MOODY'S CORPORATION FIRST QUARTER 2025 EARNINGS CONFERENCE CALL

TUESDAY, APRIL 22, 2025

ROB FAUBER, NOÉMIE HEULAND, AND SHIVANI KAK

SHIVANI KAK

Thank you. Good morning and thank you for joining us today. I am Shivani Kak, Head of Investor Relations. This morning, Moody's released its results for the first quarter 2025 as well as our revised outlook for select metrics for Full Year 2025. 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 in 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, 2024, 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. Over to you, Rob.

ROB FAUBER

Thanks, Shivani, and thank you very much, everybody, for joining today's call. This morning, I am going to kick off with some high-level takeaways on Moody's first quarter performance and an update on our 2025 guidance and then I am going to share why we are confident in our market position, and how we are strengthening the earnings power of the business. After our prepared remarks, as always, Noémie and I will be glad to take your questions.

So, on to the results, I think it is safe to say the past few weeks have been more tumultuous than many have anticipated at the start of the year. There is certainly a lot of noise in the environment with equity markets demonstrating much greater volatility in a headline-driven environment and, understandably, that is making it harder for many businesses to feel confident in making important investment decisions. But, as you have heard me say before on these calls, it is times like these when our customers turn to us the most. That is because we have a vast reservoir of proprietary data and insights, mission-critical software solutions, and decades of experience in understanding credit impacts to the countries, industries and companies. We have done this all over the world, across all sorts of economic cycles and geopolitical events and this time is no different.

So, amidst this backdrop, we delivered some very strong results in the first quarter. We achieved a record $1.9 billion in first quarter 2025 revenue. That was up 8% year-over-year. In fact, both of our businesses grew revenue at 8%. With some very disciplined expense management, Moody's Adjusted Operating Margin reached 51.7%, that is up 100 basis points from the first quarter of last year, and Adjusted Diluted EPS grew 14% to $3.83. That really is the power of this franchise shining through.

Now, turning to MIS, we delivered 8% revenue growth on issuance growth of 9%. MIS achieved its highest ever quarterly revenue of $1.1 billion with an adjusted operating margin of 66%, and that was up 140 basis points. This quarter, private credit was a meaningful contributor to growth, particularly in Structured Finance. In fact, in the first quarter of 2025, we had 143 private credit-related deals; that is up from 69 in the first quarter of 2024. Roughly a third of that volume came from private-credit backed ABS, CLOs and RMBS structured finance issuance, and then BDCs and Fund Finance was almost another one-third. In fact, 20% of first quarter revenue growth in Structured Finance was attributable to private credit. So you can see private credit emerging as a tailwind for our Ratings business. Amidst all the recent market uncertainty, engagement levels for our research and webcasts are at a rate 2 to 3 times the levels that we normally see in a more stable environment. In fact, last week's Ratings webinar on tariffs attracted roughly 3,000 registrants across 89 countries.

Now, zooming out, the deep currents that I talked about on the fourth quarter call remain intact. For MIS that includes private credit, transition finance, AI-driven infrastructure investment, and emerging and domestic debt markets. These areas require significant investment and debt financing, and this has not changed despite the recent turbulence. In a recent report on private credit, our Ratings team highlighted that data center debt issuance in the asset backed finance market reached $4 billion in the first quarter of 2025 alone, versus the $8.4 billion issued for all of 2024. In the first quarter of 2025, we rated a $2 billion data center CMBS deal in the US, and that represents the larger scale we expect to see more frequently to finance digital infrastructure. We are actively evaluating several data center financing structures today across a number of teams and regions. These financings are early-stage, but they are increasing in both their scale and complexity, and they are a good example of a deep current that we expect will drive debt financing volumes for the foreseeable future.

Now, switching to MA, ARR growth was 9%, again led by Decision Solutions where ARR grew 12%. Recurring revenue increased another notch to 96% of total MA revenue and we continue to make investments in product development, platform engineering, and sales capacity in our strategic growth areas. We are also executing on our ambitious cost efficiency program, designed to significantly enhance MA's operating leverage over the coming years. For 2025, we remain on track to deliver a full-year adjusted operating margin of between 32% to 33%.

