Moody's



# Presentation for JP Morgan Ultimate Services Investor Conference 2012

Select Slides from Moody's Corporation Investor Presentation 3Q 2012

NOVEMBER 6, 2012

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# Overview of Moody's Corporation

Leading global provider of credit rating opinions, insight and tools for financial risk measurement and management

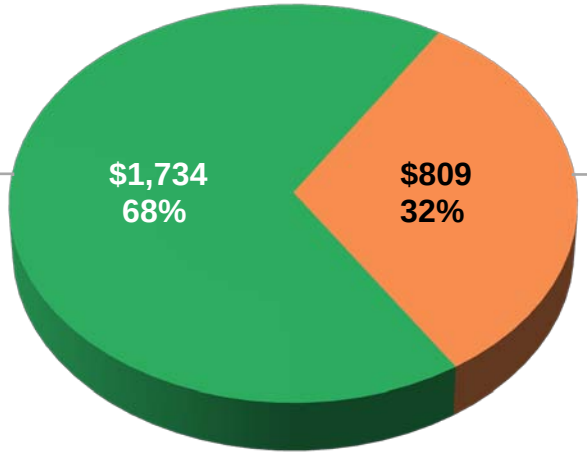
**Moody's Investors Service**

Independent provider of credit rating opinions and related information for over 100 years

**Moody's Analytics**

Research, data and software for financial risk analysis and related professional services

**Moody's**
**TTM Revenue: $2.5 billion***




*($ millions)*

* TTM as of September 30, 2012. Represents consolidated financials excluding intersegment royalty and eliminations.

