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S&P Global Inc (SPGI) CEO Doug Peterson on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-29-19 Earnings Summary

Press Release *10-Q* *Slides*

EPS of $2.46 beats by $0.12 | Revenue of $1.69B (9.25% Y/Y) beats by $37.89M

Earning Call Audio

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S&P Global Inc (NYSE:SPGI) Q3 2019 Earnings Conference Call October 29, 2019 8:30 AM ET

Company Participants

Chip Merritt - Senior Vice President, Investor Relations

Doug Peterson - President and Chief Executive Officer

Ewout Steenbergen - Executive Vice President and Chief Financial Officer

Conference Call Participants

Manav Patnaik - Barclays

Michael Cho - JPMorgan

Toni Kaplan - Morgan Stanley

Alex Kramm - UBS

Andrew Nicholas - William Blair

Christian Bolu - Autonomous

Bill Warmington - Wells Fargo

Drew Kootman - Cantor Fitzgerald

Craig Huber - Huber Research Partners

George Tong - Goldman Sachs

Henry Chen - BMO Capital Markets

Gary Bisbee - Bank of America

Shlomo Rosenbaum - Stifel Nicolaus

Patrick O'Shaughnessy - Raymond James

Operator

Good morning and welcome to S&P Global's Third Quarter 2019 Earnings Conference Call. [Operator Instructions] I would now like to introduce Mr. Chip Merritt, Senior Vice President of Investor Relations for S&P Global. Sir, you may begin.

Chip Merritt

Thank you and good morning. Welcome to S&P Global's third quarter earnings call. Presenting on this morning's call are Doug Peterson, President and CEO and Ewout Steenbergen, Executive Vice President and Chief Financial Officer.

This morning, we issued a news release with our third quarter 2019 results. If you need a copy of the release and financial schedules, they can be downloaded at investor.spglobal.com. In today's earnings release and during the conference call, we are 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 our 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 are aware that we do have some media representatives with us on the call. However, this call is intended for investors, and we would ask that questions from the media be directed to Jason Feuchtwanger at 212-438-1247.

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

Doug Peterson

Thank you, Chip. Good morning and welcome to today's earnings call. We are pleased to report very strong third quarter financial results with all four divisions delivering revenue growth. We continue to generate significant margin improvement due to top line growth in the ongoing execution of our productivity programs, and this margin improvement is occurring despite the increase in investment spending. During the third quarter, we delivered a 16% increase in adjusted diluted EPS. Based on this performance and our expectations for the rest of the year, we are raising our 2019 adjusted EPS guidance, which Ewout will discuss in a moment. Share repurchases are an important component of capital return, and we recently completed our $500 million ASR initiated in August. And of course, we're always excited to talk about our new products. We recently launched unique technology innovations, including textual data analytics, Kensho's Scribe and several ESG-related offerings. I'll cover these in more detail in a moment.

To recap the financial results for the third quarter, revenue increased 9% to almost $1.7 billion. Organic revenue excluding revenue from the divestment of SPIAS and RigData increased 10%. Our adjusted operating profit increased 14%, and our adjusted operating profit margin increased 230 basis points to 51.9%. As you know, we measure and track adjusted margin on a trailing 4-quarter basis, which increased 200 basis points to 50.1%. In addition, we reduced shares outstanding by 3%, which contributed to the 16% increase in adjusted diluted EPS. Each quarter, we highlight the key drivers to our business and important projects under way. This quarter, let's start with ratings issuance trends.

During the third quarter, global bond issuance increased 12% with mixed performance in various geographies and asset classes. We also include bank loan ratings volume total global issuance increased 14%. U.S. bond issuances in aggregate increased 16% as investment grade increased 33%, high-yield vaulted 43%, public finance increased 15%, while structured finance decreased 11% with a large decline in CLOs, partially offset by gains in RMBS and ABS. Investors frequently assume that lower interest rates drive increased issuance. That certainly was not the case in Europe this quarter. Despite historically low rates, European bond issuance decreased 7% as investment grade decreased 10%. High-yield soared 61% and structured finance decreased 20% due to declines in CLOs, covered bonds, and RMBS, partially offset by gains in ABS and CMBS. In Asia, bond issuance increased 24% overall. On the fourth quarter 2018 earnings call, we introduced this chart to track debt issuance and global cash balances of the 50 companies with the most overseas cash at the end of 2017.

As you see on this slide, the cash balances of these companies had stabilized, while bond issuance among these companies is rebounding compared to an anemic 2018. There have been 15 unique issuers that have come to market this year so far. Even Apple returned to the market, issuing $7 billion of bonds in September. Our latest global bond issuance forecast includes an update for 2019 and the initial 2020 forecast. Excluding international public finance, which has minimal impact on our financial results, we now forecast 2019 issuance increased 9%. This is up from our previous forecast of 1%

increase. This change was driven primarily by an increase in corporate issuance. On that same basis, 2020 issuance is expected to increase 5% with growth in each issuance category. After year-over-year declines in bank loan rating activity in the first half of 2019, bank loan rating revenue increased in the third quarter to $80 million from $73 million in the third quarter of 2018. We are frequently asked by investors if maturities have lengthened as corporate treasurers seek to stretch low interest rates further into the future.

This chart depicts average U.S. bond maturities for the past 19 years. While investment grade maturities have lengthened slightly in the past year, both investment grade and high-yield average maturities have been virtually unchanged since 2010. During our 2018 Investor Day, we introduced the framework powering the markets in the future, including six foundational capabilities. We use this framework to set our goals and allocate resources. I am pleased to share great progress on a number of the new initiatives in our areas of global customer orientation, innovation, and technology. Kensho has created a new product called Scribe. It's a speech recognition solution that transcribes earnings conference calls. Using deep learning techniques, Scribe parsed thousands of hours of audio files for Market Intelligence archives to develop its capabilities. It essentially teaches itself to become more accurate. Scribe's capabilities enabled complexities like enumeration, capitalization, and identification of sensors. Market Intelligence produces approximately 33,000 conference call transcripts each year. We recently put Scribe into production. It produced more than 2,000 calls in the third quarter and we are ramping it up to transform our transcription business.

Scribe is capable of handling 100 concurrent conference calls without any degradation in quality. There are several benefits described. First is productivity, with an average time savings of 1.25 hours per call. Second is improved accuracy, Scribe is considerably more accurate than the leading transcription services that we have tested. And third is reduction in turnaround time of approximately 15 minutes per 1 hour call. This means that the complete conference call is available to our Market Intelligence clients sooner, 83 minutes versus 97 minutes. While investors have used earnings call transcripts as a reference for many years, Market Intelligence has launched a new product to glean additional insights from conference calls. The product is called Textual Data Analytics or TDA. We published two papers, which provide empirical evidence that the stock price of companies, whose executives exhibited the most positive sentiment or provided the most transparency during their earnings calls, outperform the broad U.S. equity market by at least 2% per year between 2010 and 2017.

