MOODY'S CORPORATION FOURTH QUARTER & FULL YEAR 2024 EARNINGS CONFERENCE CALL

THURSDAY, FEBRUARY 13, 2025

ROB FAUBER, NOÉMIE HEULAND, AND 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 fourth quarter and full year 2024 as well as our outlook for Full Year 2025 and updates to our medium-term guidance. 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, and thanks very much everybody for joining today's call. After our prepared remarks, Steve Tulenko, the President of Moody's Analytics, and Mike West, President of Moody's Investors Service, are going to join Noémie and me for the Q&A portion of the call, and that's something that we've done for a few years now.

Before I get into our results, I just want to acknowledge that it's been a difficult few weeks for many members of our team, following the tragic loss of our dear friends and Moody's colleagues, Chris Collins and Melissa Nicandri in the Washington D.C. plane crash. They really were cherished members of our team, and their loss leaves an immeasurable void, and our thoughts are with their families during this incredibly difficult time.

Now, on to our results.

Moody's delivered a record year in 2024. We grew revenue by 20% to over $7 billion with strong growth across both businesses. And through disciplined cost management, we expanded our adjusted operating margin by over 400 basis points, and that translated into 26% Adjusted Diluted EPS growth – all while executing on strategic investments across both of our businesses.

MIS finished the year on a real high note, 18% total revenue growth powered by 29% transactional revenue growth in the fourth quarter. And our Ratings teams were really active, it wasn't just in the fourth quarter, but throughout the year, delivering 33% revenue growth for Ratings and over 500 basis points of Adjusted Operating Margin expansion for the full year.

Moody's Analytics also had a strong finish to the year with 10% recurring revenue growth in the fourth quarter and 9% ARR growth. Decision Solutions continued to lead the way – with $1.4 billion in ARR growing at 12%.

And as we look to the future, we're continuing to invest to deliver market-leading growth and attractive shareholder returns. And there are some very powerful deep currents that are driving demand across our business, and we've been making investments to ensure that we can capitalize on that demand.

Thinking about the future, as we enter the third year since we introduced our medium-term targets, today Noémie and I are going to provide an update on our key metrics and what underpins our higher Adjusted Diluted EPS growth range.

So, as we set out this time last year, last year's fourth quarter call 2024 was a year in which we really doubled down on our investments in order to help us capitalize on some big opportunities that are in front of us.

And we executed on those foundational investments that we called out on that earnings call at the start of last year. And those included platforming and modernizing, it included new products and also Gen AI. And we focused on the accessibility of our data estate and enhancements to our risk and resilience posture.

And we continue to invest in the rating agency and our positioning as the "Agency of Choice" for investors and issuers. And I have to say I'm really proud that we were named Best Rating Agency for an impressive 13th year in a row by Extel, formerly Institutional Investor.

It's our experienced analysts, insightful research and active market engagement that really reinforced our leadership position in the market, and that allows us, in turn, to capitalize on robust periods of issuance like this past year.

We've also made investments to address the big shifts that are going on in the capital markets. The first of those is private credit. And I'm not just talking about direct leveraged lending, which is a roughly $1.5 trillion market and growing, but also fund finance, infrastructure debt and asset-backed finance to name a few.

And with a dedicated analytical and commercial focus on private credit, we made some really good progress in this space this past year, rating nearly 400 private credit-related transactions in 2024.

Similarly, we have a product suite to serve transition finance, and we issued over 150 Second Party Opinions and more than 20 Net Zero Assessments in 2024, and we have a very strong pipeline there as well.

We also have a coordinated commercial and analytical initiative focused on digital infrastructure and data centers to ensure that we are the "Agency of Choice" in this space for the years to come.

Now our strong financial performance this year allowed us to accelerate the buildout of MIS' technology applications for our analytical, commercial and operational teams.

And these investments are driving improvements in operational efficiency and are allowing us to be increasingly volume-agnostic within a range of issuance, and you can see this come through in our 60% margins in 2024 and our guidance for 2025.

I thought I'd just put this in perspective for you for a moment. We rated nearly $6.2 trillion of issuance in 2024. That's an increase of 42% compared to 2023. And Mike West has given me an interesting statistic that throughout last year, our ratings teams issued a press release related to a credit opinion, on average, every 20 minutes.

And that's without needing to meaningfully increase our analytical staffing levels. And very importantly, we did this while maintaining the robust controls that the market and regulators expect from us.

And as you've heard me say, we are always looking for ways to invest inorganically in Ratings, because it's a great business. And if you recall, in mid-2024, we invested further in GCR, that's the leading domestic credit rating agency in Africa, taking our ownership up to almost 100%.