# Double-Digit Revenue Growth in All Lines of Business at MIS and Continued Strong Growth in All Areas of MA in 3Q12

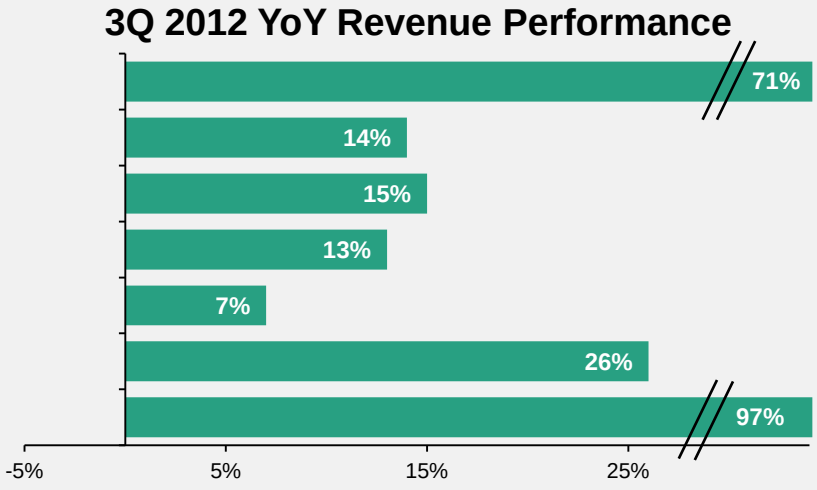
*($ millions)*

**Moody's Total Revenue**
**3Q 2012: $689**

| | |
|---|---|
| MCO | ↑ 30% |
| U.S. | ↑ 37% |
| Non-U.S. | ↑ 22% |

**MIS** ↑ 35%
- $221 Corporate Finance
- $93 Structured Finance
- $83 Financial Institutions
- $77 PPIF

**MA** ↑ 20%
- $124 RD&A
- $64 ERS
- $27 Professional Services

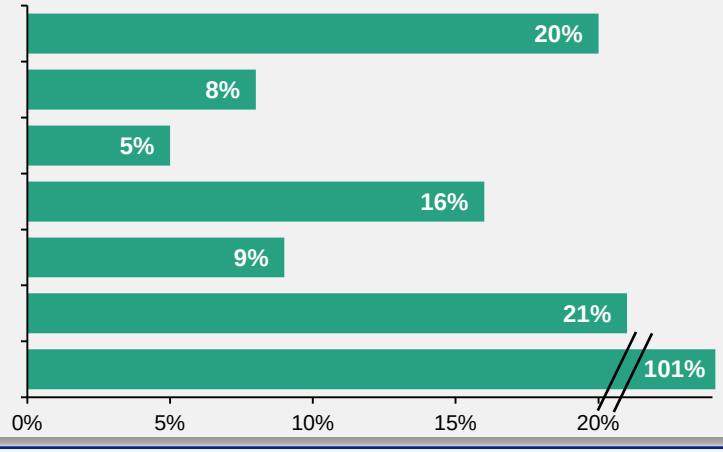



**Moody's Total Revenue**
**YTD 3Q 2012: $1,976**

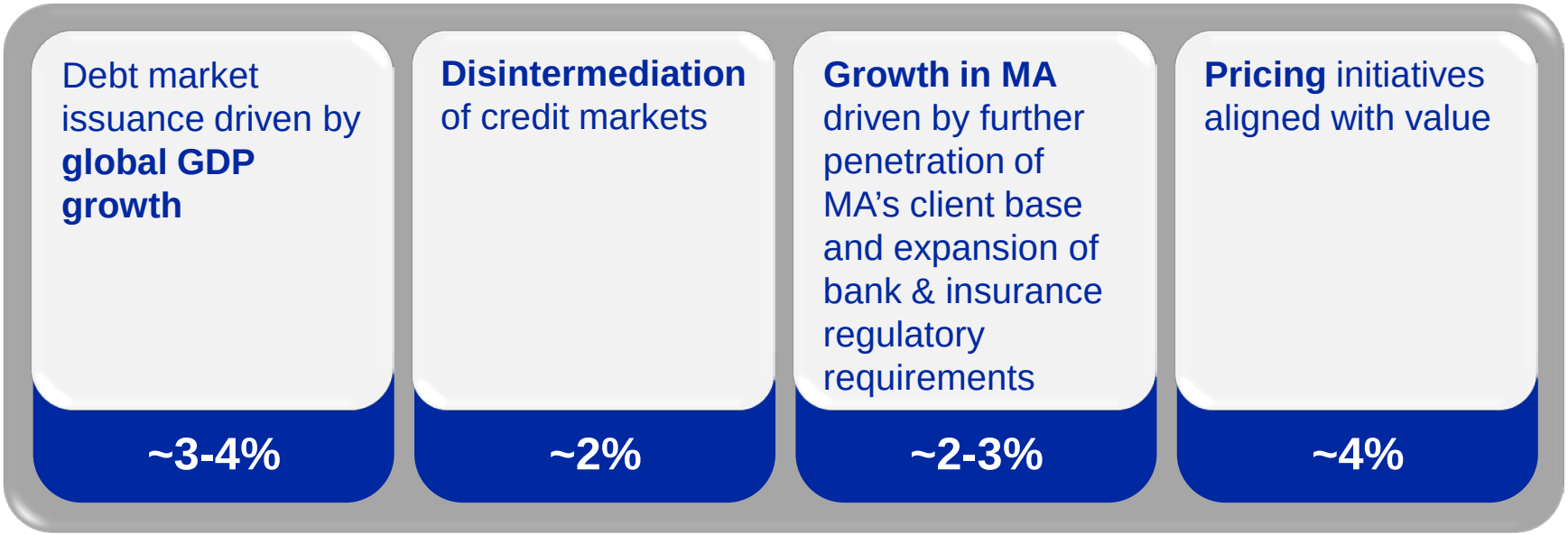
| | |
|---|---|
| MCO | ↑ 15% |
| U.S. | ↑ 19% |
| Non-U.S. | ↑ 11% |

