Our Definition of FINTECH:

Manole Capital exclusively focuses on the emerging FINTECH industry. We do not have exposure to healthcare, energy, consumer staples, materials, utilities or consumer discretionary companies. All of our focus is on the FINTECH space.

We define FINTECH as "anything that utilizes technology to improve an established process." This is intentional broad, to capture any company that fits our unique definition. S&P Global is well over 150 years old and most investors would not categorize it as a FINTECH stock. Let us attempt to re-frame this argument…

History:

S&P dates back to 1860, as it claims its "legacy is built on finding and knowing the essential." In 1860, Henry Varnum Poor first published railroad industry insights and information for investors, in the form of a guidebook. Continuing the publication theme, in 1888, James McGraw purchase the American Journal of Railway Appliances, which was a publication that kept investors up-to-date with the latest railway industry news. In 1897, John Hill acquires the American Machinist publication, which was a magazine focused on the machinery industry.

In 1917, McGraw and Hill agree to merge their companies to form the dominant publishing business called McGraw-Hill Publishing Co. In 1923, Standard Statistics was established and it published investment opinions or "ratings" on corporate and municipal bonds, as well as sovereign debt. These ratings gave investors critical information to base their investment decisions upon.

In 1941, Standard Statistics merged with Poor's Publishing to form what we now know as Standard and Poor's Corporation. This combined entity became one of the pre-eminent financial services businesses, providing research and data on the entire equity and bond market. In 1957, the S&P 500 stock index was introduced as a broad measure of the equity markets. This later becomes the dominant US equity benchmark.

In 1966, the McGraw-Hill Company acquires Standard and Poor's, which combines under one roof - data, analytics, decision-making tools, information and important investor services. In 2016, after a series of acquisitions and divestitures, McGraw-Hill Financial is re-branded as S&P Global (ticker SPGI).

Strategy / Philosophy:

When we identify a wonderful business that meets our desired investment characteristics, we often own a company for a while. Our focus is to do in-depth fundamental research on strong, durable franchises. We believe that value is driven by time, not timing. While we cannot buy the entire company, but we invest as if we are "buying the business". A key component of our strategy, is that we are long-term investors and business buyers, not short-term traders.

Ideal Characteristics:

Our disciplined process seeks to identify growth businesses with key attributes. We have found that identifying companies with certain characteristics can lead to positive stock selection.

<u>The desired characteristics we look for in an investment are:</u>

- High barriers to entry and a "moat" around the franchise
- Market share leaders with durable competitive advantages
- Pricing power and flexibility to withstand market volatility
- Recurring revenues and sustainable business models
- Strong balance sheets with predictable free cash flow
- Excellent management teams properly allocating capital

Looking at each of these characteristics, we believe SPGI deserves a "positive check mark". Over the next few pages, we will attempt to prove our point. We continuously monitor our holdings, for any changes to their fundamentals or market positioning. A business will generate strong performance, with success in its industry and a company's valuation is determined by its long-term performance. Companies that execute well, will see their stock prices trend higher.

Performance:

As investors, we have owned SPGI for well over a decade, since it was inside of McGraw Hill. How has it performed for us? From our perspective, the best representation of the US equity market is the S&P 500 (SPX). Over the last decade, SPGI has generated a positive return. Last year it was the only year below double-digits, but the overall market was down over 4% last year. SPGI has materially outperformed the broader market and it has outperformed the SPX in 9 of the last 11 years. In those 2 years of underperformance (2010 and 2016), versus the SPX, it was only by a few percentage points.

	'09	'10	'11	'12	'13	'14	'15	'16	'17	'18	'19 YTD
SPGI	49%	12%	27%	30%	46%	15%	12%	11%	59%	1%	50%
S&P 500	26%	15%	2%	16%	32%	13%	1%	12%	22%	-4%	20%
Over / Under	+	-	+	+	+	+	+	-	+	+	+

As this chart shows, SPGI has been a wonderful investment for us. However, one needs to understand how SPGI is positioned today and how it will execute going forward, in order to still own it.

We constantly strive to own names that have a bright future and attempt to never own a name just because it has delivered in the past.
The last thing we would want to do is pay a lofty forward valuation, simply because of excellent prior performance.

