MOODY'S CORPORATION SECOND QUARTER 2024 EARNINGS CONFERENCE CALL

TUESDAY, JULY 23, 2024

ROB FAUBER, NOÉMIE HEULAND, SHIVANI KAK

SHIVANI KAK

Thank you. Good afternoon and thank you for joining us today. I'm Shivani Kak, Head of Investor Relations. This morning, Moody's released its results for the second quarter 2024 as well as our revised outlook for select metrics for full year 2024. The earnings press release and the 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 reconciliations 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 towards 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 & Analysis section and the Risk Factors discussed in our Annual Report on Form 10-K for the year ended December 31, 2023, 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. I'll now turn the call over to Rob.

ROB FAUBER

Thanks Shivani. Good afternoon and thanks everybody for joining today's call. I'm looking forward to talking about this quarter: 22% revenue growth, an adjusted operating margin of almost 50% and 43% adjusted diluted EPS growth. That's great stuff.

And, as I've said before, and I'm proud to it say again, MIS is one of the world's great businesses. When issuance activity ramps up, like it did in the first half of this year, and you maintain such a strong position with investors and issuers like we do, as well as our ongoing disciplined approach to costs, we generate a tremendous amount of operating leverage. For the second quarter, MIS delivered 36% revenue growth and a 63.2% adjusted operating margin - up 730 basis points from the second quarter last year. And, following another consecutive quarter of robust performance we are again raising guidance for both revenue growth and margin.

On the MA side, we delivered a seventh consecutive quarter of 10% ARR growth with a 94% retention rate. ARR Growth continues to be led by Decision Solutions, which grew by 13% this quarter. That said, and while we see a strong pipeline for the second half of the year, we are widening our ARR guidance to account for the potential for a bit more uncertainty in the buying environment in the second half. Noémie will expand more on our thinking around this later on and I am sure we will discuss it in Q&A.

In addition to the MIS guidance raise, we are also increasing several of our Moody's Corporation metrics including upping our expectation for share repurchases for the year from $1.0 billion dollars to $1.3 billion dollars and raising and narrowing our adjusted diluted EPS guidance to a range of $11.00 to $11.40 cents.

And we continue to innovate and invest, launching new products, expanding coverage and extending our partnerships; all to spur growth and position Moody's for long-term sustainable success.

Now, speaking of growth, MIS has truly established itself as the Agency of Choice and that allows us to really capitalize on a market environment like we experienced this past quarter. For the first half of the year, we grew transaction revenue by 56%, that outpaced issuance growth of 43%. That was particularly evident in our Corporate Finance and Financial Institutions ratings groups, which both delivered transactional revenue growth rates north of 65%. When considering recurring revenue, overall total revenue grew by 35%.

The investments we are making to streamline and automate our workflows enabled us to meet the surge in issuance – that's double-digit growth across all asset types – while maintaining discipline around expenses. Even considering these investments, we are delivering adjusted operating margin up 760 basis points through the first half of this year.

Now moving to MA, we had a strong first half, generating 8% revenue growth, and as I mentioned earlier, the 7th consecutive quarter of double-digit ARR growth. We continue to focus on high-growth SaaS and subscription products, which are delivering mid-90s retention rates and now represent 95% of total revenue.

Taking a deeper dive into MA, the businesses within Decision Solutions continued to deliver very good growth. That includes KYC, which is delivering new and innovative features and functionality, and remains the fastest growing business with ARR growth at 18% as of the end of the quarter. Insurance ARR growth was 6% at this time last year, it is now 14%. And Banking delivered 9% ARR growth, and for its purely SaaS offerings, a mid-teens ARR growth rate. Meanwhile, Data and Information delivered its fourth consecutive quarter of double-digit ARR growth.

Research and Insights ARR growth remains at 6% but we continue to expect the growth rate will improve in the second half of the year, with the expectation of high-single-digit percent growth range by year-end and that is benefitting from the momentum with Research Assistant and our unrated companies' coverage expansion in CreditView.

