

MOODY'S CORPORATION SECOND QUARTER 2025 EARNINGS CONFERENCE CALL

WEDNESDAY, JULY 23, 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 second quarter of 2025 and updated guidance 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.moody.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, 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. Rob?

ROB FAUBER

Thanks, Shivani, and thanks everybody, for joining today's call. I am going to kick off with some high-level takeaways on the operating environment and Moody's second quarter performance. Then I am going to share some progress updates on our strategic investments and opportunities. And later in the call, Noémie is going to provide some details on the second quarter performance and outlook for the second half of the year. And after we finish our prepared remarks, Noémie and I will be glad to take your questions.

So, on to the results. This past quarter, Moody's provided the insights and expertise that helped markets to make sense of a complex and rapidly changing global landscape. Second quarter Moody's revenue of \$1.9 billion grew 4% year over year. That is an impressive accomplishment given the April issuance air pocket and a tough comparable to the second quarter of last year when revenue grew 22%. Now, we remain focused on disciplined expense management, delivering an



Adjusted Operating Margin of 50.9%, up 130 basis points from a year ago. And, together, this translated to Adjusted Diluted EPS of \$3.56, up 9%; that is actually 60% growth from the same quarter just three years ago. So it illustrates just how much the earnings power of our business continues to grow.

On the back of our second quarter performance, we have narrowed our guidance ranges for rated issuance, MIS revenue and EPS.

Now, starting with MIS, we continue to invest in strengthening our position as the Agency of Choice for issuers and investors. And that pays dividends in times of uncertainty when markets turn to us for our insights and the quality of our analysts. Our Ratings franchise delivered \$1 billion in revenue this quarter. That is just shy of a second quarter record and it also marked our second consecutive quarter above the \$1 billion revenue mark.

While April started off slowly with several days of no issuance, conditions improved meaningfully as we moved into May and June. Markets stabilized, spreads narrowed back to pre-April levels, and issuance picked up significantly; and that helped to offset the early softness. Both total revenue and transactional revenue growth were stronger than issuance growth. This outperformance was partially helped by a favorable issuance mix and, to a lesser degree, the growth in products and services not tied to issuance, such as certain private credit ratings.

Now, looking ahead to the second half of the year, we are cautiously optimistic. The four key credit themes that we identified at the start of the year remain relevant and they could influence the balance of 2025 and beyond. These include US policy on trade, tax, and immigration, geopolitical tensions in the Middle East, the fiscal, economic and security impact of European defense spending, and potential shocks triggering a pullback in risk appetite.

Now, one of the deep currents driving demand in Moody's Ratings that we have discussed a good deal on recent calls is the continued growth and evolution of the private credit markets. We have invested and engaged to become an important voice in this space, fulfilling a critical need for more transparency and insights. In the second quarter, we published a private credit webinar on the Moody's IR website; it discusses the trends we are seeing in private credit and how Moody's is serving the market.

We also hosted marquee credit conferences in both New York and London that drew nearly a thousand people from across the entire private credit ecosystem. And these events demonstrate the tremendous convening power of the Moody's brand and also underscore how much interest there is in having us play an important role as the leading opinion provider on credit in this market.

Now, continuing the trend from the first quarter, private credit is an important driver of growth in Ratings. In fact, in the second quarter, private credit related transactions accounted for nearly 25% of first time mandates and the number of private credit related deals increased by 50% year over year. Revenue related to private credit grew 75% in the second quarter across multiple lines of business in MIS, albeit off a relatively low base. It was a contributor to how we delivered flat revenue growth amidst an issuance environment that was down 12%.

Private credit investment plays an increasingly important funding role in key sectors such as AI data center investment, transition finance, energy, and infrastructure. We are well positioned to

address these growth opportunities. In fact, among others, we just rated a £1.5 billion British pounds deal this quarter for a European utility company. That was the largest ever private credit related deal in the UK. And as private credit grows, so too does the use of ratings in this space, as the biggest players in this market realize that a credible independent assessment of credit risk; be it a rating or a model derived score, from a trusted firm like Moody's provides additional transparency and comparability that broadens the investor base and provides a solid foundation as this market continues to scale.

In addition to how we are addressing this need in Ratings, this was also an important driver of our MA partnership with MSCI that we announced back in April. This presents great opportunities for us to leverage the world's best commercial credit franchise with data, models, ratings and workflow to serve the emerging needs of a whole new group of investors and asset managers who now need enhanced credit underwriting and monitoring capabilities as they invest in this space.

Drilling down into Moody's Analytics, our performance this quarter underscores the strategic role that MA plays in driving Moody's growth and earnings quality. We delivered another strong quarter with 11% revenue growth and 12% growth in recurring revenue. ARR grew 8%, led by a 10% increase in Decision Solutions. Recurring revenue held steady at 96% of MA's total, reinforcing the strength and predictability of our business model.

