

# **S&P Global Inc. (SPGI) Bernstein's 40th Annual Strategic Decisions Conference (Transcript)**

Seeking Alpha - Earnings Call Transcripts

May 31, 2024 Friday

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**Length:** 7385 words

**Byline:** SA Transcripts

**Body**

S&P Global Inc. (SPGI)

Bernstein's 40th Annual Strategic Decisions Conference Call

May 31, 2024, 08:00 AM ET

Company Participants

Doug Peterson - President & Chief Executive Officer

Presentation

Unidentified Analyst

Okay. We'll get started here. So, good morning, everyone, and welcome to the final day of the SDC. Our first session here will be with S&P Global. I'm very pleased to once again welcome back Doug Peterson, President and CEO of S&P Global. Welcome back, Doug, and thank you very much, as always, for participating in the conference.

Doug Peterson

Thank you, Christian. It's great to be here today. Thank you.

Question-and-Answer Session

Q - Unidentified Analyst

Fantastic. Doug, I thought we'd just maybe sort of a big picture and talk about the macro backdrop. Your business touches so many different end markets, financials, energies, autos, et cetera. Can you just briefly talk through how you're viewing the macro backdrop and any implications for your business?

Doug Peterson

Well, let me start -- first of all, thank you for having us here today, and it's great to see everyone. When we think about the macro backdrop, let's take one step back for a second and discuss how important it is that we're involved in that macro backdrop and that we see so many tailwinds coming out of it. Right now, clearly, there's a lot of volatility in the market. There's a couple of wars. There's a lot of questions about interest rates, but we're watching interest rates quite closely. And because of these big macro trends, they're impacting things like the sustainability environment, what's happening with the energy transition. We see private markets starting to have an influence in how markets are coming together. There's much more of a flattening of the markets.

Within the backdrop, we expect our house view is that interest rates in the U.S. will be decreased one time 25 basis points in the fourth quarter. Our original outlook was for three times this year, starting in June. But growth is strong, which is actually quite good for our business. Overall, when you see growth, that's good for our business. But some of the volatility in the capital markets and the banking sector does create some headwinds for us here and there. But overall, with the longer-term trends, we're seeing a lot of tailwinds, and we feel quite optimistic about our business mix, what we put together and how we've been executing.

Unidentified Analyst

Great. Let's dig into the Ratings business. I know it's a smaller part of the business in a much more diversified firm, but I'd just love to dig a little bit here. Very robust start to the year in terms of issuance across most asset classes, but it does feel like we're seeing a bit of a slowdown in issuance trend over recent weeks. Maybe any thoughts on what you're hearing from issuers so far in the second quarter, and how you're thinking about your full year expectations?

Doug Peterson

Well, let me start there. With our full year expectations, we're still with the exact same guidance that we had at our earnings call, which is that we think billed issuance will be in a range of 6% to 10%, and that our growth will be 7% to 9%. We had a very strong first quarter, as all of you know, 29% top-line growth in the Ratings business. We've seen very robust issuance in April. May has had robust issuance in non-investment grade as well as bank loans and some structured areas. Investment grade dropped a lot. That slowed down a lot during the quarter.

When we look to the full year, we expect that there has been pull forward into the first quarter and the second quarter from the second half of the year, maybe a little bit from 2025. But when we take a longer look, we see a very robust refinancing schedule that's going to be coming up in '25, '26, '27, '28. We'll publish that in our second quarter earnings. We'll give you the full schedule of what we see on balance sheet that would be refinanced over the next three or four years.

But let me make one more comment on this. We look at Ratings in a way that there are key drivers of the business. I talked about one, which is the given pipeline, what we know is already coming up over the next few years. Probably, the most important driver is economic growth, GDP growth, and that's what drives issuance. People that want to build businesses, grow businesses, do M&A, that's when our business grows, and we grow along with economic growth. Then, if you look at interest rates and spreads, that impacts much more timing than necessarily the issuance itself, the trends. But we do think economic growth has been the most important factor that we have to watch.

Unidentified Analyst

Just digging into the pull-forward comments you made, so it sounds like the back half will be slower than the first half. But how has that inform maybe in the next couple of years? Not looking for like an exact guidance, but some of the pull forward from '25 and '26 coming to this year, does that mean it's a little bit weaker, or...

