# S&P Global, Inc. (NYSE: SPGI)

| *$USD in millions, except per share data* | |
|---|---|
| **Cap Table** | **25-Apr-24** |
| Share Price | $ 415.50 |
| FDS | 315.9 |
| **Market Cap** | **$ 131,256** |
| Cash | 1,544 |
| Gross Debt | 11,928 |
| Net Debt | 10,384 |
| Minority Interest | 3,800 |
| **Enterprise Value** | **145,440** |
| **Trading Data** | |
| 52wk Hi | 461.16 |
| 52wk Low | 338.92 |
| YTD (%) | -6.15% |
| Short Interest | 0.5% |
| 50-DMA | 423.88 |
| 200-DMA | 408.4 |
| RSI | 44 |

| **FYE 12/31** | **2023A** | **2024E** | **2025E** | **2026E** | **2027E** |
|---|---|---|---|---|---|
| **Base Case** | | | | | |
| **Total Revenue** | **12,497** | **13,580** | **14,662** | **15,786** | **17,001** |
| *y/y growth %* | *5.5%* | *8.67%* | *7.97%* | *7.67%* | *7.69%* |
| *Cons. growth %* | | *7.48%* | *6.83%* | *6.39%* | *0.98%* |
| **Adj. EBIT** | **5,766** | **6,475** | **7,106** | **7,823** | **8,563** |
| *Margin %* | *46.1%* | *47.68%* | *48.47%* | *49.56%* | *50.37%* |
| *Consensus* | | *6,214* | *6,743* | *7,564* | *8,240* |
| *Cons. margin %* | | *46.26%* | *46.48%* | *48.49%* | *51.69%* |
| **Adj. EBITDA** | **5,720.0** | **6,431.1** | **7,023.8** | **7,710.4** | **8,415.1** |
| *Margin %* | *45.8%* | *47.36%* | *47.90%* | *48.84%* | *49.50%* |
| **Diluted EPS** | **12.60** | **15.69** | **18.76** | **19.67** | **22.40** |
| *y/y growth %* | | *24.49%* | *19.56%* | *4.87%* | *13.90%* |
| *Consensus* | | *14.10* | *16.05* | *18.07* | *19.85* |
| **Levered FCF** | **3,567.0** | **4,179.2** | **4,573.6** | **6,911.8** | **7,415.0** |
| *FCF Yield %* | 2.7% | *3.18%* | *3.48%* | *5.27%* | *5.65%* |
| **Multiples** | | | | | |
| EV / Revenue | 11.6x | 10.7x | 9.9x | 9.2x | 8.6x |
| EV / EBITDA | 25.4x | 22.6x | 20.7x | 18.9x | 17.3x |
| P / FCF | 36.8x | 31.4x | 28.7x | 19.0x | 17.7x |
| P / E | 33.0x | 26.5x | 22.2x | 21.1x | 18.5x |

*Sources: RL estimates, Bloomberg*

**Recommendation:** Buy with a base case $604 PT, 15% IRR to Dec-2026

**Executive Summary**

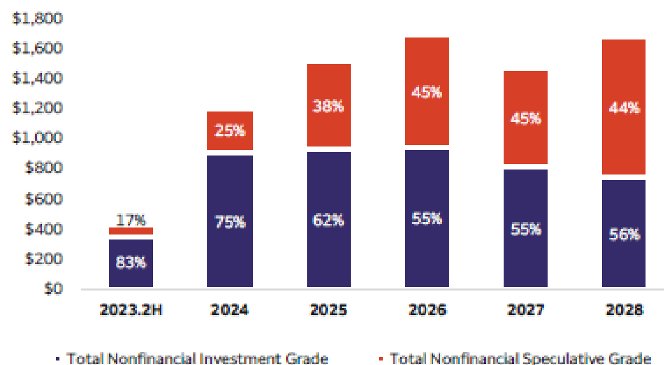
S&P Global (SPGI) is a best-in-class compounder. They've built a strong portfolio of brands, each with a leading market position in their respective business line that benefit from secular growth, which allows SPGI to win regardless of the timing of return. SPGI possesses strong network effects, regulatory barriers to entry in their legacy ratings business (operates in a virtual duopoly), and strong pricing power (84% of revenue is subscription based and an additional 12% is recurring). Management has had a strong track record with cost discipline, continued margin expansion targets (FY23 45.9% Adj. EBIT margin and targeting a medium-term 48-50%), and systematic capital allocation (~85% of free cash flow returned to investors via dividends and share buybacks).

**Situation overview and recent history**

- Acquired IHS Markit in 2022 for $45bn TEV to bolster fixed income solutions, commodity insights business. IHS also had an Engineering Solutions business (sold in 2Q23 to KKR for ~$1bn), and a Mobility, and a Mobility business that SPGI integrated into their enterprise. SPGI set revenue and cost synergy targets of $350mm and $600mm, respectively. As of 3Q23, SPGI has realized $588mm of the cost synergies on a run-rate basis (on target to realize 100% by YE 2023), and $112mm of the revenue synergies. SPGI expected to reach the $350mm revenue target by 2026.