**MIS** ↑ 14%
- $613 Corporate Finance
- $278 Structured Finance
- $239 Financial Institutions
- $237 PPIF

**MA** ↑ 19%
- $365 RD&A
- $164 ERS
- $80 Professional Services



# Moody's has Ongoing Robust Opportunities for Growth

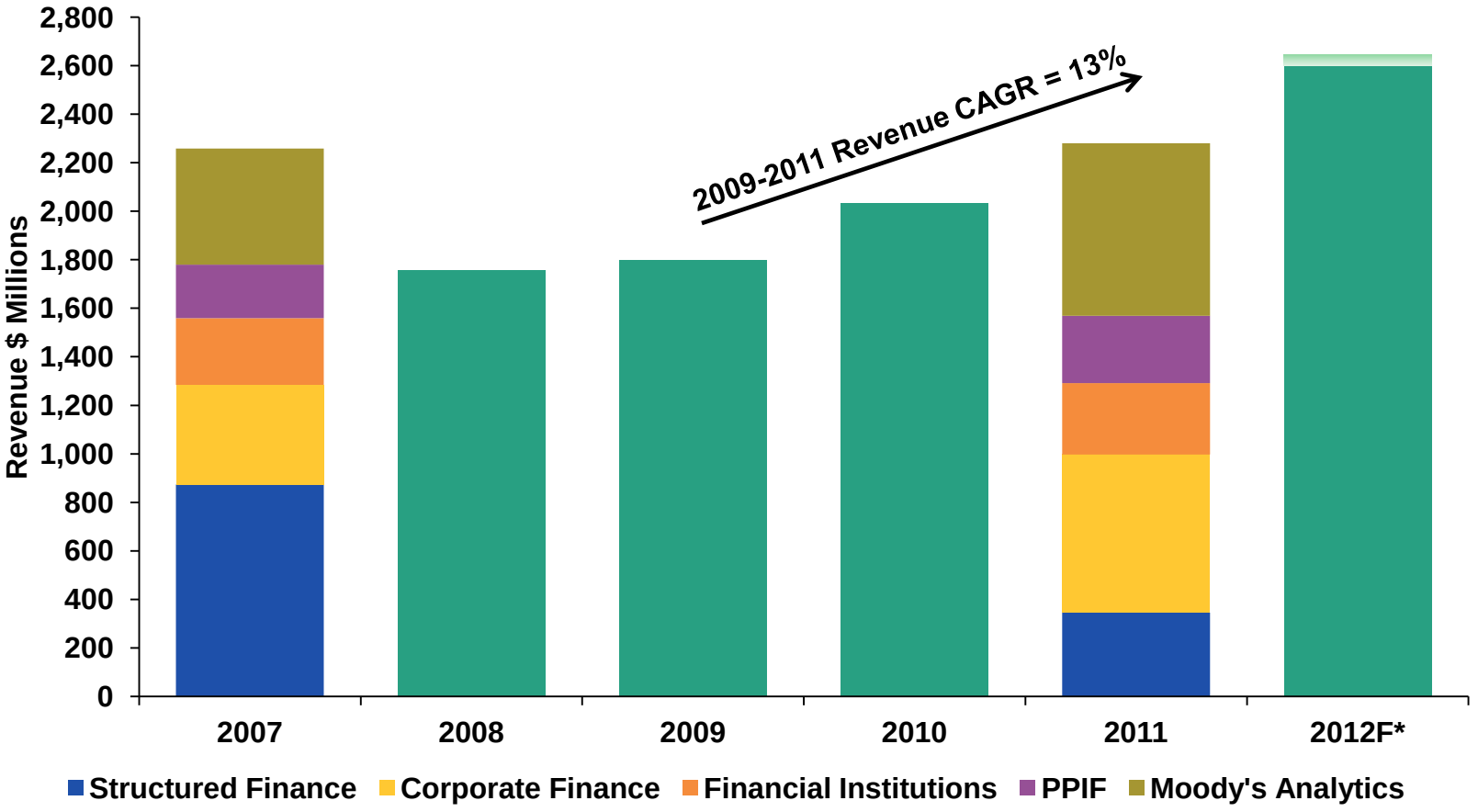



**Revenue Growth Opportunity: Low Double-Digit**

# MCO Resumed Double-Digit Revenue Growth Rate

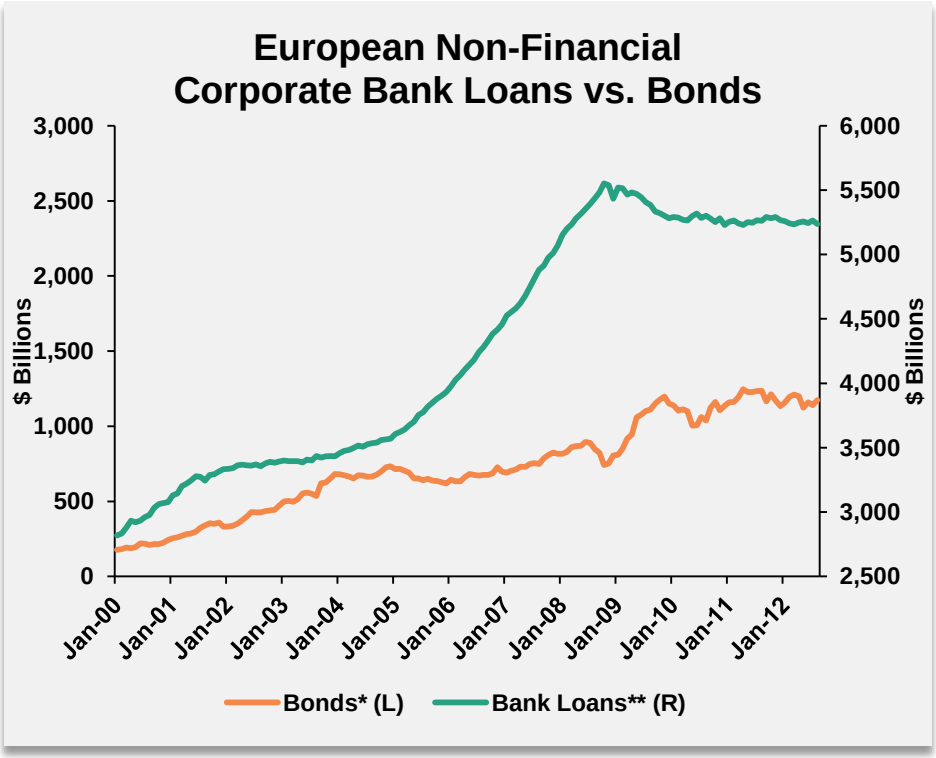
**2012 Guidance Range***

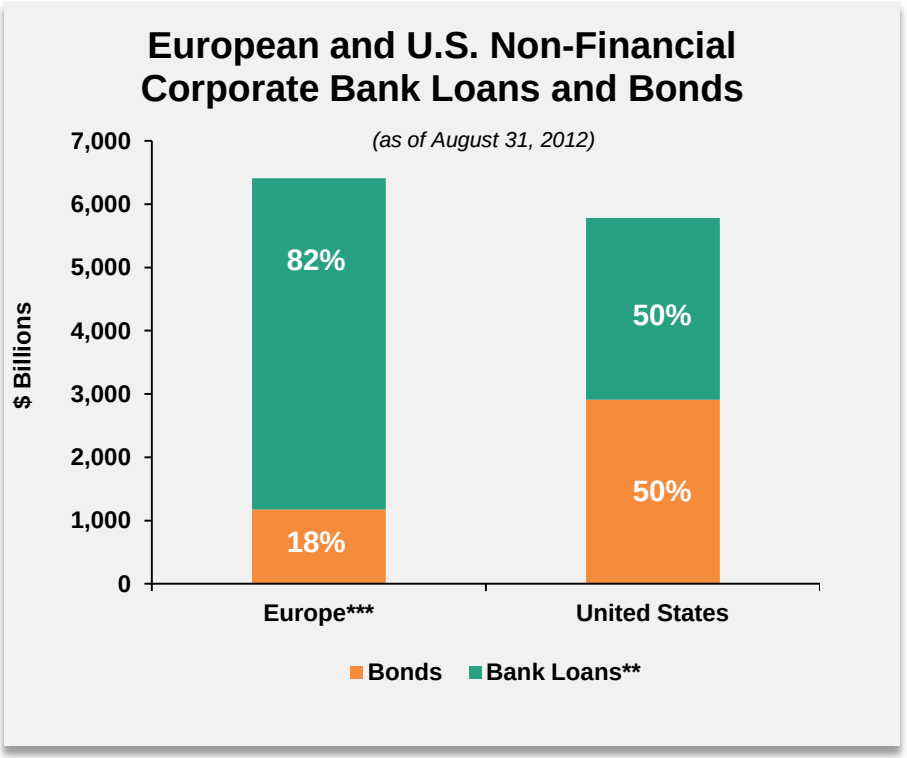
**Revenue: ↑ mid-teens %**




*Represents GAAP guidance provided on October 26, 2012.

# European Capital Markets Have Room For Growth




- January 2000-August 2012 CAGR: Bonds: 16%, Loans: 5%
- Historically, European companies have relied more on banks than their American counterparts

Source: Federal Reserve, ECB, Barcap Indices, Moody's Capital Markets Research Group; Data as of August 31, 2012.
* Includes Investment Grade and High Yield euro and sterling denominated debt.
**Includes Eurozone and UK bank loans. ***European bond data represents euro and sterling denominated debt. European loan data represents Eurozone and UK bank loans.