Our analysis shows that the Textual Analytics derived from earnings call, such as positive versus negative words, language complexity, analysts selected for Q&A etc., provide additional stock selection power. TDA provides intraday delivery, covering more than 9,000 companies with 40 different metrics on each call. These include an example of Textual Data analytics for major U.S. bank versus its peers on the third quarter earnings call held earlier this month. This slide depicts the scores for five of the 40 metrics. Net positivity calculates the difference between positive and negative words. Here, the bank scored worse than its peers. Numerical transparency evaluates the proportion of numbers versus words. The bank provided a higher level of transparency by using more numbers than its peers to show rather than use words to tell. Language complexity was lower for the bank. Conference calls with more complex language are generally associated with either poor results or other negative issues. Analyst favoritism assesses which analysts had buy, hold or sell ratings and which were selected to ask questions. The bank here showed less favoritism than its peers by including more analysts who were bearish. Sentiment differential analyzes the difference between the net positivity score in the prepared remarks versus the Q&A session. Here, the bank's sentiment differential was more negative during the Q&A responses relative to the prepared remarks than its peers.

There are several other interesting new product launches under way. Over the past 5 years, Platts has seen significant expansion of our coverage of seaborne freight rates. The team covers tanker, dry bulk, and container freight markets, which are used in physical contracts and is a settlement basis for forward freight agreement derivative contracts. The latest addition is the Cape T4 Index for dry freight rates. The Platts Cape T4 Index is based on trade flow volume and captures the movement of widely consumed commodities, such as iron ore and coal, to highlight physical spot market trading activity.

Next, in advance of the implementation of the 0.5% sulfur cap by the International Maritime Organization or IMO in January 2020, the ICE and CME exchanges launched a total of more than a dozen new marine fuel 0.5% futures contracts that settle against price assessments recently launched by Platts. Trucost has launched climate and physical risk analytics. A combination of voluntary initiatives such as TCFD and regulations in certain countries are driving investor demand for increasingly sophisticated portfolio-level climate analytics, covering all asset classes. Climate Risk Analytics adds new scenario analysis around two principal areas. The first is carbon, where Trucost data helps evaluate the earnings at risk from future carbon pricing scenario. The second is a two-degree alignment assessment. Since portfolios are not homogenously exposed to carbon price risk, it's necessary to better understand the individual portfolio variations from a two-degree scenario. In addition, Trucost climate change physical risk dataset helps companies and investors understand their exposure to physical risks and report in line with TCFD recommendations. Our coverage extends to more than 15,000 companies and includes six climate change physical risk indicators including heat waves, cold waves, droughts, hurricanes, wildfires, and river and coastal flooding. And last is the upcoming launch of E-mini S&P 500 ESG futures at CME. We highlighted the creation of this index on our first quarter earnings call. It's great to see that so soon after its introduction, a new futures contract is already being launched utilizing the S&P 500 ESG Index as its benchmark.

Now, I would like to turn the call over to Ewout Steenbergen, who is going to provide additional insights into our financial performance and our outlook. Ewout?

Ewout Steenbergen

Thank you, Doug and good morning to all of you on the call. Let me start with our third quarter financial results. Doug covered the highlights of strong revenue and adjusted earnings per share growth. I will take a moment to cover a few other items. While reported revenue increased 9%, organic revenue increased 10%. Adjusted operating profit margin improved 230 basis points based on strong revenue growth and ongoing productivity programs partially offset by the impact of increased investment in growth initiatives. Interest expense decreased 16% due to a reduction of FIN 48 interest accruals associated with tax audits and increased foreign interest income. Share repurchases continue to be an important element of our capital return program. These actions resulted in a 3% decline in our diluted weighted average shares outstanding.

We recently completed our August $500 million ASR. And in October, we have been repurchasing shares in the open market through a 10b5-1 program. We expect to continue to repurchase shares through this 10b5-1 during the fourth quarter. Stock options associated with 125,000 shares were exercised during the third quarter. This resulted in a stock-based compensation tax benefit on EPS of $0.02. Year-to-date, stock option activity is running well ahead of last year. However, as the number of employee stock options continues to decline, we expect a reduction in the tax benefit generated by stock option exercises. During the quarter, changes in foreign exchange rates had a negligible impact on adjusted EPS. The only meaningful impact was on ratings revenue, primarily due to the weakening of the euro and the British pounds. There were three non-GAAP adjustments this quarter that collectively generated a pre-tax gain, $49 million from gains on divestments of RigData and SPIAS, $6 million in Kensho retention-related expenses, and $29 million in deal-related amortization.

This is a slide that we shared at our Investor Day in May 2018. It depicts a framework that we outlined to show the areas where we most impact shareholder value. The first two require investments. We need to continue to invest to fuel revenue momentum with product innovations, new technology, new datasets, and outreach to new customers in new geographies. We have made great progress delivering EBITDA enhancement, and we continue to fund new organic opportunities to drive additional productivity gains. Driving financial leverage involves optimizing interest cost, reducing shares outstanding, and optimizing the tax rate.

And finally, we want to return capital to shareholders while maintaining flexible debt capacity. We are committed to returning at least 75% of annual free cash flow to shareholders each year. This quarter, all four deficients delivered revenue growth with ratings and indices delivering double-digit gains. On a trailing 4-quarter basis, adjusted operating profit margin increased for all four divisions. However, during the third quarter, Market Intelligence did not improve this metric with investment spending increasing year-over-year as planned. I will provide color on the individual business results in a moment.

Now, turning to the balance sheet, cash and cash equivalents increased slightly to $2 billion versus the end of 2018. Our adjusted growth leverage to adjusted EBITDA was 1.9x remaining within our targeted range of 1.75x to 2.25x. On an unadjusted basis, our gross debt to EBITDA leverage multiple decreased to 1.1x based on EBITDA growth in the first 9 months of 2019. Free cash flow excluding certain items increased $243 million to $1.647 billion in the first 9 months of this year. Share repurchases totaled $500 million in the third quarter through an ASR that was initiated in August. In addition, $140 million of dividends were paid during the quarter.

Now, let's turn to the deficient results starting with ratings. Ratings revenue increased 13% and excluding the impact of ForEx, was up 14%; consistent with the increase in issuance that Doug already discussed. Adjusted expenses increased 4%, resulting in a 19% increase in adjusted segment operating profit and a 340 basis point increase in adjusted segment operating profit margin. On a trailing 4-quarter basis, adjusted segment operating profit margin increased 80 basis points to 56.7%. Non-transaction revenue increased 2% primarily due to fees associated with surveillance and new entity ratings, partially offset by Rating Evaluation Service and changes in foreign exchange rates. Excluding the impact of ForEx, non-transaction revenue grew 3%. Transaction revenue increased 25% due to very strong debt rating activity, particularly in high-yield and increased bank loan rating activity.

This slide depicts Ratings revenue by its end-markets. The largest contributor to the increase in Ratings revenue was the 22% increase in Corporates. In addition, Financial Services revenue was unchanged, Structured Finance declined 8%, governments increased 25%, and the CRISIL and other category increased 5%. This includes an increase in inter-segment royalties for Market Intelligence, and an increase in CRISIL's dollar denominated revenue. In addition, we have added a new disclosure this quarter with a revenue breakdown of the individual products within Structured. SC stands for structured credit and is primarily made up of CLOs. ABS and Structured Credit are the largest revenue categories.