- 2022 was a "reset" year after the ratings business over-earned in 2020-21 due to pulled forward market issuances. In 2022, global issuances were down 24%, with high-yield down 77%. S&P ratings revenue was down 26% and adj. operating profit (EBIT) margins compressed to 55.9%. Enterprise level revenue only decreased -4.4% as compared to -12.8% to Moody's. One of the many reasons I favor S&P over Moody's.
- S&P is now well positioned to capitalize on the upcoming refinancing wall. Global corporate maturities are expected to ramp in the coming years with speculative debt's share rising before reaching a peak in 2028

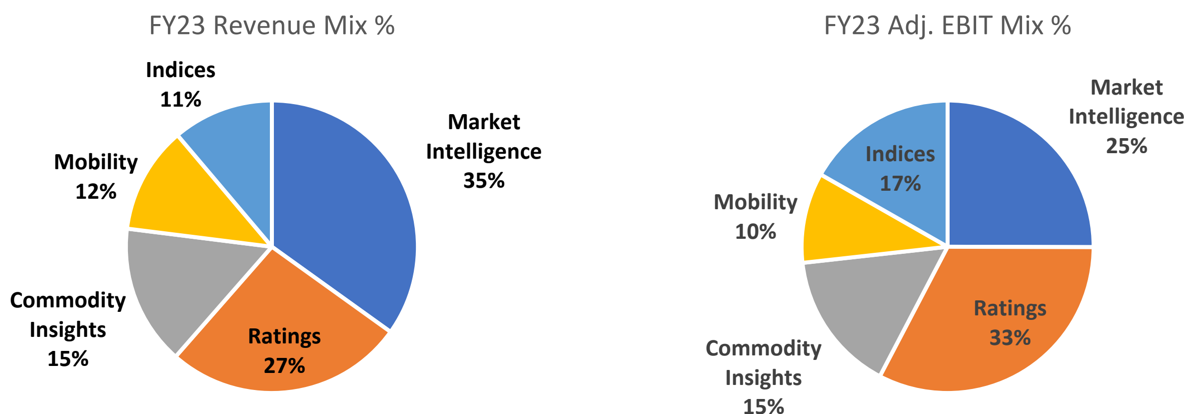
**Exhibit 1: Global nonfinancial corporate maturity walls (exceeds $2tr/yr once you include financial debt)**




Source: S&P Global Ratings Credit Research and Insights, Wells Fargo Securities, LLC

## Business Overview

**Exhibit 2: Revenue and Adj. EBIT mix by line of business**



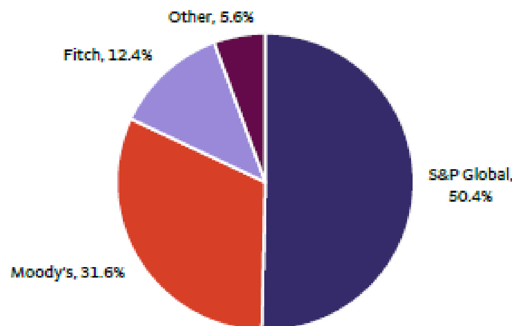

Ratings

- **2024-27E: 6-9% medium-term rev. growth target; 58-59% Adj. EBITA margin**
- Credit ratings industry can trace its roots to the 1800s but began the industry began to take its current shape in the 1900s with the establishment of Moody's, S&P, and Fitch (the big three). As the world got more globalized and interconnected, having scale was a form of competitive advantage. If you wanted to compare investment grade

corporate debt in Austria with Colombian companies, you needed a provider that housed every company and government data. There is no localized advantage. Thus, the industry has always been dominated by 2-3 players.

- Largest credit ratings agency in the world with roughly 50% market share, and 100% S&P legacy business. The ratings market is essentially a duopoly between S&P and Moody's (Fitch being a distant third). About 43% of Ratings' business is transactional, which is cyclical and based on global market issuances. The other 57% are annual fees for surveillance and frequent issuances, royalties from Market Intelligence selling ratings data to financial end-users, and from CRISIL (subsidiary that is the largest ratings agency in India).
- Strong network effects as they have become the market standard for credit ratings (S&P and Moody's are the embedded language for risk). Investors trust S&P ratings which is evident by corporate debt carrying S&P ratings are given a lower cost of capital by 65bps on average, so corporations build long-lasting relationships with S&P. The industry also has strong regulatory barriers to entry.
- Growth drivers: Corporate maturity wall north of $2 trillion per year for the next 6 years; legislative tailwind for infrastructure and project financing; energy transition, which management estimates $3 trillion of new capital going into new energy sources.