Data & Information:

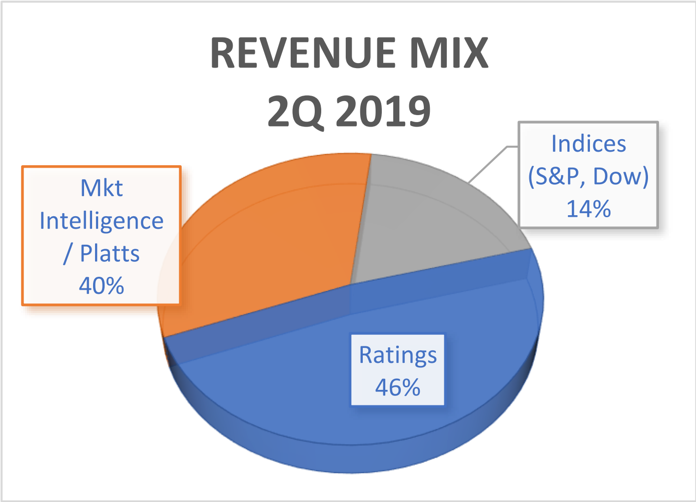
Not many businesses can trace their history back nearly 160 years, and even fewer can say that they are essentially in the same exact business. SPGI remains well-known for their ratings business, but it also has a dominant market index franchise. Just like their original franchise, SPGI remains a great resource of information. Today's investors can rely on SPGI for data, information and tools for improving their analysis and investment decision making.

In our opinion, SPGI is a vital took for investor decision-making, which places it in our "Data and Information" bucket. On our monthly tear sheets, we identify companies not just by sector (i.e. technology or financials, etc), but we also place businesses into distinct categories. A key area or component for us is "Data & Information", which represents 14% of total equity exposure, in our flagship FINTECH portfolio. We believe that this is a growing and emerging niche FINTECH business. In our perspective, SPGI is a "Data & Information" business and not necessary a traditional Financial company, as it is classified. Most Financials are banks and insurance companies, that take credit risk and have cyclical sensitivity. We are attracted to SPGI because it is a recurring revenue business and much more of a transaction processor, than typical Financial.

Want another example on how we differ in terms of traditional classifications? Both Visa and Mastercard are both classified as Technology stocks by GICS classification. Are they both tech companies because they can each handle 65,000 transactions per second? Are they financial companies because they help move money from point A to point Z? Are they consumer companies because they handle the authorization, clearing and settlement of transactions in over 200 countries and millions of merchants? Once again, we do not care about their GICS classification, as much as we care about their fundamentals for owning a growing business. We classify both as "Payment Networks" in our exposure parlance (see above) and try to differentiate our ownership more cleanly than just Technology.

Revenue & Profitability:

SPGI breaks down their business into a few different ways. On the income statement, it discloses their revenue and organic growth by ratings, indices and market intelligence. The market intelligence segment, includes the commodity information business of Platts. Each of these segments is growing nicely and management has guided to total revenue growth this year in the "mid-single digits".

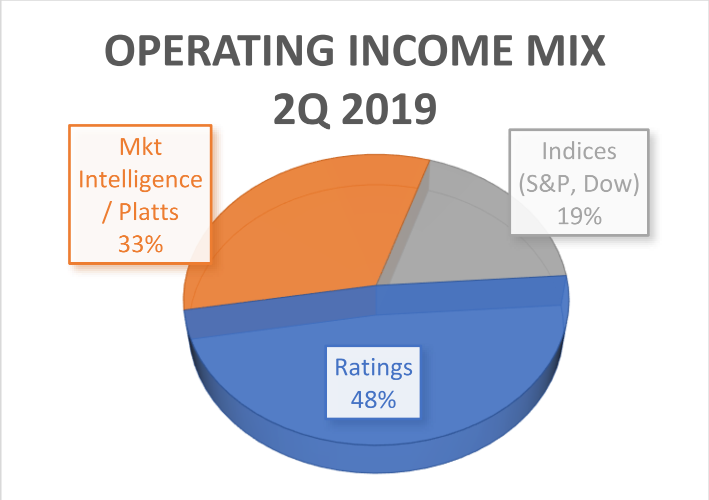


In addition, SPGI shows geographic revenue. The US represents roughly 60% of total revenue, while International markets are 40% of SPGI's mix. During the 2nd quarter of 2019, the US grew 6%, while International markets grew 5%.

