

S&P Global
2nd Quarter 2016 Earnings Conference Call
Prepared Remarks
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Vice President, Investor Relations
S&P Global

Good morning and thanks for joining us for S&P Global'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 second quarter 2016 results. If you need a copy of the release and financial schedules, they can be downloaded at www.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 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
S&P Global

Thank you, Chip. Good morning everyone and welcome to the call. This morning Jack and I will review our second quarter results. We are very pleased with the progress the Company is making creating revenue growth in a macroeconomic environment that has challenged many of our customers.

Let me begin with the highlights of the second quarter:

- Every segment delivered revenue growth. This is a testament to the quality of our products and the creativity and execution of the employees who develop and deliver them;
- In addition to creating growth, driving performance is a key theme in managing the Company and margin improvement is an important yardstick by which our progress is measured. This quarter, the Company delivered a 210 basis-point expansion in the adjusted operating profit margin;
- A top priority for 2016 is the integration of SNL. We continued to make progress on SNL integration and synergy targets and I'll share a few examples with you in a few moments;
- Financial performance was excellent with an increase in adjusted diluted EPS of 17% over the most difficult quarterly comparison in 2015;
- As a result of our share repurchases, we reduced average diluted shares outstanding by 3% year-over-year;
- Last week, we received final regulatory approvals for the sale of J.D. Power;
- Our year-to-date free cash flow was \$513 million; and
- We increased the adjusted diluted EPS guidance range reflecting strong second quarter results.

Before I get to the results in more detail, I want to take a moment to discuss the British exit from the European Union. First and foremost, Brexit has no immediate implications for our European operations. It is business as usual for S&P Global. While the media has reported that a number of companies plan on moving operations out of London, we have no such plans.

We expect that because of the uncertainty it creates, Brexit could hamper issuance, particularly in Europe. So far the impact has been muted, but markets never like uncertainty and it will take time to resolve all of the various regulatory changes that companies and markets will face.

For our Company, we will seek to work with the relevant UK and EU legal and regulatory authorities to navigate the path forward, a process that will likely take years. S&P Global Ratings has written extensively on the impact that Brexit will have on the markets and our views can be found on the S&P Global Ratings website at the URL listed on this slide.

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

- While reported revenue grew 10%, organic revenue on a constant-currency-basis increased 5%.
- In most recent quarters, the Company's revenue has been hit by forex with little impact to operating profit. Primarily due to the weak British pound, however, this quarter was different. In the second quarter, forex had a negligible impact on revenue yet contributed approximately 3 percentage points to adjusted operating profit and approximately 100 basis points to the adjusted operating profit margin. Most of this benefit was realized in S&P Global Ratings.

Overall, the Company delivered:

- 210 basis points of adjusted operating profit margin improvement as a result of forex,
- S&P Global Ratings margin improvement, and
- Progress on SNL integration synergy targets.

Together, revenue growth, margin improvement and share repurchases, combined, led to a 17% increase in adjusted diluted EPS.

In the second quarter, every division recorded top-line growth and improvement in adjusted operating profit. The two standout performers were S&P Global Ratings and S&P Global Market Intelligence with adjusted operating profit margin gains of 400 and 370 basis points, respectively.

S&P Global Ratings

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

During the quarter:

- Revenue increased 4% with a negligible impact from forex;
- Adjusted operating profit increased 12%; and
- The adjusted operating margin increased 400 basis points to 54.1%.

Improved market conditions, after a weak 2016 start, resulted in a modest year-over-year issuance increase. For the first time in six quarters, international revenue outperformed domestic.

Forex had a favorable impact of 3 percentage points on adjusted operating profit and approximately 150 basis points on the adjusted operating profit margin due primarily to weakness in the British pound. Excluding forex, adjusted expenses decreased 3 percentage points mainly due to reduced outside services.

Another highlight of the quarter was the purchase of a 49% stake in TRIS Rating. This increased commitment to TRIS is an exciting step forward in our long-standing relationship. By working together more closely, we will be in a better position to serve our customers and investors in Thailand and other ASEAN markets.

Non-transaction revenue increased 3% from growth in surveillance, CRISIL, commercial paper activity, and royalties from Risk Services. Transaction revenue increased 5%, as a result of improved contract terms, increased bank loan ratings, and growth in debt issuance in Asia.

If we look more closely at the largest markets, second quarter issuance in the U.S. was down 11%, with:

- Investment-grade decreasing 6%;
- High-yield down 9%;
- Public finance up 4%; and
- Structured finance declining 37% with drops in every class.

In Europe:

- Investment-grade was unchanged;
- High-yield was down 5%;
- While structured finance increased 4% with strength in RMBS and CLOs.