**Exhibit 3: SPGI/MCO ratings duopoly with ~80% market share**




Source: 2023 OCR Staff Report, Wells Fargo Securities LLC
By Number of Outstanding Credit Ratings as of 12/31/21

**Exhibit 4: S&P's Ratings end-user mix**

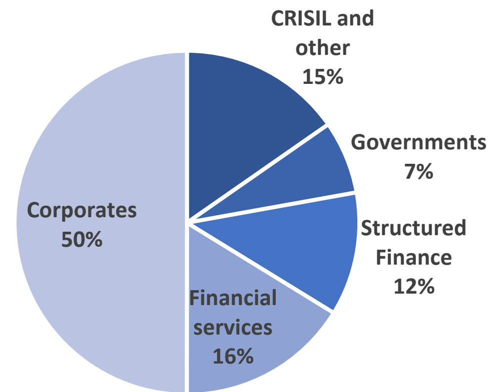



**Exhibit 5: S&P has been more consistently productive than MCO in revenue/ratings analyst since 2014**

| | FY10 | FY11 | FY12 | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 | FY21 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| MCO | 1.29 | 1.40 | 1.68 | 1.67 | 1.52 | 1.46 | 1.57 | 1.74 | 1.58 | 1.66 | 1.80 | 2.28 |
| SPGI | 1.26 | 1.25 | 1.42 | 1.55 | 1.79 | 1.67 | 1.65 | 1.89 | 1.85 | 1.99 | 2.31 | 2.60 |
| **SPGI Outperformance** | **-2%** | **-11%** | **-16%** | **-7%** | **17%** | **15%** | **5%** | **9%** | **17%** | **20%** | **28%** | **14%** |

Source: Company data, Wells Fargo Securities LLC

Market Intelligence (MI)

- **2024-27E: 7-9% medium-term rev. growth target; 35-37% Adj. EBITA margin**
- 50/50 legacy S&P and IHS (post-merger) and became the largest revenue segment since Ratings' pullback in 2022. MI is comprised of the Desktop platform (CapIQ), Data Solutions, Enterprise Solutions, and Credit & Risk Solutions. MI follows

a bespoke pricing model (price-to-value) in which they determine fees per user based on size and usage of the client. Sticky revenue (+84% recurring).

- Desktop—market leader in terms of market share for IB, investment management, and risk management with over 300,000 users. Grows in the LSD and low customer churn. More than two-thirds of revenue growth is derived from selling to existing clients (upsell, price increases), and the remaining third is capturing new market share.
- Data Solutions—SPGI's granularity of their data feeds is where MI's competitive advantage lies. MI has an elegant way of providing access to their data feeds, which is through XpressFeed. Some examples of their data feeds provided are SNL (financial sector) and Panjiva (shipping data). What the data feeds product provides end users with is point-in-time data. For example, on SPGI's earnings day, they release their financials and earnings call presentation. SPGI's stock price will move based on those financials and earnings call. Later, SPGI may restate their financials. When you log into a terminal and search SPGI's financials, you'll see the restated financials. What point-in-time data provides is the non-restated financials and the restated financials, which allows your models to analyze the actual earnings that moved the stock price that day. This is important for quant funds when they perform backtesting for their models.
- Enterprise Solutions—largest subsegment acquired from IHS. +$1bn in annual revenue as of 2022. Primarily software and workflow solutions with brands such as Wall Street Office (WSO), Enterprise Data Manager, and iLevel.
- Credit & Risk Solutions—commercial arm that sells S&P's credit ratings data, which includes subscription-based offerings RatingsDirect and RatingsXpress.
- Growth drivers: The industry is moving towards consumption of large data feeds versus consumption of data via a terminal. Increased demand for granular level data. which S&P expects double-digit growth in data feeds such as iLevel and Panjiva that provide data in shipping, supply chain, and sustainability.

Commodity Insights (CI)

- **2024-27E: 7-9% medium-term rev. growth target; 48-50% Adj. EBITA margin**
- Formerly, this segment was called Platts until the acquisition of IHS. Historically, Platts was a pricing benchmark business. SPGI began to expand into analytics (e.g., forecasting forward curve using bottoms-up data in its possession) to complement its benchmarks business.
- ~90% of revenue is subscription-based. The segment's dominant market product is ownership of its date Brent benchmarks, which is used broadly across the Brent complex for physical spot prices and other analytics use. CI also provides price assessments and analytics for a broad set of commodities, plus upstream data analytics to E&P and refining companies.
- Given its heavy reliance on Brent, SPGI has started to pivot to what they call climate-related and energy transition products. SPGI has the breadth and granular data to have a competitive advantage based on what they know about their customers already. S&P expects this top line to have a +20% CAGR over the next three years. This unit falls under the broader ESG business that SPGI has branded as Sustainable One.
- Growth drivers: Energy transition and climate-related benchmarks

