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IHS Markit Ltd. (INFO) CEO Lance Uggla on Q3 2019 Results - Earnings Call Transcript

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Q3: 09-24-19 Earnings Summary

SEC *10-Q* *Slides*

EPS of $0.67 beats by $0.04 | Revenue of $1.11B (11.12% Y/Y) misses by $-12.68M

Earning Call Audio

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IHS Markit Ltd. (NYSE:INFO) Q3 2019 Earnings Conference Call September 24, 2019 9:00 AM ET

Company Participants

Eric Boyer - Head, Investor Relations

Lance Uggla - Chairman of the Board and Chief Executive Officer

Todd Hyatt - Executive Vice President and Chief Financial Officer

Edouard Tavernier - Senior Vice President, Transportation

Conference Call Participants

Manav Patnaik - Barclays

Gary Bisbee - Bank of America Merrill Lynch

Bill Warmington - Wells Fargo

Andrew Steinerman - J.P. Morgan

Andrew Jeffrey - SunTrust

Kevin McVeigh - Credit Suisse

Alex Kramm - UBS

Jeffrey Silber - BMO Capital Markets

Shlomo Rosenbaum - Stifel

Ashish Sabadra - Deutsche Bank

George Tong - Goldman Sachs

Drew Kootman - Cantor Fitzgerald

Toni Kaplan - Morgan Stanley

Trevor Romeo - William Blair & Company

Joseph Vafi - Canaccord Genuity Corp

Operator

Ladies and gentlemen, thank you for standing by. And welcome to the IHS Markit Third Quarter 2019 Earnings Conference Call. [Operator Instructions] Pleased be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker today, Eric Boyer, Head of Investor Relations. Thank you. Please go ahead, sir.

Eric Boyer

Good morning and thank you for joining us for the IHS Markit Q3 2019 earnings conference call. Earlier this morning, we issued our Q3 earnings press release and posted supplemental materials to the IHS Markit Investor Relations website. Our discussion of the quarter includes non-GAAP measures or adjusted numbers, which exclude stock-based compensation, amortization of acquired intangibles, and other items. IHS Markit believes its non-GAAP results are useful to enhance the understanding of our ongoing operating performance, but they are a supplement to and should not be considered in isolation from or as a substitute for GAAP financial information. Please refer to our earnings release on our website for definitions of the non-GAAP measures and reconciliations to the most directly comparable GAAP measures.

As a reminder, this conference call is being recorded and webcast and is the copyrighted property of IHS Markit. Any rebroadcast of this information whole or in part without the prior written consent of IHS Markit is prohibited. This conference call, especially the discussion of our outlook, may contain statements about expected future events that are forward-looking and subject to risks and uncertainties.

Factors that could cause actual results to differ materially from expectations can be found in IHS Markit's filings with the SEC and in the IHS Markit website. After our prepared remarks, Lance Uggla, Chairman and CEO and Todd Hyatt, EVP and Chief Financial Officer will be available to take your questions.

With that, it's my pleasure to turn the call over to Lance Uggla. Lance?

Lance Uggla

Okay. Thank you, Eric. And thank you for joining us for the IHS Markit Q3 earnings call. Today, I'll talk to the highlight to the quarter and then provide an update to our capital allocation framework, which looks to return more capital to shareholders through continued share repurchases and our intent to initiate a quarterly dividend pending board approval. Included in our capital allocation section, we'll also discuss the divestiture of our aerospace and defense business, which we have agreed to sell subject to regulatory approval.

So now turning to the quarter. I was extremely pleased with Q3 as our teams delivered another strong quarter of diversified revenue growth, margin expansion and strong cash flow. We also de-levered to within our target range and completed our promise repurchase of 500 million of shares in early Q4. Finally, we closed the asset exchange with Informa and have already achieved early revenue synergies. So some key financial highlights to the quarter. Revenue of $1.112 billion, that's up 6% on an organic basis and 11% overall. Continued solid performance across our three scaled verticals, transportation, financial services and resources.

Adjusted EBITDA of $453 million and margin of 40.7% which is up a 170 basis points year-over-year. And finally adjusted EPS of $0.67, up 16% over the prior year.

Now let me provide some segment highlights. Transportation performed within our range of high single digits with organic revenue growth of 7% in the quarter. It's notable to point out that the recurring fixed remained very strong at 10%, offset by lower margin, non-recurring growth and some impacted continued weakness within digital advertising as expected. We also have slower low margin recall activities. The automotive highlights in the quarter to shout out for performance include our CARFAX used-car listings driven by investments in search optimization driving market share gains which we expect to continue.

Our Carfax for life launch met early targets with over 1,100 unique dealers signed up to date. Our powertrain and appliance offerings rising on increased regulatory demands. And finally automotive mastermind benefiting from the first half launch of two additional automotive brands and ongoing enhancements in our product offering, which now leverages many of our proprietary automotive data sets.

Let's move on to financial services where we reported 6% organic growth with several notable areas to call out. Our pricing and index businesses each with double-digit growth on the back of recent investments. Derivatives processing return to growth in the quarter. Our corporate actions and EDM software sales continued their strong growth trajectories. And finally Ipreo had a strong overall quarter with significant growth in private markets, corporate solutions and municipal issuance. After a tough start to the year due to market conditions, we're now performing more in line with our acquisition target level on a run rate basis which I'm particularly pleased about.