Doug Peterson

Maybe not necessarily, because the pipeline into '25 and '26 is still very strong, even though it's a little bit of pull forward. And we do expect that there will be growth. The way we're looking at this, I mentioned the 25 basis points this year before, we're still expecting a soft landing, not a recession. So, we still expect the U.S. economy to grow. We see that Europe and -- both the U.K. and Europe are going to be lowering their interest rates as well this year, probably faster than the U.S. And they're also on -- still on a growth track as well, not a recessionary track.

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We also see in Europe that capital markets are becoming much more important than the banking market. For many years, the ECB had a program called the LTRO. It was a short-term and a long-term liquidity provision for banks, and they're using that to fund loans, instead of going to capital markets with their clients. We see more and more capital markets activity in Europe as well. So, we think that this approach to the next few years is a quite strong pipeline and -- as well as economic conditions that should favor a longer-term view. And we're still sticking with the guidance that we gave in 2022 for our longer-term guidance.

Unidentified Analyst

I like your comments on Europe and the debt market penetration there. So, let's dig into that topic a little bit. Broadly speaking, what are you seeing in terms of global debt market penetration? Obviously, the U.S. has always been much stronger than other regions, but allow me to walk through what you've seen in the U.S., maybe a little bit more Europe and Asia.

Doug Peterson

Yeah. In the U.S., depending which metrics you use, there's somewhere about a 65% to 70% of corporate financing is done in the capital markets. There's -- the private markets, which have been growing the last few years, is part of that. I consider that part of that non-banking market, so to speak. And then in Europe, it's been flipped the other way around. It's only about 33%, 35% of the capital market -- of the corporate market is done through capital markets and bond markets. And Asia with the exception of Japan is even lower than that. And then Japan is similar to Europe, around 35% of the corporate financing is done in the capital markets.

So, the more that starts moving towards bond markets, we benefit from that, not just in the Ratings business, but across all of our businesses. Because the bond market also attracts information services for Market Intelligence, it's also going to help get more public opportunities for our Index business. So, we see benefits across all of the -- especially our capital markets businesses, the more you move from being a banking market to a capital market.

Unidentified Analyst

Okay. What about in non-corporate debts? I guess, we've seen that transformation. So clearly, in the corporate markets, we're seeing capital markets -- debt markets penetrate further. But what about non-corporate debt, auto, credit card...

Doug Peterson

Yeah. So things like securitization, we see that securitization is a tool that's very important in the United States. It's increasingly so in Europe. And it's the tool that banks and corporates use to manage their balance sheet. Going back to one of your earlier questions about what we've seen in the first part of this year, especially in the first quarter, a little bit into April, there was an incredible amount of bank issuance. This is investment-grade issuance. It's for the -- it's long-term capital for the banks. There's some rules that have been coming in for the financial institutions to have what it would be considered TLAC or some sort of loss-absorbing capital. And so, the financial institutions did a lot of issuance to get that loss absorbing capital.

But one of the other tools that they use to their manage balance sheet, in addition to raising capital and loss-absorbing capital, is securitizations. It frees up liquidity. It frees up capital. And so, the banks have been quite active this year going into CLOs. And one of the other things, we've talked about the private markets the last couple of years, how important the private credit market has become, they're also doing a lot of CLOs and a lot of issuance through securitization. So, securitization is a critical part of our business. It's one of the most important capabilities we have.

Unidentified Analyst

Okay. Let me just step back a little bit and try and get maybe a long-term view of how you're thinking about the business, Ratings business. Where do you think we are in the issuance cycle, if you like? Obviously, boom in '21, a little bit of a slowdown in 2023. Are we in recovery? How are you...

Doug Peterson

We're well on the way to recovery. If I use 2019 as a benchmark kind of a trend line, we had a huge uptick '20, 2021. There was this the COVID period where, at one point at a conference, I guess, I made a comment that if you're a CFO, you haven't raised debt yet, what are you doing? It was -- the capital was so cheap. Interest rates were incredibly low. You also had -- spreads were low. It was all-time the cheapest capital we've ever seen. In addition, there was a lot of risk in the economy. And people -- nobody is getting criticized if you were a CFO and you have a lot of debt on your balance sheet, a lot of cash, a lot -- maybe sometimes, you get criticized for that, but not then. So, we saw a huge peak, and then there was a big drop in 2022. We see that we're getting close back to that 2019 trend line, especially with the strong start to this year.