Now, underpinning the 9% ARR growth was a very strong first quarter in terms of new business execution, and I want to share a couple sales wins from this past quarter that illustrate that. First, was a multi-million dollar KYC deal with a major global bank to help them strengthen financial crime compliance. We have grown this relationship by more than two times since 2020, by expanding the breadth and depth of our products being used across the bank, from credit ratings feeds to economic data to early warning detection. Building on that, we were recently selected as a global strategic data partner for their KYC program based on the high-quality of our interconnected data sets. That is a very strong referential customer for other major global banks.

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The second was our first agentic AI sale in the KYC space with a major crypto trading platform that handles about $ 1 billion a day in trading volume. In the first quarter, we signed a multi-million-dollar contract across a suite of our solutions, and they are the first customer using Agent Review, which is our new KYC AI Screening Agent that helps onboard customers more accurately and quickly. Given all the manual labor in the KYC space, AI agents have a very compelling value proposition, and we are excited about this opportunity.

So, more broadly, let me provide a quick update on our AI strategy across MA. Our focus remains on harnessing the transformative potential of Generative AI to drive growth, to enhance customer experiences, and achieve a more efficient operating model. On the commercial front, last quarter, I talked about how customers who upgraded to Research Assistant contributed meaningfully to growth in the Research & Insights business in 2024. Beyond Research Assistant, we have introduced three unique Generative AI offerings that highlight the power of integrating our proprietary data to accelerate decision-making for our Banking and KYC customers: the Automated Credit Memo, Early Warning System, and the KYC AI Agent that I just talked about.

Additionally, GenAI Navigators, now embedded in over a dozen MA product lines, are enabling on-demand customer support and improving user experiences across our solutions, and these navigators are helping customers maximize the value of our products. We have also deployed Generative AI internally across three of our most significant functional job families in MA including customer service, engineering and sales. For example, our customer service assistant has enabled a 20% reduction in resources for our support team, while significantly improving response times, all without compromising the quality of customer interactions. In engineering, we are rolling out increasingly advanced AI tools to empower our software engineers, setting ambitious adoption targets to accelerate roadmap delivery and drive innovation. We have recently launched a transformative, internally-built, agentic tool that will act as a sales companion for relationship managers and their specific books of business. It is designed to act as a catalyst for tailoring our value propositions, for streamlining prospecting and meeting preparation, and accelerating buying decisions. As you might imagine, our sales and management teams are very excited about the prospects for productivity gains.

So these are just a few tangible ways that we are driving greater efficiency and effectiveness in important areas across the firm. So, anchoring this back to where I started my comments just a few minutes ago, Moody's value proposition is especially relevant in times of change and uncertainty, and we are doubling down on improving the earnings engine of our business and delivering strong results in the face of volatility. While the services that Moody's provides are not directly impacted by tariffs announced to date, we do believe many businesses are being impacted by the uncertainty of impending trade tensions and this uncertainty in turn leads to customers delaying financing and investment, and we have seen this in the first few weeks of April. As I think most of you would expect, we are taking a more conservative approach to guidance given the operating environment since we issued our initial guidance earlier this year. We have widened and lowered our guidance range to accommodate a broader range of potential outcomes at this point in the year and Noémie is going to share more details in her prepared remarks, and I am sure we will address this further in Q&A.

Now, looking beyond the near-term dynamics in the markets, we feel confident about the deep currents that are underpinning the demand for our solutions: first, the evolution of the capital markets, including Private Credit; second, the digital transformation and automation in financial services industries; third, the imperative to know more about who you are doing business with;

fourth, the financial impact of extreme weather events; and fifth, the transformative power of Generative AI and the tremendous unlock available from proprietary data.

I want to double-click on a few of those for just a moment. I have highlighted the growth coming from private credit, and I am particularly excited about the groundbreaking partnership with MSCI that we announced yesterday, where we are going to be providing independent risk assessments for private credit investments at scale. This partnership brings together our world-leading credit scoring models with MSCI's very deep data on private credit investments, enabling investors to understand the credit profile of companies and individual loans. Together we are serving a critical need for transparency and standards in the private credit market.

To support banks and their drive to digitize and streamline their credit and lending workflows, we have integrated Numerated and Able AI's front-end capabilities into our flagship lending solution: CreditLens. CreditLens supports nearly 500 banks with nearly $27 trillion in assets. In fact, CreditLens' ARR, which represents over a third of the total Banking line of business ARR, grew at 12% over the last 12 months, demonstrating our ability to innovate and enhance our scaled solutions and expand relationships within our core customer base.