While we continue to deliver steady growth, I think what really stood out this quarter was margin expansion. MA delivered an adjusted operating margin of 32.1%. That is a 360 basis point improvement year over year. That puts us solidly on track to deliver our full year margin guidance of 32% to 33%.

Now, our best-in-class solutions continue to earn industry recognition and recently Moody's was ranked number one in the Chartis Quantitative Analytics50 rankings for the third year in a row, winning 13 individual categories. These third-party awards, they are important because they are external validation of our ability to deliver innovative and industry-leading solutions that meet the evolving needs of our customers.

This recognition is also echoed in the strong engagement at our annual Banking and Insurance customer conferences. At our Banking conference, we showcased our integrated suite of products, including the advancements in building a fully end-to-end loan origination solution, incorporating key elements from our Numerated acquisition. This was great validation of the addition of Numerated's front-end capabilities as well as the AI enablement across our platform.

Our newly launched lending origination package that features Numerated, was adopted by several renewing customers as of early July, with an average contract value increase of nearly 15%. Notably, one of the largest Japanese banks cited the enhanced value proposition of the integrated offering as a key reason for their upgrade. We are optimistic this adoption trend will accelerate as we enter a heavy renewal cycle in the second half of the year.

Our Insurance conference drew record attendance and showcased new model releases, enhanced underwriting capabilities, and integrations with CAPE Analytics, which we acquired back in January. Feedback from customers was overwhelmingly positive, especially around the fit and value of CAPE's AI-enabled geospatial intelligence, data, and risk analytics in strengthening our

catastrophe models. We are really encouraged by the early traction here; CAPE's ARR is more than 10% higher than when we closed the acquisition and we expect that growth to accelerate further through year end, making it a meaningful contributor to our broader Insurance portfolio.

Beyond our Insurance solutions line of business, we are seeing strong cross-sell into our insurance customer base. Several insurance customers adopted our MaxSight unified risk and KYC platform; that includes a large multinational insurer in APAC that selected Moody's to consolidate multiple screening systems into a single, streamlined solution. That not only simplifies their operations but it also validates our synergy thesis from the RMS acquisition.

While we delivered a strong quarter from both a growth and margin standpoint, we are not standing still. We continue to innovate, invest and partner to capitalize on the deep currents driving demand for our solutions. You have heard me talk about how we are investing in the evolution of the markets. This quarter, that included our partnership with MSCI to provide third-party credit scores on thousands of private companies and loans that we discussed on the last call.

This past quarter we also made another investment in our domestic ratings franchise in Latin America, building on the really great momentum that we have across the region. We completed our acquisition of ICR Chile, which is a leading provider of domestic credit ratings in Chile, which in turn is the third largest domestic bond market in Latin America and we are going to integrate this business into Moody's Local.

Now activity in these markets remains very healthy with Moody's Local new mandates year-to-date up more than 30% year over year. That reinforces the importance of continuing to invest in our leading presence across the region and thought leadership in the debt markets of tomorrow.

We also announced several exciting partnerships with major technology and data players. We are really excited about our data integration with SAP's new Business Data Cloud. The first dashboard product is set to launch in Q4 with more to come. That opens up a new distribution channel for our data to thousands of SAP customers.

During the quarter, our new onboarding agent, leveraging our massive company database, that we call Orbis, was featured during the keynote at Coupa's annual Inspire conference, which drew over 3,000 attendees. Our Risk Data Suite is now available on the Databricks marketplace; that is another important step in our growing partnership with Databricks, and significantly enhances the customer access and integration to our content and offers new monetization opportunities.

We know there is a growing interest in understanding the contribution of Gen AI to our business and while sales of our standalone GenAI solutions are not material yet, we wanted to provide a few meaningful indicators to demonstrate the progress and value GenAI is already delivering. First, at a high level, is the deployment of GenAI across our portfolio. So, over the past year we have accelerated the roll out of GenAI capabilities and, by the end of the second quarter, approximately 40% of our products, measured by ARR, now include some form of Gen AI enablement; whether offered as a standalone solution, as an upgrade, or embedded within the core product.

A second way to look at progress is by looking at the growth of our total relationship with customers who have purchased or upgraded to standalone GenAI offerings from us. Their total spend across Moody's Analytics, measured by ARR, is approaching \$200 million and that is growing at about



twice the rate of MA overall. So, this cohort of GenAI adopters shows stronger and deeper engagement, and that reinforces the broader impact of our GenAI investments and innovation strategy.