Unidentified Analyst

Okay. Good stuff. One of the questions I often get is, if you look back over the last 15 years, it's been a great time for the issuance markets, very low rates, et cetera. And I guess, the implicit assumption in some of your guidance is that you should have similar growth going forward. How do you square just the fact that we have, we should be in a high inflationary, hybrid environment, and yet you expect the same or similar levels of growth going forward?

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Doug Peterson

Yeah. If I go back pre-zero interest rate environment, we had the exact same environment we're going into. We've had a little bit of a blip the last couple of years with very high interest rates and high inflation. But as we settle back into inflation in the 2% range globally, in the U.K., the U.S., Japan is below that already, we settled down into interest rates of 10-year rates in the 2% to 4% range. Spreads will be part of the equation. But that's a normal operating environment. And if companies can price along that level, they can see the economic growth, well, it doesn't faze us. What faze means is much more when we get into interest rates in the 5%, 6%, 7%, 8% range, and you get a higher inflation. That's much more destabilizing.

But as we see that we're going to get back it down into a normalized level of interest rates, companies are already starting the issuances into that environment. People are saying, "Will companies ever issue debt, expensive debt again?" Well, now it's not so expensive anymore when you see strong growth [Technical Difficulty] see interest rates at a level that are starting to come down. So that environment doesn't actually concern me at all. I felt like the 10-plus years of zero-interest rates was really the aberration.

Unidentified Analyst

Okay. Let's talk about the competitive landscape, which is not a question that comes up a lot, because I think it's fairly obvious with duopoly in that business. But do you think there's any differentiation in your Ratings business versus your main competitor?

Doug Peterson

Well, there's more than just one competitor. There are other players in the market. There's some niche players, there's a couple of other larger players, there's regional players. And what's most important for us is we're global, and we cover every asset class. When people think about S&P Global Ratings, they need to understand that we're rating everything that's in the market everywhere in the world. So, we're in Latin America. We're in Asia. We're rating in the Middle East. We've got African ratings. We've got a team in Johannesburg. We did -- recently did some acquisitions in Indonesia, in Thailand.

And so, why are you doing these acquisitions? Because people that are in the bond market/risk markets want to know that if you're looking at an automotive company, a beer company, a bank, an insurance company, that anywhere in the world, we're going to be rating that type of corporation, those sorts of sovereigns, those municipal entities, and we're going to be rating in local rating scales, international rating scales. It gives us the ability to have a benchmark that people can use anywhere in the world and know that it's done in the same way. So, our differentiation is we cover all asset classes, and we're global. That is really critical to our business.

Unidentified Analyst

Okay. I guess, one area of, I would say, Ratings business, where there's -- the commission is more [pronounced as] (ph) structured products. And it's an area where, at least it is based on disclosed revenues you look at, your competitor has a little bit bigger revenue base than S&P. Can we talk about the competitive dynamics in structured products, capability set and sort of any opportunities to close gaps?

Doug Peterson

Yeah. The way that the structured finance market is driven is by outcomes, and we have criteria, which is set by analysts who are looking at very long-term trends of what has been a credit trend. They build that criteria. We stick by it. And we can see, over time, the quality of the criteria, the quality of the outcomes of that criteria. We see an increase in demand from investors to have our ratings on new structured products because they know that the outcomes from our ratings have been very reliable. There also is a very competitive dynamic in the market beyond just the larger rating agencies. This is the area where the smaller ones have made the most inroads in the structured products.

Unidentified Analyst

Let's talk quickly about some opportunities. I think one of the more prevalent one is the private credit markets, which you guys have taken advantage of. We're hearing -- we've got a few of the alternative investment managers here today -- over the last couple of days talk about expanding into different parts of fixed income. Can we just talk about the product roadmap in private credit and where you see the next leg of growth?

