MOODY'S CORPORATION THIRD QUARTER 2024 EARNINGS CONFERENCE CALL

TUESDAY, OCTOBER 22, 2024

ROB FAUBER, NOÉMIE HEULAND, SHIVANI KAK

SHIVANI KAK

Thank you. Good morning and thank you for joining us today. I'm Shivani Kak, Head of Investor Relations. This morning, Moody's released its results for the third 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 US 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 and 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 morning or good afternoon. Thanks, everybody, for joining today's call. I'm really looking forward to discussing our third quarter results with you. We again delivered some impressive results with a 23% increase in revenue and adjusted operating margin of approximately 48% and 32% growth in adjusted diluted EPS.

One of the key drivers of these great results was our rating business, with a remarkable 41% increase in revenue versus the prior-year period. September was a particularly strong month for issuance. It included a new record for weekly Investment Grade activity with over $85 billion issued across 61 deals in the first week of September. Strength in first-time and infrequent issuers drove transactional revenue up 70% for the quarter, and that outpaced global rated issuance growth of 51%. And this growth, combined with ongoing cost discipline, delivered over 600 basis points in adjusted operating margin expansion compared to last year.

This year has obviously been a very strong issuance environment. In fact, it's likely to be the second strongest on record. And amidst that strength, we see both cyclical and secular tailwinds that are going to drive future growth. And that includes refunding walls, M&A, and other market trends that give us confidence in the medium-term outlook for our ratings business.

In MA, we delivered 7% overall revenue growth and 9% growth for both ARR and recurring revenue, both of which exclude one-time revenue that we're intentionally deemphasizing. Year-to-date customer retention is at 93%, and our adjusted operating margin for the quarter was in line with our expectations at 30.3%.

Now, our Decision Solutions line of business, and that is Banking, Insurance, and KYC, that continues to lead MA with almost $1.4 billion of ARR, and that's growing at 12%. Last month we marked the third anniversary of our RMS acquisition. So, I'm going to spend a few minutes on today's call recapping our progress and performance there.

When I finish, I'll turn it over to Noémie to provide more color on our numbers, including raises to several of our full-year guidance metrics, including our outlook for adjusted diluted EPS.

But, before I move to MIS, I do want to take a moment to acknowledge our third consecutive number one ranking in the Chartis RiskTech100. We're number one in 12 categories, and that's a testament to the breadth and depth of our solutions, to the strength of our competitive positioning, and to the trust that our customers place in us. So, a big shout out to all my colleagues who contributed to this fantastic recognition.

Now, moving to ratings, as I mentioned, we feel really good about the durable drivers of MIS growth as we look into the future, and those are both cyclical and structural.

Looking at the market drivers, as you all know very well, the refunding walls are a key source of built-in growth and, last week, our analytical teams published their analytical report on the non-financial corporate refi walls in both the U.S. and EMEA. And that data shows an 11% growth in the upcoming 4-year maturity walls, which amount to almost $5 trillion, and that represents a record high. Now, the majority of this growth is actually coming from spec-grade issuers, where for the first time, forward maturity walls exceeded $2 trillion, and that's up 19% from our last study. That's particularly true for the U.S. market, where forward maturities are up 17% and spec-grade refi walls are up approximately 27% for the upcoming 4 years. And that bodes very well for future issuance and, as I think many of you know, spec-grade is obviously a positive to our revenue mix.

For any of you that want to dive deeper, and I'm sure there are many on this call, just check out the full reports that we made available on our website at moodys.com or contact our IR team.

Another significant historical driver of ratings revenue growth is M&A. And activity in recent years has been well below historical levels, as you can see on this chart. But we don't see that subdued level as sustainable, given the needs for private equity sponsors to both exit as well as deploy huge amounts of capital, along with a more benign rate environment and improved macroeconomic conditions.

Now, along with these market factors, there are also some structural trends that we believe will drive both credit supply and the need for independent third-party ratings and assessments.

The first is private credit. That's been a consistent theme on our recent calls. And this sector is experiencing some significant growth. We expect that to continue. Last week we published estimates that private credit assets under management will reach up to $3 trillion by 2028. As this market grows, the need for transparency, data and rigorous independent credit assessment is likely to become more important than ever. As Apollo highlighted in their recent investor day, rating agencies have an important role to play in this ecosystem. I completely agree with that, and we're gearing up to ensure that we meet the needs of this market.

