

# **S&P Global Inc. (SPGI) Stifel 2024 Cross Sector Insight Conference (Transcript)**

Seeking Alpha - Earnings Call Transcripts

June 4, 2024 Tuesday

Copyright 2024 Seeking Alpha Provided by Syndigate Media Inc. All Rights Reserved

**Length:** 5110 words

**Byline:** SA Transcripts

**Body**

S&P Global Inc. (SPGI)

Stifel 2024 Cross Sector Insight Conference

June 04, 2024 11:30 AM ET

Company Participants

Doug Peterson - President and Chief Executive Officer

Conference Call Participants

Shlomo Rosenbaum - Stifel

Presentation

Shlomo Rosenbaum

I want to welcome all to Stifel's 2024 Cross Sector Insight Conference. I'm here with the CEO, Doug, of S&P Global. I want to welcome you. Thank you very much for participating.

Doug Peterson

Appreciate it here. Thank you so much for hosting this.

Shlomo Rosenbaum

Yes, very welcome.

Question-and-Answer Session

Q - Shlomo Rosenbaum

Just want to start off, S&P is a very multifaceted business right now. You've been here for a while, orchestrated a lot of the portfolio, and we certainly appreciate that. But I'm going to start asking you about the Ratings business for the simple reason, and that's the first question that I always get from investors, no matter what is going on.

I always get the first question is what's going on with the Ratings business. And a very strong first quarter. And -- it looks like the second quarter seems to be shaping up pretty good as well. You guys put out the data issuance of 75% in April. We haven't issued out May, but we have our own tracker. It still looks really good in May.

And so, I just wanted to ask you your view as to -- on the earnings call, you talked about a lot of -- you're more conservative in the guidance because you were thinking that a lot of it was pull forward, but are you seeing signs that we might be starting to get more M&A, more IPO stuff that might make this a little bit more of a sticky, strong time?

Doug Peterson

Well, first of all, as you know, we increased our guidance in the first quarter. We increased the build issuance range to -- from 5% to 9% to 6% to 10% and then our earnings range up to 7% to 9%. This is because of the strength we saw in the first quarter, what we've seen going into this quarter. But we've also believed that in the second half of the year, there are different contingencies that we're going to watch out quite closely.

The fourth quarter, in particular, November and December, were very strong last year for tougher comparisons. There's also interest rate volatility that we think could be coming. There's elections. There's some external risk factors that we look at macroeconomic, geopolitical risk factors as well. So, we always feel that second half of the year is always going to be a little bit difficult for us to map out and to look at.

In addition, as you know, the third quarter is always the weakest quarter. If you look at over my 13 years with the Company, the third quarter is always the one with the biggest drop, it's a pretty weak quarter. But going back to what you were discussing the second quarter had a very strong April, a 75% growth in build issuance in May. I don't have the final numbers for May. We'll publish them at the end of this month, but I can look at what's happening week by week.

And we're also in double-digit growth of market issuance, I am not sure how it all plays out to build issuance. But let me just take one step back and look at a longer term. When you look at the longer term over the next three to five years, there was a lot of issuances that was done seven, eight, nine, 10 years ago that accumulates from that period, '25, '26, '27, '28, '29. And that is up about 11% in total compared to where it had last year. And so, we look at that as our future pipeline.

And if you ask me the question about what's going to happen quarter-by-quarter, there's always a question about pull forward interest rate spreads. But in the long run, the most important driver of issuance is economic growth, so GDP growth. We look along with that is what's the pipeline as we call it, a future potential pipeline of what's on balance sheets for refinancing. And then interest rates and spreads play a role in the timing of that. And so that's why we have sometimes some lumpiness in the business.

Shlomo Rosenbaum

Okay. And one of the things I also want to ask about is that almost universally amongst the companies that I cover, you're seeing a trend in the CFOs of saying with the interest rates going up, going to let some of this leverage trickle down. And so, companies might have been comfortable in some of my companies in the upper threes, they want to be in the lower threes or if you're below three in terms of leverage, how does that factor into your thinking in terms of the cycle and how long -- will that weigh in terms of companies thinking maybe won't refi $1 billion with $1 billion. I'll do $1 billion with $750 million. Like how does that...