Doug Peterson

Yeah. Let me go back to 2022 and give a quick comment about private credit. In 2022, interest rates started going up very fast. Inflation was high. The Fed started increasing interest rates. If you look at the chart of those increases, it looks like a step ladder. It just went straight up and got to about 5.5% very quickly. And in that environment, what's happened with the fixed income investors, they all pulled their capital out. Not only did they pull out new capital, they also took a lot of bonds off the table because who wants to be buying bonds when rates are going up.

The private credit players, especially the large ones that were very well established in mid-market credit, they fill that gap for large cap that needed to raise financing. So, in 2022, we saw really the boom of private credit. That's one. It's been around a long time. It wasn't anything new. But that's when everybody stood up and noticed this private credit world has a lot of clout. They can move with speed. They've got a lot of liquidity. It's a large -- it's become a large pool of asset.

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So, we have a couple of opportunities here with the private credit. One is that the private credit players themselves, they need estimates on credit risk, they need portfolio reviews. As they syndicate or securitize their portfolio, they need ratings. So, there's been a lot of benefits for the Ratings business as we saw in the way kind of delayed revenue, I used to call it, that revenue pool has started coming out with the services we can provide to the private credit players from the Ratings business.

But in the Market Intelligence business, we have tools that are used by the -- both the investors and the asset managers for reference pricing, for also different types of risk analytics, portfolio analysis. We've got a tool which allows you to have an ability to look across a portfolio, TAM pricing for the GP. And for the LP, it's called iLEVEL. So, we find that the private credit area and private markets generally is a high-growth area for us. It grew 15% last quarter. It grew 30% in the Ratings business. And it grew 15% across the entire firm. So, it's one of our priorities for investment.

Unidentified Analyst

Fantastic. Maybe switching to the Market Intelligence business. Just before that, just a quick note for the audience. If you want to ask questions, feel free to use the pigeonhole system, and I'll give it to Doug if we have time.

On Market Intelligence, I'd say in the last couple of years have been a bit of a downcycle for the industry as a whole. Actually, business has actually been not too bad. I'd be curious what you hear from customers now and kind of when do you expect the industry volume [indiscernible] higher and your particular revenues to start to get towards your long-term targets?

Doug Peterson

Yeah. Our target for this year is 6% to 7.5% growth rate in Market Intelligence. When we look at the business the last few years, there's clearly been a lot of consolidation in the banking market. There's been some cost cutting. So, we've seen some of that, what we're calling, some headwinds as well as some slowing down of the sales cycle over the last couple of years. All of that's been reflected in our guidance and what we've seen so far.

But when I take a look at our Market Intelligence business, there's a couple of aspects. First of all, the business itself is diversified. We have credit risk. We have enterprise solutions. We've got the desktop. We have a data and analytics business. So, we've got a diversified type of different businesses within Market Intelligence. And then, the others that were diversified in types of clients. We're not dependent only on financial institutions. More than half of our business is financial institutions, but it's also buy side and sell side. We also have corporate clients. We have governments. We have regulators. We have academics. And we're seeing a lot of growth in the corporate sector. In fact, after the IHS Markit merger, one of the fastest growth vectors for our synergies was cross-sell into corporate clients of Market Intelligence.

So, we do feel like we have diversified product set, diversified client set. We've been investing for growth. And then, the themes I talked about before, sustainability in private markets, supply chain analytics, these are things that benefit tremendously the Market Intelligence business.

Unidentified Analyst

Any change in tone in terms of the customer base that would indicate maybe stronger trends over the next...

Doug Peterson

I think that we're not necessarily where we finished some of the slower sales cycle, some of the slower approach negotiations. We think that that's going to continue. But on the other hand, we do think that we're seeing a lot of that consolidation, and the banks coming up with the final decisions about vendor packages, et cetera. We're -- that's going to have to come to an end soon because there's not many banks left that we have to negotiate with.

Unidentified Analyst

Okay. Maybe longer term on that business, and again a question I often get from investors is, how do you think about that -- I mean, your long-term target is more like 7% to 9%, which is a fairly robust top-line growth target. How do you think that can sustain over time, settle into, call it, small growth end market like national services?

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Doug Peterson

This is through choosing the areas -- like I mentioned, the private markets business grew 15%. Our sustainability business grew 15% last quarter. This is by ensuring that we're also drafting into the most important opportunities, the most important new areas for investment in Market Intelligence. We've got the capabilities to already add in new services and new products as well as develop them ourselves. So, this is going to be one of the areas.