The second is sustainable and transition finance and, to put this opportunity into context, currently countries and companies that have net-zero commitments that cover something like 93% of global GDP, and our analysts estimate that in order to meet these targets, global clean energy investment needs are going to rise by 2.5 times by 2030 to around $4.5 trillion annually. So that means huge amounts of debt capital are going to be raised and there's going to be increasing demand to understand how these investments are translating to organizations' progress on their decarbonization efforts. So we're investing to provide the insights, the analysis and the products to meet this demand.

The third growth driver is emerging and domestic debt markets. And many of you've heard me say before that domestic debt market issuers are the cross-border issuers of tomorrow. And while smaller than developed economies, emerging market countries typically average higher economic growth rates than more developed markets. So we've been investing to build out our footprint and market leadership across Asia, Africa and Latin America, so that we are poised to capitalize on this growth.

Finally, we're positioning our ratings business for a world of digital finance, and that includes blockchain and tokenization. While the issuance volumes are relatively modest at present, there are a number of public and private sector initiatives and pilots in this space, and we want our ratings to play just as important a role in a digital issuance world as they do in today's analog world.

So, as I said, a number of factors that give us confidence about our growth, both in the near-term and over the medium-term for MIS.

As I mentioned earlier, we've just hit the third anniversary of our RMS acquisition. So I thought it made sense to take stock of our progress on today's call.

Some of you may remember the financial profile of RMS before we acquired it, low-single digit revenue growth, EBITDA margins in the high-teens. And it was also early in its second cloud platform launch. And our investment thesis at the time was two-fold. First, we thought there was much more that we could do for the insurance industry as we expanded our TAM to the property and casualty sector. And second, we believed that RMS' really rich climate and cat modeling capabilities would be increasingly important to a wide range of finance and risk applications and also for a broader range of customers. We also thought that Moody's represented a natural home for RMS after years of ownership by DMGT.

So three years later, how have we done?

Well, first, RMS is now fully integrated into our insurance solutions business. Its growth has improved significantly over the last three years and now is growing in line with the mid-teens ARR growth of our broader insurance business. It's also now operating at MA-like margins.

Since we acquired RMS, we've also grown the number of customers on the cloud-based Intelligent Risk Platform fivefold to over 250. And these customers are using our next generation of high-definition models, enabling them to get more granular insights, leveraging the power of cloud computing and also offering a great upsell pathway and competitive differentiator.

Now, as part of Moody's, RMS has also expanded the ways that it partners with the insurance industry. That includes last year's partnership with NASDAQ, where we're hosting third-party and in-house models on the IRP, our creation of a Cyber Industry Steering Group with the largest players in the cyber insurance market, to develop tools to help this market grow, and our recent collaboration with Lloyd's to build a greenhouse gas emission platform for the Lloyd's insurance market.

And three years later, together with Moody's, RMS has solidified its blue-chip customer base with all 10 of the top 10 global reinsurance brokers, 9 of the top 10 commercial lines insurers, and 28 of the top 30 global reinsurers. That really is market validation of RMS as the gold standard in the industry.

We continue to invest to extend the solutions that we deliver for the insurance sector and beyond; and, in early September, we announced the acquisition of Praedicat to expand into casualty analytics, and that's an area of growing interest for insurers. As I've talked about in past calls, we've leveraged RMS' platform, technology and engineering teams across all of Moody's Analytics, and we've integrated their climate capabilities into solutions for banks and corporates.

So, we feel really good about the progress with RMS. And earlier this year, we merged RMS and our legacy life business into a broader Moody's insurance solutions unit. So I feel even more confident about how this positions us for the future, both across the insurance industry, but also with respect to our ability to serve the needs of organizations to better understand physical risks from extreme weather and a changing climate.

With that, I'm going to hand it over to Noémie to provide more details on our numbers.

NOÉMIE HEULAND

Thank you, Rob, and good morning everyone.

Q3 was a record quarter, the highest third quarter revenue performance in Moody's history, with strong growth across revenue and profitability metrics, driving 32% adjusted diluted EPS growth and a free cash flow conversion rate of over 100% of net income. We delivered $1.8 billion of revenue, a 23% increase compared to last year, with Moody's Ratings growing transactional revenue by 70%, well above the 51% growth in global issuance. And that truly demonstrates the impressive strength of our ratings franchise. We executed very well across all sectors, with the most notable contribution from Corporate Finance. Investment Grade transaction revenue growth of 137%, exceeded 84% growth in issuance, and that was driven by sustained levels of infrequent issuer activity, as well as large jumbo deals over the summer. In addition, Leveraged Finance transaction revenue grew 67%, that's approximately $80 million, supported by the favorable spread environment. Collectively, this drove the largest third quarter for Corporate Finance revenue on record. The level of infrequent issuers activity, which was the strongest in over a decade, also drove a favorable revenue mix in FIG, where transaction revenue grew 77%, well above issuance growth of 18%.