Subscribe to Seeking Alpha for more content like this

Doug Peterson

We haven't really seen that be to of an impact. A lot of times when banks -- or sorry, when financial -- or sorry, when corporates want to leverage their balance sheet in different ways. Instead of doing it the bond market, they do that more typically with commercial paper or with the bank loan market. It's less likely they're going to do with the bond market because bonds are quite attractive. They're long-term fixed rate financing they're much lower covenant than when you get with a bank loan or a private credit instrument. So, we don't typically see people using that as the instrument that they flex their leverage with.

Shlomo Rosenbaum

So, you're not concerned about that. Do you think it in a different...

Doug Peterson

Yes. And in addition to that, even when there is a company here and there that might lower their net debt, there's a lot of cash on balance sheets anyway. And in the long run, what we see is that over the very long run for over 80 years, the amount of corporate debt in the markets grows at 4% a year. It's been very steady. It's about a 4% a year growth overall of corporate debt. And then in addition to that, not only in the United States, which is a very large capital market, about 68% to 70% of the corporate financing in the United States is done through capital market instruments.

In Europe, it's the other way around. It's more like about 35% to 40%. But in Europe, it's starting to creep up, especially after the ECB took some programs out called the LTRO, which was a liquidity program for banks. They stop doing that, which meant that the banks now don't have this cheap liquidity and they're starting to push their clients to the capital markets. So, there's more tailwinds out there in the longer run than worrying about a few companies delevering.

Shlomo Rosenbaum

Right. And then one more on credit before I start moving on to something else. Just could you talk a little bit about what's going on in private credit versus the public credit? And how do you see that playing out in S&P's role across the different areas within Clint?

Doug Peterson

Private credit has been around for many, many years, and it typically had been focused on mid-market, mid-cap companies. And in 2022, in particular, it filled a gap when the fixed income investors pulled their capital out of the market as rates really started rising quickly and private credit debt into larger cap companies. During that year, the issuance level was very low of loans, bonds and the private credit filled a little part of that gap.

We realized at that time that we needed to have a new thinking around that asset class. We work closely with the private credit players to understand what their goals or objectives for managing their portfolios. They're not going to buy and hold those loans forever. They're managing them as portfolios. They're going to syndicate some of those loans. They're going to securitize some of those loans. They're going to -- those loans.

And as they do that, those get rated. In addition to that, they're looking for some private credit assessments, independent credit assessments, loss analytics, recovery analytics across our portfolios, all of that play to the strength of our rating agency.

And then in our Market Intelligence business, we have the portfolio management tools like iLEVEL, which are used by GPs and LPs and then we also have reference pricing opportunities for loans and swaps and things like that, that the private credit players are using as well to understand the portfolio. So, net-net, this is an opportunity for us.

Shlomo Rosenbaum

Okay. I want to shift a little in terms of just what's going on in the general financial services vertical. So, what are you seeing in the sales cycles for your general Market Intelligence business maybe there's -- you could talk a little bit about some of the subsegments is taking longer for deals to close like what's happening on the ground?

Doug Peterson

Well, this goes back about 1.5 years ago. In fact, it goes to the end of 2022 when we started signaling that there had been -- at the time we're calling it a longer sales cycle, that's the language we're using because we are starting to see that some of the large especially sell-side financial institutions, investment banks, we're starting to shrink their sales forces a little bit, shrink the number of bankers.

Subscribe to Seeking Alpha for more content like this

And as part of that, they were also negotiating with us in terms of consolidating our contracts or thinking about the renewal of their contracts. It was taking longer. And so, we started talking about that lengthening of the sales cycle. Now that lengthening of the sales cycle and some of that downsizing that's already built into our budget and our planning. So, to the extent you see our guidance that we gave for last year and this year, that was already built in.

