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# News

## MOODY'S CORPORATION SECOND QUARTER 2023 EARNINGS CONFERENCE CALL

**TUESDAY, JULY 25, 2023**

**ROB FAUBER, SHIVANI KAK**

Shivani Kak:

Good afternoon and thank you for joining us today. I am Shivani Kak, Head of Investor Relations. This morning, Moody's released its results for the second quarter of 2023, as well as our revised outlook for select metrics for full year 2023. The earnings press release and a presentation to accompany this teleconference are both available on our website at ir.moodys.com.

During this call, we will also be presenting non-GAAP, or adjusted, figures. Please refer to the tables at the end of our earnings press release filed this morning for a reconciliation between all adjusted measures referenced during this call and U.S. GAAP.

I call your attention to the "Safe Harbor" language, which can be found toward the end of our earnings release. Today's remarks may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. In accordance with the Act, I also direct your attention to the "Management's Discussion and Analysis" section and the risk factors discussed in our Annual Report on form 10-K for the year ended December 31, 2022, and in other SEC filings made by the Company, which are available on our website and on the SEC's website. These, together with the "Safe Harbor" statement, set forth important factors that could cause actual results to differ materially from those contained in any such forward-looking statements.

I would also like to point out that members of the media may be on the call this morning in a listen-only mode.

Rob Fauber, Moody's President, and Chief Executive Officer, will provide an overview of our results, key business highlights and outlook, after which he'll be joined by Mark Kaye, Moody's Chief Financial Officer, to answer your questions. I will now turn the call over to Rob.

**Rob Fauber:**

Thanks, Shivani. Good afternoon and thanks to everyone for joining today's call.

As we typically do, I am going to touch on a few key takeaways from our second quarter results and provide some insights into what is supporting our growth outlook. I'll also want to continue to highlight some of the exciting growth opportunities within the Decision Solutions line of business, and this quarter I will spotlight our Insurance business. Then I'll talk about how we are positioning ourselves for what I tend to think of as a "generational opportunity" provided by Generative AI. And, as always, Mark and I will be happy to take your questions.

We delivered strong performance across the firm this quarter.

MIS achieved its first quarter of revenue growth in six quarters amidst a steady improvement in issuance. In fact, revenue grew 6 percent outpacing a 3 percent increase in issuance. The improvement in the issuance environment was led by a 54 percent increase in Investment Grade activity – and this, combined with the ongoing, gradual recovery in high yield bonds, has led us to raise MIS's revenue guidance for the full year to high-single-digit growth, up from our prior guidance of low to mid-single digit growth.

We continue to sustain 10 percent ARR growth in MA, selling into strong demand for our suite of mission-critical data, analytics and workflow tools, and this quarter we are introducing some additional top-line disclosures for our Banking, Insurance and KYC businesses so that we can provide you with more insight into the robust performance of Decision Solutions.

The stronger-than-expected revenue growth in MIS is driving the increase in our full year adjusted diluted EPS guidance of $9.75 to $10.25, and we continue to balance our expense control measures while furthering our investment in the business.

We are capitalizing on our unique ability to integrate proprietary datasets and advanced capabilities from across our businesses into tailored, cloud-based solutions.

And we are innovating and investing extensively across the company to build further on this momentum, with several key initiatives focused around Generative AI technology – turbocharged by our recent partnership with Microsoft.

Over the past several months, as our businesses continue to scale, we have spent considerable time talking with investors about how to think about the Moody's of today – and I want to share that with you because I think it is really useful context for understanding both our performance and our growth opportunity.

We have several great, crown jewel businesses and anchoring those businesses of course is MIS, the global Agency of Choice for issuers and investors.

But in MA, we have one of the world's premier subscription-based fixed income and economics research businesses; a data business powered by what we believe is the world's largest database on companies and credit; and three cloud-based SaaS-businesses serving Banking, Insurance and KYC workflows.

