Company Overview:
S&P Global Ratings is a division of S&P Global. The ratings business comprised about 51% of S&P Global's 2022 revenue and 53% of its operating profit. Other businesses include: S&P Market Intelligence, which includes the legacy Capital IQ and SNL businesses as well as credit-related data (29% of revenue), S&P Platts (11% of revenue), and S&P Dow Jones Indices (14% of revenue).

Name	Ticker	Yield	Growth	D + G
S&P Global, Inc.	SPGI	0.99%	11.00%	11.99%

Highlights: We like SPGI's portfolio a lot and expect strong multi-year and long-term growth, including revenue +MSD-HSD organically in most years with relatively low downside risk and very low structural risks; current '23 estimates assume relatively depressed issuance market, yet the company's margins remain very high, efficiently managed, and very capital efficient. SPGI continues to repurchase shares, alongside a dividend. Lastly, the balance sheet is in excellent condition.

Bull Case:

- ***Exceptionally High-Quality Portfolio of Businesses*** - We consider SPGI a portfolio of information solutions businesses. Its businesses provide high-value to "must have" solutions for clients, we believe the value-add/use cases it supports are enduring, and it faces limited competition with high barriers to entry. Consequently, some of its businesses have pricing power, and we believe they are well positioned to grow through innovation, in adjacent markets, and/or aided by secular end market growth. It also benefits from scale both in its individual businesses and collectively.
- ***Diversified Portfolio and Growth Drivers including Pockets of Pricing Power Should Yield Fairly Consistent Organic Revenue Growth*** – SPGI has broad growth drivers that will create financial results that look like a growing annuity. It provides highly important and high value solutions with diversified growth drivers including pockets of pricing power, cross-selling opportunities, innovation and several favorable secular end market trends that should yield consistent good organic revenue growth. Diversified growth drivers, end market/product diversification, and relatively high subscription and re-occurring transactional revenue should also yield modest YoY variance in its revenue growth rate.
- ***Multiple Margin Expansion Levers -*** Given the importance of its solutions, competitive position and barriers to entry, and scale and productivity, SPGI generates sustainable/expandable high margins on a consolidated basis, with high margins across each of its businesses. It has had best-in-class margin expansion, totaling 1280bps from 2015 to 2020. Both companies appeared positioned for stand-alone margin expansion (aided by productivity programs), and the merger is expected to yield solid expense synergies and amplify scale benefits (and SPGI may be able to replicate some of its prior productivity programs at INFO). Hence, significant margin expansion potential post-deal from an excellent level should be harvested by a management team with a best-in-class margin expansion track record.

Bear Case:

- ***Decrease in Debt Issuance*** - Given ~46% of SPGIs revenue and ~51% of adjusted operating income is generated by the ratings business, the company is highly levered to a number of macroeconomic factors including credit spreads, interest rates and overall market disruptions and economic slowdowns. Unfavorable market dynamics have in the past negatively impacts the volume of debt securities which negatively affected S&P's operating metrics, as a result. If debt issuances witness a decline, it could negatively impact SPGI's business.
- ***Dependence on Acquisitions to Grow -*** From the standpoint of S&P management, the firm's organic outlook may have been the catalyst for the recent Infosys deal. Arguably we're coming to the end of a multi-year bull market for bond issuance with the specter of a more aggressive regulatory regime, and much of the low-hanging fruit in terms of margin expansion has been achieved over the last few years. That's not to say that S&P's standalone outlook was poor, but that it may be harder to generate double-digit EPS growth over the next five years as it was the past five years.
- ***Regulatory Scrutiny Could Lead to Litigation -*** S&P has been a highly regulated company for many years and has faced a number of class action lawsuits and other litigations as well as government investigations and inquiries specifically about events linked to the US subprime residential mortgage sector deterioration in the credit markets in 2007-2008. Exposure to litigation, government and regulatory proceeds related specifically to S&P's ratings business would impose additional time and expenses.

Overview: We look favorably upon SPGI's long-term prospects. Even though SPGI is widely known as one of the largest rating agencies in the world, the non-rating agency businesses actually generates over 50% of revenue. SPGI is much more than a rating agency; in our view, the company strives to become a benchmark business. Other than enjoying the secular tailwinds, including rising corporate debt, ESG, the data explosion and active-to passive investing, SPGI also has strong fundamentals including oligopolistic positions in many areas, a scalable platform and shareholder-friendly capital return policies to support its current valuation.

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