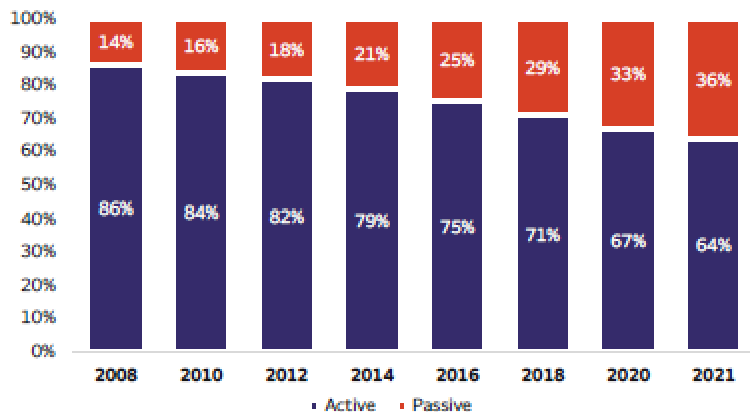
Mobility

- **2024-27E: 7-9% medium-term rev. growth target; 41-43% Adj. EBITA margin**
- 100% IHS business. Primarily a subscription-based (77% of 2022 revenue) and a US-based business (82% of revenue). Mobility serves the full auto value chain including vehicle OEMs. The bulk of the revenue comes from selling to dealers (58% of revenue)
- Part of the Mobility portfolio is CARFAX. SPGI is betting that the trend of consumers purchasing cars online will continue to grow. They conducted a survey that resulted in 80% of consumers considering purchasing their next vehicle online (this is vs 40% pre-pandemic).
- Growth drivers: Electrification of ~50% of all new vehicles globally by 2030. 50% of all components and tech sourcing will change in an EV vs traditional car, which is +$300bn of incremental annual vehicle component costs in 2030 vs 2020. Manufacturers comprise 25% of revenue.

Indices

- **2024-27E: 7-10% medium-term rev. growth target; 67-70% Adj. EBITA margin**
- SPGI's "crown jewel." Very scalable and strong portfolio of brands (S&P 500, The Dow, VIX, iBoxx, CDX, iTraxx), which provide SPGI with strong network effects. Once you have an established indices business, particularly in equities, it's difficult to replace you. As your index grows in relevance (benchmark for managers), more capital is tied to the index, the more flows your indices receive, and thus the more liquid they become which increases trading volume and the revenue from the derivatives business.
- Given the size of the business and a +10% annual revenue growth target, their growth will primarily come from flows into existing products and less from product development because of simple unit economics. If SPGI launches a successful ETF with a 3bps fee and raise $1bn AUM, that's $300,000 of revenue. I believe this is achievable given that there is high growth in subsegments such as thematic, sustainability, etc. However, there are no established player yet in those nascent subsegments, so competition is higher. The path of least resistance will be from flowing into existing products, the increased trading volume that comes with, and more derivatives trading (less predictable, and somewhat counter cyclical).
- The indices business has grown during bull markets due to AUM growth and grows during bear markets due to higher trading volume and higher derivatives trading.
- Two-thirds of the business is asset-linked fees (tied to AUM growth). Strong tailwinds from the active to passive management trend and from their acquired fixed income portfolio brands from IHS. SPGI expects ETF AUM growth to double by 2026
- Growth drivers: Continued trend into passive vs. active investing, and fixed income ETF is expected to grow 15% CAGR by 2030. However, fixed income business is a lower margin business.

**Exhibit 6: the shift of global investable assets from active to passive is still in the early stages**




- 2023 revenue expected to grow only in LSD due to the lagged nature of asset-linked fees tracking underlying asset prices. Indices can be a 7-10% grower in 2024-26E with high margins (+69% Adj. EBITA margins).

**<u>Management Assessment</u>**

- Doug Peterson became CEO in 2013, **SPGI stock has appreciated 485% and they've returned via dividends and share buybacks $28.5bn; a 555% 10-year return or 20% IRR since Q3 2013.**

**Exhibit 8: SPGI's total returns versus MCO and S&P 500 since Doug Peterson took over as CEO**

Range 11/01/2013 - 04/25/2024 Period Daily No. of Period 3828 Day(s) Table

| | Security | Currency | Price Change | Total Return | Difference | Annual Eq |
|---|---|---|---|---|---|---|
| 1) | SPGI US Equity | USD | 484.55% | 554.56% | 63.78% | 19.62% |
| 2) | MCO US Equity | USD | 427.01% | 490.79% | -- | 18.46% |
| 3) | SPX Index | USD | 186.58% | 248.31% | -242.48% | 12.64% |
| 4) | | | | | | |
| 5) | | | | | | |
| 6) | | | | | | |



- Management has positioned SPGI to capture growth in major trends: private assets, energy transition, active to passive investing wave, and looming corporate maturity wall.
- Disciplined expense management and clear capital allocation policy: return 85% of incremental FCF to shareholders via dividends and share buybacks, and 15% retained for potential M&A opportunities.
- Has generated excess returns (ROIC – WACC) until 2022 when they executed the IHS acquisition. I believe management will return to generating excess returns.