# Moody's Analytics Competes for Market Opportunities Estimated at Nearly $12 billion

| | Market Size | Expected Growth | Competitive Landscape | MA's Position |
|---|---|---|---|---|
| **Enterprise Risk Solutions** | $5.0 billion | High | Fragmented | Strong |
| **Financial Services Knowledge Process Outsourcing** | $1.8 billion | High | Fragmented | Strong |
| **Financial Training & Certification** | $1.8 billion | Moderate | Fragmented | Strong |
| **Credit Research** | $1.4 billion | Low | Concentrated | Leader |
| **Consumer Credit Analytics** | $0.8 billion | Moderate | Concentrated | Niche player |
| **Economic Information** | $0.5 billion | Medium | Fragmented | Strong |
| **Quantitative Credit Scoring** | $0.2 billion | Low | Concentrated | Leader |
| **Structured Finance Analytics** | $0.2 billion | Low | Highly Concentrated | #2 player |

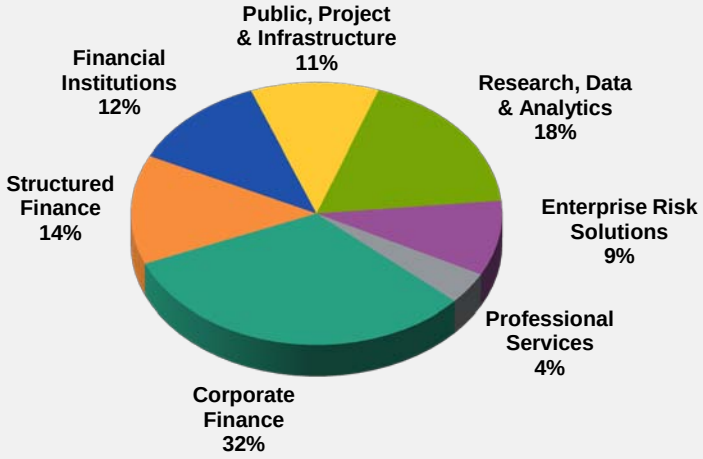
# Focusing Product Suite on Need-to-have Products

- Customer demand is most robust when driven by external forces
  - Regulation: banks and insurers required to undertake common activities
  - Network effects: uniquely positioned to support long-established industry practices in bond and credit markets
  - Competition: providing capabilities to enable banks and investment managers to keep up with industry trends

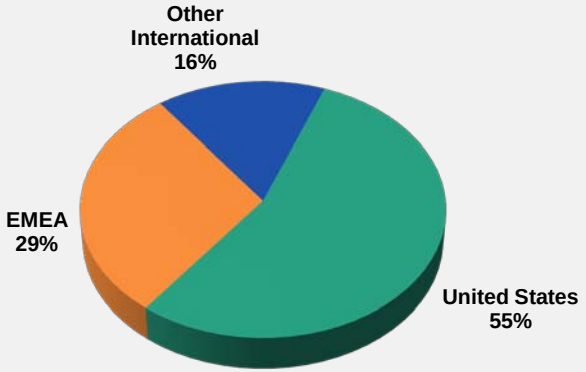
| MA LOB | Product Offering | Target Customer(s) | Drivers | Category |
|---|---|---|---|---|
| RD&A | Research and data associated with MIS ratings | Investors and dealers in bond markets | Widespread use of ratings as benchmark | Network effects |
| RD&A | Economic scenarios and modeling | Banks | Stress-testing requirements | Regulation |
| ERS | Regulatory capital calculation and reporting solutions | Banks | Basel rules | Regulation |
| ERS | Solvency analysis and reporting tools | Insurance companies | Solvency II requirements | Regulation |
| Prof Services | Cost-effective middle-office resources | Investment banks, buy-side firms | Margin pressure (doing more with less) | Industry competition |
| Prof Services | Professional skills based on global best-practices | Banks, securities firms (especially in developing markets) | Regulatory requirements, adoption of global best practices | Regulation/competition |