Now let me mention something that we recently closed. This is Visible Alpha. And Visible Alpha is -- was a business that was owned by 12 banks. It was a business that probably many of you in this room knew. I know that you've been a user over time and something that people really appreciate having this consensus of estimates of over -- up to 180 different institutions that are providing their data into this estimates business. And the technology is high quality. So, we bought this business to continue to manage on its own as well as to add into something that's almost like a must-have service as part of CapIQ.

So, your question about how are we going to grow, we're going to be looking forward to see what are the trends, what are the areas we're going to move quickly into, and we have that innovation gene inside of the business. It's quite important for us to be driving growth through in data.

Unidentified Analyst

Okay. Maybe we'll talk about IHS deal. It's been a couple of years now. A pretty big deal at that time. Maybe as you step back here, what do you think has gone better than you thought? What do you think has gone worse than you thought?

Doug Peterson

Well, let me start with the second part.

Unidentified Analyst

Okay.

Doug Peterson

I don't think there's anything that's necessarily gone really bad. There were -- a little bit of going into -- closing a deal into an environment where you had that really hyperinflation hit and these trades popping. There were a couple of businesses that maybe were a little bit more market oriented and subscription oriented. So, we had some bumps along the way from -- just from the top line growth for a couple of quarters because of the market conditions. So, there's a little bit of that in there. But the positive surprises have been many, many -- way outweighed anything to do with the negative surprises.

And the positive surprise is, most importantly, as we came together as a team very quickly. We have a strong culture. We have a strong management team that has come together with a management approach to lead the business, to grow the business. Because of that alignment, we moved really quickly with our synergy targets. We had an original synergy target of $480 million on the expense side. We took that up to $600 million, and we've now achieved $620 million, and we stopped counting. That doesn't make sense to keep counting much more above that because it's no longer really synergies anyway. It's now the way we're running the business. But we feel like the expense synergies, we achieved them faster than our target. We achieved our target and surpassed that.

On the revenue synergies, I referred to already that the cross-sell was out-of-the-box far exceeded than anything I expected. The S&P Global brand was really strong. And then having clients, for instance, corporate clients was really beneficial for the Market Intelligence business that came that's part of the IHS Markit business. So, having that sales force, having that client base gave us a lot of really fast cross-sell. We also had a lot of cross-sell in between the clients the other way. We also had a lot of cross-sell with our energy businesses, which would be the one of the Insights businesses. That's probably where we had some of the fastest cross-sell.

Another upside has been having fixed income credit indices as part of our Index business. We see a whole new set of products and services we're providing to the insurance industry, which are really beneficial with the kind of big trends that are happening with wealth management and with retirement. So, across the board, all of our DLTs, what we call the industrial logic at the time is playing out, and we're seeing really strong execution. And as I go back to where I started, really, importantly, a great management leadership team that's come together and is very well aligned.

Unidentified Analyst

Okay. With IHS, obviously, came the automotive business, Mobility, as you call it now. Fabulous business. Really nice top-line growth trends. But it's not one that obvious to me in terms of the [indiscernible] mission of powering global market. So, from a portfolio optimization perspective, how do you think about the Mobility business?

Doug Peterson

Well, first of all, the Mobility business is a really attractive business. It's got top-line growth. It has must-have data for the automotive sector. The automotive sector is going through incredible transformation, and it's one of those industries that we can watch between now and the next 10 years, we'll have to see what will happen with autonomous vehicles and electric vehicles, with hydrogen, with hybrid. And we have must-have data for the supply chain, for the OEMs, for dealers, et cetera. So, it's a very strong business. It has important data model. There's a lot of synergies across the group for supply chain, for sustainability as well as how we run the business.

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We're always doing reviews of our portfolio. And a couple of times a year, we take a step back with the Board and ask the question about what does fit. And as you see, I mentioned Visible Alpha for Market Intelligence, we also have a very small business called Fincentric that we originally did a strategic review of, now we're looking at divesting. But over time, you should know that we're going to continue the discipline we always have for the entire portfolio to make sure that it fits, and then we're going to get the most value from it and that we're the best owner.