In Resources, we delivered another solid quarter with 6% organic growth anchored by stable recurring revenue growth and strong non-recurring revenue growth. Strong performers in the quarter included our downstream pricing business, Opus, as well as our chemical business. Our upstream business continued its steady performance. We continue to make progress with recent investments in analytics and partnerships to extend our leading data and insight capabilities into new revenue streams.

We made headway on our integration of the agribusiness acquisition with our chemical and downstream businesses. This integration will build upon our existing data, pricing insight, forecasting and news services within our resources segment.

Agriculture is the largest chemical end market in the world and this transaction expands our capabilities into fertilizers and chemical crop protection. We'll expanding our capabilities and biofuels. Finally, I'd like to call out a great example of our market leadership and capabilities in the wake of the recent Saudi Arabia oil field attack. On the Monday following the weekend of the attack, our resources team hosted a webinar which pulled together our experts across upstream, downstream and economic and country risk to brief our customers on the potential implications.

Over 1,700 clients joined live with over 600 of those coming from the financial services. Really great work by the team being able to pull together such a comprehensive brief in a short period of time to help our customers both corporates and financial market participants better understand.

Moving on to CMS, organic revenue growth was 5% benefiting from the biennial boil pressure vessel code. We continue to expect CMS organic growth to be in the low single digits for the year in line with our forecast. Park design, the largest business within CMS continued to perform well with organic revenue growth of 4%. Finally, I want to give an update to our capital allocation framework as we've completed our de-levering post the Ipreo acquisition.

Our targeted leverage range is going to remain 2x to 3x on a gross basis and will tend to operate the higher end of the range. We will target an annual capital return to shareholders of a minimum 50% and as much as 75% of our annual, capital capacity through a combination of share buybacks and a cash dividend. At our October board meeting, I tend to recommend, our intend to recommend the board approve a new share buyback reauthorization and a quarterly dividend program beginning in Q1, 2020 with an initial 1% dividend yield target.

We believe 2020 is the right timing for the initiation of a dividend for the following reasons. First, it'll be over three years since the successful merger of IHS and Markit. And we have confidence in our ability to continue to operate within our longer-term annual financial framework, including 5% to 7% organic revenue growth, 100 basis points of adjusted EBITDA margin expansion and double-digit earnings growth. We believe this framework balances the right level of investment and margin expansion to continue to maintain our organic growth range.

Second, our business model generate ample free cash flow for both capital returns and M&A. Third, we have reduced our legacy market optional overhang to now approximately $10 million outstanding options at the end of Q3. And fourth, we believe initiating a dividend is a great way to diversify our capital return discipline and to broaden the potential groups of shareholders that may be interested in IHS Markit.

Now in terms of M&A, we will be focused on deploying capital within our scaled, focus areas including financial services, resources and automotive. Sizing of potential deals will fit within our updated capital allocation framework, will also continue to evaluate opportunities to further rationalize our portfolios which could provide incremental capital flexibility. With that said, we've entered into a letter of intent to sell our Aerospace and Defense for $470 million to Montagu.

We believe this is the right long-term move for us. Our shareholders and our aerospace and defense colleagues. The combination of these points around capital allocation gives us a clear framework to operate within to meet our financial objectives. It provides our shareholders of at least approximately $800 million of capital return annually and our divisions' ample acquisition capital to support our longer-term financial targets.

And with this, I'll turn the call back over to Todd.

Todd Hyatt

Thank you, Lance. Our Q3 results were in line with our expectations and included revenue of $1.112 billion, an increase of 11% and organic growth of 6.%. Net income of 439 million and GAAP EPS of $0.10. Adjusted EBITDA of $453 million, an increase of 16% with margin of 40.7% and adjusted EPS of $0.67, an increase of $0.09 or 16%. Relative to revenue, our Q3 organic revenue growth of 6% included recurring organic of 6% and non-recurring organic of 4%.

Looking at segment performance, Transportation revenue growth was 6% including organic revenue growth of 7% and negative 1% FX. Organic growth was comprised of 10% recurring and flat non -recurring. We expect recurring to continue to perform at the upper end of our high single digit organic growth range. Non- recurring was impacted by lower recall and lower digital marketing. We expect non-recurring to continue to perform at a lower level than recurring due to revenue reductions primarily in our lower margin recall business.

Resources revenue growth was 9%, including 6% organic and 3% acquisitive. The organic revenue increase was comprised of 5% recurring and 15% non-recurring. Non-recurring benefited in part from continued strength in our software business. Our Q3 organic ACB increased $10 million and our trailing 12-months organic ACB increased $28 million to $757 million, which was up 4% versus prior year. CMS revenue increased 1%, including 5% organic, negative 4% from divestiture and negative 1% FX. Recurring organic was flat and non-recurring organic increased to $8 million or 41% All in a non-recurring organic benefited from the BPVC release, which contributed $8 million organic growth in the quarter.

Within the segment, our Product Design, core specs and standards business continue to perform well with recurring organic growth of 4%. Financial services revenue growth was 21% including 6% organic, 16% acquisitive and negative 1% FX. Recurring organic was 74% and non-recurring organic declined $4 million or negative 15%. Recurring revenue partially benefited from revenue catch up on past few renewals. Non-recurring decline was primarily due to lower enterprise software revenue.