At a high level, these businesses come together to help Banks, Insurers, Corporates and Public Sector entities really do one of three things:

First, to help them commence a relationship or exposure to issue, originate, select or underwrite. Second, during the life of that relationship, help them measure, monitor and manage risk. And third: on the back end, help them verify, account, comply, plan and report.

And to do this, we leverage a tremendous set of proprietary data, analytics and domain expertise across a range of areas: credit, companies, properties, securities, people, economies, ESG, climate, and more.

We think of that as our "risk operating system" and we thread that content through our solutions, and that is what makes our customer value proposition both sticky and differentiated.

With that backdrop, let me touch on MIS for the quarter.

The headwinds of the first quarter have largely dissipated, and that has led to more constructive market conditions and a surge in investment grade issuance. In fact, May was one of the busiest months on record for investment grade activity, as both corporate and infrastructure issuers came to the market opportunistically.

I've said previously that investment grade activity opens the door for issuance further down the ratings scale. And that is exactly what we have seen with the ongoing recovery of high yield bonds. We saw the strongest issuance quarter, since the beginning of 2022 in high yield and that drove an almost 50 percent increase in our high yield revenue versus the prior-year period. Primarily based on this stronger-than-expected performance in both investment grade and high yield, we're raising our issuance and revenue guidance for MIS for the full year.

The backdrop to the market recovery, I would say, still remains fragile. Of our first-time mandates signed in the second quarter, only 25 percent or so have issued, as some corporate treasurers and CFOs wait on the sidelines for more market certainty around the path of inflation and rates, and the economy.

Muted M&A activity is also contributing to a limited supply of leveraged loans and that is negatively impacting CLO creation, since over 60 percent of these loans typically go on to be securitized. Within other structured finance asset classes, such as CMBS and RMBS, higher all-in funding costs are restricting asset creation, and that is resulting in fewer deals and leading us to take down our Structured Finance issuance forecast for the year.

And while we've had softer issuance markets over the past year, we have been strengthening our position in the markets of the future to reinforce MIS's position as the Agency of Choice.

We have strategically invested in our emerging markets footprint for many years. You've heard us talk about this at investor days and on earnings calls. That's because although emerging markets account for something like 50 percent of global GDP, they represent less than 10 percent of cross-border issuance – so we recognize this opportunity for long-term growth. Our investment includes thought leadership, like our Annual Emerging Markets Summit that we held in the 2nd quarter. We attracted participants from over 90 countries to that conference. And, in the 2nd quarter we also closed on our acquisition of SCRiesgo, a domestic credit rating agency serving Central America, further strengthening our growing Moody's Local franchise all across Latin America.

As the digitalization of financial markets accelerates, we're positioning MIS as a leader in assessing decentralized finance, digital bonds and asset tokenization. We've rated a number of 'firsts' in this space, and that includes just this month, the European Investment Bank's first ever digital green bond.

And we continue to grow our sustainable finance franchise within MIS with good momentum in Second Party Opinions. You may recall we relaunched our methodology in the fourth quarter of 2022. We have now completed over 90

Second Party Opinions through the first half of this year, and that includes for marquee issuers like Enel and the government of Mexico. And we have delivered 36 percent growth in SPO volumes versus the same prior-year period.

Moving to MA, just a few minutes ago, I described Decision Solutions as primarily three cloud-based SaaS businesses serving Banking, Insurance and KYC workflows. As these businesses scale, we want to offer some additional insights into their performance, so from this quarter onwards, we are going to be providing revenue and ARR metrics for each of them.

As you can see here, each of these businesses achieved double-digit revenue growth in the second quarter, and together, they delivered 10 percent ARR growth, with KYC leading the way at nearly 20 percent ARR growth.