Now, finally, I want to share a milestone in our partnership with Microsoft. We are excited to share that Microsoft will use Moody's as their primary operational data provider for customer hierarchy and organization data management. Moody's data is helping power decision-making across Microsoft's operations and plays a significant role in facilitating Microsoft's view of their customers. This partnership integrates Moody's proprietary data sets into Microsoft's supply chain, compliance, credit, and Know Your Customer (KYC) business functions. The benefits from this partnership include enhanced risk management, AI innovation, and cost efficiencies. We believe this collaboration underscores the importance of data-driven decision-making and AI innovation in today's rapidly evolving business landscape.

So, some good execution this quarter, even with a choppy environment in April, and we are confident in our strategy, building, buying and partnering to capitalize on the powerful growth drivers shaping our markets. From expanding our Gen AI capabilities to deepening our presence in high-growth regions and forging strategic partnerships, we are positioning Moody's to lead in an increasingly data-driven, AI-enabled world and to deliver long-term, sustainable value for our stakeholders.

With that Noémie, over to you.

NOÉMIE HEULAND

Thank you, Rob and hello everyone. Thank you for joining us today.

Indeed, we delivered strong results in the second quarter. and I will walk you through the details and provide some additional color. Starting with MIS, revenue was flat versus the prior year, or declining by 1% when adjusted for positive FX movements effects, surpassing \$1 billion for the second consecutive quarter.

The trends of transaction revenue against issuance growth implies a favorable issuance mix this quarter, from Corporate Finance, Structured Finance and PPIF, and the contribution of private credit. Recurring revenue increased by 7% year-on-year from pricing initiatives and portfolio growth.

Now, looking at our performance across asset classes, Corporate Finance transaction revenue declined 6% year-on-year as bank loans issuance slowed and M&A activity remained subdued. Notably, there was a significant decline in repricing activity, which contributed positively to the revenue mix.

Investment Grade transaction revenue grew 18% on issuance growth of 16% as issuers took advantage of tight spreads, reflecting elevated demand for high-quality paper. As you probably have seen in the press, this was particularly pronounced in the TMT sector.

High Yield transaction revenue was broadly in line with last year, with notably strong performance in EMEA.

In Financial Institutions, transaction revenue declined 6% year-on-year, driven by lower infrequent issuer activity primarily in the Insurance sector.

Structured Finance issuance declined by 25% in the second quarter, as market volatility and wider spreads curtailed activity in April. Transaction revenue declined only 3%, helped by favorable mix, particularly from a slowdown in CLO refinancing and from higher average fees in other asset classes.

Finally, Public, Project and Infrastructure Finance grew 3% in transaction revenue, driven primarily by US Public Finance. Issuance was largely opportunistic to get ahead of any impending policy changes and market volatility. It is also worth noting that, in the second quarter, our US Public finance group rated the highest quarterly issuance volumes since 2007.

First time mandates were nearly 200 in the second quarter, which is very encouraging and keeps us on pace for our expectations of 700 to 800 for the full year, in support of ongoing funding needs and the growth in private credit. In EMEA, first time mandates were up year-over-year, driven by mandates in PPIF, which was supported by the increase in private credit. As private credit becomes a more prominent part of the market, it is important to note that some issuance activity is not captured in rated issuance figures reported by external data providers.

Moving to margin, MIS delivered 64.2% adjusted operating margin, expanding 100 basis points from last year. As a reminder for modeling purposes, I would like to say that the second quarter 2024 included a one-time legal reserve related to a regulatory matter, impacting the underlying margin expansion dynamics year-over-year. Taking seasonality into account, we continue to expect between 61% to 62% adjusted operating margin for MIS for the full year.

Turning to Moody's Analytics, revenue grew 11% in the second quarter, and that includes about 4 percentage points of growth from M&A and FX. Recurring revenue grew 12%, with organic constant currency recurring revenue growth of 8%, in line with second quarter ARR growth.

Decision Solutions, which includes Banking, Insurance and KYC, continues to deliver double-digit growth.

KYC led the way with sustained strong demand for our data, analytics and workflows, serving customers across industries. KYC ARR grew 17% last quarter and moderated slightly to 15% this quarter. The primary driver of this deceleration was the strategic termination of a long-standing redistribution partnership. We believe that this is in the best long-term interest of preserving the value of our proprietary data. Outside of this specific event, KYC new business growth remains strong and we expect ARR growth to remain in the mid-to-high-teens through the second half of the year.

In Banking, our portfolio of products, including our lending suite, risk and finance solutions as well as data sales from the legacy Reis acquisition, among several other smaller product lines, delivered a blended ARR growth of 7%. We are concentrating our investments on supporting customers across the entire lending workflow, from origination to approval and beyond. Our flagship lending

product, CreditLens, is proof of that success, with low-teens ARR growth and mid-teens new business growth, boosted by the ongoing integration of Numerated's AI and data analytics capabilities, which you heard Rob touch on earlier.