And in November, we expanded Moody's Local again, this time into 6 more countries across Central America. And we're really pleased with the growth that we are seeing in Moody's Local. Revenue is up 16% in 2024 and we signed several hundred First Time Mandates. So, that's a great expansion of the rated portfolio across the region and really bodes well for the future.

So let me turn to Moody's Analytics for a few moments. We've invested there to enhance our product platforms and go-to-market strategy as we continue to deepen our relationships with our traditional customer base, banks and insurers. We've also expanded our data coverage and workflow solutions to serve large corporate customers in in-demand third party risk domains. That includes things like KYC, supplier risk, trade credit, transfer pricing and master data management.

And within the last six months, we also made three important acquisitions that have enhanced our offerings in our Banking and Insurance businesses and added valuable data and analytics to our Risk Operating System. And those include: Numerated, which extends our loan origination system for banks; Praedicat, which adds to our capabilities in casualty underwriting and analytics; and most recently, in January, CAPE Analytics, which enriches our insights on properties and will integrate with our cat-risk models.

So, just a little bit more on Numerated for a moment. We've been collaborating with their team on joint offerings for some time, and that really highlighted the great fit between our respective lending workflow solutions. There was an obvious industrial logic to this, and we've had some really encouraging response from our customers. In fact, we've already had a few noteworthy wins with Tier 2 and Tier 3 banks in the fourth quarter with our enhanced end-to-end commercial lending offering, and it's really resonating with our customers. Switching over to Insurance, over the last several years, we've talked about the foundational investments in our cloud-based Intelligent Risk Platform, we call that IRP. And these investments are now delivering meaningful ARR growth for our Insurance business; in fact, in 2024, we grew the number of customers on the IRP by almost 20%. And migrating to the IRP then enables insurers to reduce, sometimes by as much as half, the time that they need to model complex scenarios across billions of property locations. And, as our platform hosts the most modern, sophisticated, high-definition models our customers are able to better measure and quantify their financial exposure, as well as monitor the evolving risk in their portfolios at scale. And this is helping to deepen our relationships with our customer base and expanding our strategic relationships with the largest global insurers, reinsurers and brokers in the world.

And I'd be remiss if I didn't mention that for the third consecutive year, Moody's was ranked #1 in the Chartis RiskTech100, providing market validation of our best-in-class solutions serving nearly 15,000 analytics customers. So, a lot to be proud of in 2024. And while we had a really strong 2024, I am very excited about 2025 and beyond due to a set of deep currents that are changing the way businesses and markets operate. And given the investments that we've made over the last several years, we really are well positioned to ride those deep currents. There are five that we are particularly focused on.

First, the ongoing expansion and evolution of the debt capital markets that I just touched on; second, the increasing pace of digital transformation and automation across banks and insurers; third, the imperative for businesses to know more about who they are doing business with; fourth, the growing needs across industries to understand the financial impact of extreme weather events and a changing climate; fifth, the transformative power of Generative AI and the potential unlock for owners of proprietary data and insights.

Let me just double click on the impact of extreme weather for a moment because this has been so much in the headlines lately. And on past calls we've talked about the need to better understand the physical risk relating to extreme weather events and climate change. When we announced the acquisition of RMS a few years ago, some folks asked us why did we think it was important to have these capabilities. Well, after Hurricanes Helene and Milton and the L.A. wildfires, I don't think anyone is questioning the need to better understand this. I really believe we are at an inflection point.

In fact, the issue of insurability of assets – both whether insurance is available and what the cost will be over time – has become a very important issue in property and financial markets. And we've witnessed the increasing frequency and severity of extreme weather events, combined with ongoing property development and inflation, which have made these events even more costly. And the demand to better understand these risks, not just by insurers, but by banks, investors, companies, governments, is only going up. And that's why we acquired CAPE Analytics. Their AI-powered technology delivers address-level risk insights which are a natural complement to our catastrophe models.

And these sophisticated models, combined with our really rich and deep data and insights on credit and economics, and properties, means that we are uniquely positioned to be the authoritative voice on quantifying the financial impacts of physical risk. And we see this need continuing for years into the future. So, we feel good about these deep currents as durable demand drivers for our business. And Noémie will walk you through our full year 2025 guidance assumptions in a moment.

As we look forward after delivering a remarkable performance in 2024, we're going to provide an update on the progress against our medium-term targets. But let me give you the bottom line. We have fundamentally strengthened the earnings power of this business.

And that should support Moody's as a serial compounder in the years ahead. So with that, Noémie, over to you.

NOÉMIE HEULAND

Thank you Rob, and hello everyone and thank you for joining us today. Starting with our Q4 results, we delivered a strong finish, capping a year of remarkable financial performance in 2024.