Unidentified Analyst

Okay. Let's move to innovation and maybe AI. Why not? Vitality Index kind of measure actually quite like a lot and -- which is the percentage of revenues from new products. We're in about 10% of S&P. Where are you seeing the greatest source of innovation at S&P? And long term, what do you think that numbers will be?

Doug Peterson

Well, we have targeted that we want 10% of our revenue growth to come from new products and new service or enhanced products, things that have been really substantially improved or updated. And we think this is important because it continues with that culture of innovation. But innovation as ideas doesn't mean anything, unless you're actually delivering it, and it has an impact for clients. What we do then is we identify new investments, strategic investments that we want to make. We start tracking those. We put them into the Vitality Index, and then we want to see what kind of growth we're getting. The last few quarters, our Vitality Index has grown 15% to 18% -- sorry, the products within that 10% have been growing at 15% to 18%. So, we want to see that kind of higher growth. It helps push the entire portfolio to have faster growth by having those new products and services.

Over the last year or so, we've had products and services in the Vitality Index that are growing at that fast rate from every division. Some of them have been in energy transition and Commodity Insights. We've seen some from the Index business. We've had some new indices that have really been moving fast in the automotive business, Mobility. There are some products and services for servicing the dealer markets that have been growing very fast. We also would have been there some of the things I've talked about, sustainability, private markets, et cetera. So, these are the products that we're using to drive our growth.

And go back to what you were asking before about why is the IHS Markit deal gone so well, it's because we have accountability. And one of the ways we have accountability with management is ensuring that we're tracking and measuring our investments in new products and services. So, when we give the capital to somebody in the company to build a new product, if it doesn't work, we pull the plug. We don't want things to go on forever. But by having this intense approach to looking at the investments, ensuring that they're profitable, we can get the Vitality Index and, at the same time, have accountability when something is not going along quite as well.

Unidentified Analyst

I was going to ask the question in terms of how do you drive the culture of innovation around the firm. Is the Vitality Index part of compensation? And how do you make sure this is -- it's part of the culture?

Doug Peterson

Yeah. So the Vitality Index is part of the scorecard of the divisions and the presidents, along with Net Promoter Score, which, as you know, is a customer metric. We have some other customer metrics we use depending on the division. But we want to make sure that we have growth, which is being driven by these capital investments, which is in the scorecard. We also want to make sure that we have customers that we're responsive to, that they're satisfied with what we're doing. We have metrics that we use. So, those two are really critical to driving our performance. It's the innovation, and it's also how do our customers see us and are they actually buying our products or services, are they satisfied with how we're serving.

Unidentified Analyst

Pivoting to AI. You guys recently launched awesome, what was interesting, S&P AI benchmarks, which I believe is a way to assess the ability of LLMs to answer financial questions. I'm curious how you think about that as an opportunity over time. Obviously, S&P is known for benchmarks. That's a key competence. Is that something you can expand to other sectors? How are you thinking about that opportunity is?

Doug Peterson

The proposition of the S&P Global benchmark, that you can look up on our Kensho website, is to understand that there are literally hundreds of models popping up. We hear a lot about OpenAI and Anthropic. Those are probably the two most prevalent right now. But there's a lot of large language models coming up. And we decided that there should be an opportunity for people in the business sector, especially the financial sector, to have a benchmark that allows them to understand what's the quality of these models that are in the market. So, we have 600 standardized questions, which are asked of a model, and then we grade them on how accurate are the answers, what's the quality, the numeracy of the answer. Because most models today don't do a very good job with numbers. And we then come up with an aggregate score, and then we rank them. You can look at how we're ranking the models right now.

Right now, it's free. We're not getting paid anything for that. But what's really important, the secondary opportunity of that is we have an open architecture for model. We're not linked in with one single company or one single model. We have an open architecture system. We built an approach, so that we can bring models into our firewalls. And then all of the work we're doing with large language models we've done inside of our firewalls, protecting our data, protecting our intellectual property. And one of the ways we know which models to use and what's the best use case for them is by the work that's being done with Kensho. So, we see this as a -- it's a positive loop, and we're sharing our -- what we're learning with the markets through the benchmark. But then we're actually using that same information for determining which models we're going to be using through our own R&D and our own product.