# Breadth of Moody's Businesses and Global Footprint Provide Diversification

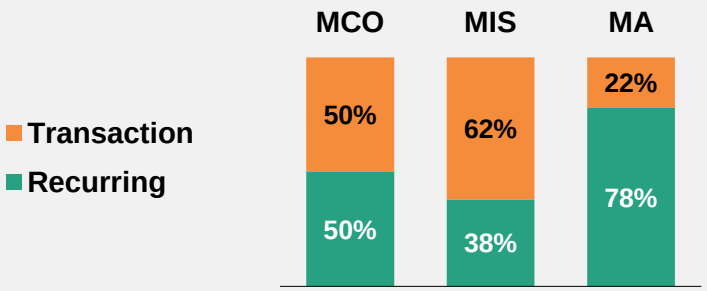
## 3Q 2012 REVENUE BY BUSINESS




## 3Q 2012 REVENUE BY GEOGRAPHY




## 3Q 2012 REVENUE BY TYPE




## TRANSACTION AND RECURRING REVENUE

**Moody's Investors Service**

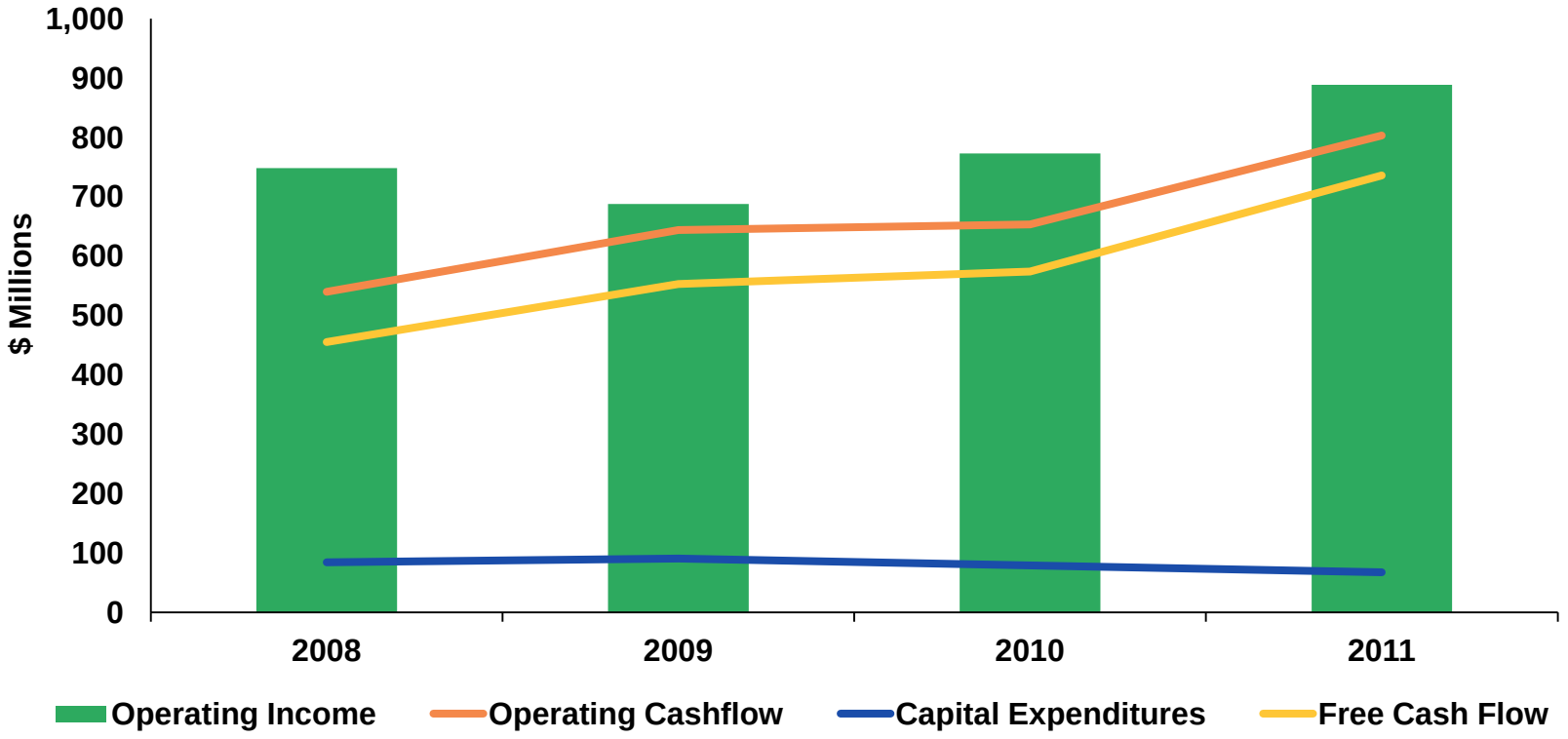
- **Transaction** revenue recognized when rating published
- **Recurring** revenue recognized ratably over security life

