

MOODY'S | Better decisions

Moody's Accelerates Integrated Risk Assessment Strategy with RMS Acquisition

August 5, 2021

Introduction



Shivani Kak

Head of Investor Relations

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These factors, risks and uncertainties as well as other risks and uncertainties that could cause Moody's actual results to differ materially from those contemplated, expressed, projected, anticipated or implied in the forward-looking statements are currently, or in the future could be, amplified by the COVID-19 outbreak, and are described in greater detail under "Risk Factors" in Part I, Item 1A of Moody's annual report on Form 10-K for the year ended December 31, 2020, and in other filings made by Moody's from time to time with the SEC or in materials incorporated herein or therein. Stockholders and investors are cautioned that the occurrence of any of these factors, risks and uncertainties may cause Moody's actual results to differ materially from those contemplated, expressed, projected, anticipated or implied in the forward-looking statements, which could have a material and adverse effect on Moody's business, results of operations and financial condition. 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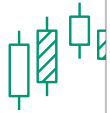
Strategic Overview



Rob Fauber

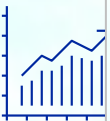
President and Chief Executive Officer

Transaction Summary



RMS Overview

- » RMS is a leading global provider of climate and natural disaster risk modeling and analytics that underpins the property & casualty (P&C) insurance market - enabling insurers and reinsurers to understand, measure, price and manage risk
- » Bringing Moody's Life and RMS's P&C operations together creates a scaled insurance business that can unlock significant digitization and transformation opportunities
- » The combined capabilities of RMS and Moody's create a world-class provider of risk modeling expertise and analytics, helping customers dimension the financial implications of key risk adjacencies better than ever before, including catastrophe (CAT) risk, cyber, climate, commercial real estate (CRE), supply chain and financial crime



Financial Highlights

- » Purchase price of ~\$2.0B anticipated to be financed via a combination of cash-on-hand and long-term debt
- » 2021 RMS financial profile¹: ~\$320M revenue and ~\$55M adjusted operating income
- » Transaction expected to close by the end of 3Q 2021, subject to customary closing approvals; financials will be reported within Enterprise Risk Solutions

1. RMS projected revenue for fiscal year ending September 30, 2021, as of August 5, 2021. Subject to final conformity of RMS's accounting policies to Moody's policies.

Customers Are Searching for Holistic Solutions to Better Understand Emerging, Interconnected Risks