Insurance solutions delivered 9% ARR growth, with a couple of dynamics to call out. An account loss following a merger dampened growth by about 1 percentage point and we faced a tough comparable against record new business in the first half of last year. That said, our new business pipeline is building nicely, growing at a double-digit pace, and we expect it will support at least high-single-digit growth rates as we head into the second half of the year.

Regarding the low-double-digit growth with CAPE Analytics that Rob mentioned, I want to call out that this is not captured in the Insurance solutions ARR metric – as we wait to lap the anniversary of our acquisitions before including them in the line of business and overall MA ARR.

Turning to Research & Insights, we delivered ARR growth of 7%, supported by continued innovation in CreditView. This includes contributions from Research Assistant, as well as a modernized user experience with new features, scorecards, and peer analytics. We are also integrating real-time news and additional data sets to deliver richer, more timely signals, driving growth through strong retention rates and pricing power.

Finally, Data & Information ARR grew 6%. Following some outsized attrition from the US government in the first quarter, we remain focused on driving growth through strong retention and new business production. We are also making meaningful progress on improving MA's margin profile. We are doing this by prioritizing investments, optimizing vendor relationships, revisiting legacy org structures, and deploying productivity tools across the organization. As a result, annualized compensation expense declined by 4% from the beginning of the year through June. We expect this continued rigor and discipline to support further margin expansion in the second half of 2025 and into 2026.

So, as there were several discrete factors influencing performance across our lines of business this quarter, I wanted to provide transparency to help unpack the underlying drivers. Stepping back, Moody's Analytics continues to deliver highly predictable, high-single-digit ARR growth, now paired with strong and sustainable margin expansion. This combination of consistent top-line performance and disciplined execution positions MA as a durable long-term growth engine for Moody's.

Turning to the remainder of the year and our guidance. We are reaffirming our MA guidance metrics and updating our outlook for MIS issuance and revenue. These revisions primarily reflect better than expected second quarter performance and a weaker US dollar. You can see the details on Slide 12. For M&A related issuance, our view is largely unchanged. We continue to expect 15% growth in announced M&A and flat rated issuance. That said, we are monitoring the environment closely, as macroeconomic and geopolitical uncertainty tends to disproportionately affect this aspect of issuance. Keep in mind M&A is only one of many factors impacting overall issuance volumes.

Issuance finished the second quarter ahead of our earlier expectations, leading us to update the low-end of our prior guidance range. That said, uncertainty remains around several macro drivers

including tariff, central bank interest rate policy, inflation, the path of credit spreads, and the trajectory of M&A activity for the remainder of the year. The low end of our issuance forecast accounts for potential short-lived issuance air pockets but does not anticipate a meaningful deterioration in the macro-economic or geopolitical environment.

On the revenue front, we now expect full year MIS revenue growth in the low-to-mid-single-digit percent range, and we believe there is more upside than downside at our mid-point. From a modeling perspective, taking the midpoint of our guidance range, we anticipate MIS revenue to decline in the low-single-digit year-over-year in Q3, followed by mid-single-digit growth in Q4. Our full year MIS adjusted operating margin guidance remains at 61 to 62%.

For Moody's Analytics, we continue to expect both revenue and ARR growth in the high-single-digit percent range, consistent with the outlook we shared on our Q1 call. We also reaffirm our full year adjusted operating margin guidance of 32 to 33%, with a steady ramp upwards from the 32% we reported this quarter, reflecting both seasonality of revenue and expenses as well as ongoing expense management efforts.

At the MCO level, excluding the impact from restructuring charges, we expect operating expense to ramp between \$30 to \$45 million in the third quarter versus Q2, primarily related to our annual merit increases, followed by a gradual sequential increase in Q4. We anticipate approximately \$100 million of incentive compensation for each of the remaining quarters of the year.

Finally, our efficiency program continues to deliver results. We have already executed on annualized savings of over \$100 million, which are helping offset annual salary increases and variable costs as the year progresses.

Now, putting it all together, we continue to expect topline for MCO to grow in the mid-single-digit percent range, with Adjusted Operating Margin in the 49 to 50% range. Our updated Adjusted Diluted EPS guidance range now implies 10% growth at the midpoint versus last year.

Echoing Rob's comments, we are executing well on our strategy from a position of financial strength. Looking forward, we are investing to capitalize on the secular demand drivers from our deep currents, such as digital transformation, AI adoption, and the expansion of private markets - that are driving multi-year investment cycles for our customers, and in turn generating demand for Moody's ratings, data, analytics, and workflow solutions.

With that, I would like to thank all our colleagues for their contribution to yet another strong quarter for Moody's. Operator, we are now happy to take questions.



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