Our Information business organic growth was 6% due primarily to strong growth in our core pricing and index businesses. Processing organic was flat; derivative processing was up but it was offset by decline in our loans processing business. Solutions organic growth was 4% led primarily by our EDM and corporate actions businesses. Ipreo revenue increased to $89 million and included one-month organic revenue contribution in the quarter.

Turning now to profits and margins. Adjusted EBITDA was $453 million, up $62 million or 16% versus prior year. Our adjusted EBITDA margin was 40.7%, up a 170 basis points on a reported basis and up a 100 basis points normalized for Ipreo and FX. Our year-to-date adjusted EBITDA a margin was 40.3% which was up a 130 basis points on a reported basis and up a 100 basis points normalized for Ipreo and FX. We continue to track to our 10 basis points full-year normalized margin expansion but expect an increased level of one-time investment in Q4.

Regarding segment profitability, Transportations adjusted EBITDA was $134 million with margin of 42.6%, down 50 basis points. Resources adjusted EBITDA was a $101 million with margin of 43.8%, up 360 basis points. CMS adjusted EBITDA was $31 million with margin of 22.4%, up 30 basis points. Financial Services adjusted EBITDA was $199 million with margin of 46.4 %, up 240 basis points normalized for Ipreo and on a reported basis. Adjusted EPS was $0.67 per diluted share, a $0.09 or 16% improvement. Our adjusted EPS excluded a $200 million one-time GAAP tax expense related to tax reform and also excluded a one-time gain of a $112 million related to the sale of our TMT business.

Our GAAP tax rate was 86% and our adjusted tax rate was 18%. Our GAAP tax included $200 million expense related to Treasury regulations issued in June 2019 that changed retroactive to fiscal year 2018 certain pre US tax reform deferral rules. We expect a favorable offsetting $50 million GAAP tax adjustment in Q4 resulting in a net 2019 GAAP tax expense increase of $150 million.

We have excluded this one time GAAP tax expense from our adjusted tax expense. This one time GAAP tax expense essentially offsets 2018 one-time GAAP tax benefit of $141 million related to tax reform, which was also excluded from our adjusted tax expense. This change will not impact our going forward effective tax rate and in future years we continue to expect a low-teens GAAP tax rate and an adjusted tax rate of 18% to 20%.

Cash tax owed from this rule change is approximately $90 million which will be paid in Q4 of 2019. Despite the negative cash impact in 2019, tax reform has been an overall net positive to the company. Our Q3 free cash flow was $343 million and our trailing 12-months free cash flow was $1.129 billion and represented a conversion rate of 65%. On a full-year basis, our cash conversion will be negatively impacted by approximately five points due to the one-time Q4 tax payment of $90 million.

Turning to the balance sheet. Our quarter end debt balance was $5.05 billion and represented a gross leverage ratio of approximately 2.9x on a bank covenant basis. In the quarter, we completed a $350 million add-on to our 10-year April 2020 bonds at an effective interest rate of 3.25%. We closed the quarter with a $124 million of cash and our undrawn revolver balance was approximately $1.6 billion. In Q3, we completed a $200 million ASR and we executed a further $300 million ASR in Q4. Our Q3 weighted average diluted share account was 410.9 million shares.

In terms of portfolio activities, we closed the acquisition of Informa's agriculture business on June 30th and we also closed the sale of a majority of our TMT market intelligence business to Informa on August 1st. As a result of the exchange, our annual CMS revenue will decline by approximately $60 million, while our annual resources revenue will increase by $40 million. The exchange is slightly diluted to adjusted EBITDA and neutral to adjusted EPS.

Finally, as Lance said, we signed a definitive agreement to sell our A&B business to Montagu for $470 million. The purchase price represents an adjusted EBITDA multiple of 14x to 15x on a business with approximately 45% adjusted EBITDA margin. We expect net after-tax cash proceeds from the transaction of approximately $440 million. The transaction will result in $0.03 of forward adjusted EPS dilution. We will use proceeds from the disposition to reduce leverage which will provide us with further capital structure flexibility as we execute against our new capital allocation framework.

In regard to our new capital allocation framework, as Lance said, we will target capital return to shareholders of 50% to 75% of our annual capital capacity through a combination of share buybacks and dividend. We define capital capacity as our annual free cash flow plus the additional capacity generated by adjusted EBITDA growth. We are updating our prior guidance to provide for revenue of $4.4 billion to $4.42 billion which includes full-year organic revenue growth of 5% to 6%. Absolute revenue is lower than prior guidance range due primarily to higher drag from FX as we expect full-year negative FX impact at $35 million. And also due to the anticipated lower revenue from the TMP AG asset swap.

Adjusted EBITDA tracking above midpoint of prior guidance range of $1.75 billion to $1.78 billion. We expect adjusted EBITDA margin expansion of a 100 basis points on reported basis and also normalized for FX and Ipreo. Adjusted EPS at the high end of our prior guidance range of $2.52 to $2.57. We have updated guidance items between adjusted EBITDA and adjusted EPS in our supplemental materials.