How are we achieving all this? Pretty simply, we are delivering mission critical solutions, tapping into our risk operating system with massive datasets and analytic engines, all helping our customers navigate an increasingly complex and interconnected environment.

Last quarter, I gave you a glimpse into our GenAI product roadmap. I'm excited to share that we launched two "skills" this past quarter. The first is the automated credit memo which saves bankers hours of work by assembling a credit memo leveraging the bank's in-house content, Moody's content, and third-party content. Second is our early warning system, which is a cutting-edge GenAI-powered solution initially focused on commercial real estate, that we launched last week. This solution monitors breaking news and alerts our customers – that includes lenders, insurers and asset managers – to risks that could affect their portfolio, allowing them to query a broad range of Moody's data and models to quickly understand the potential impact of a given event. We have a number of institutions using both of these solutions in Private Preview mode, and we are receiving some very encouraging feedback. They are both great examples of more ways that we are unlocking the power of our data, analytics, our insights leveraging Gen AI.

In KYC, regulation continues to drive demand for new and targeted solutions. This past quarter we launched our Sanctioned Security Screening tool, which allows asset managers to look through the ownership hierarchies of their holdings to the ultimate parent and flag those that are sanctioned. We also launched the European Sanctions Product, that was something that we actually launched in under a month. It will help our banking customers manage new European reporting requirements on certain types of money transfers. Both of these solutions provide critical, timely, and trusted data to our customers, helping them avoid potential reputational or regulatory issues, and they are great examples of how we're broadening the use cases we serve leveraging our massive company, people and news datasets.

These products wouldn't be possible without the investments we've been making in our Orbis database, which we believe is the world's best, curated database of public and private companies. We've more than doubled the number of entities we cover since we first acquired Bureau van Dijk. We added more than 20 million companies this year alone and this past quarter we reached an incredible milestone with over half a billion companies in our Orbis database. This massive coverage is a great source of competitive advantage for us.

Turning to our Ratings business, I always say that if there is an opportunity to invest in one of the world's great businesses, we are going to do it. Which is why I'm thrilled to announce that in early July, we completed our acquisition of GCR; that is the leading African domestic credit rating agency covering 25 countries across the region. GCR is a fantastic franchise; they have a really impressive management team – and this investment continues to reinforce our leadership in domestic ratings markets around the world. We have a 30% stake in the leading agency in China, we have very strong positions across Asia in India, Korea, Malaysia and most recently Vietnam; we have been enjoying great success with our Moody's Local strategy across Latin America, and now we have established a leadership position across the African continent.

We achieved an important milestone in our sustainable finance franchise in Ratings this quarter– when we delivered our 200th second party opinion in MIS. We have a healthy pipeline for the rest of the year. With the more recent launch of our Net Zero Assessment, we now have a compelling set of offerings to support sustainable and transition finance, those are clear growth areas for the foreseeable future.

You may recall back on the third quarter call last year, I talked about how we had established a framework for third party partnerships to drive the ubiquity of our content in more and more platforms where people are making decisions about risk, investment and opportunity, and this past quarter we had some exciting announcements on this front.

First is our strategic collaboration with MSCI around ESG and private credit. We really are excited to offer our customers MSCI's market leading ESG scores and data through a range of our solutions, and MSCI will leverage Moody's Orbis database to extend its private company ESG coverage. Together, we'll also explore solutions that leverage our company data and credit scoring models and MSCI's distribution and expertise with the global investment community to provide greater insight into the private credit markets. And just to be clear, our collaboration does not impact our ESG work in Ratings nor does it affect our very extensive climate and transition capabilities across the firm.

Second, in June, we announced a new collaboration with Zillow that further enhances the insights available to both Moody's and Zillow customers. Starting this month, we are adding Zillow's extensive rental property data into Moody's CRE data platform. In exchange, Zillow will gain access to Moody's CRE market analyses, that will help their customers make confident decisions around their multifamily properties.