Turning to S&P Dow Jones Indices, the segment delivered 14% revenue growth with gains in each category. In the third quarter, we reported 5% adjusted expense growth, 19% adjusted segment operating profit growth, and an adjusted segment operating profit margin of 70.1%, an increase of 280 basis points. On a trailing 4-quarter basis, the adjusted segment operating profit margin increased 160 basis points to 69.1%. Revenue in the various categories was up during the quarter. Asset-linked fees increased 17% due primarily to AUM growth in ETFs and strong growth in mutual funds, as well as the purchase of certain intellectual property rights. Exchange-Traded Derivative revenue increased 12% on an increase in exchange-traded derivative activity. Data & Custom Subscriptions increased 9%, but recall that a year ago, we reported a catch-up in real-time reporting that cost a difficult comparison. For our indices division, over the past year, ETF net inflows were $47 billion and market appreciation was $3 billion. This resulted in quarter-ending ETF AUM of $1.55 trillion, which is 3% higher compared to one year ago.

I want to make a clear distinction between average AUM and quarter-ending AUM. Our revenue is based on average AUM, which increased 5% year-over-year. We disclose quarter-ending figures because flows and market gains and losses are best depicted using quarter-end figures, as shown in the waterfall chart on the right. Sequentially versus the second quarter of 2019, ETF net inflows associated with our indices totaled $23 billion, while market appreciation totaled $12 billion. Industry inflows into exchange-traded funds were $106 billion in the third quarter with the majority going into fixed income and global equity products. Flows into U.S. equity funds were $34 billion.

This was an excellent quarter for exchange-traded derivative volume with key indicators generally exhibiting large increases in volume. S&P 500 Index options activity increased 6%, VIX futures & options activity increased 22%, and activity at the CME equity complex increased 47%. Market Intelligence delivered 5% revenue growth, both on a reported and organic basis, as the revenue impact from the divestment of SPIAS was not material. Also, I want to call your attention to some recent success at Panjiva. We have recently signed several new customers among the largest new sales transactions since Panjiva was founded. We are creating value for our customers by adding Panjiva's unique datasets to a commercial operation with a much larger footprint in an environment where global trade data is increasingly important.

Adjusted expenses increased 7% due to increased investment spending. Adjusted segment operating profit declined slightly and the adjusted segment operating profit margin decreased 160 basis points to 34.3%. More importantly, on the trailing 4-quarter basis, the deficient delivered a solid adjusted segment operating profit margin increase of 250 basis points to 35.2%. We have noted on the past few earnings calls that we planned on increasing investment spending in Market Intelligence in the second half of the year to support their expansion efforts in China, data marketplace, SME, ESG, and Cloud. This increase in investment spending has impacted operating profit margins throughout 2019.

Desktop revenue grew 5% excluding acquisitions and divestments, while active desktop users grew 11%. While an improvement over last quarter, growth in this category has been slowing for the past few quarters due to several industry trends; lower industry growth in the desktop category, a continued competitive environment, and evolving customer preferences for desktop and data feeds. Data Management Solutions continue to exhibit strong growth with a gain of 8%. Credit Risk Solutions grew 5%, facing a difficult comparison as the prior year period included a timing benefit associated with a contract renewal that we noted on the third quarter conference call last year.

And now turning to Platts, the revenue growth continued at Platts increasing 4%. On an organic basis, adjusting for the sale of RigData in July, organic revenue increased 5%. Platts delivered a 4% increase in Core subscriptions and a 16% increase in Global Trading Services with increased trading volumes of fuel oil, gas oil, LNG, and Iron ore. U.S. sanctions on Iran and Venezuela have had a modest impact on Platts' revenue to date. Adjusted expenses increased 3%, leading to an adjusted segment operating profit margin of 50.7%, an improvement of 40 basis points. The trailing 4-quarter adjusted segment operating profit margin increased 160 basis points to 49.6%. Power and gas delivered the largest rate of growth, at 11%, primarily the result of increased adoption of our LNG Benchmark, the JKM marker. Petrochemicals grew 8% due mostly to growth in subscriptions. Metals & Ag grew 7%, thanks to increased iron ore derivative trading activity. Petroleum revenue increased 3%.

Now, lastly I would like to discuss our 2019 guidance. This slide depicts our GAAP guidance. Those items that changed are highlighted. Please keep in mind that our guidance reflects current spot market ForEx rates. Now, let me review the changes to our adjusted guidance. While we are not changing our revenue guidance of a mid single-digit increase, we are expecting higher revenue. Corporate and allocated expense has been reduced by $10 million due to a reduction in professional fees. Operating profit margin has been increased by 50 basis points due to slightly higher revenue and better-than-anticipated expenses. The tax rate has been reduced by 0.5% points with higher levels of stock option activity than initially anticipated. These items result in a $0.15 to $0.20 increase to our adjusted diluted EPS guidance range. Our expectations for free cash flow are approximately $2.3 billion, which is at the high end of the previous range. We continue to execute upon our enterprise initiatives, including our stepped up investments in growth opportunities and our $100 million cost reduction program. An update will be provided on all of these programs during our fourth quarter earnings call. In conclusion, we expect 2019 to be another very successful year for the company as we continue to deliver excellent near-term results while simultaneously building for the future.

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

Chip Merritt

Thank you, Ewout. [Operator Instructions] Operator, we now take our first question.

Question-and-Answer Session

Operator

Thank you. This question comes from Manav Patnaik with Barclays. You may ask your question.

Manav Patnaik

Thank you. Good morning, gentlemen. My first question is just broadly around issuance, obviously, the 5% forecast for the next year's good, but I was hoping you could address a little bit the recent press around inflated bond ratings and maybe, the question is around your expectations for default rates and so forth next year?

Doug Peterson

Great. Thanks, Manav. This is Doug. Well, first of all, just to talk a second about ratings issuance in the last quarter, there was – it was incredibly volatile across different asset classes as you might have seen in the numbers we prepared. You can see that the Corporates in the U.S. was up 66%, but Financial Services was down 2.3%. Financial Services in Europe was down 17%. Structured Finance was mixed also around the globe. You had – like ABS was up 6.6%, while Structured Credit was down 4.6%. So, some of those trends as we look into 2020, as you see we have estimated about the issuances going to be up about 4.7%, 4.8%. That's being driven by a combination of factors, including the pipeline of maturities that's coming out, so we see that there's going to be a maturity schedule of debt, we always look carefully at that; zero interest rates overall; economic growth, we're looking at to see how that's going to factor in. We are also seeing that there are lot of M&A activity that's going to be coming through. There has been Structured Credit, which is going to get refinanced etcetera. So, we have put all of those into place to analyze where we're going to look at for 2020 issuance.

But let me address some of the concerns that you raised as well, about the debt markets overall. First of all, let me just say that we stand behind our credit ratings. We have been making changes since 2010, 2011. We have become regulated around the world. There is actually 24 different jurisdictions were regulated and that includes one of those jurisdictions covers 28 countries, soon to be 27. And it's a very robust regulatory system around the globe. It's based on a set of principles that eliminate conflict of interest, minimize conflict of interest, their segregation of duties. We have independent oversight. We have independent boards around the world overseeing, working with us to ensure that we are meeting the requirements of the different regulatory areas. There is also inspections, enforcement actions. So, we have seen a very robust regulatory system put in place around the world. And since the financial crisis, at S&P, we've systematically reviewed and tested all of our criteria and we have updated many of those, including financial institutions, structured finance, corporates. Most of those have increased levels of the amount of collateral or the approach to how we think about the coverage ratios and things like that. And so throughout that period, we have done a lot of a very, very heavy lifting along with the regulators themselves to ensure that the ratings system overall globally is very robust and has really strong independent oversight.