Last quarter, we provided a spotlight on our Banking business within Decision Solutions, and I thought this quarter I would touch on our Insurance business. We got some good feedback from that spotlight last quarter. Our insurance business brings together the legacy MA insurance business, which mainly serves life insurers, with RMS, which caters primarily the P&C market. Collectively, our insurance business delivers workflow solutions for underwriting, risk and capital management, and financial and regulatory reporting, and it generates approximately $500 million in ARR. This makes it a significant component of the broader MA portfolio.

Like banks, insurers are undergoing a significant period of transformation as they work to digitize and automate manual and fragmented workflows in order to be both more effective and more efficient in underwriting, risk management and capital planning. This opens new opportunities for us to establish and expand our presence, offering new solutions and capabilities, much in the same way we have successfully done with banks.

At the heart of our insurance offerings are our AXIS and RMS risk engines.

AXIS provides the core actuarial and finance cashflow modeling that is widely used by life insurers, reinsurers, and consulting firms for functions that include pricing, reserving, asset-liability management, financial modeling, capital calculations, and hedging.

AXIS has proven to be a significant catalyst for growth, and this quarter was no exception. This quarter's growth was fueled by increasing demand for our fully automated service, which enables insurers to send their actuarial modeling jobs to a cloud-based infrastructure for very efficient processing.

Also contributing to growth in the second quarter is our RiskIntegrity offering, which seamlessly integrates with AXIS and provides a highly automated solution for calculating financial statement information in compliance with IFRS 17 regulations.

On the Property and Casualty side, in May, we held our most successful global insurance conference ever, called Exceedance, I was there with about 500 of our customers from around the world. We made several very important new product announcements. I left the conference feeling very optimistic about the opportunities in front of us to serve the insurance industry.

First, our cloud-based Intelligent Risk Platform, or IRP, is industrial strength, and it is differentiated in the market.

We now have well north of 100 customers on the IRP in the cloud, and this allows customers to run our new, more granular hi-definition models by leveraging cloud computing power on-demand, and that gives our customers a competitive advantage for those of our customers who are using our cloud solution.

We also announced we are partnering with Nasdaq, enabling our customers to seamlessly access a wide array of cat-models available on the Nasdaq platform, in addition to our customers' own internal models. This collaboration significantly enhances the value and capabilities of our IRP as a broader industry workflow platform. So, with this very compelling set of capabilities and solutions across insurance, now let me talk a little bit about the customer expansion opportunity.

We have over 900 insurance customers globally, and there is a significant opportunity for cross-selling and growing revenue per customer. We have very substantial relationships with our Top 10 largest insurance customers who purchase on average about 6 to 7 product families from across all of MA. Our next 90 largest insurers purchase on average about 4 to 5 product families. And our remaining 800 customers buy an average of just 1 to 2 products, so you can see the extent of the cross-sell opportunity.

Let me give an example of how we are growing our insurance relationships. Five years ago, one of the larger U.S. insurers was spending $15 million annually with us across products spanning risk and capital management and finance and reporting workflow tools , and also some other products including MIS data feeds for risk management functions like risk adjusted capital calculations and portfolio construction. After the acquisition of RMS, this customer relationship grew substantially to north of $25 million. This insurer is a now a significant customer of both AXIS and RMS.

And given the breadth of business activities of a large insurer, and that includes lending and investing in addition to underwriting, they also subscribe to a number of our other solutions like CreditLens loan origination solution, CreditView research platform, and our structured finance and commercial real estate data and analytics, and even our KYC tools.

That has allowed us to expand the relationship to an ARR of over $30 million.

KYC offers another compelling cross-sell opportunity with insurers, as well as corporates. In 2021, less than 10 percent of our Insurance customers subscribed to a KYC product and just two years later, we are up to approximately 20 percent and we are optimistic about further potential here.

Our ability to deliver unique and innovative solutions is also being recognized across the industry. Of the awards listed on this slide, I'm particularly proud of our recent recognition as the overall winner of Chartis's inaugural Insurance 25 award because it highlights our innovative, market-leading solutions that span climate, cat risk modeling, and economic and financial analytics.