In Asia:

- Investment-grade surged 60%; and
- Structured finance increased 28% due to ABS and RMBS.

Let's take a further look at issuance. The 3% increase in global issuance breaks a four-quarter streak of year-on-year declining global issuance that has pressured S&P Global Ratings revenue.

During the quarter, only Asia reported an increase in issuance with a 55% gain. Excluding domestic Chinese issuance, which we don't rate, issuance in Asia still increased 35%. One factor driving this growth was offshore Chinese issuance.

During the quarter, investment-grade issuers generally had unfettered access to debt capital markets while speculative-grade issuers had very limited access with windows of opportunity that opened for short periods and then were disrupted by external events.

Despite the year-over-year declines in the U.S. and Europe, there were periods of extreme strength during the quarter. In fact, May set a new monthly record for U.S. investment-grade issuance. June started out with a very strong issuance but then came to a standstill in the week leading up to the Brexit vote.

Last week, S&P Global Ratings released its latest global issuance forecast. We now expect global issuance to decline 3.8% in 2016. This compares to the April forecast which anticipated a decline of approximately 2%. The biggest differences are in corporate and structured issuance, which have been lowered due to Brexit, and international public issuance, which has been increased as first-half issuance already exceeds all of 2015.

S&P Global Market Intelligence

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

In the second quarter, revenue increased 29% primarily due to the addition of SNL. Excluding SNL, organic growth was 8%. Adjusted operating profit increased 48% and the adjusted operating margin advanced 370 basis points to 28.4%.

The adjusted segment operating margin includes a benefit from forex of approximately 100 basis points. Excluding forex, this figure is comparable to the first quarter adjusted segment operating margin. Forex had a favorable impact of 5 percentage points on adjusted operating profit primarily due to weakness in the Indian rupee and British pound.

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

We are well on our way to achieving cross-sell synergy targets for 2016. Last quarter we reviewed some of the organizational changes that took place. Today, in order to help you get a better sense of our efforts, I am going to share several examples of integration synergies progress during the quarter.

- We reconfigured our Risk Services Scorecard product for analyzing commercial banks to include SNL bank data and received great feedback and early sales success from the market;
- We integrated our own equity ownership and earnings estimate data onto the SNL platform;
- We made tremendous progress on integrating SNL sector-specific fundamental data into our XpressFeed delivery platform. Now in beta testing, SNL content will be available this fall, enabling more seamless cross-selling to our existing feed clients;
- We completed significant design work on our next generation, consolidated product platform that will encompass mobile, web, and Excel delivery;
- We reduced costs by replacing third-party data with an internal solution;
- We completed our office consolidations in Denver, New York City, and Singapore—with other cities still in the works; and

We have been making great progress.

Let me add a bit more color on second quarter revenue growth in S&P Global Market Intelligence which delivered double-digit user growth in both S&P Capital IQ Desktop and SNL.

- In Financial Data and Analytics, S&P Capital IQ Desktop & Enterprise Solutions revenue increased 8%, with high single-digit growth in both products. In addition, SNL revenue reported a 9% increase compared to second quarter 2015, prior to our acquisition of SNL; however, excluding a purchase accounting deferred revenue adjustment, revenue grew 10%. With the progress that we continue to make integrating SNL into S&P Global Market Intelligence it will become increasingly difficult to separate SNL results from the total. Therefore, this is likely the last quarter we provide separate revenue figures for SNL.
- Risk Services' revenue increased 10%, led by double-digit RatingsXpress® growth.
- In the smallest category, Research & Advisory, revenue decreased 12% due to declines in Equity Research Services.

S&P Dow Jones Indices

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

- Revenue increased 4%;
- Adjusted operating profit increased 4%; and
- Adjusted operating margin improved slightly to 66%.

Market volatility has created large swings in AUM from month-to-month as well as volatility in the number of exchange-traded derivative contracts traded each month. During the second quarter, revenue increased primarily due to steady data license growth, strength in exchange-traded derivative activity due to market volatility, and ETF-related revenue was up slightly.

If we turn to the three types of revenue, transaction revenue from exchange traded derivatives increased primarily due to a 24% increase in average daily volume of products based on S&P DJI's indices. In particular, E-mini S&P 500 futures, CBOE Volatility Index options and futures (VIX), and CME equity complex contracts all increased more than 20%.

Asset-linked fees revenue, mostly from exchange-traded funds, was up slightly. The exchange-traded products industry recorded inflows of \$46 billion in the second quarter with fixed income products receiving the largest inflows.

Average AUM associated with our indices increased 3% year-over-year with inflows of 7% offset by net asset value declines of 4%. The quarter ended on a high note with quarter ending ETF AUM associated with our indices reaching a new record of \$855 billion as U.S. equity markets rebounded. This creates a great starting point for the third quarter.