But let me talk a little bit about the current situation of the global debt markets. I would say that we are concerned, but not alarmed. I don't know if that distinction makes sense to you. We now have a decade of very low interest rates and in Europe, even zero interest rates with expectations that demographics and other factors are going to keep interest rates very low for a long time. And so, that's led to a lot of issuance of debt around the world. So, the debt levels have actually increased and you can see that in the – from the evidence of some of our ratings themselves. There is fewer AAA sovereigns around the world. There's only two corporate AAAs left. The overall distribution of ratings across the entire rating scale, the distribution is changed a lot. There is a much, much higher percentage of BBB ratings than there were in the past. In fact, almost about 40% of the Corporate ratings are now BBB as opposed to a center of gravity that used to be a little bit more toward the A level. In addition, there has been a lot of increase in the B-minus rating category, which as you know, that's a very speculative grade and there has been a very large increase in that. In fact, a number of single B-minus credits is back up to the same level around 2009. So, as I said, we're seeing a lot of issues that we would consider to create what I'd call some concern in the markets, and we've been raising those concerns through research we have been publishing. Last year, at the end of the year, we published a paper about when the credit cycle turns BBB downgrade risks may be overstated. It's a very thorough review of the overall BBB market. Again, in May, we looked at a whole new study of the BBB market that was on May 29. And then recently, we looked at what are the – why are companies moving to the BBB level. Was that something that management decided themselves or was this spurred by the downgrades themselves? And it's interesting because about two-thirds of people that moved from the A range to the BBB range actually management actions themselves, whether it's an M&A transaction or it's some kind of a reason that management is going to take on additional debt for investment and lower their overall debt levels. Anyway, we are watching this very carefully. We are aware that there is a lot of discussion going on in the markets around the ratings industry and we are very confident that we have put in place an excellent system of controls across the company, high-quality criteria, high-quality people and we are also watching very carefully as the credit markets start seeing changes.

Manav Patnaik

Got it. That's super helpful. And then just for my second question, Ewout, for the moderating desktop growth, I think you called out one of the reasons as the preference of desktop plus data feeds and I was hoping you could just elaborate a little bit on that in terms of if anything has markedly changed or is the competitive environment just more challenging there?

Ewout Steenbergen

Good morning, Manav. If we look at our desktop, we are still looking at our growth as the fastest growth overall in the desktop industry. We said to you last quarter that we expect mid single-digit growth in the desktop for Market Intelligence and that's still what is our best expectation at this point in time. And then you see that active users of our desktop products are still increased period over period by low-teens kind of levels. So, why do we see this kind of level of growth in the desktop? I think that has to do with a couple of reasons. It has always been a competitive environment. So, to some extent, that's not so much different than what we have seen in the past. But certainly, there are changes in customer preferences in terms of the delivery mechanism of data. So, we see more and more customers that want to have certain specific data sets through data feeds, which we can take in to their data science groups, combine it with their own data sets, and then deliver certain insights and take certain decisions out of that. So, for us, it doesn't matter so much in which form customers would like to receive our data. In the end, the desktop is just, in the end, a delivery mechanism. And we see our data feeds business growing in a very rapid way. So therefore, if we look at our data feeds business, our best expectation of growth in the future will be high single-digit to low-teens for most of the quarters.

Manav Patnaik

Got it. Thank you, guys.

Chip Merritt

Thanks, Manav.

Operator

The next question comes from Michael Cho with JPMorgan. You may ask your question.

Michael Cho

Hi, good morning. Thanks for taking my question. I just want to stay on the Market Intelligence segment for a minute. I think I appreciate the color on the ongoing investment in margin, puts and takes there. Maybe, it's a good time to – maybe you can provide a reminder comment about how you think about incremental margins in that segment?

Ewout Steenbergen

Yes, Michael. Good morning. At the beginning of this year, during our first quarter earnings call, we said that margin expectations for Market Intelligence should be more or less at the level of the reported margins in the first quarter going forward. And that has to do with two offsetting developments. On the one hand, the growth of the business to operating leverage which will drive the margins naturally up by itself and then offset by very specific investments, investment programs and some of those initiatives that we expect to help future growth of the company. And when we speak about the $100 million investment program overall, about half of those investments are going to Market Intelligence. So, that is obviously depressing a bit margins at the same time. So, the two factors are offsetting and therefore, we said that expect margins to stay more or less at that level of the first quarter and that is also basically what you have seen during the second and the third quarter. So going forward, we would say that probably the same expectations should continue; margins in Market Intelligence to stay more or less at this level, maybe slightly creeping up. I don’t want to be too much ahead of ourselves and be too premature with respect to our 2020 guidance. But overall, we expect that we will have several initiatives where it makes sense to put new investments behind because, again, these investments make sense for future growth and value creation for our shareholders. So therefore, a similar trend of what you have seen so far this year is probably the best expectation for Market Intelligence in the near future.

Michael Cho

Okay, understood. Thanks. And just on – staying with Market Intelligence, you talked about the Desktop business and kind of mid-single-digit growth in the medium term, and I think I heard you referenced the desktop as a delivery mechanism of data a couple of times now. But if I think about the mid single-digit growth, I mean how should we frame or think about the components of that mid single-digit?

Ewout Steenbergen

Yes I think the components is a bit tricky to give you all the details because we have never been speaking so much about that so far. But let me help you with a couple of pieces of information that is hopefully useful for you. So, when you look at our overall strategy for

Market Intelligence and the Desktop, our strategy is focused about delivering better content, more data, high-quality data, alternative data, better linking, a better search engine. And then we have our enterprise approach, which is the enterprise-wide contracts, where we want to stimulate as much users to go on our platform. So, there is a fixed price per customer and they can have as many users on the platform as they want. They are foreseeing more active users, and therefore, we see that going up as we reported this quarter 11%, but this has been more or less in the low double-digit for the last multiple quarters. So, if you take that into account, we get a better product period after the period and the combination of that strategy, if you look at the annualized contract value of our customers, we see a healthy growth. And that gives us the confidence that we will be able to grow our Desktop revenue in the future at the mid-single-digit level. The other point that I would like to highlight is our aspirational margin guidance for Market Intelligence. We have said that is mid-to-high 30s. So, that is the guidance that we want to provide over time, where we think the margins will go for Market Intelligence.

Michael Cho

Perfect. Thank you.

Operator

The next question comes from Toni Kaplan from Morgan Stanley. Your line is now open.

Toni Kaplan

Thank you. Good morning. Could you talk a little bit more about the strong ratings margin expansion in the quarter? Was it driven by a greater mix of higher-margin products or did you take more price than normal and how sustainable is the level of margin going forward in ratings, would you consider raising your medium-term ratings margin target from the high FFDs?