**ROIC analysis**

| ROIC Calc | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| (YE: Dec-31) | 2014A | 2015A | 2016A | 2017A | 2018A | 2019A | 2020A | 2021A | 2022A | 2023A |
| NOPAT | 1,216 | 1,502 | 1,702 | 2,075 | 2,420 | 2,659 | 3,135 | 3,607 | 4,285 | 4,638 |
| Avg. Invested Capital | 1,690 | 3,881 | 4,058 | 4,050 | 4,531 | 4,502 | 4,604 | 5,385 | 30,053 | 46,843 |
| Avg. Goodwill | 1,398 | 2,135 | 2,916 | 2,969 | 3,262 | 3,555 | 3,655 | 3,621 | 19,026 | 34,698 |
| ROIC | *39.4%* | *25.0%* | *24.4%* | *29.6%* | *31.1%* | *33.0%* | *38.0%* | *40.1%* | *8.7%* | *5.7%* |
| ROIC (ex-goodwill) | *72.0%* | *38.7%* | *41.9%* | *51.2%* | *53.4%* | *59.1%* | *68.1%* | *67.0%* | *14.3%* | *9.9%* |
| WACC | *10.0%* | *9.4%* | *8.8%* | *9.1%* | *9.9%* | *7.6%* | *8.1%* | *9.7%* | *8.4%* | *11.1%* |
| **Excess returns** | ***29.4%*** | ***15.6%*** | ***15.6%*** | ***20.4%*** | ***21.1%*** | ***25.4%*** | ***29.8%*** | ***30.4%*** | ***0.3%*** | ***(5.4%)*** |

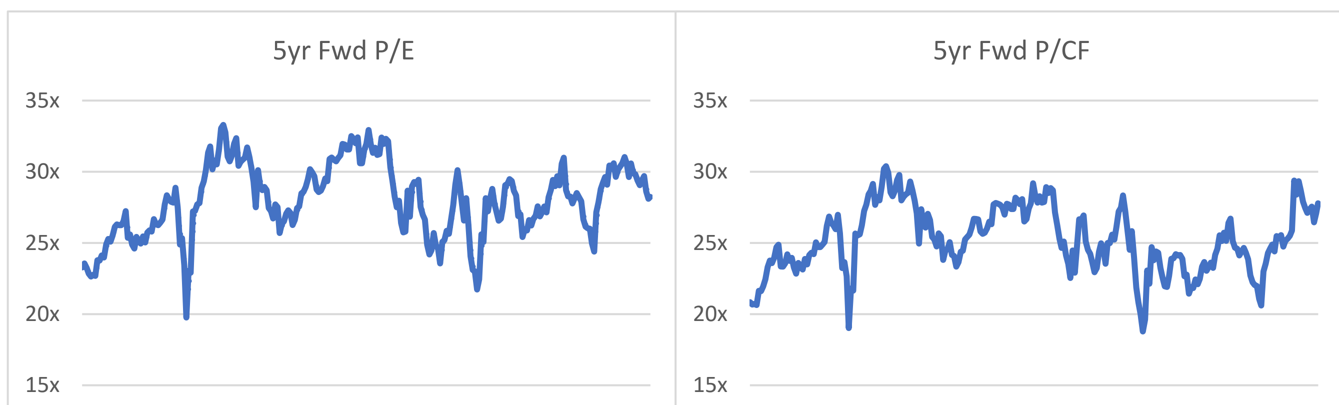
**Thesis**

1. SPGI has a strong portfolio of brands with strong network effects, regulatory barriers to entry, and high margin businesses growing topline in the mid-to-high single digits. Management is returning +85% of FCF to investors via dividends and share buybacks, while maintaining 2.0-2.5x leverage. The story is relatively clean, and FCF/share should grow in the low to mid-teens 2023-26.
2. Credible management team that has already delivered on cost synergies ($600m run rate), and revenue synergies on pace for 2026 target ($184m run rate vs $350m 2026 target)
3. "Golden era" for fixed income—SPGI is best position post-IHS merger to capture the structural and cyclical growth in the demand in fixed income investment solutions, benchmark indices, its use of FI workflows, and cyclical recovery in credit issuance.
4. Energy transition to renewables which management estimates will bring $3tr of new capital into new energy sources—2026E estimated revenue of $800m, 2023-26E CAGR of ~34%
5. Growth in private credit—2026E estimated revenue of $600m, 2023-26E CAGR of ~12%