Finally, we expect cash conversion of approximately 60% due to the one-time tax payment in Q4. We will provide detailed 2020 guidance in November. However, this time we expect to deliver to our double-digit adjusted EPS growth target taking into account expected dilution from the AMD divestiture. In addition to double-digit adjusted EPS growth, we will see additional TSR benefit from our dividend initiation in 2020.

And with that I will turn the call back over to Lance.

Lance Uggla

Thanks Todd. So in conclusion another strong quarter, an updated capital allocation framework to increase transparency and capital return to shareholders. An updated guidance that puts us in a position for a very strong year. We appreciate your continued support and are pleased that so many of you have trusted us in executing post merger and beyond. Operator, we're ready to open the lines for questions.

Question-and-Answer Session

Operator

[Operator Instructions]

Our first question comes from Manav Patnaik with Barclays. Your line is open.

ManavPatnaik

Thank you. Good morning and congratulations on the new capital allocation framework. Maybe just to follow up on the aerospace and defense sale. I was wondering if you could just walk through the rationale and why you picked that. They obviously have really good margins. Can you maybe talk about the growth, fit? And just want to clarify like, is Jane's basically all of Aerospace and Defense? Or did more than that go in this deal?

LanceUggla

So it's just aerospace and defense. And I guess when we look at transportation in IHS Markit, there are three major components. So there's automotive, maritime and aerospace and defense. And when you look at the big synergies, revenue synergies areas to invest, areas to grow across the group automotive and maritime fit as or not just transportation but across energy and into financial markets. Whereas aerospace and defense stood alone, it had a slight overlap with our economic and country risk business, but in terms of forward investment and commitment to invest further, it fell outside of our capital allocation. And therefore made sense for divestiture. Next question.

Operator

Our next question comes from Gary Bisbee with Bank of America Merrill Lynch. Your line is open.

GaryBisbee

Hey, guys. Good morning. Could you just give a little more color on the non-recurring revenue weakness at both the financial services and transportation business? Just what really drove that and should that can -- are the reasons those factors would continue going forward? Thank you.

LanceUggla

Okay. Maybe I'll start and then I'll pass to Todd. So I guess I don't see financial weakness in either division. So I know when you look in dissect numbers, if you take transportation for example the big driver there being automotive. And when you look at automotive, you've got 10% recurring, outstanding performance across the group, well diversified all sectors across the group. When you look at the non-recurring piece, you really have two--

you have about $600 million of non-recurring to consider across the whole group. About 20% of that is recall and a big piece of recall is lower margin where we're doing recall indirect to the OEMs. And if they're defined as we look to expand margins and look at our mix, our business around recall, we want to do more direct activity with the OEMs, which is higher margin and suits our overall business best. And a little bit less of the indirect business.

We also had which we called out for several quarters now a bit of a slowdown in the digital advertising side. And so those coupled together in the quarter for the slight decline in recurring, or sorry, in non-recurring. But in terms of the margin EBITDA and our forward growth profile nothing's changed on transportation. Very pleased with the growth and diversification of it. Financial markets, I would have to say had a real strong quarter, but there's always lots of things within a quarter. We, previous quarter, we had a large software sale that shows up that bodes well for a piece of revenue. This quarter, we've got Ipreo firing on all cylinders that definitely helped and came into play a little bit.

We really, it's mixed EDM and corporate actions super strong. But even some of the soft grass that haven't grown quarter-over-quarter all are performing within expectations. So I think the message here is you should have no change in your forward outlook for any of our three scale verticals. They're all operating exactly as we say each quarter, don't see anything to change. We generally move the guidance up a little bit around at least the mid top brands of EBITDA, upper ends of EPS and really the revenue we had to give up some revenue on the TBT, TMG Agri swap and we've got $35 million of FX.

So when I look at it all, I think this is the best quarter since post merger in terms of strong diversified teams executing really well. Let's go to the next question.

Operator

Our next question comes from Bill Warmington with Wells Fargo. Your line is open.

BillWarmington

Good morning, everyone. So I had a question about the particularly strong performance at Ipreo at 22%. Was there --was something there in the timing or with deferred revenue that made that particularly strong? I just wanted to try to get an apples-to-apples number there. And the reason is I'm just trying to get to a kind of a steady state ongoing organic revenue growth rate.

LanceUggla

Yes, go ahead Todd.

ToddHyatt

Yes. Ipreo contributed $5 million of organic in the quarter. It had a very good quarter. The quarter was in a teen's growth. We had one month of organic and it had a particularly strong last month of the quarter. I think when we've talked about Ipreo, we talked about a double-digit growth, so wouldn't expect all in of 22% although I think PCM is performing very high toward that high teens into the 20s level, but Ipreo certainly we expect to be a double-digit grower going forward, Bill.

LanceUggla

Thanks Todd. Next question.

Operator

Our next question comes from Andrew Steinerman with J.P. Morgan. Your line is open,

AndrewSteinerman

Hi. I know you've already mentioned that the resources ACV are trending up 4%. Could you just talk a little bit more about the energy backdrop right now? Is it conducive for acceleration? And I note that resources subs growth at 5% is above the ACV growth at 4%.