Ewout Steenbergen

Good morning, Tony. This is Ewout. Thank you for recognizing the strong results in ratings. Obviously, we are also very pleased with the progress we are making. The improvement in margins in ratings has been basically a continued trend over the last periods and you have, in fact, seen that in periods where the debt issuance market was a bit weaker at the end of last year, at the beginning of this year, our margins were still developing in a favorable way. And now, we can continue on that also when the issuance markets look more favorable. Overall ratings margins on a trailing 4-quarter basis were at the level of 56.7%. So, according to our standards, we are not really at the level of our aspirational margin targets of high 50s. So, I have a bit of room still there to grow. And how do we expect that growth to happen in the future? Continued revenue growth, which is a combination of new issuance, refinancings, of course commercial contract changes, new initiatives that we put in place in ratings, think about ESG Evaluations, think about our launch of rate activities in other countries around the world. And then, there is also continued work around making the ratings organization more effective, taking complexity out, taking layers of the organization out, and making it more an effective organization. So, overall expenses going up 4% this quarter and the top line going up 13%, I think is clearly a very good combination, and that is helping margins, but you should expect basically the same trends, the same activities, the same management actions to continue in the future.

Toni Kaplan

Great. And then international index revenue is very strong in the quarter, I guess, what are the largest drivers there, and can you provide any additional color on the international opportunity and the potential to make some inroads versus your largest competitor in that market? Thank you.

Ewout Steenbergen

Sorry, Toni, which – I missed which segment were you referring to.

Toni Kaplan

In index, but specifically with regard to international.

Ewout Steenbergen

The international strategy for Index is not so much changed of what we have said in the past. As you know, our business is largely tailored around U.S. equities where we hold some of the largest benchmarks. But then we are growing our international business in many different ways, mostly through relationships with exchanges around the world and there are several of those in Canada, in Australia, and in many other markets. That's the way how we're trying to grow our international business. And so, there is nothing particularly here to call out with respect to what was the drive for it; this is the same strategy that we have been applying over the last period.

Toni Kaplan

Thank you.

Chip Merritt

Thanks, Toni.

Operator

Our next question comes from Alex Kramm from UBS. Your line is now open.

Alex Kramm

Hey, good morning everyone. Just coming back to the issuance forecast for 2020, thanks for including that again. I know it's an early look, but two quick ones here. One, can you actually break it down by buckets what the different growth rates are for Corporate versus Structured etc.? I don't think you mentioned that. And then more importantly, if I look at mid-single-digit or 5% growth for next year in issuance, considering some of the pricing that you typically pick up, that would probably push Ratings revenue growth in the high-single digits. I know this is not a guidance call and you usually don't talk about ratings guidance specifically, but anything where that may not be the case that plays out? What would be the other factors to think about?

Doug Peterson

Yes. So, the second part of your question, we are going to address in our next earnings call. So, the full year, fourth quarter call, we are going to talk about give some outlook for 2020. But going back to the first part of your question, which relates to our issuance, let me give you some of the numbers then. So, for 2019, I will give you 2019 and 2020. So, for Corporates, we see that – by the end of the year, that Corporate issuance should have gone up by about 17% and then in 2020, up 6%. Financial Services, up 6% this year and our forecast for 2020 is up 3.5%. Structured Finance will end this year at about 2% up and next year, we're looking at 5% up and then U.S. public finance is 6.2% for this year and 2% for next year. And that gives you total numbers of about 9.4% for 2019 and 4.7% for 2020. And as I said before, this is based on a deep review and research by our credit research team in ratings that look across many different factors. They look at all the different markets, they look at interest rates, they look at maturities coming up, they look at the M&A market, they look at what's out in bridge loans, etc, etc. So, this is right now their best forecast at this point in time.

Alex Kramm

Alright, fair enough. And then just secondly, quick one, you were pretty quiet on China in your prepared remarks in terms of the domestic opportunity. I think last time you talked about how active you were over the summer engaging with potential new Corporates to get a listing. I guess I would have expected a little bit more action heading into the fall, so just curious what's been happening over there?

Doug Peterson

Yes. So, China is still a super high priority for us. Very exciting. We still have a lot of people visiting and our launch has been going very, very well and – but because – building a market like this from scratch, it's going to take time and as you've heard us say in the past calls, this is a three-to-five-to-10-year kind of initiative. We are in this for the long run. And so, since last quarter, we've been holding hundreds of meetings educating market participants. We've been calling on all types of market participants to discuss ratings or methodologies or criteria and we do see a very active pipeline building. In addition to that, we've also launched our market intelligence business and we've added full coverage of the Chinese public and private bond issuers with profiles and financials. This market has actually noticed that we've begun to add new customers in China for Credit Solutions. And so, we're very pleased with the overall results. In addition to that, one of the factors which I personally watch very carefully is that how are we doing hiring the right people. And we now have in place a new Chief Financial Officer for our Chinese operations at CTO. We've got ahead of people, and so we've got the infrastructure in place now with really highly qualified people who are helping us build out the team and make sure we have the right kind of functionality in place. So, more to come on China. We'll obviously keep reporting on it as it progresses, but the progress in the third quarter was excellent and I am really, really pleased with the team we've built on ground and the market response that we've been getting.

Alex Kramm

Fair enough. Thank you.

Chip Merritt

Thanks.

Operator

Next question comes from Andrew Nicholas from William Blair. You may ask your question.

Andrew Nicholas

Hi guys. Good morning. It looks like Data Management Solutions slowed a bit. I think you called out a one-time item in the year-ago period, but is there any additional color you can provide there? And then, sticking with Data Management Solutions, could you deconstruct the growth in this segment over the past couple of quarters? How much is coming from selling new data feeds to existing clients; how much is coming from existing clients, maybe, interested in data feeds for the first time? And then I guess that would lead, how much is coming from new clients altogether?

Ewout Steenbergen

Good morning, Andrew. When we look at Data Management Solutions, there is nothing particular to call out with respect to the growth this quarter. There was 8% growth, as you have seen. This is always dancing around a little bit quarter-by-quarter based on specific transactions and deals that happened during the quarter itself, but we would look at this as normal volatility. As I said before, the expectation should be for the data feeds business growth over the next period high-single-digits to low-teens during most quarters. With respect to customers, there is a whole mix of new customers, existing customers, new data feeds who are putting more and more data on our Xpressfeeds platform. You have seen some of that. For example, with respect to our transcript business, which used to be a static product and has become now a datafeeds products where it's in machine-readable format. It has the links there. It has been tagged to certain keywords; for example, the analysts and then the analyst models or key individuals that are speaking to the call. There have been [indiscernible] data on our feeds business, the SNL data on our feeds business. Doug was speaking in his prepared remarks about the sentiments course around this. So, we're adding more and more content on our data feeds business and that is ultimately driving growth both from existing customers and new customers.

Andrew Nicholas

Great, thank you. And then sticking in Market Intelligence, international revenue has been growing quite fast and faster than U.S. revenue and I think that dynamic was a bit pronounced this quarter. So, I was hoping you could speak to what's driving that and then maybe which region you're seeing the strongest growth in?

Ewout Steenbergen

Yes, that's a correct observation. We are growing internationally. We are doing that by growing our sales force around the world and we see particularly growth in the EMEA region, being very healthy, as well as in Asia. That's, by the way, not only a trend for Market Intelligence; we see, for example, the same for our Platts business. And we are very pleased with that because that's a result of a very explicit strategy we have as a company to grow faster outside of the U,S. and be able to take our fair share in terms of market position around the world. So, Yes, this is the result of very specific strategic actions we have taken in our businesses.

Andrew Nicholas

Great, thank you.

Chip Merritt

Thanks, Andrew.

Operator

The next question comes from Christian Bolu with Autonomous. Your line is now open.