So, we haven't seen anything that surprised us because we already expected Some of the consolidation that's taking place in the banking market, we had built that in before. Right now, we continue to see a little bit -- when I talk about the financial sector, I'd say that we see a little bit of that on -- a little bit on the asset management side, a little bit on the sell side, but we're not seeing that in insurance and in sovereign wealth funds and pensions.

So, it's -- that's not the entire part of Market Intelligence. Market Intelligence in particular has a really diversified set of clients. It includes corporates, sovereign wealth funds, as I mentioned, insurance, pension. We're also very global. So, we're not across the board, although we're seeing it, in particular, I'd say, in desktop is where the most kind of pressure comes. But we have a diversified business, which helps offset some of that. And we've also been planning for that going forward. It's built into our guidance.

Shlomo Rosenbaum

Just want to touch on that desktop business a little bit. S&P has always been a little bit unique because a lot of the competitors are not as much in kind of Corporate America. And you guys are more in Corporate America. Are you seeing a little bit more of a shift in them trying to follow your lead into Corporate America in terms of not just selling to financial services firms and some people know I'm talking about like Thomson and FactSet and Bloomberg and...

Doug Peterson

Yes. I haven't really noticed that. And you almost probably have to ask them that question. But we feel that it is an important part of our diversification that we're on the desk of a Treasurer, CFO, a Head of Business Development and M&A and corporate strategy, sometimes supply chain managers, et cetera. So, we think that, that's a really value-added opportunity for our business.

Shlomo Rosenbaum

Okay. So, you're not seeing that. It's not percolating to your level?

Doug Peterson

No.

Shlomo Rosenbaum

If there's anything going on there. Okay. I just want to shift a little into AI. Just -- AI is a very big focus nowadays. And one of the things that people kind of -- I don't know if they fully understand is that training the models is huge and having our own proprietary data in order to be able to do that is huge. Can you talk about how you are AI? And the different data sets that you have that other companies just don't have?

Doug Peterson

Well, we started with an AI strategy seven years ago when we made our first B round investment in a company called Kensho, which is across the river that had a traditional machine learning and artificial intelligence platform about 120 engineers, computer scientists, physicists, mathematicians, et cetera, that we're experts in artificial intelligence. That became what we call our Kensho data layer. It's a company is called Kensho. They're an inside captive and incredibly valuable capability to have.

And about 1.5 years ago, when we started shifting towards generative AI. We said to Kensho, you need to continue to be our generative AI and our AI center of excellence for S&P Global. What we've done with that is build what we call the Kensho layer. It manages our data approach, how we can tokenize information, how we can use it in models because it's not easy to understand how you can take data and then turn it into model ready information to be used by generative artificial intelligence language models.

As part of that approach, we've also in the Company a CAIO, a Chief Artificial Intelligence Officer. He's the CEO of Kensho, who also plays that role for us. So we have governance now across our artificial intelligence to the Company. But probably the next most important thing we've done is we've built an internal model management system, a copilot -- it's called Spark, S&P Spark assist. We've now built this in a way that we can bring the models inside of S&P Global.

We're open architecture. We're using the models that are being built by anybody who we can mention today the high scalers and others in opensource models. We're bringing them in-house. And the reason we're doing that is that we want our data and our proprietary data to stay inside of S&P Global to be used by models that we control, so that the output is something that we have. We don't want our data escaping out into the market being used by others.

Subscribe to Seeking Alpha for more content like this

So, we have -- we're very strict about use cases of our data and our proprietary data, and then we built this assist system that allows us to bring the models and test them to know which are the best to use them. And then our employees have opportunities to use the generative AI tools. The last thing I'd say is that I think that the generative AI models are going to become eventually commoditized. There will be models that we settle in many, many models, but for different use cases. And we think that data is going to be the key differentiating factor. And that the AI capabilities are going to become table stakes for companies like ours.