We're also deepening our relationship with Google; last month they announced that they have tapped Moody's to be one of four foundational data providers that will serve as grounding agents for their enterprise Vertex AI platform. This grounding opportunity is particularly exciting as it dramatically expands the audience for our content and further establishes Moody's as a trusted data source.

And, finally, back in May, we announced a first-of-its-kind Enterprise Risk Management dashboard in collaboration with Diligent, a leading Governance, Risk & Compliance SaaS company, that is going to be offered as a separate module to their more than 700,000 board and leadership users, again broadening the audience for our content.

These kinds of partnerships are expanding the reach and mindshare of our datasets and analytics to thousands of key decision makers, while enhancing the offerings of our partners; ultimately in the service of helping us accelerate long-term growth.

And on that note, let me hand over to Noémie to talk more about our financial performance.

NOÉMIE HEULAND

Thank you Rob, and good afternoon everyone.

Building on the momentum from the first quarter, I am very pleased to share that we delivered a very strong performance in Q2. Our revenue was $1.8 billion, up 22% year-on-year, and our adjusted operating margin of nearly 50% improved by 590 basis points, illustrating our strong operating leverage.

Turning to segment performance, Moody's Analytics revenue grew 7%, or 8% on a constant currency basis. Recurring revenue, which represents 95% of our revenue in this segment, was up 9% year-on-year. And the adjusted operating margin was 28.5% - up 50 basis points from the second quarter last year.

Annualized Recurring Revenue, or ARR, was $3.1 billion, up $292 million or 10% year-on-year. Our largest line of business, Decision Solutions, grew ARR by 13% with a 150 bps sequential growth acceleration from Q1. Growth in this line of business was enabled by mid- and high-teens growth from Insurance and KYC – where we continue to see strong customer demand for our best-in-class workflow solutions. Data and Information ARR grew 10%, with low-teens growth in our Corporate and Government sectors, while our Research & Insights business grew ARR at 6%, a similar trend to what we've seen in recent quarters, when we observed some modest uptick in CreditView attrition from banks and asset managers, as we previously called out.

Our overall retention rate remains high, around 94%, which is evidence of the stickiness of our solutions. I do want to note that while this quarter marked the seventh quarter of double-digit ARR growth, we expect some moderation in our growth rate for this metric in certain areas of our business in the second half, which I will address when I talk about guidance.

Switching to MIS, revenue was the second highest on record, growing 36% and topping $1 billion dollars. Transactional revenue grew 56%, outpacing issuance growth of 47%, and represented close to 70% of total revenue for the quarter. We saw positive mix from our Investment grade sub-segment, with transaction revenue increasing 28%, versus a 10% rise in issuance, partially due to a combination of refinancing activity and several large M&A related deals. And, our Financial Institutions ratings groups saw a record level of revenue from Insurance customers, primarily due to a favorable mix in infrequent issuers; resulting in a 58% overall increase in transaction revenue against a 17% increase in issuance.

Tight expense controls and our increased focus on automation, coupled with the strong levels of issuance activity, enabled us to deliver an adjusted operating margin of 63.2%.

As Rob mentioned up front, we are updating our guidance for a number of metrics, so I'll start with the biggest change which is the improved rated issuance outlook.

Given the very strong start to the year and a slightly improved expectation for the second half, albeit with a noticeable slow-down from the first half, we are now forecasting issuance growth to be in the 20% to 25% range and revenue growth to be in the high-teens percentage range. Looking out at the rest of the year, we now expect second half issuance to be roughly in line vs the second half of 2023, and we continue to expect Q4 issuance to be down in the mid-teens percent versus prior year Q4, very consistent with our prior guide. So what has changed here is that we have taken the 2nd quarter beat into our issuance numbers and our outlook for Q3 is now a bit higher than it was previously.

We've provided some additional color on this slide for the various asset classes and would be happy to talk more about this in the Q&A.