**Valuation**

- SPGI shares currently trade at 22.6x 2024E EBITDA. My PT $604 is based on 23.0x of 2026E EBITDA, which is in line with SPGI's five-year average and the average of SPGI's comp set today.
- Using base case assumptions, and Indices growing MSD rather than double-digit as how management expects, SPGI trades at 19x and 21x 26E EBITDA and 21x 26E EPS, respectively.
- My model assumes that Net Debt / EBITDA falls below 2x in 2024-2027E. Management has a target of 2x, so leverage can be a added boost to FCF if management adheres to maintaining the multiple above 2x Net Debt / EBITDA.
- SPGI should see margin expansion across their divisions as more than 63% of their revenue is from fixed subscriptions and asset-linked fees from their indices, which from 2018 has a +18% CAGR ($3.3tr AUM at end of

FY23). Revenue growth will mostly come from data feeds, analytics, and AUM growth which are high margin businesses.




| PF Segment Level Forecast | | | | | | |
|---|---|---|---|---|---|---|
| **(YE: Dec-31)** | **2022A** | **2023A** | **2024E** | **2025E** | **2026E** | **2027E** |
| **Revenue** | | | | | | |
| Market Intelligence (MI) | 4,093 | 4,376 | 4,682 | 5,021 | 5,419 | 5,849 |
| *CC growth %* | *5.2%* | *6.9%* | *7.0%* | *7.3%* | *7.9%* | *7.9%* |
| Ratings | 3,050 | 3,332 | 3,780 | 4,106 | 4,423 | 4,767 |
| *CC growth %* | *(25.6%)* | *9.2%* | *13.5%* | *8.6%* | *7.7%* | *7.8%* |
| Commodity Insights (CI) | 1,776 | 1,946 | 2,129 | 2,283 | 2,448 | 2,624 |
| *CC growth %* | *6.3%* | *9.6%* | *9.4%* | *7.2%* | *7.2%* | *7.2%* |
| Mobility | 1,351 | 1,484 | 1,609 | 1,734 | 1,864 | 2,004 |
| *CC growth %* | *8.4%* | *9.8%* | *8.4%* | *7.8%* | *7.5%* | *7.5%* |
| Indices | 1,355 | 1,403 | 1,554 | 1,667 | 1,792 | 1,927 |
| *CC growth %* | *8.1%* | *3.5%* | *10.7%* | *7.3%* | *7.5%* | *7.5%* |
| **Total Enterprise Revenue** | **11,625** | **12,541** | **13,753** | **14,810** | **15,946** | **17,173** |
| *CC growth %* | *(4.4%)* | *5.5%* | *8.7%* | *8.0%* | *7.7%* | *7.7%* |
| | | | | | | |
| **Adj. EBIT** | | | | | | |
| Market Intelligence (MI) | 1,302 | 1,444 | 1,566 | 1,762 | 2,010 | 2,229 |
| *Margin %* | *31.8%* | *33.0%* | *33.4%* | *35.1%* | *37.1%* | *38.1%* |
| Ratings | 1,705 | 1,882 | 2,206 | 2,433 | 2,643 | 2,873 |
| *Margin %* | *55.9%* | *56.5%* | *58.4%* | *59.3%* | *59.8%* | *60.3%* |
| Commodity Insights (CI) | 787 | 897 | 993 | 1,065 | 1,166 | 1,277 |
| *Margin %* | *44.3%* | *46.1%* | *46.6%* | *46.6%* | *47.6%* | *48.6%* |
| Mobility | 527 | 576 | 629 | 687 | 757 | 844 |
| *Margin %* | *39.0%* | *38.8%* | *39.1%* | *39.6%* | *40.6%* | *42.1%* |
| Indices | 927 | 967 | 1,081 | 1,159 | 1,246 | 1,340 |
| *Margin %* | *68.4%* | *68.9%* | *69.6%* | *69.6%* | *69.6%* | *69.6%* |
| **Total Segment Adj. EBIT** | **5,248** | **5,766** | **6,475** | **7,106** | **7,823** | **8,563** |
| *Margin %* | *45.1%* | *46.0%* | *47.1%* | *48.0%* | *49.1%* | *49.9%* |
| *y/y change in margin (bps)* | | *83.3* | *110.2* | *90.4* | *107.9* | *80.0* |

| | | | | | | |
|---|---|---|---|---|---|---|
| Enterprise Adj. EBITDA | 5,270 | 5,720 | 6,431 | 7,024 | 7,710 | 8,415 |
| **FCF** | 3,248 | 3,504 | 4,520 | 5,012 | 5,539 | 6,078 |
| *Yield %* | *2.5%* | *2.7%* | *3.4%* | *3.8%* | *4.2%* | *4.6%* |
| Adj. Diluted EPS | 11.19 | 12.60 | 15.69 | 18.76 | 19.67 | 22.40 |
| *EPS growth %* | | *12.6%* | *24.5%* | *19.6%* | *4.9%* | *13.9%* |
| **Exit Analysis** | | | | | **2026E** | |
| Target EV/EBITDA multiple | | | | | 23.0x | |
| Implied EV | | | | | 193,546 | |
| Equity Value | | | | | 180,079 | |
| Target Price | | | | | 604.34 | |
| Upside | | | | | 45.4% | |
| IRR | | | | | 15.1% | |