Shlomo Rosenbaum

Would you highlight certain data sets that you think are going to be really stand out in three years in the fact that you own them and you're applying AI to?

Doug Peterson

Yes. The data -- obviously, the data sets we already own. I would start with something that we might not necessary to talk about often, which is the information about energy transition. We have unique information that crosses all of S&P Global about sustainability whether it's financial market information, it's the carbon attribution, it's carbon intensity, it's information about power systems and power grids, it's physical risk that many different types of companies are using.

So, something like that is a data source that our company has been trapped in different silos of different businesses. And now we can use it and extract it from across the entire horizontally. We've been working on that for the last few years with our Sustainable One business. So, we've got a way that we've already moved ahead on extracting that kind of information. But if you take different divisions and now you can pull out that information.

We can do the same thing now with the private markets information where we've got it in different parts of the business and start extracting it for new solutions. But we already have such incredibly important and valuable proprietary data in the ratings, in the indices and the price information. These are the benchmarks that they're proprietary. We've got them, and we think that there'll be a lot of value used from those as well.

Shlomo Rosenbaum

Great. I don't want to make the same mistake I made in the last fireside chat where I forgot to ask any of the people in the audience if they want to ask before I took to set the whole half an hour. If there's anybody out there that wants to ask anything, please raise your hand. We're happy to call on anybody, like I've said before, this is not like an auction. I'm not going to get it if you kind of link or make a little note but -- I have -- obviously, a lot of my own questions over here.

Okay. I'm just going to take it out. The best companies, I would say, are very focused on new product innovation. And S&P has a Vitality Index is only -- two companies that I cover that have a Vitality Index and you're one of them. And can you talk about how does that work within the Company?

If something makes it into the Vitality Index, is it -- how change does it have to be from what it was before to really get counted as a -- and from your view, like what goes on operation within the Company to make sure that you are continuously innovating because to generate the kind of growth that you generate for other companies that's like producing a new company a year. So maybe you could talk a little bit about that?

Doug Peterson

What we know that for us to continue to grow, we have to be able to meet the needs and satisfy our customers. And in order to drive pricing, in order to drive stickiness as we would call it retention, you can't do that if you're not always continuously improving. We can't just sit back and say, we've got a great product, which is just embedded in somebody's workflow and they're going to always keep it there forever.

It's a competitive market, even in businesses where we've been embedded for 30 or 40 or 50 years, we still have to improve. And that means it's the quality of our graphics or even things like page load speeds. You have to always be doing things better and better and better, but that's not what gets into the Vitality Index. What gets you in the Vitality Index is something completely new or a product which is really enhanced with all kinds of new features, new technology, big releases that come out.

Subscribe to Seeking Alpha for more content like this

We have a group of people that look at this once a year, and they decide what is going to be put in the Vitality Index. But the approach in the Vitality Index are, we want it to be 10% more or less of our total revenues, and they need to be the kinds of products that are growing in double-digit ranges. Last year, the Vitality products grew at a range of 18% for the full year. So it helps pull up the revenue growth for the whole company. These are the sorts of things that we hear when we speak with customers.

You're never going to find out what are the problems we need to solve for our customers if you don't spend a lot of time with them and you listen to what are the things on their minds. And the things on their mind is linked to all the themes I've been talking about its sustainability and energy transition in private markets and what's happening with supply chains, with risk management, generally, these are the themes that we hear and then how do you apply technology and how do you manage data.

And so, these are the themes that are going to be producing the new products and new services, which will be part of the Vitality Index. But it's high growth, it's going to be customer responsive, and that's what we're going to put in that set of products, and they've got to be growing fast.

Shlomo Rosenbaum

So just to segue a little bit into that. So, the Company, I think, made a comment that we're starting to get to where we're going to get more of the revenue synergies that are new product revenue synergies from that IHS Markit acquisition. And your -- I think the comment was you guys are a little bit ahead of where you thought you were going to be. Can you talk about like what's resonating there? What are you doing now that you weren't doing that they couldn't do before? Obviously, it took a couple of years to put it together and generate what's happening?