**Moody's Analytics**

- **Transaction** revenue recognized when service rendered
- **Recurring** revenue recognized ratably over contract period

# Solid Operating Metrics and Cash Flow Generation

» MCO's 3-Year Free Cash Flow CAGR of 17% compares with a mean of 10% and median of 4% for the S&P 500*




See Appendix for reconciliation of Cash Flow from Operations to Free Cash Flow.
*Per Goldman Sachs analysis as of September 2012.

# Twin Commitments to Supporting Growth and Returning Cash to Shareholders

**Strong free cash flow**

**Moody's Investors Service**

- Invest organically in ratings quality and product extensions
- Extend ownership in select JVs / alliances
  - Very few acquisition targets of scale that are also actionable

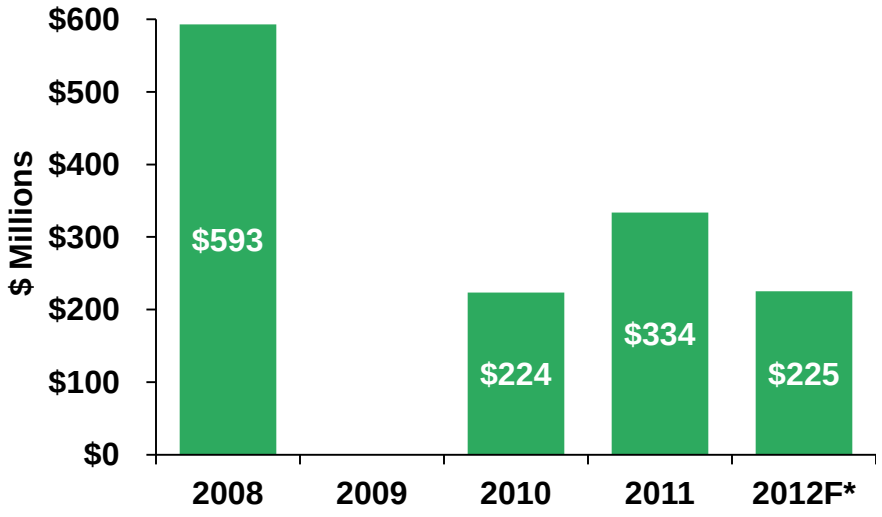
**Moody's Analytics**

- Invest organically in sales staff and implementation staff to meet demand
- Continue methodical approach to acquisitions and portfolio management
  - Primarily through bolt-on acquisitions

**Return capital to shareholders via mix of stock buybacks and dividends**

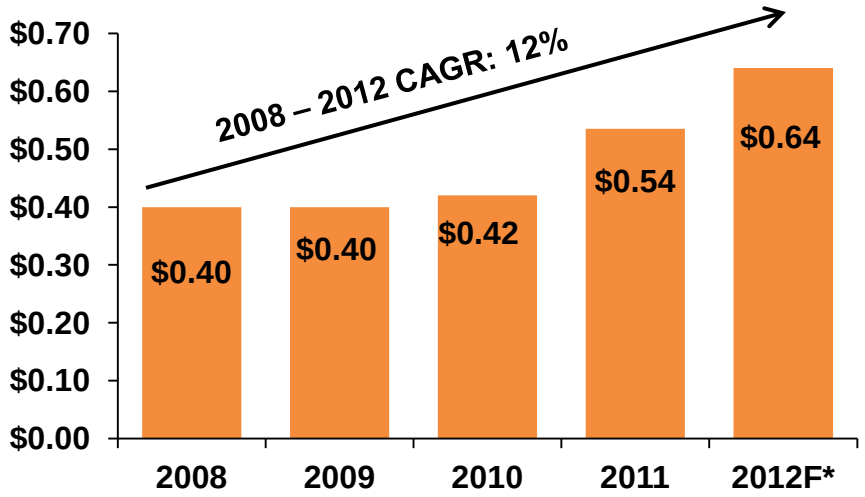
# Balanced Approach to Return of Capital through Share Repurchases and Dividends