Given this level of growth, we're raising guidance across revenue and profitability metrics in our ratings business. I'd like to take a moment to provide some high-level context behind our thinking. As we've consistently stated, we expect the first half of the year to be busier than the second half and this view remains unchanged.

From a macroeconomic standpoint, we have a positive outlook for the remainder of the year and expect global GDP to be between 2% to 3% for the full year. Our June default report, which was just published last week, is signaling that global default rates peaked in April and will continue to decline gradually in the coming 12 months. And we are also relatively agnostic to the timing and number of rate cuts expected later in the year.

With that context in mind, we are raising our guidance for MIS revenue growth to be in the high-teens percentage range, and we now expect full year MIS adjusted operating margin to be in the range of 58% to 59%.

And for MA, we're maintaining our guidance of high-single-digit growth for revenue and a 30% to 31% margin. However, we are adjusting our expectation for year-end ARR to a wider range of high-single-digit to low-double-digit percent growth. Our current midpoint estimate for ARR growth is at the upper end of the high-single-digit range; but, taking into account a couple strategic changes and more uncertainties than we usually have at mid-year, we decided to make this update and provide you with some additional color on the factors that are notable.

First, the partnership we announced with MSCI represents a commitment to our customers, as well as a strategic shift in our offerings. This change may impact our year-end renewals and reduce the sales pipeline for this line of business. Second, while we were optimistic that tight purchasing patterns, particularly in banks and asset managers, would have improved over the course of this year, we continue to see very tight conditions in those customer sectors. This trend is most impactful on our Banking, KYC and Research and Insights lines of business. And third, as we look toward the US elections in the fall, we would be remiss if we didn't note that the timing of certain upcoming renewals with US government agencies could be impacted.

On a positive note, we have several newly launched products: Research Assistant which continues to be enhanced and has been gaining traction at higher price points, along with the new products Rob highlighted earlier. These are all expected to be able to build pipeline and close deals as we head into the back half of the year.

So all in all, our pipeline is strong and we are continuing to invest and innovate to drive durable, double-digit growth in the years to come.

Bringing all this together – we now expect Moody's revenue to grow in the low-teens percentage range, expenses to grow in the high-single-digit range and an adjusted operating margin in the range of 46% to 47%. The expense guidance update of high-single-digit percent increase primarily reflects increases to incentive comp and the additional charge related to asset abandonment, which we will take over the second half of the year, related to the shift in our strategy to source ESG data and scores from MSCI. That is a non-cash charge.

From a capital allocation perspective, I'm happy to share that we are increasing our free cash flow guidance to a range of $2.0 to $2.2 billion dollars and are also raising our guidance for share repurchases by $300 million to approximately $1.3 billion. In doing so, we plan to return around 90% of our Free Cash Flow to our stockholders in the form of buybacks and dividends for full year 2024.

And, finally, as Rob mentioned earlier, we are increasing our adjusted diluted EPS guidance range to $11.00 to $11.40, a $0.50 increase at the midpoint. That represents about 13% growth versus last year.

So, I will just wrap up by congratulating my colleagues on a very strong first half and I'm very excited for what is looking to be, a very strong year.

That concludes our prepared remarks.