Subscription revenue, which consists primarily of data subscriptions and custom indices, increased due to continued steady growth in data subscription revenue.

During the quarter, the Company launched 90 new indices and our partners launched 18 new ETFs based on our indices. We added two in the environmental, social, governance space that I would like to highlight:

- JPX/S&P CAPEX & Human Capital Index—Designed to measure performance of Japanese companies that are proactively and effectively making investments in physical and human capital based on various metrics, including RobecoSAM human capital scores.
- And the S&P ESG Index Series—Designed to measure the performance of companies with a weighting scheme based on an ESG Factor Score, derived from RobecoSAM's annual Corporate Sustainability Assessment. This launch brings together, for the first time, smart beta and sustainability into a global index family that treats Environmental, Social, and Governance, or ESG, as a standalone performance factor.

With the addition of these two indices, we now have 130 ESG indices.

This quarter we celebrated the 120 anniversary of the Dow Jones Industrial Average, launched in 1896 by Charles Dow and Edward Jones. On its first day, May 16, 1896 the Dow closed at \$40.94. Today, the Dow Jones Industrial Average is the iconic symbol of the U.S. stock market.

S&P Global Platts

Now on to S&P Global Platts, which currently includes J.D. Power.

- Organic revenue increased 4% adjusted for the NADA Used Car Guide, Petromedia, and RigData acquisitions;
- Adjusted operating profit increased 7%; and
- The adjusted operating margin declined 70 basis points to 38.4%.

Platts delivered 7% revenue growth driven by strength in subscriptions and Global Trading Services. J.D. Power had a decline in organic revenue due to lower consulting revenue in China. With all of the regulatory requirements completed, we continue to expect closing the sale of J.D. Power this quarter.

Turning to Platts, Global Trading Services led the growth during the quarter with double-digit revenue gains primarily due to the timing of license fees and strong license revenue from the Singapore and ICE exchanges. The core subscription business delivered mid single-digit revenue growth led by the Petroleum sector, with particular strength in Asia.

Metals, Agriculture & Petrochemicals revenue grew high single-digit primarily due to the strength in the Singapore Exchange listed TSI Iron Ore contracts and metals market-data subscriptions.

While rig counts are up since the beginning of May, many of our customers remain under pressure from low oil prices. Therefore, we continue to expect growth to moderate slightly in the remainder of 2016 as these customers continue to face difficulty.

Finally, the CME Group introduced a new Aluminum A380 alloy futures contract that settles against our price assessment. There has been growing need for a North American aluminum alloy risk management tool. This contract will provide market participants with an effective solution for hedging aluminum alloy price risk.

On the business development front, we have several new items. In June, we acquired RigData, a leading provider of daily information on rig activity for the natural gas and oil markets across North America. We discussed our desire to add to our own supply-demand data offerings and this extends our energy analytical capabilities in North American natural gas, with oil offerings. Founded in 1986, RigData provides over 5,500 constant customers with daily electronic reports on drilling permits, activity, and rig locations in the United States, the Gulf of Mexico and Canada.

We launched five domestic oil product assessments in Japan. Platts now assesses prices for important refined oil products for domestic waterborne deliveries in Japan from locations in Tokyo Bay, Chukyo, and Hanshin. The Japan waterborne assessments reflect prices for gasoline, gasoil, kerosene, low sulfur A-fuel oil, and high sulfur A-fuel oil. These assessments will follow Platts' Market-on-Close principles.

And finally, we launched the LNG U.S. Gulf Coast Marker. The natural gas infrastructure that connects the United States, Mexico, and Canada is the world's largest and most integrated natural gas market. By 2020, the Americas are expected to be the world's third-largest producer of LNG, behind Australia and Qatar. This new price reflects the daily export value of LNG traded free on board from the U.S. Gulf Coast.

In summary:

- All segments delivered revenue growth;
- Bond issuance recovered from a weak start to the year;
- Margin improvement continues to be a key focus;
- Integration of SNL remains a top priority for the Company with meaningful progress to-date;
- We expect Brexit to have no immediate implications for the Company; and
- We are increasing our adjusted diluted EPS guidance by 5 cents to a range of \$5.05 to \$5.20. Our guidance has been updated to now include dilution from the pending sale of J.D. Power.

With that, I want to thank you all for joining the call this morning. But before I turn the call over to Jack Callahan, our Chief Financial Officer, I wanted to say a few words about him.

As you know, Jack has accepted a new position at Yale. Not only is he an active Yale alumni, he grew up in New Haven, Connecticut. So Jack is going home.

We are thankful for the time he spent with us. After joining the Company in November of 2010, he was instrumental in engineering the transformation to S&P Global, a faster growing, more focused and profitable company. He has also assembled an outstanding organization and we are grateful for all that he has done for the Company and shareholders.