**EPV analysis:** SPGI's earnings power only accounts for 33% of its enterprise value

| **Earnings Power Value (EPV)** | | |
|---|---|---|
| Income statement | FY2023 | |
| Revenue | 12,497 | |
| GAAP OPM | *45.9%* | |
| 2013-23 Avg. OPM | 41.9% | |
| Sustainable OPM | *45.9%* | |
| Maintenance capex | 0 | *No infrastructure to maintain. All capex is allocated for growth* |
| Sustainable EBIT | 5,732 | |
| Tax Rate | *21.5%* | |
| **NOP = earnings power** | **4,500** | |
| Cost of Equity | *10.0%* | |
| Equity weight | *91.7%* | |
| Cost of debt | *4.6%* | |
| After-tax cost of debt | *3.6%* | |
| Debt weight | *8.3%* | |
| WACC | *9.5%* | |
| **EPV** | **47,529** | |
| Enterprise Value | 145,440 | |
| Embedded growth for franchise | 97,911 | |

**Capital allocation policy:** 85% of FCF is returned to shareholders via dividends and share buybacks. Assuming a 10% price increase per annum, is a 3-4% yield enhancement to the investment's IRR.

| **Capital Allocation** | | **2024E** | **2025E** | **2026E** | **2027E** |
|---|---|---|---|---|---|
| **FCF** | | 4,520 | 5,012 | 5,539 | 6,078 |
| Dividends (25% of FCF) | | 1,130 | 1,253 | 1,385 | 1,520 |
| Share Buybacks (60% of FCF) | | 2,712 | 3,007 | 3,323 | 3,647 |
| Capital return yield % | | *2.9%* | *3.2%* | *3.6%* | *3.9%* |
| Cumulative excess cash | | 678 | 1,430 | 2,261 | 3,172 |
| **Share count analysis** | | | | | |
| FDS | 315.9 | 310.0 | 304.0 | 298.0 | 292.0 |
| Expected repurchase price | 415.5 | 457.1 | 502.8 | 553.0 | 608.3 |

**Comps Analysis**

| Company Comp Set | | | | |
|---|---|---|---|---|
| Company Name | NTM TEV/Revenue | NTM TEV/EBITDA | NTM Forward P/E | PEG (FY+1) |
| Morningstar, Inc. (NasdaqGS:MORN) | 5.6x | 23.0x | 43.1x | NM |
| FactSet Research Systems Inc. (NYSE:FDS) | 7.6x | 19.4x | 25.5x | 2.6x |
| Moody's Corporation (NYSE:MCO) | 11.3x | 24.9x | 34.9x | 2.5x |
| Nasdaq, Inc. (NasdaqGS:NDAQ) | 9.6x | 16.9x | 21.6x | 2.7x |
| Intercontinental Exchange, Inc. (NYSE:ICE) | 10.6x | 16.5x | 22.0x | 2.1x |
| CME Group Inc. (NasdaqGS:CME) | 13.1x | 18.8x | 21.7x | 5.3x |
| MSCI Inc. (NYSE:MSCI) | 14.2x | 23.7x | 30.9x | 2.6x |
| | | | | |
| **S&P Global Inc. (NYSE:SPGI)** | **10.7x** | **22.6x** | **26.5x** | **1.1x** |
| | | | | |
| Summary Statistics | NTM TEV/Revenue | NTM TEV/EBITDA | NTM Forward P/E | PEG (FY+1) |
| High | 14.2x | 24.9x | 43.1x | 5.3x |
| Low | 5.6x | 16.5x | 21.6x | 2.1x |
| Mean | 10.3x | 20.5x | 28.5x | 3.0x |
| Median | 10.6x | 19.4x | 25.5x | 2.6x |
| | | | | |
| SPGI Premium(Discount) to comp set (based on mean) | 4.0% | 10.5% | (7.1%) | (63.4%) |

*Source: CapIQ*

## Pre-Mortem: how do you lose?

- Macroeconomics shocks is the obvious one. We saw what a year like 2022 did to market issuances. We can model 2022 as a bear case. Ratings business shrunk 25%. However, Ratings was able to maintain a 55% operating profit margin, which shows management will act in a market downturn.
- Indices business starts growing at a much slower rate and thus margins start compressing because the business has been hiring a lot of bodies to grow products.
- The looming corporate maturity wall starts shifting towards private lenders, which it is unclear if the private credit solutions of the Ratings business have the same unit economics as the current public surveillance and billed issuance business.
- Management decides that Mobility business is not part of their core business, and they sell the business, which lowers their growth outlook being that it's their fastest growing business segment.