LanceUggla

Right. Well, I think in all our divisions and I know in resources, volatile energy prices makes many think that there should be more volatility within IHS Markit. The same is stars in automotive and I think for three years I've said I don't personally spend a lot of time focusing on a particular indicator to drive our overall performance. So what are we doing. We're doing consulting. It's a piece of the business that actually in the quarter outperformed if anything and on that side its teams advising people that are making decisions in volatile markets. And volatile prices that they're interested in should they lend to a project shouldn't they? Should they buy an asset shouldn't they?

Are there -- do we have information in and around the energy market that can help people better model supply and demand. And I'd say that the new data science and analytics around coupled with consulting give us some really good market fundamentals around us. Not that I think we're going to be north double-digits north of 10%, but I do think that we have a solid business that supports mid-single digits. And the other thing I would say is as you go in volatile markets the downstream pricing and news of all these refined products having daily prices, weekly forecasts, monthly reporting and insights, it really is a place where IHS Markit has had and continues to support high, mid to upper single digits growth and that's around Opus. It's the new agribusiness. So it's downstream chemicals into agriculture.

It's our chemicals business itself and all the inputs into various supply chains. We really do have a strong position and then you add renewables on top of that which is a growth segment all around clean tech that we're playing into. So I really think it's a great mix and the only piece where I look at over the last five years where there's out or under performance is taking our core few hundred million so 30% of the division pure data assets that supports the overall division. And I would say that is where you get a bit of this volatility, but the division operating and being managed effectively can more than support flat to up five or even down five on that $300 million. And that's how I look at it, Andrew.

So I think that volatilities, our friend in terms of advice but it can take away some of the desire to explore and expand and do international projects. But we have more than enough skin in the game in the - in this big marketplace to support mid-single digits growth. Next question?

Operator

Our next question comes from Andrew Jeffrey with SunTrust. Your line is open.

AndrewJeffrey

Hi. Good morning. Appreciate you taking the question. A little bit of a hypothetical I guess for you Lance, but pertinent, I think timely, regardless. I know complexity in auto sort of generally aids your growth and demand for your services. I wonder if you think about what's happening in the US this sort of battle around emissions and the deal the California cut with four major auto manufacturers sort of a side deal to federal definitely changing federal emissions laws. Can you talk about how that might affect your auto business, if you have sort of two major US markets?

LanceUggla

Right. Well, we are --actually our advisory around regulatory reporting in automotive actually has quite a good quarter not purely because of that just because of our position there. But also have our head of automotive here with me today in the room Edouard Tavernier. So I'll let him jump in on the question that you asked specifically. Edouard?

EdouardTavernier

Great. Thank you, Lance. And generally the short answer to your question is regulatory uncertainty creates risk for our customers and that creates demand for our services, demand for data and demand for a lot of advisory we can provide around scenario planning and simulation. So generally speaking tough environment for customers, but we can help them through this uncertainty.

Operator

Our next question comes from Kevin McVeigh with Credit Suisse. Your line is open.

KevinMcVeigh

Great. Thanks. Hey, congratulations on the asset sales. I guess two things, is the aerospace and defense, is the sale in the guidance or is that something that will be adjusted going forward? And then just it sounds like, Lance, you're taking a more focused view across the scaled verticals. Does that imply anything for the remaining CMS business or how should we think about that within the context of scaling up? Obviously, with three real nice assets.

LanceUggla

Okay. I'll let talk Todd do the guidance after I just talked about the divestiture. So, yes, very focused. I have to say very focused on our automotive, financial markets and energy related scaled verticals. Those are the very large verticals of the firm. And they're the ones that we are strategically investing in terms of --for organic growth putting capital to work. We have a lot of data science analytics and investment into each of those areas and we made both on acquisition that we think are effective in supporting our longer-term growth targets and supporting our customers.

So within CMS, we have divested the very -- the non core portion of TMT. And we've now divested AD&S from transportation. And so one thing I did call out today is that we'll continue to look within this capital allocation framework at potential other divestiture. And I guess what I want to say to both shareholders and the employees inside the firm that this has to be a very thoughtful process. We have to think about the overall long-term potential for our firm. But we're not going to make short-term decisions that are careless or reckless rather we're going to invest in the assets, the people of the assets that we may think are non core. And we'll look for opportunities to make different business decisions going forward. And we're not afraid of analyzing our own portfolio. It's the backdrop of many acquisitions over many years. And where we want to know that we win every day is in the scaled verticals that we're building for long-term. And outside of that we've got to take a very careful respectful approach to our assets, our shareholders, our customers and our people.

But there's no lack of strategic thought from myself or my management team. Todd, do you want to add on the guidance side?

ToddHyatt

Yes. The disposition of A&D is not included in the guidance. It has enclosed and subject to regulatory filings and approvals. I did provide I think sufficient information [Tech Difficulty] in terms of the revenue EBITDA and forward adjusted EPS and certainly as we guide in 2020, we will be very clear on the impacts that are embedded or have been adjusted out of the 2020 guide for A&D.

Operator

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

AlexKramm

Yes. Hey, good morning, everyone. Hopefully I'm not repeating anything, but I was hoping that you can just flush out the capital return a little bit more. So bear with me for a second, so if I hear you correctly and I do my math right, the dividend is now basically 25% of your free cash flow. And you've got another 25 to 50 for share buyback and another 25% or so for whatever M&A et cetera. So I was just wondering the buyback I guess it's a low end of the buyback to 25%. Is that guaranteed or for the right deal you would say like alright buybacks we can certainly forego for a year or so if we need to or does everything have to come out of new leverage and I guess the percentage of the buyback.