You can see highlights from our full year results on slide 9. But Q4 MCO revenues were nearly $1.7 billion, up 13% year on year and our Adjusted Diluted EPS was $2.62, up 20% year over year. MIS delivered its second highest Q4 revenue on record with growth across all business lines. The anticipated volatility around the U.S. elections didn't materialize. And with spreads at their tightest levels in over a decade, particularly in Spec. Grade, and the robust demand environment continued throughout the quarter, until the last days of December.

MIS Revenues in Q4 were $809 million, up 18% year-on-year. The growth was driven primarily by three key factors. First, healthy leveraged loan issuance activity – which was up 134% in Q4. However, with the mix weighted towards refinancing and repricing, transactional revenue for that asset class was up 27%. Second, the continued strength from infrequent issuers in the Banking and Insurance sectors. And third, strong performance from Structured Finance – in particular in U.S. CLOs and CMBS, reflecting strong demand in a very favorable spread environment.

MIS's fourth quarter performance and corresponding higher incentive compensation, translated into a 51.3% Adjusted Operating Margin, which exceeded our implied guidance.

Turning to MA, we also had a strong Q4, with revenues of $863 million, up 8% year-on-year. Recurring revenue, which accounts for 95% of total revenue in MA, grew 10% year-on-year, broadly in line with the 9.4% growth in ARR. As Rob said, Decision Solutions drove the performance with 12% growth year-on-year.

We delivered strong growth across all lines of business in Decision Solutions, with Banking, Insurance and KYC achieving ARR growth of 9%, 12% and 17%, respectively. More specifically, KYC ARR grew 17% with strong demand for customer and supplier risk data usage and sales from new customers.

Insurance ARR grew 12% driven by improved customer retention and strong demand for our cat-model tools, as extreme weather events are becoming more pervasive and impactful across industries. This is generating demand for our best-in-class risk modeling solutions with the IRP. And our Q1 2025 acquisition of CAPE Analytics only builds on this, as Rob highlighted.

Banking ARR grew 9%, reflecting strong customer retention and expansion of relationships with subscription-based offerings that are enabling customers' lending, risk management and finance workflows. The other two lines of business in MA include our more established Data and Research franchises. Data & Information grew ARR by 8% driven by demand for Orbis within the corporate sector. Research & Insights grew ARR by 6%, with the attrition events from the asset manager space we discussed earlier in the year affecting the growth rate.

That said, sales – meaning cross-sell, upsell or upgrades – grew meaningfully above ARR trends in Full Year 2024. And some of this was from upselling Research Assistant to our CreditView customers, which accounted for 25% of our overall Research & Insights ARR growth. We are encouraged by the customer engagement for Research Assistant, one of our Gen AI offerings, that is building a healthy pipeline for 2025 and has already reached more than 100 customers in Q4.

MA's Adjusted Operating Margin of 33.8%, increased 240 basis points versus Q4 last year, leading to a full year margin of 30.7%, which is towards the high-end of our annual guide. Now turning to fiscal year 2025 guidance, we expect MCO Revenue growth in the high-single-digit range, with an Adjusted Operating Margin expanding by about 200 basis points to approximately 50%. And this is on the back of a Fiscal Year 2024 where we increased Adjusted Operating Margin by 420 basis points. Our Adjusted Diluted EPS guidance is a range of $14.00 to $14.50.

Now for MIS, we expect market conditions will remain constructive this year, with tight spreads, declining high-yield default rates, and an uptick in M&A activity. You'll see our issuance outlook for individual asset classes on this slide, but all in all, we've projected MIS-rated issuance growth to be in the low-single-digit range for 2025, with 700 to 800 First Time Mandates.

For MIS revenue, we expect growth in the mid-to-high-single-digit percent range for the year, benefiting from a positive issuance mix. We expect the revenue performance to translate into an Adjusted Operating Margin of 62 to 63%, which at the mid-point, represents about 250 basis points of margin expansion year-over-year.

For MA, we expect revenue growth in the high-single-digit range, with ARR growth in the high-single-digit to low-double-digit range. We expect MA's Adjusted Operating Margin to be between 32% to 33% which, at the mid-point, represents 180 basis points of margin expansion year-over-year.

Turning to what underpins MA and MCO's expected margin expansion. We took a hard look at our operating model and believe we have an opportunity to simplify our organizational structure.

In our Analytics business, we are for the most part through the integration of the businesses we've acquired over the recent years. We are also gradually reorienting our go-to-market from selling individual products to selling end-to-end solutions to our customers in the Banking, Insurance and Corporate segments.