Doug Peterson

The first round of the revenue synergies from the IHS Markit acquisition, we're really in cross-sell. And we talked before about the corporate segment. IHS Markit had a very strong franchise called the Financial Services Franchise within basically the market business of the IHS Markit. But they weren't selling a lot of their services to the corporate sector. We have a large corporate client base and a great sales force, and they were able to immediately identify some of these products could easily be sold to the corporate sector, and that's the first round of the revenue synergies we got from that.

Same thing with fixed income indices into our equity indices franchise that the products within our commodities business that were things like selling research to price clients, et cetera, a lot of cross-sell. But along the way, listening to the customers and having some things we already knew in advance, we felt that there were going to be some products where you take a platform and put new data on it, or you set a date and put them together and you have a new product. That's where we are right now. And I'll give you a couple of examples of those.

I'll start with something in our Index business, where we found now that having credit income indices along with our equity indices has given us a whole new set of products for the annuity industry. The annuity industry in the United States, which is through insurance companies is selling products to the newly retiring and soon-to-be retiring population. And that are looking for blended products, multi-asset class products. We didn't have that capability before, without going outside of our own house. And so, this is early wins that we're having in. These take a little while for the revenues aren't kicking in, but the revenues are starting to kick in slowly. But this is an example where we weren't able to do that before.

Another example in the in the Commodity Insights business, we had a Platts Platform and commodity their business at IHS Markit had a platform. We put those together and by putting them together, you can get out of the same platform now prices, you can get research, you can get analytics, you can get forward forecasting, et cetera, something that nobody else has. We never had that before. So, these are some of the examples of products like that, that are the new products that are being launched that we couldn't have done that before.

Shlomo Rosenbaum

Yes. It's interesting. The they're two very high-class energy products that came together. I used to cover IHS Markit. And I remember some asking Jerre Stead about buying Platts and he said, I've ever heard that it was for sale, or do I ever expect it to be for sale.

Doug Peterson

It wasn't, it's not.

Shlomo Rosenbaum

Just going back to some of the businesses that you've got with IHS Markit. So, we talked about the financial services. We just touched a little bit on the energy. You talk about mobility. Mobility was their fastest-growing business. And it was very exciting. And the question we always got was, how long can this growth last? It's going on and on and on. And maybe you could talk a little bit about the growth runway for that business? And then also, it's a little bit different than the other businesses you have. How does it fit in with the overall S&P family?

Subscribe to Seeking Alpha for more content like this

Doug Peterson

Yes. So, starting off on the business itself. If you think about the automotive industry and mobility industry globally, it is going through a massive transformation. And it's exciting to be in a data and analytics business when you're serving an industry that is shifting from ICE, Internal Combustion Engine systems to electric, potentially hydrogen to hybrid. And what that creates in the entire supply chain all the way down to the consumer is doubt and uncertainty, what does this mean for me?

What does it mean for a manufacturer? And we provide the data and analytics for them to make informed decisions. We also provide the information for the dealer and the dealer groups to work with the OEMs, the manufacturers on how much are they going to manage inventory, what's going to happen with rebates, what's going to happen with interest rate, subsidies that are going to take place in that industry. We have the products and services that are used to manage things like recalls for the automotive industry.

And then on the CARFAX product, we've got the information about used cars and just think about the second that a new car leaves a lot, it's a used car. One second after it leaves it becomes a used car, and there's value in having that kind of individual information about the automobiles, which is used for buying and selling, but also the aggregate statistics are very valuable. One of our client sets we really don't talk a lot about is insurance and financial institutions that use this to make decisions about underwriting, about lending, et cetera.

So, we have a very broad set of customers. It's an industry that's going through massive change. It's been growing quickly. And then as a data and analytics business inside of S&P Global, that's what we are. And so, there's been a lot of advantages when it comes to technology, to artificial intelligence, to data extraction tools. We've seen a lot of benefit from the S&P Global portfolio.