Early next month Jack will begin his role as Senior Vice President of Operations at Yale. We wish Jack, and his family, all the best.

Rob MacKay, our current senior vice president and corporate controller has been named Interim CFO as we continue the search process for Jack's replacement.

Thank you, Jack, and now I'll turn the call over to you.

Jack Callahan

Executive Vice President and CFO
S&P Global

Thanks, Doug, and I appreciate those kind words. Good morning to everyone on the call.

This morning, I will recap key financial results. I also want to discuss the impact from adjustments to earnings. 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 updated guidance.

Let's start with the consolidated second 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 growth. Collectively, that led to an increase in reported revenue of 10%, with organic growth of 5%. The difference is largely due to the SNL acquisition.

Our adjusted operating margin increased 210 basis points. Approximately 100 basis points was due to forex. The balance was primarily due to outstanding profit growth and margin improvement at S&P Global Ratings and S&P Global Market Intelligence. Both businesses have delivered impressive margin improvements year-to-date.

Interest expense was up over \$26 million due to our highly successful bond offerings last year, partially in support of the SNL acquisition. 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 more than a 3% decline in average diluted shares outstanding. So, overall, sustained top-line growth, margin improvement, and share count reduction delivered a 17% increase in adjusted diluted earnings per share over the most profitable quarter in 2015.

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 \$22 million in the quarter.

- The first item is a net gain from insurance recoveries.
- The second item includes net disposition costs primarily related to the pending sales of J.D. Power to the XIO Group and our SPSE and CMA pricing businesses to ICE.
- The last item is the restructuring charge in S&P Global Ratings as the business continues to focus on sustained productivity.

And, as we discussed last quarter, our adjusted results now exclude deal-related amortization of \$23 million. 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 \$1.6 billion of cash and cash equivalents, of which approximately 95% was held outside the United States. We also had \$3.5 billion of long-term debt and \$309 million of short-term debt in commercial paper and from a draw down on our credit facility. Since the end of the first quarter, we have reduced short-term debt by \$163 million. Going forward, our level of short-term debt will likely fluctuate a bit as we periodically tap into the short-term debt market to fund our share repurchase program and meet other corporate needs.

Our first-half free cash flow was \$478 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-half free cash flow was \$513 million and is on track to reach our 2016 guidance of approximately \$1.3 billion.

Now, I want to review our return of capital. During the quarter, the Company bought approximately 1.4 million shares. These purchases, combined with our dividend, totaled to approximately \$242 million of cash returned to shareholders just in this quarter. Year-to-date, the Company has returned \$538 million to shareholders. The volume weighted average price for the shares repurchased so far this year is approximately \$98.

The share repurchase program remains an important component of the Company's overall capital allocation. In addition, we anticipate stepping up share repurchases to help mitigate some of the dilution from the pending sale of J.D. Power, subject to market conditions.

Now let me provide some additional perspective on our 2016 guidance. There are three items that have been updated.

Our previous guidance included the results of J.D. Power for the full year. We now assume that the sale of J.D. Power will be completed during the third quarter and have removed J.D. Power results for the balance of the year. This will have an impact on revenue and our guidance moves from mid-to-high single-digit to new guidance of mid single-digit.

Year-to-date margins have benefited by approximately 100 basis points from forex. Therefore, we have increased our adjusted operating profit margin improvement from approximately 50 basis points to a new guidance of approximately 150 basis points.

Despite the inherent dilution from removing several months of J.D. Power results, we are increasing our 2016 adjusted diluted earnings per share guidance by 5 cents due to the strong first-half results and our outlook for the remainder of the year. The new range is \$5.05 to \$5.20. We are keeping a wide range as there remains considerable macroeconomic uncertainty that could impact the markets and our customers.

So, in summary, the second quarter was a strong quarter for the Company. Each of our segments is performing well and we are well positioned to continue to provide the essential benchmarks, data, and analytics that our customers require.

As Doug mentioned earlier, today is my last earnings conference call. It has been a pleasure and an honor to be the Chief Financial Officer of initially The McGraw-Hill Companies, then McGraw Hill Financial, and now S&P Global. I want to thank our shareholders and the analyst community for your interest and support as we have transformed the Company.

And finally, I want to thank the over 20,000 S&P Global associates for your hard work and commitment in building a stronger organization for the future. I wish you all well and I remain optimistic on the continued success of S&P Global going forward.

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=1073748178>

“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 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.”

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 successful completion of the pending sale of J.D. Power to XIO Group;
- our ability to make acquisitions and dispositions and successfully integrate the businesses we acquire;
- 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;
- 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 and any subsequently filed Quarterly Report on Form 10-Q.