## VAR Interviews

| Title | Summary / Takeaways |
|---|---|
| Former CEO at S&P Global Indices | ▪ Discussed competitive landscape and revenue differences between SPGI and MSCI and confirmed MSCI's dominance in ESG data and attributing MSCI's higher EBITDA margins to data-focused revenue mix.<br>▪ BlackRock is the biggest issuer of ETFs around ESG and MSCI is their go-to provider and thus that falls deftly to MSCI<br>▪ S&P's indices has an expense problem (gross margins peaked at 70% and have compressed 100bps y/y). They've been hiring a lot of people. Draper, who replaced my contact, has a management philosophy that hiring more people in the commercial side will translate to revenue growth in the near term. That is wrong, the time to market is long especially when S&P is product-focused. |

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| | ▪ They're creating a lot of smaller ETF products, which when revenue is linked to asset-based fees won't move the needle.<br>▪ Revenue growth should have been higher the last two quarters based on AUM, but it was not. I think this signaled that they renegotiated some agreements with their larger customers (BlackRock, State Street, Vanguard) in terms of asset-based fees.<br>▪ Indices is going to finish 2023 with a LSD revenue growth figure and management expects it to get back to +10% between 2024-2026. That implies a big move in equity markets. Indices is a $1.3bn revenue business, and a 10% move implies $130 million in growth. Two-thirds of the business is asset-linked fees. That requires a major increase in AUM or a shift to ETFs with higher fees.<br>▪ Indices has a 30% expense base, ½ of that is people, ¼ is corporate cost of rent, HR, corporate allocations, etc., and the remaining ¼ is everything else (which sounds variable to me)<br>▪ The U.S. market is entering the mature phase of growth. Growth will heavily be indexed going forward to geographic expansion into Europe and Asia.<br>▪ Removing price increases/decreases, Indices revenue should move in line with US equity markets. Until they gain significant share in international markets<br>▪ 70% gross margin should be the aspirational peak in this business. If you aim higher, you start clipping coupons. As margins expand, you have less maneuverability in the future. Management never wants to see margins go backwards |
| Former ESG Manager at S&P Global, ESG Innovation & Analytics | ▪ One of S&P's growth levers is the sustainability and energy transition theme, which S&P believes will be $600mm by 2026. They aggregate all revenue from all the business segments together and call it Sustainable1.<br>▪ This former manager in S&P's ESG and climate-related initiatives believes the $600m target is realistic given the size of the addressable market.<br>▪ Close to 40-50% of Sustainable1 revenue is derived from Market Intelligence, so it's mostly data-related. Then in terms of percentage contribution would be Ratings (10-20%), and then Indices (10-20%) with all of their ESG-oriented indices and licensing.<br>▪ Largest customer for Market Intelligence when it comes to ESG is State Street.<br>▪ In terms of ESG metrics and data, MSCI is the leader with about 60% market share, and that is progressively being eaten. MSCI was first mover.<br>▪ ESG market is super saturated.<br>▪ In the Ratings business, S&P is far ahead of Moody's and Fitch. It's a tough market to get because it's heavily regulated. Companies don't see the value in paying in addition to their ratings for an ESG rating. Does not move the needle. Moody's has acquired a ton of other ESG and climate-related businesses, and they're doing this angle around insurance. Their ESG predictor scores are primarily for private businesses.<br>▪ On the data sources, are they proprietary to S&P? Not quite. S&P scrapes public sources for their data. They collect it in a manual fashion. They use natural language processing programs (NLPs) and ML to collate and aggregate the data in a digestible manner. That's what they monetize. Now the data could have missing components, so that's where their proprietary tech can model the missing pieces. S&P then provides analytics on top of the data.<br>▪ Private company data is extremely hard to source and acquire. Mostly gotten through surveys, but this data is highly sought after by private equity now. |

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|---|---|
| Former Senior DevOps Engineer at S&P Global | ▪ S&P has a strategy to modernize their desktop product, which lags behind their main competitor, FactSet, in modernity of user interface.<br>▪ Kensho was an AI-related acquisition in 2018 which management is very excited about to deploy into different use-cases from web scraping for data to analytics.<br>▪ All raw data that customers buy from S&P is viewed through XpressFeed. Customers can access it through APIs or the desktop solution.<br>▪ Market Intelligence has a bespoke pricing model which is based on a per-seat count rather than by enterprise. They charge by size and usage.<br>▪ Desktop grows in the LSD, close to 4% on average, with 3-3.5% of that growth coming from price escalations embedded into customer agreements. That means organic growth is close to 0.5%.<br>▪ Data feeds are the double-digit grower in Market Intelligence. As the revenue mix shifts more towards data feeds, this will be a higher growing business.<br>▪ There is not much turnover in the desktop business. Bloomberg is the gold standard in this segment, but it's not truly S&P's competitor. Refinitiv and FactSet are primary competitors. |