And speaking of innovation, as you heard during our recent GenAI briefing, Artificial Intelligence is fundamental to many of our products, and frankly it has been for years.

I want to touch on three of those.

Starting with QUIQspread, which is an AI machine learning tool that we have developed in-house that digitizes and spreads financial data. It's been integrated into a number of our products, including our CreditLens loan origination offering, and today it is used by hundreds of customers including banks around the world.

Our AI Review product is at the heart of our KYC screening solutions. It has been trained on over 12 million actual KYC analyst decisions and is currently used by over 500 customers. So far this year, it has processed over 110 million names. This all helps further train the AI engine that powers these insights, reducing the likelihood of false positives by up to 80 percent and that eliminates countless hours of manual work and reduces the time to screen from hours to just seconds, so a huge value prop for our customers.

And finally NewsEdge, where we've been leveraging deep learning combined with natural language processing to enhance and optimize our data retrieval, enrichment, and sentiment generation over our multi-domain datasets, employing state-of-the-art big data techniques. To give you a sense of what this means in practical terms, our models are consuming, categorizing and scoring nearly a million news stories from over 20,000 sources each and every day.

These are just three of our over a dozen AI-enabled products which bring a global team of innovators with distinct and deep skillsets around natural language processing and artificial intelligence, which are key in positioning for the broader efforts on GenAI.

Our historical, foundational AI experience uniquely positions us to capitalize on the immense opportunities presented by generative AI.

GenAI is going to revolutionize how individuals and companies derive insights, how they participate in financial markets, and how they navigate in an increasingly complex world.

That's why we partnered with Microsoft. Combining Moody's vast, proprietary data, analytics and research with Microsoft's industry-leading GenAI technology and Azure OpenAI Service is going to allow us to create new offerings that provide deeper, richer insights into risk than ever before.

By applying machine learning algorithms and deep neural networks to large collections of data and insights, individuals and organizations will be able to drive greater efficiency, accuracy, and innovation in financial processes.

And earlier today, we published a teaser demo of one of our first innovations, we're calling it the Moody's Research Assistant, an interactive chat feature that looks across Moody's vast datasets and research to provide customers with multifaceted, integrated perspectives of risk that few others can provide. The assistant will have the ability to access data and content across multiple domains, such as firmographic data, credit indicators, economic forecasts, and risk and reputational profiles – and deliver results to users based on their own personalized needs.

We are beginning to preview this innovation with customers to demonstrate the extraordinary value that is going to bring. Powered by Microsoft's technology and anchored by Moody's proprietary data. Be sure to check it out on our IR website.

And, importantly, I do want to acknowledge that at Moody's, GenAI is a journey of human enablement. We have deployed this technology to all of our 14,000 employees. I call them our 14,000 innovators. So we can innovate at scale and pilot new ways to enrich our jobs with powerful new insights and improved productivity – all at our fingertips.

Before I close, I'd like to give a big shout out to our employees. During the month of June, over 3,000 Moody's teammates and I was with them, took part in 150 plus volunteer projects across 32 countries. Their efforts resulted in over 8,600 volunteer hours dedicated to making a difference in our communities. Our people are living our values and that great stuff.

This concludes my prepared remarks. Mark and I would be pleased to take your questions.

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Certain statements contained in this document are forward-looking statements and are based on future expectations, plans and prospects for Moody's business and operations that involve a number of risks and uncertainties. Such statements involve estimates, projections, goals, forecasts, assumptions and uncertainties that could cause actual results or outcomes to differ materially from those contemplated, expressed, projected, anticipated or implied in the forward-looking statements. Stockholders and investors are cautioned not to place undue reliance on these forward-looking statements. The forward-looking statements and other information in this document are made as of the date hereof, and Moody's undertakes no obligation (nor does it intend) to publicly supplement, update or revise such statements on a going-forward basis, whether as a result of subsequent developments, changed expectations or otherwise, except as required by applicable law or regulation. 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