On the impact of extreme weather events, Aon reported that first quarter economic losses of $83 billion were well above the 21st century average of $61 billion. In January, we closed our acquisition of CAPE Analytics, a leading provider of geospatial AI data and location intelligence for property underwriting and now we are integrating CAPE into our industry leading catastrophe models. This is going to give insurers an incredibly high-definition view of property risk, allowing them to insure more confidently and with greater precision.

So we feel good about the medium-term given these deep currents, and we can and will manage through the short term. We have got an experienced team and a strong portfolio that is built to weather storms and to provide insight when the market needs us most. With that, Noémie, over to you.

NOÉMIE HEULAND

Thank you, Rob, and hello everyone. Thank you for joining us today. This morning, I will start with our first quarter performance, then walk you through how we are thinking about the rest of the year. Starting with Q1, we achieved record financial results. MCO delivered revenue of $1.9 billion, up 8%, MCO Adjusted Operating Margin improved by 100 basis points, and Adjusted Diluted EPS of $3.83 was up 14% year-on-year. Moody's Analytics achieved quarterly revenue of $859M, up 8%. Recurring revenue grew 9%, in line with ARR growth. Decision Solutions, which includes our KYC, Insurance, and Banking solutions, grew ARR by 12% to nearly $1.5 billion. And this line of business is consistently the fastest growing part of Moody's Analytics, with ARR growth of 17%, 11% and 8% in KYC, Insurance, and Banking solutions respectively. Research & Insights and Data & Information ARR growth rates were 7% and 6% year over year. You can see this breakdown on slide 7.

Double clicking into MA's lines of business results. First, within Decision Solutions, KYC led the growth with strong demand for our data, analytics and workflow solutions. KYC ARR growth was driven not only by our Banking customers, as Rob illustrated earlier, but also by significant deals with corporate customers to vet suppliers and with European government entities to investigate fraud. In Insurance, our climate and specialty insurance risk solutions and HD models are key differentiators in the market, driving ARR growth of 11%. In the first quarter, we signed an exciting deal for our cyber risk models with one of the largest global property and casualty insurers, showcasing that we are embedding ourselves in the insurance ecosystem across multiple risk domains.

In Banking, ARR grew 8% as customers are increasingly engaging with us to automate and digitize their lending workflows. In fact, over the last year, we have seen an increase of almost 20% in new business related to our lending solutions. Turning to Research & Insights, now growing ARR at 7%, the improved ARR growth rate is primarily driven by the lapping of two attrition events in the first quarter of last year. New business generation continues to be strong - up 20% over the last 12 months. Finally, our Data & Information business grew ARR by 6%. The downtick in the growth rate over the last two quarters continues to be impacted by two dynamics that we have talked about in recent quarters, an adjustment to our ESG strategy and attrition in sizeable contracts with the US Government. Outside of these two areas, ARR growth would have been 10%.

Now, pivoting to Ratings, record quarterly revenue was driven by Corporate Finance, especially from investment grade issuers, and by Structured Finance, with continued momentum in CMBS and CLOs, as spreads remained tight and relatively stable through Q1. You can see this on slide 6 and, as Rob mentioned, private credit was a tailwind. In the first quarter, First Time Mandates were almost 200, an increase of 20% year-on-year, broadly in line with our Q1 expectations. So net-net, a record first quarter with very strong execution on the backdrop of a constructive issuance environment up to the first week of April.

Now, looking beyond the first quarter, we believe it is appropriate to pressure test our initial assumptions against a wider range of scenarios and update our guidance range accordingly. The market remains very sensitive to factors including fiscal and monetary policy news flow, economic data, and the potential path and pace to a resolution. Global forecasts for GDP are being revised downwards and the magnitude and timing of central bank rate cuts remain very much in flux. We currently anticipate high-yield spreads will widen over the next 12 months and the latest forecast for default rates is also wider.

On the global and domestic M&A front, earlier expectations have been dampened by trade policy uncertainty. As such, we now expect 15% growth year-on-year in announced M&A, down from 50% growth in our February assumptions. So, how does this translate into a full year financial outlook? Well, first of all, we are pleased with the fact that Q1 rated issuance was broadly in line with our forecast, but we are now projecting MIS rated issuance to decrease in the low-to-high-single-digit range for 2025. Our range accounts for various levels of activity in May and June, after a somewhat muted April, and for variability in how quickly uncertainty resolves in the back-half of the year. The breakdown by asset class is in our slide presentation on slide 10.