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Unidentified Analyst

Let's talk about cloud partnership with AWS. It was about a year ago, you announced that. Can you talk about any the financial payoffs that you've gotten so far or you anticipate in the next few years [indiscernible] from that?

Doug Peterson

When we took a step back after the merger and looked at all of our vendors and -- we were already at S&P Global and in IHS Markit, both of that were on a cloud transformation. We were quite advanced in both companies, and we all had multi-cloud strategies. As we look towards the next three to five years, we have -- we're a very large client. We have a large spend as a data company, as an analytics company. We want to make sure that we have a strong partnership with the cloud providers. And as part of that, we ended up with the strategic partnership with AWS.

It's a contract that -- it's quite large. It's over $1 billion. And because we were already starting to negotiate related synergies merger, we said, "Well, let's take this beyond and not just think about the merger synergies. Let's take this beyond as a longer-term strategic relationship." It's a very strong relationship. We have savings that are coming through. It's already built into our guidance. It came from the synergies, plus the ongoing savings that we will have. It's a strong relationship, and AWS is a really good partner.

At the same time, we haven't dropped everybody else. We have multi-cloud strategy overall. We think it's important that we have relationships across the board. It's also good for us to understand what's happening with different service providers. They're also our clients as well. So, we have good relationships across the board with the technology sector and the cloud sector as well as the AI sector we just talked about. But it's important also for us to have a really solid base of a large service provider that can give us visibility.

Unidentified Analyst

Okay. Maybe switch over to expenses and how you think about expense management for the company. How do you balance sort of near-term expense management versus longer-term investment? And I think it's a particularly important question at the moment given AI and potential traditional sort of power that, that could have. So, I'm curious how you think about that.

Doug Peterson

Yeah. There's -- I'm going to throw it into three buckets. The first bucket is our annual budgeting that we've been doing for a long time, this goes back to when I first became CEO as we talk about positive jobs. We start out in June and July with some framework, and then by the time we get to October, we're pretty much baked with the budget for the next year. And then into the next few years, we've got a good idea of where we're headed. And one of the requirements is that you've come in as a President of a business with a higher top-line growth and you have lower expenses. So, it's -- I don't want to see people come in with an expense growth rate that's higher than their revenue growth rate. That's just isn't the way we manage the company. So we start there.

The second bucket has to do then with investments. If somebody would say, "Well, I have some specific opportunities that I want to invest in," we then have this program with strategic capital allocation and we will have a certain amount. It's usually -- and you know this because it's -- we talk about it, about $125 million a year that we allocate. It's part of the expenses, but we allocate that to new innovation opportunities to get built into the budget. And we're able to keep positive jobs, even with that $125 million that we distribute to different businesses. And many of our innovation that we just talked about in the innovation index, the -- is really part of -- is part coming out of those investments. So think about -- the first one is how we manage the budget, the second is allocating capital.

The third is, as you know, we generate a substantial free cash flow, and we have a guideline that we're going to return 85% of that to our shareholders through stock buybacks and through dividends. So, that leaves 15%, which is up for acquisitions, for other types of capital usage. And we try to find the best uses for that, $600 million more or less this year. Many years, we're returning more than 100% of our capital because we didn't have a good use for that. Other years, we return maybe a little bit less. And 85% used to be 75%. But the approach is that's the third lever for growth capital is we have that already available. It's something that's in our targets. We don't use it, we don't use it, but it's the third area for investment. It's how can we do acquisitions or tuck-ins or things like that.

Unidentified Analyst

On the sort of incremental capital -- investment spend, are you seeing more pressure from your heads of businesses coming in and asking for bigger budgets, again, given some of the transformation technologies that we have out there?

Doug Peterson

It's nothing new. That's all -- everybody always wants more capital than we have, which is one of the fun things about my job is to try to make sure that we find the best opportunities for that investment. So, there's always more than -- always more is asked than we have capital available.

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Unidentified Analyst

Okay. Maybe a question on your management style. The company has grown tremendously under your leadership, 10 to 11 years as CEO. How has your leadership evolved over that time? And then, when you think about picking the leaders for the firm, what are you looking for in those leaders?