And then also, Todd, very quickly you said using the proceeds with de-leveraging, I guess the question is why it seems like you're kind of like a net range now. So why do you choose de-leveraging for the incremental and could you go to a 100% capital return in a year as well is the last one. Sorry for the loaded question.

LanceUggla

Yes. Go ahead, Todd, if you want to start and I can always add.

ToddHyatt

Just for size, the capital capacity of the company and the capital return element. So when I think about it, we have circa annual cash flow of call it $1.250 billion a year and then we have additional capacity that we generate from adjusted EBITDA growth. So you can take the EBITDA growth and the leverage ratio the 3x and called out $400 million. So essentially the baseline capital is a $1.6 billion. And we've said 50% of that will go to capital return at a minimum up to 75%. So in terms of the allocation between dividend and buyback at a 1% dividend yield, we would think of that as a $275 million annual dividend and that leaves a minimum of $525 million -$550 million of share buyback. So that would be the baseline minimum capital return that we will execute on an annual basis.

As far as additional cash like from the A&D/ Jane's disposition, we would expect that that capital would be available from a strategic perspective to potentially acquire other assets. And so that's why we're in the near term going to bring leverage down a bit to have a little bit of dry powder. But ultimately as Lance said in his opening comment, we're going to run the company in the high 2s. And so if we don't have opportunity to deploy that capital, we would then look at increasing the level of the buyback above the $500 million to $525 million level.

LanceUggla

Yes. I think that was it. So thanks Todd. That's -- so I think it's really important for us we've listened to our shareholders over the past three years. And defining a capital framework that was completely happy to provide to you and be transparent with. And then live within the guideline is what we've done today. And so you've got the minimum levels and then from that we'll adjust on the annual basis based on the best remaining opportunity for us as a firm. Let's go to the next question.

Operator

Our next question comes from Jeff Silber with BMO Capital Markets. Your line is open.

JeffreySilber

Thanks so much. You had talked earlier about the impact of volatility I believe in your energy business. I'm wondering with everything that's been going on in the overall markets, what have you seen on the financial services side? Is that impacting maybe some buying decisions going forward? Thanks.

LanceUggla

So are you're referring to private equity advice that we may provide to private equity that may be investing in energy related assets? Is that -- was that your question?

JeffreySilber

I was interested more in the financial services vertical.

LanceUggla

Okay. So but financial services with respect to our advising and selling them energy related products or just overall in financial services.

JeffreySilber

The latter if possible, but if you want to give a little bit on the former as well that would be great.

LanceUggla

Okay. So I do find financial services a growth ever since the merger, it's one of those revenue synergies that's been a growth driver for us. And it's really coming from twofold. One, we have the financial services customers that I just standalone didn't have deeper relationship. So we're definitely having that wind on our back in terms of opening doors and participating. The second thing I'd say is private equity has been very active in terms of investments in and around the energy market. Third, I'd say that when you look at growth and renewables and solar, wind et cetera. And you look at the investment profile and where the investments are coming in those projects.

A lot of them are being driven out of the financial markets and private equities playing a big role in terms of investing. So we have some really nice growth parameters coming from our relationship with financial markets. And then to the investments whether it was in the Permian, but now in terms of the whole renewable space where we've got expertise to help on the advisory and on the subscription data sides in those non fossil fuel related areas. So that's been good for us. Volatility in energy means our financial market clients want more information and support. That's also good for us. Overall, what I would say in financial markets is the last few quarters and Ipreo is a great bellwether for it is that you see first off what you see is there's been fairly buoyant equity market issuance.

And if you look at Ipreo and you go where does Ipreo have volume related or transaction related non-recurring upside, it's around equity market issuance. That's been very good. Lower interest rates also encouraging municipals to get out there and walk in and we've seen a large issuance of municipal bonds and we've been hitting some record numbers there. And then finally, I called out derivatives processing and whenever there's volatility in FX or rates, you get volatility in and around the processing and activities of derivatives not that there's more total dollar value, but there's more transactions. A lot of times they're smaller and we've seen some increased activity there.

So net -net, I think that the financial markets and the general geopolitics and global dynamics around the markets we are in have been good for an information company that had a lot of quantity, quality and different types of data to offer to our customers. So I think it bodes well for us and it's been quite a diversified quarter that I'm particularly pleased about. Next question.

Operator

Our next question comes from Shlomo Rosenbaum with Stifel. Your line is open.

ShlomoRosenbaum

Hi. Good morning. Thank you for taking my question. I just want to ask a little bit about the divestitures in the portfolio positioning that you guys have been doing a good job of. Could you discuss how fast the A&D business had been growing revenue wise? And then in a similar vein can you talk a little bit about the components of what's left at CMS and how fast they've been growing?