This puts us in a position to combine resources in our customer-facing, marketing, product and data engineering functions, and further consolidate our real estate footprint. And also more broadly across the organization, we're starting to reap the benefits of the investments we made in automating our workflows, which translates into expected improvements in operating leverage.

So in connection with this, today we are announcing an efficiency program to simplify the organization, allowing us to accelerate profitability expansion and redirect some investment capacity to strategic growth areas.

We plan to incur between $200 and $250 million in restructuring charges over the 2-year duration of the plan, primarily in personnel-related costs, for an expected total annualized cost savings in the range of $250 to $300 million upon completion of the plan.

We accrued approximately $45 million already in the fourth quarter and expect to record an additional charge in the range of $80 million to $100 million in Full Year 2025, primarily in Moody's Analytics, and to a lesser extent within our corporate functions.

I'd note that we have included a Full Year 2024 to Full Year 2025 operating expense bridge in the appendix of this presentation to assist with modeling questions. And here is some color on how to think about the calendarization of top line and margin.

We expect MIS revenue in Full Year 2025 to follow a similar quarterly pattern to 2024, with first quarter revenue up in the mid-single-digit range from the first quarter 2024, ramping up in the second quarter, before declining sequentially in our third and fourth quarters.

For MA, we expect our year-on-year total revenue growth to be consistent in the high-single-digit percent range throughout the year, with Q1 revenue being sequentially flat versus Q4 2024, a pattern that's consistent with the prior year.

For operating expenses, excluding the impact from restructuring and asset abandonment charges, we expect expenses to follow normal seasonal patterns. Sequentially, we anticipate expenses to increase by about $10 million from Q4 to Q1.

And then, we anticipate operating expenses to follow a typical seasonal pattern but to remain relatively stable throughout the remainder of the year, as savings associated from our efficiency program offset annual salary increases and variable costs associated with revenue.

In terms of margin, we expect MIS's to be in the mid-60s in the first half before declining in the second half, in line with revenue. And for MA, we expect approximately 30% in the first quarter, sequentially improving in the second half to achieve our full year guidance of 32% to 33%, as revenue ramps and as we start to see the savings from our efficiency plan in the second half.

In terms of how these different dynamics translate into Adjusted Diluted EPS, we expect this to follow the MIS revenue cadence. More specifically for Q1, we expect Adjusted Diluted EPS to be at the high-end of the implied quarterly Adjusted Diluted EPS range of $3.50 to $3.60.

Finally, looking beyond 2025, I'd like to talk about how we're tracking against our medium-term targets. It has been 3 years since we published those, and with almost a year in the CFO seat, I am using this as an opportunity to take stock on how our performance has stacked up.

The headline is 2024 Adjusted Diluted EPS is up 46% from two years ago, and the midpoint of our Full Year 2025 guidance implies an 18% Adjusted Diluted EPS CAGR through the first 3 years, significantly above the low double-digit medium-term target growth rate.

Now a lot of this outperformance has been driven by very good execution during a robust issuance environment – with MIS revenue up 40.5% in the last two years and MIS adjusted margin exceeding 60% in 2024.

We also have delivered strong, organic growth in MA – reporting ARR growth consistently in the range of 9 to 10% over the last two years. As we look forward, we expect our retention rate to remain in the low-to-mid-90s percent range – and to continue to grow our new business at a low to mid-teens percent pace – enabling us to sustain ARR growth in this 9 to 10% range in the coming years.

Of note, what's most notably different now from what we envisioned when we initially published our medium-term guidance, is that our recent M&A has been at a smaller scale and focused on enriching our offerings to fuel durable growth in our strategic growth areas, including lending and casualty underwriting.

On profitability, we've invested in Gen AI and process automation more broadly for internal efficiencies. We've invested in the build-out of the MA platform and our data interoperability – all of which are expected to generate increased operating leverage in the coming years. We expect that this, coupled with our program to simplify our organizational structure, will translate into MA margin expansion into the mid-to-high 30% range by 2027.

Now bringing this all together, for MCO we are increasing the range for our Adjusted Diluted EPS Growth from the low-double-digit percent growth to low-to-mid-teens percent growth range, reflecting our ongoing efforts to improve the earnings power of our business.

To wrap up, we believe the demand drivers and the execution of our strategy will deliver attractive and sustainable growth and profitability expansion across market cycles. We remain committed to executing on our capital allocation strategy and anticipate consistent strong free cash flow returns to continue as we work to deliver on both our customers and shareholders.

I'd like to thank all our colleagues around the world for their remarkable contributions to another great year for Moody's, and with that, Rob, Mike and Steve and I will be happy to take your questions.

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