

S&P Global: A Collection of Great Businesses

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S&P is best known for its credit ratings business. Credit ratings denote a company's financial strength through assessing its ability to meet its debt commitments. Together with Moody's, S&P is a government sanctioned duopoly with each company controlling 40% of the market for credit ratings. The credit ratings business is attractive with strong pricing power, recurring revenues, and high margins. Pricing power comes not just from a lack of competition, but from the favorable economics created by credit affirmation. Companies with credit ratings can raise capital more cheaply than those without. Further, regulations governing deposit and capital requirements for financial institutions often feature restrictions on the credit worthiness of investment holdings. Similarly, many investment funds are structured to only invest in certain categories of debt. Thus, not only is it more economical to obtain a credit rating, it is pragmatic as well.

There are a number of earnings drivers for the credit ratings business over the next five years, providing a favorable environment for growth. Debt maturity schedules indicate that over \$2 trillion a year in debt will need to be refinanced on an annual basis over the next five years. Second, increased capital requirements on behalf of European banks has attenuated bank loan issuance. As a result, European corporate issuers of debt have been increasingly utilizing public debt markets, increasing demand for debt ratings. With low interest rates and increased regulation, we expect the disintermediation of European banks to continue. Third, emerging markets continue to represent a compelling opportunity for increased debt issuance on the part of domestic corporations as well as government borrowing. Last, public finance and infrastructure spending represent an attractive opportunity for growth. According to McKinsey, adequate global infrastructure would require \$57 trillion in spending to keep up with GDP growth through 2030.

Outside of the ratings business, S&P possesses a collection of excellent businesses including a dominant index franchise (S&P 500, Dow Jones), market data subscription services (Capital IQ), market intelligence (Platts), and commodity pricing (SNL Financial). Like its ratings business, S&P's non-ratings businesses are asset-light, highly scalable, feature recurring revenues and exhibit strong pricing power.

Like many of the businesses we are attracted to, S&P Global has significant future earnings growth in subsidiaries that are underappreciated by the market. Perhaps most promising is the company's 68% share of India's leading credit rating agency, CRISIL. Credit issuance in India is only in early innings leaving a multi-decade runway for growth. One of the ways we think of these types of businesses is as publicly traded "unicorns," which have not yet been discovered and are only in series A funding rounds.