## Share Repurchases




- Expected share repurchases in 2012 of $225 million**
- Targeting more consistent share repurchases in coming years: $200 to $300 million per year**

## Dividends




- Increased annualized dividend in 2012 by almost 20% to $0.64 ($140 million total cash expected to be paid in 2012)
- Expect to continue to increase dividend in line with earnings**
- Plan to announce 2013 dividend in December

*Guidance as of October 26, 2012.
**Subject to market conditions and other ongoing capital allocation decisions.

# Full-Year 2012 Guidance as of October 26, 2012

| | |
|---|---|
| » **Revenue:** | ↑ mid-teens % range |
| » **Operating Expenses:** | ↑ mid-teens % range |
| » **Operating Margin:** | Approximately 40% |
| » **Adjusted Operating Margin[(1)]:** | Approximately 43% |
| » **Effective Tax Rate:** | Approximately 32% |
| » **Earnings Per Share[(2)]:** | $2.95 - $3.05 (GAAP);<br>$2.89 - $2.99 (Pro-forma) |
| » **Share Repurchase:** | Approximately $225 million (subject to available cash, market conditions and other, ongoing capital allocation decisions) |
| » **Capital Expenditures:** | Approximately $40-50 million |
| » **Depreciation & Amortization:** | Approximately $100 million |
| » **Incremental Compliance & Regulatory Expenses:** | Approximately $15 million |

(1) See Appendix for reconciliation of operating margin to adjusted operating margin.
(2) Pro-forma EPS excludes an approximate $0.06 per share benefit related to the favorable resolution of a legacy tax matter in the third quarter of 2012. See Appendix for reconciliation of GAAP EPS to pro-forma EPS.

# 6

# Appendix

# Reconciliation of Non-GAAP Financial Measures to GAAP

## Moody's Corporation Free Cash Flow Reconciliation

| *(in millions)* | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|
| **Cash Flow from Operations** | **539.7** | **643.8** | **653.3** | **803.3** |
| *Less Adjustment:* | | | | |
| *Capital Expenditures* | *84.4* | *90.7* | *79.0* | *67.7* |
| **Free Cash Flow** | **455.3** | **553.1** | **574.3** | **735.6** |
| **Cash Flow used in Investing Activities** | **(319.3)** | **(93.8)** | **(228.8)** | **(267.6)** |
| **Cash Flow used in Financing Activities** | **(349.8)** | **(348.8)** | **(241.3)** | **(417.7)** |

## Moody's Corporation EPS & Operating Margin Guidance Reconciliation

| | 2012 |
|---|---|
| EPS Guidance – GAAP | $2.95 - $3.05 |
| *Legacy Tax** | *($0.06)* |
| EPS Guidance – Pro forma | $2.89 - $2.99 |

*Reflects favorable resolution of a Legacy Tax Matter in Q3 2012.

| | 2012 |
|---|---|
| Projected Operating Margin - GAAP | Approximately 40% |
| Projected impact from Depreciation & Amortization | Approximately 3% |
| Projected Adjusted Operating Margin | Approximately 43% |

# Reconciliation of Non-GAAP Financial Measures to GAAP (cont.)

## Moody's Corporation Adjusted Operating Income Reconciliation

| *(in millions, except %)* | **2008** | **2009** | **2010** | **2011** |
|---|---|---|---|---|
| As Reported Operating Income | 748.2 | 687.5 | 772.8 | 888.4 |
| ***Operating Margin*** | ***42.6%*** | ***38.3%*** | ***38.0%*** | ***39.0%*** |
| *Add Adjustment:* | | | | |
| *Depreciation & Amortization* | *75.1* | *64.1* | *66.3* | *79.2* |
| *Restructuring* | *(2.5)* | *17.5* | *0.1* | *-* |
| Adjusted Operating Income | 820.8 | 769.1 | 839.2 | 967.6 |
| ***Adjusted Operating Margin*** | ***46.8%*** | ***42.8%*** | ***41.3%*** | ***42.4%*** |

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