Christian Bolu

Good morning, guys. I just wanted to dig into monetization and customer demand for your ESG services. I guess now that you have done a number of ESG assessments, could you give a bit more color on sort of monetization? How are you charging for an assessment, what is the fee-based on, and then any sort of color on sort of pipeline or target number of assessments you want to achieve over the next sort of 12 to 24 months?

Doug Peterson

Thank you, Christian. This is Doug. Well, first of all, ESG products across the company are quite varied. As you know, we put in place a framework, where last year, I put in place a design team for ESG cutting across all of the divisions, so that we could take advantage of this really big opportunity. By the way, just anecdotally, I was in the IMF meetings in Washington a couple of weeks ago and every single meeting that I had, we talked about ESG. So just – I know that's anecdotal, but it's a really booming area. And so across the company, we have various ESG products. Today, I talked about a few of those that we have with Trucost, which is part of Market Intelligence. I also talked about one of the specific ESG indices we have with the S&P 500 ESG Index that we now are going to be launching – CME is going to be launching a futures contract traded on that. So, across the board, we're seeing a lot of growth in this and we will give some more information about the overall outlook on our earnings call next quarter. But within the ratings product, the one you're specifically talking about, we've had three ratings – ESG evaluations from the Ratings business, which have been published and made public. The introductory pricing there is one that we're using as pilots with the clients that we've been meeting with and we're going to be rolling out a different pricing schedule over time. But again, as I mentioned with our China discussion earlier, this is really a great opportunity for us to be rolling out new products and services, which are in demand by the market with a long-term view. We're not just rushing into this in the next quarter or the next two quarters. This is a 2 to 3 to 5-year initiative. We want to do it in the right way and we're very, very pleased with the response that we've been getting and the hundreds of customers that we are meeting with that are asking for follow-up phone calls to learn more about the engagement. So, more to come on this, but we're off to what we think is a very good start and we are very enthusiastic about what we see.

Christian Bolu

Great, great. Thanks very helpful color. For my follow-up, Europe, you mentioned issuance trends remain weak in Europe despite low interest rates. Maybe some color on what you think is going on there and then more importantly, as we look into sort of 2020 and beyond, kind of how do you think trends evolve there?

Doug Peterson

Yes. The European markets, there is a couple of big trends going on. One of them, obviously, is very, very low interest rates. In fact, the rates there are now so low that even Greece had some negative rates in the last quarter, where you had the entire yield curve for a few markets, the German market and the French market, a few weeks ago, the entire yield curve from overnight to 30 years was negative. And so, there is a lot of questions about growth in Europe. There is a change going on in the ECB between Mario Draghi and coming in with Christine Lagarde. There has been some discussions that Christine Lagarde, although she is in ECB, is somebody that's trying to talk about more stimulative fiscal policies and structural reform, which would potentially help drive some new growth in the markets. So, I think that there is a combination of questions about how long interest rates are going to stay that low; you've got questions about some new policies that are going to be coming to market; you also have the Brexit, which has created some uncertainty. So, when we speak with participants of the market, these are the sorts of factors which they will cite as to why issuance has been a little bit weak in Europe. But overall though, it's still a critical market for us. We're well prepared to respond, no matter what direction it goes. And we've also positioned ourselves for Brexit so that we're able to serve the markets, no matter what direction Brexit goes, by having opened a Ratings headquarters in Dublin. So, overall, we're very well prepared to respond, whatever the direction goes. But there is definitely a lot of issues in Europe, which have created some caution in the markets there.

Christian Bolu

Great, thank you.

Chip Merritt

Thanks, Christian.

Operator

Next question comes from Bill Warmington from Wells Fargo. You may now ask your question.

Bill Warmington

Good morning, everyone. So, first question for you, Platts, the 5% growth as expected. The question I have is a couple of years ago, it was a high-single digit, low-double digit type grower and the non-petroleum markets are actually growing at that level. You mentioned several new product launches under way. And I wanted to ask whether you thought there had been structural changes to the business or the end markets that are going to keep the business at the mid-single digits, or whether there is a possibility with the new product launches and changes in the market that you could see an acceleration of that growth back to the upper single-digit, low double-digit range.

Ewout Steenbergen

Good morning, Bill. You are right that Platts is a very steady grower at the mid single-digit level at this point in time. You see the core subscription business. The price reporting business being very steady, growing every year at that level that’s, of course, the majority of the business and historically, also very much focused around oil, petrochemicals, gas, and all related products. But we are expanding very rapidly to new commodity categories and we’re very pleased with that. Metals, agriculture, we have been speaking about LNG, and also renewables is of course a very important element, they are also around the ESG theme. So, we’re clearly expanding around new commodities, which will help with future growth in Platts. And then, we are very pleased with the growth in Global Trading Services. These are the products that are being developed with some of the exchanges around the world; think about Singapore Exchange, think about ICE; and with the product developments, they are really having some traction and therefore, good growth in Global

Trading Services. One key element that we believe is very relevant with respect to future growth of Platts as well is the fact that commodity trading desk in some of the large investment banks have been reduced heavily over the last few years. So, when we will see more of those global trading desks around commodities coming back in some of the investment banking organizations, then we would expect to see a pickup in growth of Platts in the future. But the best expectation for the near future is probably very steady, predictable mid-single-digit level growth for Platts.

Bill Warmington

Okay. And then for my second question on Market Intelligence, in the past, you have talked about that business by end market and I think about half of it was non-Wall Street buy side, sell side related. So, historically, that's helped Market Intelligence buffer some – buffer itself from some of the secular pressures on the sell side and buy side and I just wanted to ask if you can give a little color in terms of how those two segments the buy side, sell side versus the non-Wall Street side did or/and are doing?

Ewout Steenbergen

We continue to be very pleased that we have such a well-diversified customer base in Market Intelligence and in fact, that's one of the reasons why we believe that we can continue to grow a bit above the industry kind of levels. So, we have buy sites, we have sell sites in Investment Banking. We have a large customer group in Corporate Banking and Insurance. We have general Corporates, we have the academic world. So, we are seeing still a very well-diversified group of customers. So, we expect that to continue, and overall, therefore, we feel we're relatively well insulated against some of the specific trends, particularly on the buy side, as you have highlighted.

Bill Warmington

And then a parting comment for Chip, I'm just am looking forward to how you guys optimize your earnings calls going forward using the Kensho TDA technology.

Doug Peterson

That's a very good question.

Chip Merritt

Thanks, Bill.

Operator

Next question comes from Joseph Foresi from Cantor Fitzgerald. You may ask your question.

Drew Kootman

Hi, this is Drew Kootman on for Joe. I know you mentioned Scribe and TDA. I was just wondering if you could talk about some other areas where Kensho is contributing?

Ewout Steenbergen

Absolutely. We continue to be extremely excited about Kensho. Actually, we feel this year we have found a good operating mode, a good groove, so to say, and the collaboration between the businesses and Kensho and our many initiatives that are going on and overall, with a lot of enthusiasm within the organization. So, just to mention a few, we have an initiative about completely revamping the Market on Close process in Platts, which is being done with help of Kensho. We have the continued work that's going on about data extraction and entity linking. There is work continuing around Omnisearch and improving of Omnisearch on the Market Intelligence platform. We have a product that is called Codecs, which is able to analyze very large sets of written materials, documents, and being able to pull out the most important elements to analysts, which could be analyst in any industry and in any kind of job profile. We have work that's going on about what is called Data Operations at a surface, more fundamental data architectural work that is happening within the company and there are many other examples as well. So, we feel there is good progress with Kensho and at the end of this year, during our fourth quarter earnings call, we will give you an update particularly with respect to the value creation around Kensho, as we did also a year ago.

