=19600

"Safe Harbor" Statement Under the Private Securities Litigation Reform Act of 1995

This document 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 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 planned 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, and the outcome of any review by controlling tax authorities of the Company's tax positions;
- 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 and the introduction of competing products or technologies by other companies;
- 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.