"SAFE HARBOR" STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

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. In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, Moody's is identifying certain factors that could cause actual results to differ, perhaps materially, from those indicated by these forward-looking statements. These factors, risks and uncertainties include, but are not limited to: the impact of general economic conditions (including significant government debt and deficit levels, and inflation and related monetary policy actions by governments in response to inflation) on worldwide credit markets and on economic activity, including on the volume of mergers and acquisitions, and their effects on the volume of debt and other securities issued in domestic and/or global capital markets; the uncertain effectiveness and possible collateral consequences of U.S. and foreign government initiatives and monetary policy to respond to the current economic climate, including instability of financial institutions, credit quality concerns, and other potential impacts of volatility in financial and credit markets; the global impacts of the Russia - Ukraine military conflict and the military conflict in Israel and the surrounding areas on volatility in world financial markets, on general economic conditions and GDP in the U.S. and worldwide, on global relations and on the Company's own operations and personnel; other matters that could affect the volume of debt and other securities issued in domestic and/or global capital markets, including regulation, increased utilization of technologies that have the potential to intensify competition and accelerate disruption and disintermediation in the financial services industry, as well as the number of issuances of securities without ratings or securities which are rated or evaluated by non-traditional parties; the level of merger and acquisition activity in the U.S. and abroad; the uncertain effectiveness and possible collateral consequences of U.S. and foreign government actions affecting credit markets, international trade and economic policy, including those related to tariffs, tax agreements and trade barriers; the impact of MIS's withdrawal of its credit ratings on countries or entities within countries and of Moody's no longer conducting commercial operations in countries where political instability warrants such actions; concerns in the marketplace affecting our credibility or otherwise affecting market perceptions of the integrity or utility of independent credit agency ratings; the introduction or development of competing and/or emerging technologies and products; pricing pressure from competitors and/or customers; the level of success of new product development and global expansion; the impact of regulation as an NRSRO, the potential for new U.S., state and local legislation and regulations; the potential for increased competition and regulation in the jurisdictions in which we operate, including the EU; exposure to litigation related to our rating opinions, as well as any other litigation, government and regulatory proceedings, investigations and inquiries to which Moody's may be subject from time to time; provisions in U.S. legislation modifying the pleading standards and EU regulations modifying the liability standards applicable to credit rating agencies in a manner adverse to credit rating agencies; provisions of EU regulations imposing additional procedural and substantive requirements on the pricing of services and the expansion of supervisory remit to include non-EU ratings used for regulatory purposes; uncertainty regarding the future relationship between the U.S. and China; the possible loss of key employees and the impact of the global labor environment; failures or malfunctions of our operations and infrastructure; any vulnerabilities to cyber threats or other cybersecurity concerns; the timing and effectiveness of our restructuring programs, such as the 2022 - 2023 Geolocation Restructuring Program; currency and foreign exchange volatility; the outcome of any review by tax authorities of Moody's global tax planning initiatives; exposure to potential criminal sanctions or civil remedies if Moody's fails to comply with foreign and U.S. laws and regulations that are applicable in the jurisdictions in which Moody's operates, including data protection and privacy laws, sanctions laws, anti-corruption laws, and local laws prohibiting corrupt payments to government officials; the impact of mergers, acquisitions, such as our acquisition of RMS, or other business combinations and the ability of Moody's to successfully integrate acquired businesses; the level of future cash flows; the levels of capital investments; and a decline in the demand for credit risk management tools by financial institutions. These factors, risks and uncertainties as well as other risks and uncertainties that could cause Moody's actual results to differ materially from those contemplated, expressed, projected, anticipated or implied in the forward-looking statements are described in greater detail under "Risk Factors" in Part I, Item 1A of Moody's annual report on Form 10-K for the year ended December 31, 2023, and in other filings made by the Company from time to time with the SEC or in materials incorporated herein or therein. Stockholders and investors are cautioned that the occurrence of any of these factors, risks and uncertainties may cause the Company's actual results to differ materially from those contemplated, expressed, projected, anticipated or implied in the forward-looking statements, which could have a material and adverse effect on the Company's business, results of operations and financial condition. New factors may emerge from time to time, and it is not possible for the Company to predict new factors, nor can the Company assess the potential effect of any new factors on it. Forward-looking and other statements in this document may also address our corporate responsibility progress, plans, and goals (including sustainability and environmental matters), and the inclusion of such statements is not an indication that these contents are necessarily material to investors or required to be disclosed in the Company's filings with the Securities and Exchange Commission. In addition, historical, current, and forward-looking sustainability-related statements may be based on standards for measuring progress that are still developing, internal controls and processes that continue to evolve, and assumptions that are subject to change in the future.