The customers, especially some of them are not necessarily the same end customers. But we're always evaluating the total portfolio, especially kind of at the product level, what -- and what fits. But this is a really good business and one that's -- for us, it's a strong business to keep learning about in the portfolio.

Shlomo Rosenbaum

So, I just -- I covered S&P, I mean IHS Markit. I think nine years ago when they bought it or whatever it was eight years, I forgot how many years at. The main question was, is there enough runway for this growth to continue? And I think that the main question right now is still -- is there enough for this good growth to continue in that business?

Doug Peterson

If you look at what's happening with a different environment, so let's go back a couple of years, the pandemic years, the manufacturing of automobiles, it was a huge struggle, right? Nobody could get chips to build cars and there was problems with the supply chain for all kinds of automotive parts. Well, what happened? The used car market completely took off. It became a used car market and the automotive business, the mobility business kept growing.

Because it had the ability to provide the information to the manufacturers, to the bankers, the insurance companies, to the dealers, et cetera, for that shift to the used car market. In fact, benefited tremendously from it. So, I think as long as that industry is going through this much transfer in, as long as people keep buying cars, I think that we have -- I think we have a lot of room to grow.

And I'll make one quick comment -- we have made an acquisition in the business of a company called Market Scan. And this is a specialized business for the automotive sector that has the best information about value of cars, pricing and value of cars. So, the mobility business had the information that you needed about what cars we're going to be in demand, what cars to build, what cars people are going to buy, when they were going to buy them, but not how much they would pay and not what the value is at kind of a market value of automobiles.

So, we've added that to the portfolio. So, we now have a very complete set of information and data for the mobility business. And I don't know if there's any other company that's like us. I don't -- you know, you follow us, is there anybody who has that set of capabilities and assets that can provide that tire supply chain information.

Subscribe to Seeking Alpha for more content like this

Shlomo Rosenbaum

I mean if you look at Experian has a competitor in the U.K. and then you've got some of the software and the insurance companies do some valuation here and there, but no one has got that...

Doug Peterson

The total picture, it's hard to recreate that, and it's a very unique, very valuable asset.

Shlomo Rosenbaum

Going to pull once again because we're coming towards the end of the session because if I get in one more, that's going to be the end of it, if anyone ask anything. Okay, then I'm going to finish it off here. Just -- it was a big focus of S&P on their ESG offering. And we've seen at least in the U.S., it's not as emphasized as it was several years ago amongst those of the asset managers. Can you talk about where that offering is right now? What the growth rate is and what the focus of the Company is on that side of the business?

Doug Peterson

We put in place -- we put something that was a group called Sustainable One, S1 that was horizontal across S&P Global about 5 years ago, 4.5 years ago because we felt that this is a global trend and it's important to asset owners to the banking system to the asset managers. It's very important to regulators around the world. The market a few years ago was heavily focused on scores. This was people, what's my ESG score going to be and how we think about that. But it's really shifted heavily the last few years to data and especially climate data.

Now, this plays to our sweet spot. We bought a company called Trucost about seven years ago, which is the best company when it comes to carbon attribution, to climate data, to water usage, waste, chemicals, et cetera. We've also made some other acquisitions along the way of some carbon and other climate data information. And then because of commodity insights, we have fantastic information about energy transition, about carbon attribution, carbon intensity, et cetera.

So, the market has shifted away from scores to core data and core analytics, we're benefiting from that. The pushback in the United States is actually waning a little bit. So that's actually not such a bad thing. Europe, it's actually paying up a lot. It's moving fast. And I do think that if you take a long-term view, energy transition and climate change are here to stay. There's a lot of people that care about it, and we have a fantastic set of data and analytics to support the changes in the markets in that space.

Shlomo Rosenbaum

Great. Thank you all for joining. And Doug, thank you very much for participating.

Doug Peterson

Thanks, Shlomo.

**Load-Date:** June 4, 2024

**End of Document**