LanceUggla

Okay. So aerospace and defense has been a low to mid single-digit grower with good margin and a super strong brand position with super strong engaged employees in that business. And what's great about it really is Jane's is one of these 100-year-old brands that has people that are just passionate about defense, military spend, new weaponry and we really do have kind of industry experts in around that asset. But it needs to grow and it has potential to grow at upper single digits even double digits with increased investment and the home for that at Montagu is a better home than with us. Because if I look at our investments priorities across the whole group, I'm looking at where we have our scaled verticals, but then also how do those scaled verticals with data science and analytics play across each other into our financial market participants.

And automotive and energy are two huge asset classes that financial markets invest in private equity, bank lending, insurance, asset and index inclusion or exclusion. And we have just so much to offer where as aerospace and defense is just -- it just plays a much more specialized smaller role. And we don't get the same leverage across the group. Therefore, we classified it as non core and we decided several months back to look at the divestiture. We did similar when we took the piece of TMT and did the Informa swap and that worked out very, very well.

So here we have two thoughtful divestitures with a lot of care around our teams in our group. And we think the homes are better for them where they are. When you get into other assets and I get asked this question regularly and because CMS is less scaled than the others, of course, it's always on the question board in terms of shareholders. And all is I can say is if I made a divestiture in another piece of the company, it could be a year, it could be two years, could be five years, could be never. What I will promise you is that well we're managing our assets. They're going to be properly managed, properly care for.

We're going to focus on the margin. We're going to focus on the people. We're going to pair people well, look after them well, serve our customers that have served in those markets for many, many years. And if there's an opportunity for a divestiture that makes sense, we're --I hope you can see we're not afraid of divesting an asset if all the right pieces come together. And all's I can say is on aerospace and defense and the TMT swap, those pieces did come together and therefore we were able to execute. Next question.

Operator

Our next question comes from Ashish Sabadra with Deutsche Bank. Your line is open.

AshishSabadra

Hi, good morning. We saw some pretty robust margin expansion both in financial and resources. You also talked about some one-time investment in the fourth quarter. Can you just provide some more color on those investments? And then maybe just going forward the margin profile has been trending much better, can you just talk about the potential for better margins going forward? Thanks.

LanceUggla

Right. Well, I'll start and Todd if I leave some note. I guess I just want to really once again just put the line in the sand. 100 basis points since we merged, we've been operating off of a 100 basis points of margin expansion. And that's both an internal discipline and an external promise. So that's what we've made. The discipline is for our teams to grow at 5% to 7% and half of that 100 basis points will come from revenue growth. And the other half has to come from them organizing their strategy accordingly. And we feel that we can move to mid-40s margins over the next four or five years. Many occasions, our teams outperform the 100 basis points margin. But what my motivation to my internal team is deliver the discipline for the 100 and improve your investment capacity above that. And that's the mantra, that's how we run the firm. That's how all our teams operate. It works very well and I think it's a fair distribution of our efforts to shareholders and our teams in terms of reinvestment. And that's how we run the firm. Next question.

Operator

Our next question comes from George Tong with Goldman Sachs. Your line is open.

GeorgeTong

Hi, thanks, good morning. Your guidance for a free cash flow conversion from EBITDA was updated from mid 60s to 60%. Can you discuss why your free cash flow expectations are more muted now?

LanceUggla

Todd, you want to add that.

ToddHyatt

Yes. I talked about this on the call. That's the one-time tax payment of $90 million in Q4 will reduce conversion by five points. We don't see an impact on the forward conversion.

Operator

Our next question comes from Joseph Foresi with Cantor Fitzgerald. Your line is open.

DrewKootman

This is Drew Kootman on for Joe. Just curious if you could talk about the acquisition pipeline? And if you're seeing plenty of opportunities still out there.

LanceUggla

Well, there's lots -- there's, yes, it's always lots of opportunities not necessarily priced where we would be able to make them work in terms of our own return on invested capital. So it's interesting as we, I would say the year after our merger we had lots of work to focus on integration. As we went into year two, we saw lots of, lots of places where we had gaps in our strategy as we look forward in our scales verticals. And we made a few acquisitions. I would say right now we're in the strongest point we've ever been to support consistently our organic growth targets. And I don't ever wake up and feel there's something we have to do. Where at the time of the merger, we all felt as a team that we had some gaps around alternatives, around being on the dealer floor, around expanding and diversifying downstream our energy and natural resources.

And I think we've done an excellent job of filling those gaps, broadening the diversification and consistently delivering the organic growth we say we're going to do. And I think if I look forward, I just feel really comfort in that mid-single digit revenue growth. And how I think on this. I sometimes-- I wouldn't be upset if we're at four and I wouldn't be bragging if we were at eight or nine. My view is we've got a strong support, very diversified for five to seven. And I think we can consistently deliver that for the next several years. High single digits autos, mid-single digits energy and mid-to-upper now in financial markets with the alternatives in Ipreo piece of a puzzle.

So that makes me feel pretty confident that we don't have to do a lot of acquisitions. But I like the fact that we have $500 to $750 million in potential acquisition capital in the framework. And we're going to analyze those bolt-on acquisitions on a regular basis. We're going to be in the know. We're going to know what's going on. If we divest, we'll create additional capital and then we'll either move to the upper end of our capital allocation framework buyback. We may delever short term for an opportunity we see forward, but expect discipline, expect the framework to be in place. And we are -- I think we're in a really good position to focus on our scale verticals and grow those accordingly. Next question.