Drew Kootman

Great. And then, just curious how the M&A pipeline looks?

Ewout Steenbergen

Well, we are always looking at M&A. As you know, that is an additional opportunity to grow our topline and we are always very busy looking at many opportunities in the markets. But you know, we have a very clear framework. We first look at those areas that we have pre-defined as strategically important for the company. So, we're not looking at everything that's under the sun or that is brought forward by a banker. And then secondly, we have a very clear framework with respect to our capital approach and valuation metrics. So, there is always multiple projects going on at the same time. This quarter, we had two very small acquisitions in Platts, which was the Live Rice Index and a Canadian energy business, but we will continue to look at opportunities. But of course, you may expect us to continue to be very disciplined both on the strategic angle as well as from the financial angle.

Drew Kootman

Perfect. Thank you.

Chip Merritt

Thanks Drew.

Operator

The next question comes from Craig Huber from Huber Research Partners. You may now ask your question.

Craig Huber

Yes, good morning. Two questions. The first one, can you just sort of bridge for us the strong 25% transaction ratings revenue growth you had versus, I think you said 12% or so debt issuance growth globally. Just about the gap, there is obviously more than just 3% to 4% price index issues, etcetera, if you could talk about that, will follow-up? Thank you.

Ewout Steenbergen

Hi, Craig. The main reason here was that in high-yield, we saw very large growth. Most of those issuers in high-yield are not on frequent issuer programs, and that is driving the transaction revenue more up than the overall issuance levels in the market. So, that is the main reason why you see discrepancy at this particular item.

Doug Peterson

Just to add one thing, high-yield overall globally was up almost 70%.

Craig Huber

And then secondly, just staying with the Ratings area, obviously, for a number of years, you guys have been very, very tight with costs there. This quarter, I think it’s only about 4%, maybe up low-single digits through the nine months here, versus obviously a 12% or so revenue growth. Can you just talk about what you’re able to do there on the cost front that’s able to drive the margins so much here, and how much more is this sustainable going forward? Obviously, I guess, IT is a good chunk of it. Maybe just touch on that. Thank you.

Ewout Steenbergen

John Berisford and his team are continuing to look at opportunities to simplify the organization, make it more effective, introduce new technology tools to make sure that our credit rating analysts have to spend less time on data aggregation, updating their models and spreadsheets, and look more at highest value-added part of their job. So, more to judgmental parts that is part of the credit risk assessment. So, that is helping the Ratings business. At the same time, if you look at the expense growth this quarter versus last year third quarter, it was up $20 million, mostly related to small movements here and there. Particularly, incentive compensation was a bit higher this quarter based on the strong performance. And then there were several elements that went in different directions, so nothing else particularly to pull out. So, we will just continue with the progress we are making, the same strategy, the same approach, and taking benefit of the operating leverage we have in our Ratings business.

Craig Huber

Thank you.

Chip Merritt

Thanks, Craig.

Operator

The next question comes from George Tong from Goldman Sachs. You may now ask your question.

George Tong

Hi, thanks. Good morning. I am going to ask a question on your Ratings business to follow up on the prior question. Your Ratings revenue increased 13%, which was relatively in line with broader issuance volume growth. Can you discuss why Ratings revenue didn't outperform broader issuance volumes given the benefits from pricing high-yield and infrequent issuers at S&P?

Ewout Steenbergen

George, that's a bit of the opposite question that was just asked, because again you have to look at the differential between transaction and non-transaction revenue. And non-transaction revenue contains the surveillance fees. These are the issuers that are on frequent issuer programs, these are new entity ratings, this is some of the CRISIL and other category, this is Rating Evaluation service. So, this is a very steady part of the overall ratings revenue and you saw that going up 2% points in this particular period. And then if you look at the transaction revenue, which is really driven by transactions that are happening in the market, there we saw this very healthy growth of 25% and that was, in fact, higher then the issuance in the market and that was driven by what I just explained; that most of the high-yield issuers are not on frequent issuer programs. So, you have to go one or two layers deeper in terms of granularity to really look at the underlying dynamics and drivers and see what are all the different components of our Ratings revenue.

George Tong

Got it. The operating margins in the Index business are continuing to go higher on a year-over-year basis. Given the high flow-through of pricing the margins, can you discuss the pricing and competitive environment here, and if you see any changes to your long-term view or targets on margins for the Index business?

Doug Peterson

George, I will take this question. First of all, in the competitive landscape, you have seen a lot of big developments that we are watching very closely right now as we think about our strategic plan for the long run. You have seen a couple of companies have come out on the retail sector to eliminate fees for stock trading. One of the effects of that is it seems there is a lot more of volumes going into ETFs and when things go into ETFs and they go into passive structures, a lot of times we benefit from that. So, we look structurally at the market overall and we see some big shifts continuing to go on in pricing overall, all the way from the retail level to the institutional level. And the big flow overall of assets into passive is something that we're benefiting from.

Now, to get a little bit more specifically to your question, we don't see any specific pressure on our fees ourselves directly. We have very long-term contracts with the people that we deal with. We work with them in a way that we know, in the long run, what our pricing is probably going to be and how it's going to end up. And so, we continue to see a similar structure to our own revenues and expense base that we've had in the past. We saw a very large increase in overall volume this quarter. You saw that Ewout talked earlier in his section about this. And so, from that increase across the board of our revenue from indices, it flowed through to improve our margin. But we don't see any overall change in the structure of the market or our own business model that we're going to see any significant change in the index margins. We will provide more update on that at the next earnings call.

George Tong

Got it. Very helpful. Thank you.

Chip Merritt

Thanks, George.

Operator

Next question comes from Henry Chen from BMO Capital Markets. You may now ask your question.

Henry Chen

Hi, guys. Good morning. Thanks. I had a follow-up question on some of the new products that you mentioned, including Kensho and some of the ones in Platts. Just in context of, I guess, some of the pressures in, I guess, on the sell-side and in the energy space, I'm curious if you could add some color on like what's driving the product demand, where's the sort of value created or sort of needs being met for some of these new products? Thanks.

Doug Peterson

Yes. So, overall across the entire company, we spend as much time as possible listening to customers to understand what are going to be the biggest trends that are driving the need for new analytical and benchmarks from S&P Global. When we listen to the markets, there is a lot of change going on in technology, thus driving feed products and what we've been calling the marketplace in the Market Intelligence business. When we talk to people, they are looking at major changes in regulation, which for the last few years in the Banking sector helped with a lot of the growth in risk services at Market Intelligence. It's our business at CRISIL. And specifically, with the energy transition that's going on related to climate change, there is an increasing interest in a combination of ESG products as well as products like the 0.5% IMO sulfur product, which is now moving to the CME and ICE exchanges as futures. And so we try to look out in forward what are the things, the biggest trends, that are going to be impacting people's needs to make financial decisions and market decisions and how can we serve those. And some of the products that we've talked about many, many years ago start showing up over time in our revenues. As an example, in Platts, we've been responding to the market changes that are going on in the structure of the energy industries and one of the products that we featured frequently over many years was the JKM Marker, which was the Japan, Korea marker for LNG in Japan, which has now become the Asia price, which is now on exchanges as a futures contract.