In terms of ***Types*** of revenue:		Additional Commentary:
• **Non-Subscription or Transactional**	26%	*ratings on publicly-issued debt, bank loans, corp credit*
• **Non-Transaction**	20%	*annual fees for relationship-based pricing, surveillance*
• **Subscription**	41%	*credit ratings info, mkt intelligence, real-time data*
• **Asset-Linked Fees**	10%	*fees based on assets underlying ETF's, mutual funds, etc*
• **Sales Usage-Based Royalties**	3%	*trading based fees from exchange-traded derivatives*

Profitability:

Few businesses provide total transparency into their segments. While our preferred valuation is free cash flow, which we can easily calculate for SPGI, we also like to analyze their operating income margin. This is simply their adjusted operating income divided by their segmented revenue.



There are even fewer businesses that generate operating income margins as high as SPGI. For example, the ratings business generates a 58% operating margin, the market intelligence and Platts business is just shy of 40% and the indices segment is running at 69.8%.

Overall, SPGI has operating margins in the 51% range, which is quite impressive. Management believes it can keep and actually steadily improve these margins over time.

Capital:

Most traditional Financials (i.e. banks and insurance companies) have complicated and opaque balance sheets. SPGI has a great and easy-to-understand balance sheet. Cash sits at $1.9 billion, while long-term debt is $3.7 billion. Operating activities cash flow, for the first 6-months of 2019, was an impressive $1.0 billion and free cash flow was $905 million. For 2019, we expect SPGI to generate over $2.25 billion in free cash flow. With net debt of $1.7 billion, SPGI can easily handle these costs, with a gross debt to EBITDA of only 1.1x. On an annual basis, capital expenditures are only a modest $120 million.

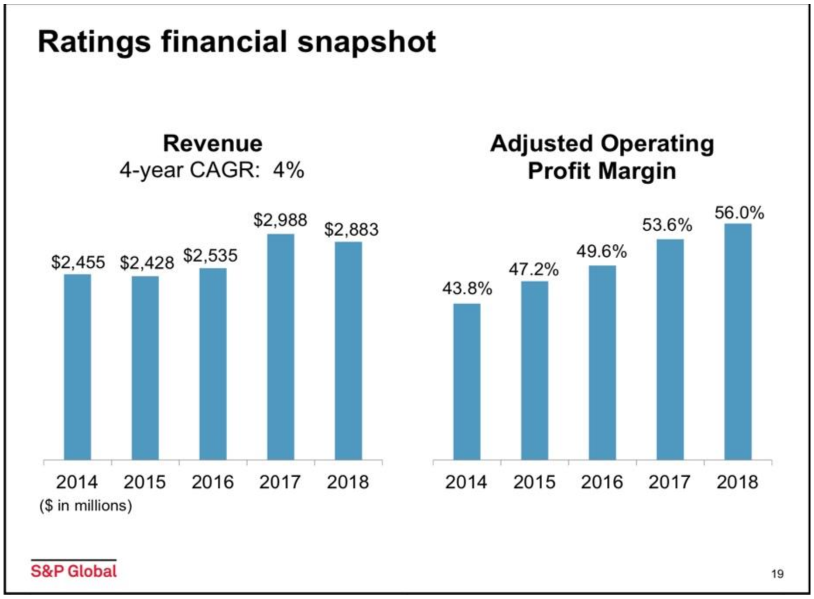
In addition to its great free cash flow generation, SPGI returns significant amounts of capital to its shareholders. During the 2nd quarter, SPGI returned $140 million in the form of a dividend, representing roughly a 1% dividend yield. Since 1974, SPGI has a CAGR of its dividend of nearly 10%. SPGI has paid a dividend in every year since 1937 and is one of only 25 companies to have increased its dividend over the last half century.

In addition to its steady dividend, SPGI completed an ASR (accelerated share repurchase) for $500 million, which was initiated in early February at much more attractive prices. Then, in late July, SPGI initiated another ASR program for another $500 million. The dividend and buybacks do not prevent SPGI from making acquisitions, but management clearly appreciates returning capital to its loyal shareholders.

Credit Ratings

When it comes to debt, credit ratings provide an essential "piece of the puzzle". Investors require a credit rating to help them determine the underlying risk in a fixed income security. Issuers (governments, corporations, municipalities, etc) can pay out significantly less in interest with a better rating from the agencies. These credit ratings essentially provide "the grease" allowing all types of entities to raise money in the capital markets. Investors rely on the generally well-respected and well-established ratings of the credit agencies analysis. This process of screening enhances the decision-making process, demonstrates creditworthiness and enhances transparency, which is what the capital markets are all about. Furthermore, this stimulates the growth and encourages potential market participants to invest.