Operator

Our next question comes from Toni Kaplan with Morgan Stanley. Your line is open.

ToniKaplan

Thanks so much. For transportation, you mentioned the digital advertising slowdown and just wondering if you view that as temporary and how you see that playing out should it be a drag for a couple quarters more or are we largely done and really what's sort of going to change to fix it? Thank you.

LanceUggla

Well, it's a good question, Toni. I kind of and Edouard here with me today so it's when we talk about regularly. We have a strategy in digital marketing that was very aligned to the social media platforms. Facebook, Pinterest, Google et cetera. And our teams did a great job and it gave us a strong growth lever for the last several years. On the back of the Cambridge Analytica and some of the changes, having the middleman type relationship into the social media platforms is one that has had a complete readjustment. And so we've had to check back and then start to grow again.

My view along with the automotive team is that the use of building audiences from comprehensive registration data. And we have the most comprehensive data of anybody. Couple that with our CARFAX assets and our Mastermind assets, we really-- we have all the ingredients to cook up the best audience for the best strategy and campaign in the marketplace. And so my personal view which is shared by Edouard and he may want to add this in a moment is that this is a growth driver long term. And we're well positioned to go after that growth. But we've now had three, four quarters of that realignment of your strategy to change how you position and enter into the social media arena. But we do, if you take our audiences versus an audience built purely from social media without registration data, a more based on taste and preferences of search, we outperformed that 50% to 100%.

So we are very, very strong and no reason we shouldn't grow. And I can't wait to get on the call and say automotive had a super strong quarter on the back of digital marketing. I just haven't -- we haven't been able to say it for three quarters. And you're right to call it out. Edouard, you want to add?

EdouardTavernier

Nothing really to add other than we have the best audiences. Our customers know we have the best audiences, but we are pivoting our business model and the way we monetize those audiences. And that's taking a few quarters.

Operator

Our next question comes from Andrew Nicholas with William Blair. Your line is open.

TrevorRomeo

Hi. Good morning. It's actually Trevor Romeo in for Andrew. Thank you for taking our questions. I think, Lance, you mentioned that you've already seen some early revenue synergies from the agribusiness group. Can you just give us a sense of the initial customer response there and more detail on what's driving those synergies? Thanks.

LanceUggla

Yes. So it's really the-- as you go down into the agricultural business, of course, it's the refined chemical products that are feeding into the customer base. And what we found, some of the really --like I'm talking within days of our teams coming together and visiting customers with us being able to build out a couple really interesting chemical-based consulting projects from customers of the acquired company and ourselves. And so I see a lot more of that as we look forward. Again like us selling AD&S or selling our non-core TMT, us receiving the agribusiness from Informa, it's the same thing it was non core to them. So all of a sudden they're inside a firm that has customers that look like their customers, which is exciting to people that talk their lingo chemicals, phosphates and potash and all the feedstock into agricultural products. Biofuels, you've got consultants in the space, you've got researchers and you've got people that know how to price and build benchmarks and indices.

So it just is the enthusiasm of the marriage of the assets and therefore the customer base that we are visiting together. And so the teams had some really nice early wins. And I wanted to call them out on the call. Thank you. Next question.

Operator

Our next question comes from Joseph Vafi with Canaccord. Your line is open.

JosephVafi

Hi. Good morning. Thanks for taking my question. Just a follow-up on that Agri business here. I mean, obviously, there's a good synergy on the chemical side. It's a relatively small business now for you but a very large industry. You guys -- does this acquisition provide the capability that perhaps over invest in this area and move into areas such as commodities and other things away from chemicals and more on the output side rather than the input side? Thanks.

LanceUggla

Right. No, good question and exactly what we're thinking when we did this asset swap is that if you think of agriculture as a world need and then you look at the need for the fertilizers crop protection, the resultant biofuels et cetera. This is a big, big TAM. And so when we modeled out the TAM for the agribusiness, it was substantively larger. We've taken in a business with approximately $40 million of revenues. And so I think if you -- if you're-- if we're sitting here in three to five years and we don't have more than $100 million, I'd be really --I'd be disappointed that we didn't invest. We didn't build the revenue synergies. We didn't take the power of our global positions and apply it to agriculture.

Because for a company to earn a $100 million in revenue out of $4 billion - $5 billion revenues in agriculture it just seems really small for the TAM. So I'm with you, feed our capabilities from upstream mid to downstream products into agriculture, and make sure we're capturing all the inputs, benchmarks, signals, factors supply and demand characteristics of all the inputs and outputs. I think there's a lot for us to do there. And it's a big market. So we have high hopes. It's not, I can say that that's just in the mid single-digit forecast of our $1 billion energy business.

But it is definitely a bright spot that we think should be upper single digits to double digits in the early years of post acquisition. Next question.

End of Q&A

Operator

And I'm currently showing no further questions at this time. I'd like to turn the call back over to Eric Boyer for closing remarks.

Eric Boyer

We thank you for your interest in IHS Markit. This call can be accessed via replay at (855)-859-2056 or international dial-in (404)-537-3406, conference ID 4399831 beginning in about two hours and running through October 1st, 2019. In addition, the webcast will be archived for one year on our website at www.ihsmarkit.com. Thank you and we appreciate your interest and time.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for your participating. You may now disconnect.