So, we like to give you updates. These are – Some of these products started out small, but they helped show what do we think are the biggest trends in the markets and how are we going to be addressing those trends and as I said, their technology, their risk management, their ESG trends that are changing people's needs to have more and more data about markets and so we're trying to show you how we're addressing those going forward. And I appreciate your question.

Henry Chen

Got it. Okay, that's super helpful. Thank you.

Chip Merritt

Thanks, Henry.

Operator

The next question is from Gary Bisbee from Bank of America Securities. You may ask your question.

Gary Bisbee

Yes. Thanks for squeezing me in this morning. I guess just one question. Given the margin strength that you've delivered in recent quarters and certainly over the last several years, how do you think about weighing stepped-up – potential for stepped-up investments to drive the top line versus letting so much of the incremental profitability of your businesses flow to the bottom line? Are there opportunities in some of the businesses to accelerate the pace of investment, or are you comfortable, the level you're investing is the appropriate level that the organization can handle? Thank you.

Ewout Steenbergen

Gary, that's a great question and we have, as you understand, a lot of management discussions around this topic because our philosophy is that topline growth, in the end, generates the highest level of value creation for our shareholders, particularly at the levels of margins that we can report at this point in time. So, that's why we have very explicit investment programs in place. That's the $100 million investment program that we have been talking about in the past. And what we are seeing today is that we expect those investments programs to continue because we will identify new opportunities to invest in the future, and those will help with future growth of the company, which we think is the most attractive for us going forward. At the same time, the benefit is that we still have a lot of efficiency and productivity opportunities as well, as a company. So, we are able to self-fund some of those investments programs at this moment and we believe that there are still new efficiency opportunities as well going forward. So, therefore – In fact, if you look at our expense growth year-to-date, the expenses are up just under 2% year-to-date. And that means that we have been able to absorb acquisitions like Panjiva, RateWatch, Kensho; have been able to make new investments in those large initiatives at that $100 million level that we expect still for the full year this year and just growing the expenses under 2%. So, that is showing how we are working on both sides here in order to make very explicit divestments, but also be able to self-fund. And I would expect that to continue and that we can do still both at the same time in the future as well.

Gary Bisbee

Thank you.

Chip Merritt

Thanks, Gary.

Operator

The next question is from Shlomo Rosenbaum with Stifel Nicolaus. You may now ask your question.

Shlomo Rosenbaum

Hi, thanks for squeezing me in under the wire. Doug, can you talk a little bit about just the Market Intelligence with enterprise-wide contracts? Are you seeing any major displacements of competitors because of that in terms of your ability to offer more so that they don’t need to run so many systems or do you think that the head count growth that you are seeing is somewhat duplicative as they are handling multiple systems?

Doug Peterson

Shlomo, thanks for the question. I can't tell you specifically if we are displacing people, I know that sometimes I hear that anecdotally. But what I do hear and what I do see is that when we move people on to the enterprise contract, that users go up and it's a combination of people before that were not necessarily users because they were guarding the number of seats pretty jealously as to who would actually have access to the per-seat pricing. And so there is people that in the past wanted to use it or needed to use it, they now get access to it and then there is other people who have become more light users. And so you see a huge advantage as it starts getting built into the workflow of an institution, because you have people that are not the hardcore power users; they're light users who are helping print out reports, they're helping download information, and they're helping look at new researches coming out. And that actually helps us embed the overall MI platform across the entire architecture of a firm. So, does that then end up displacing other people? We think it does, but I don't want to give you anecdotes; I'd rather come back at some time in the future and give you more facts around that.

Shlomo Rosenbaum

Okay, thank you. And then just one other follow-up, how is the SNL Cap IQ integration going from the product side and your ability to migrate the clients to platform? It just seems that when you are able to get that done, there probably is an opportunity to improve the growth rate in Market intelligence on the Desktop side?

Ewout Steenbergen

What is our strategy with respect to the migration of the platforms? As you probably know, the whole SNL platform has already migrated to the new Market Intelligence platform. And then the next phase, and that is a phase that will take quite some time, will be the movement of the Cap IQ customers to the new platform. We expect next year that we will create a situation with dual access for almost all of our customers, so that the Cap IQ customers will get some familiarity with the Market Intelligence platform. And then slowly, step by step, with a lot of hand-holding, we will move customers over. And that will probably be a process that will take quite some time, so mostly will go beyond 2020. And that's important because we can't lose customers along the way. Customers have embedded some of those desktops in their workflows have embedded it in their models with automatic links. We have to make sure that all the data is available, all the features are available. So, there is a lot of hand-holding that is needed in order to make sure that customers are comfortable to move over. So, we're continuing to make progress there. We have very specific actions planned for the next period and particularly, to make sure that all of our customers have access to both platforms, when they are today only on Cap IQ, is going to be an important step for next year.

Shlomo Rosenbaum

Thank you.

Chip Merritt

Thanks, Shlomo.

Operator

We will now take our final question from Patrick O'Shaughnessy from Raymond James. You may ask your question.

Patrick O'Shaughnessy

Hey, good morning. And just one question from me, so there is obviously a renewed effort underway to verify the rating indices. To what extent is there concern on your part that the SEC might feel pressure to reexamine the issuer pace model, or otherwise take steps to mitigate perceived conflicts of interest?

Doug Peterson

Patrick, this is Doug. Clearly, we are on top of this. We are watching this very closely to see what kind of initiatives could be under way. The SEC already has been doing work for the last few years looking at different business models. They've got a couple of different groups that have been formed to take a look at the Ratings industry. But very importantly, inside of the SEC is a group called the CRA. It's a credit rating agency group that has been – has now had almost 10 years of work overseeing the Rating Agency industry. They've got the data, they have the facts. And we're engaging very closely across the board with the regulating – with the regulators with the SEC itself with the CRA Group. Anybody who would like to talk to us, we have no problem sharing all the data we have about how we run the business. As I said earlier, we stand by our ratings, we stand by our processes and our procedures, the controls we put in place, the quality of our ratings, the quality of our processes, etc. So, as you know, this is something that we will be watching very, very closely. We'll be actively participating in any dialog that comes up around the business model for rating agencies, and we're ready to have a very professional dialog about this. Appreciate your question.

Patrick O'Shaughnessy

Thank you, Doug.

Chip Merritt

Thanks.

Doug Peterson

Let me just wrap up and tell you again that we're very pleased with the results that we had today and we were able to talk about all four divisions and our significant margin improvement in the productivity programs. It's also encouraging that, as a company, we have the capacity and ability to invest in some of the new products that we featured today. But very importantly, we appreciate all the interest from the analysts to ask questions today and we always appreciate your questions, the easy ones and the tough ones. So, keep them coming. Thanks a lot.

Operator

That concludes this morning's call. A PDF version of the presenters' slides is available now for downloading from investor.spglobal.com. A replay of this call, including the Q&A session will be available in about two hours. The replay will be maintained on S&P Global's website for 12 months from today and by telephone for one month from today. On behalf of S&P Global, we thank you for participating and wish you a good day.