Turning to Moody's Analytics, revenue grew 7%, including 1 point of growth from FX. Recurring revenue, which is now 95% of the segment revenue, grew 9%, which was in line with our ARR growth. As Rob mentioned earlier, our year-to-date retention rate is 93%, illustrating the stickiness of our solution.

Consistent with recent quarters, revenue growth was driven by recurring revenue in Decision Solutions, which is over 40% of our total revenue, which as Rob said, delivered 12% year-on-year ARR growth. Let me provide some color on each of the main businesses in this segment.

Banking revenue grew 3%. What's happening here is we have the effect of two opposite dynamics. On the one hand, we had double-digit decline in low-margin transactional revenue and flat growth in on-prem sales year-over-year. On the other hand, we continue to invest in our banking platform and focus our sales efforts to drive recurring revenue growth, which was 10% in Q3, aligned with ARR growth and aligned with the first half of 2024.

We observed similar trends in our Insurance business, where revenue grew 7%, driven by recurring revenue growth of 11% and our insurance ARR grew 13%.

KYC delivered 19% recurring revenue growth. We've continued to deliver higher levels of growth from the non-financial corporate and government sectors. And we're actively investing to scale and sustain this level of growth as we expand our capabilities to deliver integrated solutions for a number of key customer workflows, including compliance, supply chain and trade credit.

Outside of Decision Solutions, our Research & Insights, and Data & Information businesses grew reported revenue by 6% and 7% respectively, which is broadly in line with ARR growth. Data & Information ARR growth was a bit lower this quarter at 8%, as a couple of large federal government contracts which contributed to higher growth in 2023 were renewed at a lower value this quarter.

Overall, it was an exceptionally strong quarter. MIS revenue performance translated into a 320 basis point improvement in the total company adjusted operating margin, a 32% growth in adjusted diluted EPS and over 100% of free cash flow to net income[1] conversion year-to-date. MIS achieved 59.6% adjusted operating margin, and that includes the adjustments to reflect the impact of increased incentive compensation accruals, while MA delivered 30.3% adjusted operating margin, a sequential improvement of 180 bps from Q2.

With a record third quarter and continued strength in the market, we are updating guidance to our full-year ratings revenue, underpinned by revised global issuance growth assumptions for the full year across all asset classes, as you can see on this slide. We expect issuance will continue to be supported by opportunistic activity in the fourth quarter, as issuers take advantage of lower rates, high spreads and strong investor demand. We also expect sustained levels of activity within first-time mandates, which we forecast will revert close to pre-pandemic levels. Our revised guidance of mid-30s percentage range issuance growth for the full year now implies a mid-single digit decline in global issuance for the fourth quarter, which is an improvement from an expected decline in the mid-teens back in July

Now, with that backdrop, we are raising our guidance for MIS revenue growth to high-20s percentage range, which at the higher end of the range would translate into an increase in Q4 ratings revenue expectation versus prior guidance. We are raising MIS' adjusted operating margin to a range of 59% to 60%, up 100 basis points from prior guidance. The upward revision to our guidance range account for the adjustment to our incentive compensation, as well what's included in the full-year range is approximately 50 basis points of headwind from the settlement of a regulatory matter, which we recorded and disclosed in Q2.

For MA, we're maintaining our guidance across all metrics.

Taking all this into consideration, we are now expecting Moody's revenue to grow in the high-teens percentage range, expenses to increase by approximately 10%, and adjusted operating margin in the range of 47% to 48%. Consistent with last year, the revised expense outlook primarily reflects

[1] Revised from spoken language.

increases to incentive compensation, the majority of which will be in MIS, as a result of the upward revisions to the full-year ratings revenue outlook.

We are also updating our free cash flow guidance to approximately $2.3 billion and, in addition, we are increasing and narrowing our adjusted diluted EPS guidance range to $11.90 to $12.10, an $0.80 increase at the midpoint, and a growth of approximately 21% versus the prior year.

Before we go into Q&A, I want to say I'm very proud of our team's performance this quarter, and Rob and I cannot thank our colleagues enough for their hard work and dedication. That concludes our prepared remarks.

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