During the 2nd quarter, Ratings grew 3% organically, but continued to post excellent operating margins of 58%, up 120 basis points YoY. As this chart shows, operating margins continue to chug higher.



The ratings segment still dominates the SPGI franchise, as it represents nearly half of its revenue and profits. Global debt and interest rates determine the underlying growth of the market. The infrastructure is in place for SPGI to sustain its high operating margins, with modest growth. In the next section, we will discuss the key components of this business and some of the potential catalysts.

Global Bond Issuance:

The key component of the ratings business is global bond issuance. For the ***US***, there was $558 billion issued during the 2nd quarter, which was down 4% YOY (year-over-year). This is comprised of Investment grade debt which increased 5%, high-yield debt which soared by 41% YoY, public finance which decreased 11% and structured finance which fell 19%.

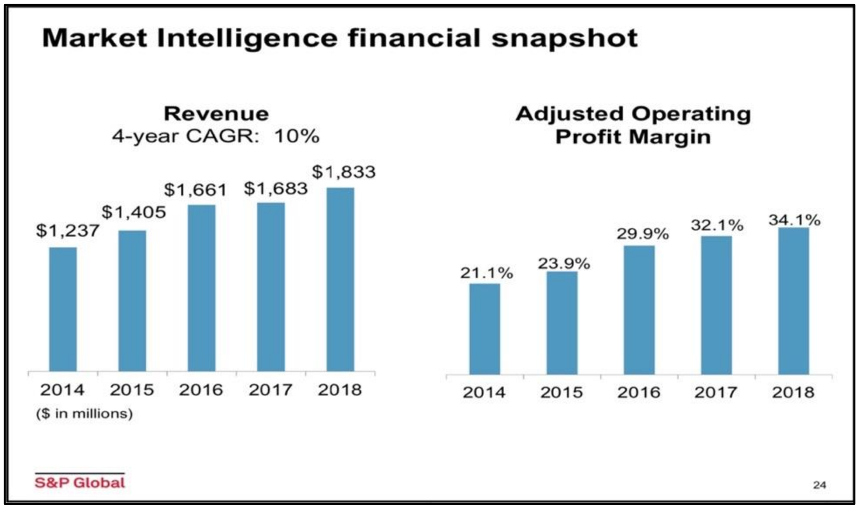
The US tax and repatriation law changes in 2017 have impacted debt issuance. The number of companies that have issued debt and the dollar value of those issuances have declined. However, with interest rates falling in the US this year, one might anticipate more companies coming to market over the next year or so. As our Fed becomes more dovish, one should expect less investor demand for leveraged loans. SPGI forecasts an increase of 1.4%, excluding international public issuance in 2019.

Europe, which issued $406 billion in the 2nd quarter, which was a decrease of 12% YoY. This is comprised of Investment grade debt which decreased 17%, high-yield debt which fell by 4% YoY, and structured finance which fell 1%. ***Asia*** showed good growth in the 2nd quarter and issued $483 billion, which was an increase of 10% YoY. This is comprised of Investment grade debt which increased 3%, high-yield debt which climbed by a whopping

59% YoY, and a near doubling of structured finance, up 98%. SPGI just published its inaugural credit ratings in domestic Chinese bond market. Over the next decade, we expect China and Asia to be a key growth segment for SPGI.

Market Intelligence:

The S&P Global Market Intelligence division provides multi-asset class data, research, cross-asset-analytics and desktop services. During the 2nd quarter, Market Intelligence grew organically by 8% and produced solid mid-30% operating margins. As the chart shows, operating margins continue to climb higher, closer to SPGIs company average.