Finally, our issuance assumptions account for a relatively short-term disruption at the high end and more prolonged uncertainty with muted US GDP growth at the low end. While robust deal making activity in the back-half and healthy supply of high-yield issuance in the near-term are possible and certainly supported by subdued M&A levels and maturity walls, respectively; we do not consider this a base case at this time. Reflecting our updated issuance outlook, we now expect MIS full year revenue growth to be in the range of flat to a mid-single-digit percentage increase for 2025. MIS adjusted operating margin is expected to be in the range of 61 to 62%.

Turning to MA, we are reiterating our revenue growth guidance of an increase in the high-single-digit percent range and we are adjusting the high end of our prior ARR growth guidance, with full year ARR growth now expected to be in the high-single-digit percent range. There are two reasons for the ARR guidance adjustment. First, we want to acknowledge that the fluidity of the external

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environment drives uncertainty with customers and could lead to delays in decision making as the year progresses. Although, it is important to note, this has not been the case so far.

Second, we are reflecting higher than expected attrition with the US government than originally anticipated; this includes the impact of what was realized in the first quarter and an increase in probability of attrition for contracts scheduled for renewal in the balance of the year. Having said that, we continue to build a solid pipeline of new business and believe the recent customer wins demonstrate Moody's Analytics' strong value proposition, even in this environment.

On the margin front, the efficiency program we announced on our Q4 call sets us up very well. It provides us with the capacity to continue investing to capture demand from the multi-year deep currents Rob highlighted and deliver on our commitment to scale margins. Bringing this all together, with our adjustments to MIS revenue guidance, we expect full year 2025 MCO revenue growth in the mid-single-digit range, with an Adjusted Operating Margin expanding by about 100 to 200 basis points to a range of 49% to 50%. Our Adjusted Diluted EPS guidance range is a range of $13.25 to $14.00, representing 9% growth at the mid-point versus last year.

Now, for modeling purposes, we expect the calendarization of topline and margin for MIS to be below the normal seasonal pattern for Q2, following the strong Q1 results and considering April issuance volumes. We anticipate that revenue will remain stable between the second and third quarter, before declining in the fourth quarter sequentially, in line with historical norms. For MA, we expect our year-on-year total revenue growth to be in the high-single-digit percent range, with sequential quarterly increases consistent with the prior year.

Turning to operating expense, and excluding the impact from restructuring and asset abandonment charges, we expect expenses to ramp by about $15m from the first quarter to the second quarter and gradually increase sequentially in the back half of the year, in line with historical trends. The expected savings associated from our efficiency program will partially offset annual salary increases and variable costs as the year progresses.

Turning to our balance sheet and capital return, we have a strong financial profile and will continue to return capital to shareholders. We are maintaining our prior share repurchase guidance of at least $1.3 billion for 2025. Capital return represents approximately 80% of our Free Cash Flow, which is now expected to be in the range of $2.3 billion to $2.5 billion for the full year 2025.

Echoing what Rob shared, we believe we are well-positioned at the center of important deep currents and we are operating from a position of financial strength. With that, I would like to thank all our colleagues around the world for their contributions to another record quarter for Moody's. With that, operator, we would be happy to take any questions.

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"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. 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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Those factors, risks and uncertainties include, but are not limited to: the uncertain effects of U.S. and foreign government actions affecting international trade and economic policy, including changes and volatility in tariffs and trade policies and retaliatory actions, on credit markets, customers and customer retention, and demand for our products and services; the impact of general economic conditions (including significant government debt and deficit levels, and inflation or recessions and related monetary policy actions by governments in response thereto) on worldwide credit markets and on economic activity, including on the level of merger and acquisition activity, and their effects on the volume of debt and other securities issued in domestic and/or global capital markets; the uncertain effects 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 impact of geopolitical events and actions, such as the Russia-Ukraine military conflict and military conflict in the Middle East, and of tensions and disputes in political and global relations, on volatility in world financial markets, on general economic conditions and GDP in the U.S. and worldwide and on Moody'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 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 CRAs in a manner adverse to CRAs; 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; 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, 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, corporate or government entities. 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