Doug Peterson

So, first of all -- it's interesting to ask about how things have evolved over 10 to 11 years as a CEO. There's things that have not changed at all, my belief and it's important to have a strategy and a vision, the quality of the team is critical, having core values in the company. Our core values are integrity, partnership and discovery. Those sorts of things haven't changed at all. I have beliefs in those. I've mentioned accountability before. So, there's certain core aspects to how I lead and what I've admired in other leaders that I've tried to incorporate in the way that I lead the company.

But one thing that's changed a little bit is how I spend my time. As a very new CEO, I wasn't quite probably well prepared of what it meant to be a CEO. I spent a lot of time in maybe the wrong places. I now spend most of my time with clients and people and shareholders. Those are the three areas I spend the most time with. It's important that I do that. I spend less time with bankers and consultants. At the beginning, I probably spent too much time with bankers and consultants...

Unidentified Analyst

Well, you were a banker first.

Doug Peterson

Yeah. I was a banker, so I knew all the bankers, and they all were calling on me. But it's something that's important for me how I spend my time. So that's been kind of a shift.

To your question about talent and leadership in the organization, we have an approach to thinking about the succession for all of our leadership positions. It's important from the Board and to the management team that we always think about succession. But the way we think about succession is through development. So, we invest in our people through coaching, through leadership programs, through training programs, ensuring that people are getting to build a network across the company. I really like it when we can bring a group of leaders together that spend time to get to know each other. But also we push them on how they're going to learn and be better leaders and know their business better.

So, this approach to development is something that's critical to me. When I talk about people, I also think about growing leaders and growing people and allowing them to reach their full potential.

Unidentified Analyst

Okay. I just received a question from the audience. It's around sort of pricing in the Ratings business. How do you think about the opportunity to maybe take more price in Ratings?

Doug Peterson

Well, first of all, when we think about pricing in the Ratings business, it's always been based on somewhere around what's happening with inflation or general economic growth. That's always been the foundation of what we've done in the business. In addition, across all of our businesses, this is not just Ratings, we have a philosophy that pricing is allowed or driven by the quality of what we provide. If we provide the same old service every year, a tired service that's not being updated and upgraded, it doesn't have new features, new technology, new quality upgrades, if it doesn't have something where we're providing the best service and the most responsive service available, we can't price. So, we've got to start with a philosophy that we're not going out to try to price. We're going out to try to wow our clients and have them see our products as something that they must have. When you get to that, you get a virtuous cycle and you're able to get the pricing. Pricing follows excellent service and really satisfied customers. So that's the way we think about pricing.

Unidentified Analyst

Okay. Maybe last one from me. The stock is obviously tremendous over your tenure. But I would say, over -- recently, maybe lagged a little bit or has been somewhat stagnant. Curious what you're hearing from investors. And any plans to address those?

Doug Peterson

Yeah. So first of all, there's potentially a little bit of wait and see after a deal this big. People sometimes see a company do a very large merger and they say, well, let's wait and see. Did they actually deliver the synergies? Which we have. Checked that box. Did we put in place a great leadership? Checked that box. Have we made some important moves? We started doing some of those, as you've seen a couple of very small acquisitions, a couple of small divestitures. So, there are some questions that always come along with a large merger. And so, I think that could be one of the areas we do hear from many people in this room. When we meet with them, they're saying -- they're pleased with what they're seeing, but they want to see a little bit more. So that's one of the areas.

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And then we've had -- you started off your questions about -- a little bit about what's been the cycle in the financial services sector recently, a little bit slower sales cycle, et cetera. So there might be some people that have taken a step back at that. But when I go back to what we're hearing from investors, there's a lot of enthusiasm, especially when you look at the long run. When you look at the biggest trends that are taking place in the financial markets and the corporate sector having to do with artificial intelligence, with private markets, with sustainability, with supply chain analytics, with globalization of markets, with the flattening of market, every single one of those trends is something that we have huge benefits and we play into. We're well positioned for them. And that's the way I think about the company, not looking at next quarter and even the rest of this year. Obviously, we deliver. That's one of the hallmarks of our company is that we do deliver. But what's more important to me is the way we position ourselves for the long run.

Unidentified Analyst

Fantastic. I think we'll end it there. Thank you very much, Doug.

Doug Peterson

Thanks, Christian. Thanks for having me.

**Load-Date:** May 31, 2024

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