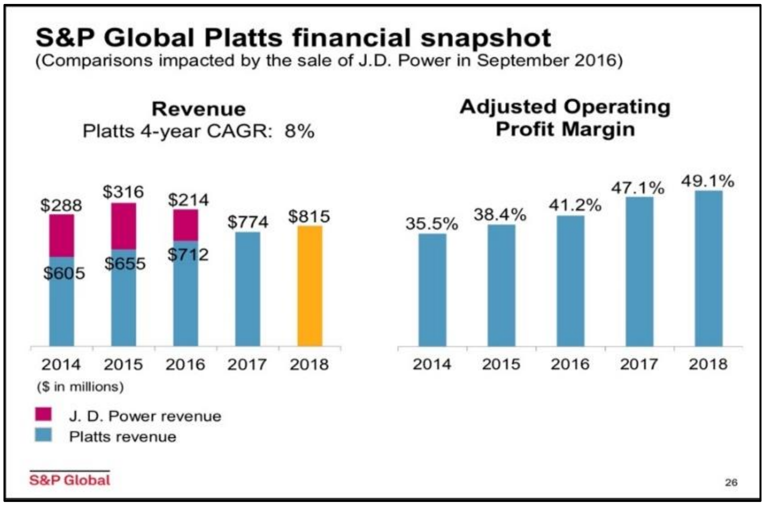


Over the last 5 years, SPGI has experienced excellent growth in *Data Management Solutions, Credit Risk Solutions, and Desktop Services.* With the acquisition of ***Panjiva***, an expert in global trade data and supply chain intelligence, we expect continued solid growth. ***RateWatch,*** that specializes in data and analytics for the banking sector, continues to generate solid growth.

During the 2nd quarter of 2019, revenue grew 8% and operating margins improved 180 basis points to 34%. While this is SPGIs lowest operating margin segment, we know of dozens and dozens of companies that would kill for those types of margins.

Platts:

Platts has over 100 years of experience and a significant presence in 190 countries. Platts focuses on commodities, specifically on the energy sector. It provides benchmark pricing, market insights and analytics for entities that need to understand fluctuating and volatile prices. Most of the revenue from this division is generated from subscription and licensing for derivative trading.



It breaks down energy into crude oil, natural gas, LNG (liquefied natural gas), electric power, coal, shipping, petrochemicals. Nearly 70% of this segments revenue is derived from petroleum products, which still continue to grow. In addition to energy, Platts provides valuable commodity information on various precious metals and agriculture products.

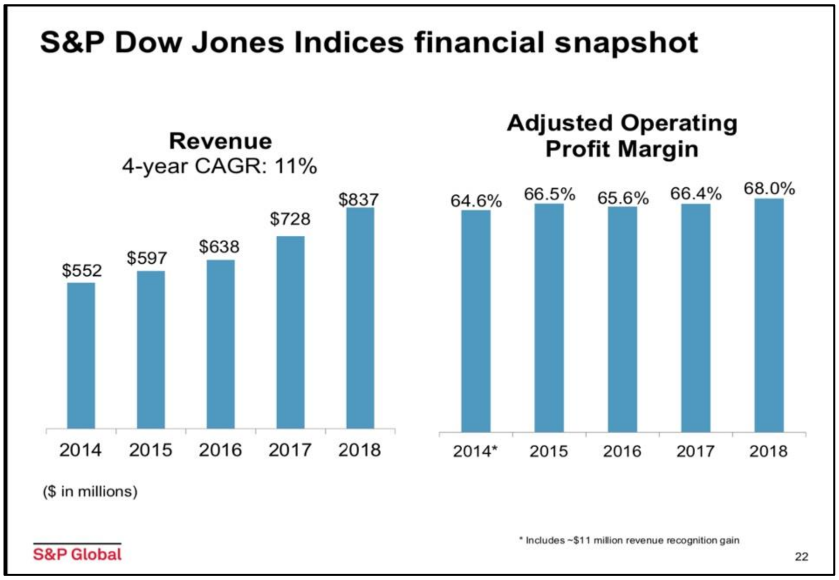
In 2016, SPGI divested J.D Power, to simplify and better focus on commodities. Operating margins continue to steadily march higher, as this division leverages its data and informational niche.

During the 2nd quarter, revenue organically grew 4% and its operating profit rose 9%. Its operating margins now stand at 52.1%, up 220 basis points YoY. The significant margin improvement has helped SPGI meet and raise its recent guidance.

Indices:

In 2012, S&P indices combined with Dow Jones Indexes to form the world's largest provider of financial market indices. Revenue is generated primarily from the assets linked to proprietary SPGI benchmarks, which stands at an enormous $12.5 trillion. This is $7.7 trillion benchmarked and $4.8 trillion indexed via investment products. While most are very familiar with the S&P 500 benchmark, there are significant opportunities with smart beta, fixed income products, as well as ESG (environmental, social and governance).

For example, SPGI states that revenue is generated by asset-linked fees, data & custom subscriptions, and exchange traded derivatives. There are always new options and futures getting launched, using SPGI indices. For example, micro E-mini futures launched on CME recently and has been received very well. S&P Dow Jones launched 8 new sector indices in Chile and Platts launched prices for US crude delivered into Europe. In addition, SPGI enhances and nurtures existing benchmarks. In the 2nd quarter, SPGI altered its sulfur marine fuel derivatives to Platts and added a Japanese Korean marker in LNG (liquid natural gas) to Platts also.



We like this chart, which shows the steady and predictable growth of this segment over the last 5 years. There are very few businesses that can steadily generate mid-to-high 60% operating margins like the indices business of SPGI can do. In fact, we only know of two other businesses (Visa and CME) with margins this high, and we own both of those companies.

Valuation / Price Target:

To be perfectly clear…SPGI is not a cheap stock. Stocks with these kind of positive characteristics and growth profiles never are. In our opinion, SPGI should be able to grow its top-line in the mid-single digit range and earnings approaching double digits.

In 2017 and 2018, SPGI grew earnings significantly, 29% and 23% respectively, due to organic growth, but also some 1x items (lower tax rate, divestitures, acquisitions, etc). At $246/share, SPGI trades at 24x 2020 estimates and 22x 2021. Both forward years expect roughly 10% earnings growth. On an EV to EBITDA basis, SPGI is at 17.5x 2019 estimates. In terms of cash flow, SPGI trades at 3.7% FCF yield. We would argue that none of these valuations metrics scream "buy" to us. 5 of the 12 sell-side analysts rate SPGI a "hold" and would probably argue that the valuation is "fair to full".

As we highlighted above, SPGI can be broken into 3 distinct businesses, which all have direct competitors. In our opinion, we believe the best competitor for the ***Ratings*** business is Moody's (ticker MCO). The best competitor for the ***Indices*** business is MSCI (ticker MSCI). Lastly, we believe the best competitor for the ***Platts*** and ***Market Intelligence*** business is Verisk (ticker VRSK). MCO trades at 24x 2020 estimates, while MSCI and VRSK both trade at 31x forward. There are subtle differences between these companies and normally a pure play would garner a premium valuation. Using we use current SPGI operating income mix and round for our expected growth rates, we can break down 2021 earnings estimates of $11.25/share into:

- ***Ratings*** 50% or $5.625/share at 24x P/E = $135.00/share
- ***Indices*** 20% or $2.25/share at 31x P/E = $69.75/share
- ***Mkt Intelligence / Platts*** 30% or $3.375/share at 31x P/E = $104.625/share

Comparable Price Target	**$309/share**
Upside to SPGI	**~ 25%**

Using these multiples for our breakdown of SPGI equates to a price target of $309/share. Let's use this $309/share for 2/3rd's of our valuation and 1/3rd can be a simple roll forward. If we take today's 24x forward P/E onto 2021 estimates of $11.25/share in earnings, this would equate to a valuation of $270/share. Once again, if we use 2/3rd's for the best comp valuation and 1/3rd for the roll forward P/E, one arrives at a price target of $296/share or 18% upside. For a stock that is up I nearly 50% this year, we prefer to show a little bit of conservativism and a more modest level of upside. We are comfortable with that type of upside in our projections. We would discount SPGI on the comparable analysis, since it is not a pure play on each segment. We think SPGI should trade towards $300/share, over the next year or so which would equate to roughly 15% to 20% upside, from today's price.

Conclusion

SPGI operates in distinct businesses, that all focus in on a key FINTECH theme – "Data & Information". It essentially is in a duopoly with Moody's in the ratings business, as all ratings require 2 independent ratings. If a bond gets issued and rated, the ratings typically come from one of two shops - S&P and Moody's. Both firms possess dominant market shares and a huge "moat" around that franchise. If SPGI is able to become a dominant (and independent) ratings provider for Chinese debt, it could lead to years of future growth.

On the index front, the S&P 500 remains the single best US equity benchmark. The trend towards passive management, over active, continues. Unfortunately for us (as active managers), this trend does not seem to be slowing. While there are other indices, like Russell and Dow, we believe the best representation for the overall US equity market remains the SPX. We expect years of growth ahead for SPGI's index business.

The financials and recent performance of SPGI has been stellar. It remains a solid growth franchise, generating excellent free cash flow and sustainable margins. 75% of this impressive FCF gets returned each year to shareholders. There are few companies that can claim to have returned as much capital to shareholders as SPGI, certainly not on the dividend front. While SPGI has been a wonderful stock to own, over the last decade, we believe there is ample upside in front of us. We believe SPGI will approach $300/share, over the next year or so. Lastly, we love that nobody but us considers SPGI a FINTECH stock. We hope that it stays "off the radar" for institutional owners, but inside our concentrated FINTECH portfolio.

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