Risk horizons



Credit & Financial



Supply Chain Resiliency



Reputational



Cyber

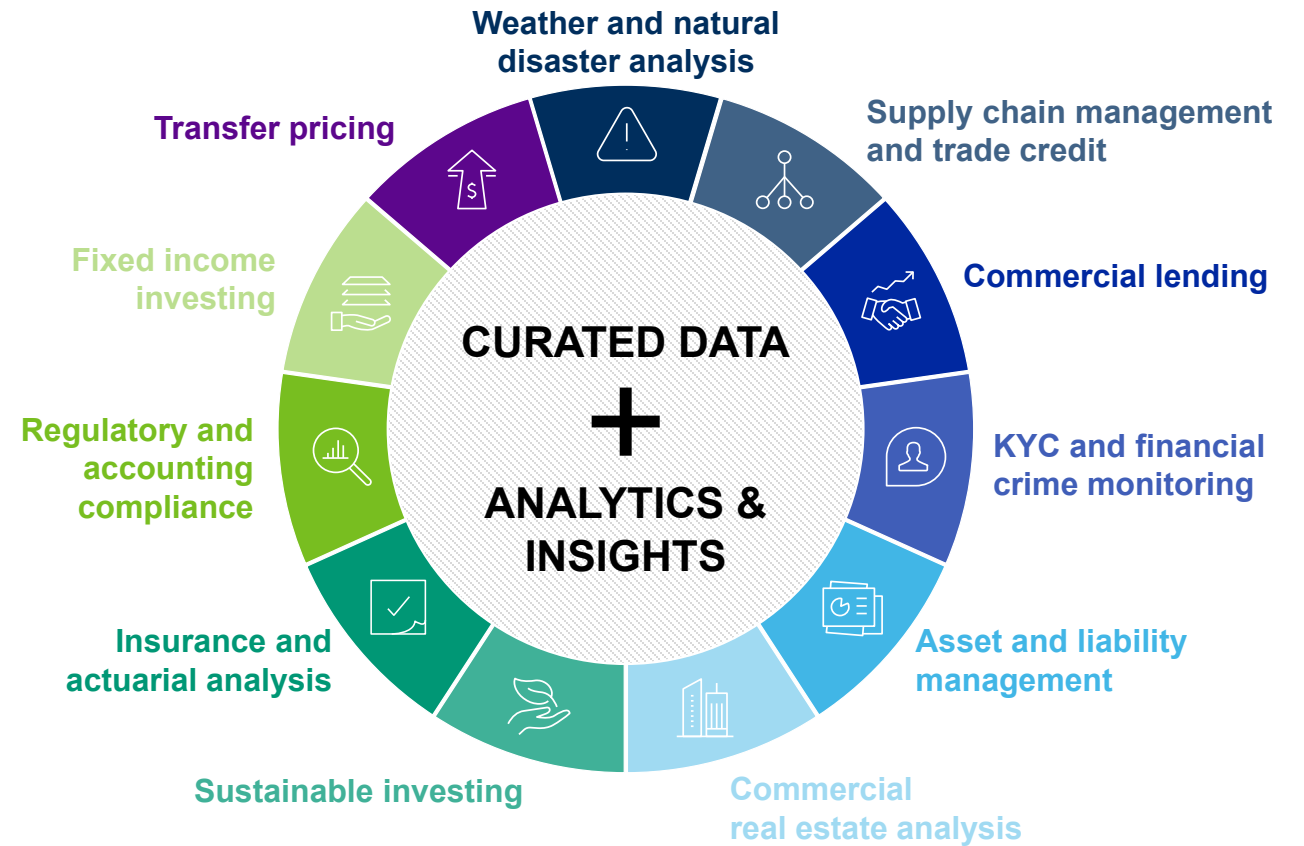


CAT



ESG & Climate

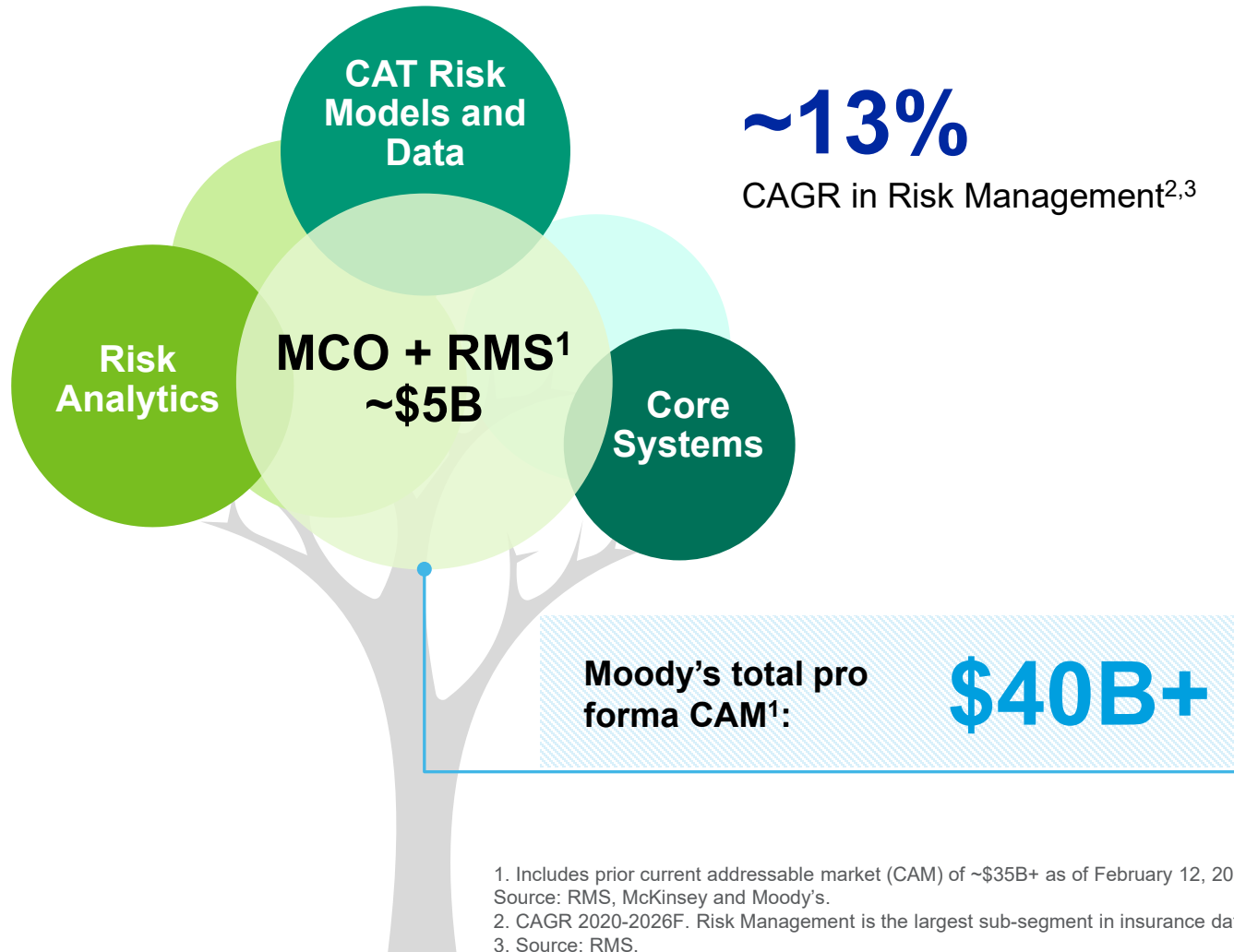
Selection of use cases addressable by Moody's solutions



Large Growth Opportunity in Insurance Data and Analytics Markets

Insurance data and analytics markets are large and growing rapidly...

...while pressures to transform are accelerating



» Insurers are increasingly incorporating **ESG, Climate** and other risk factors into loss models



» **Increased awareness of uninsured risks** following COVID-19 pandemic (supply chain, resiliency, etc.); \$350B of uninsured losses in the last five years³



» Growing gap between retail insurance customer expectations and **digital transformation required by insurers to deliver** positive user experience

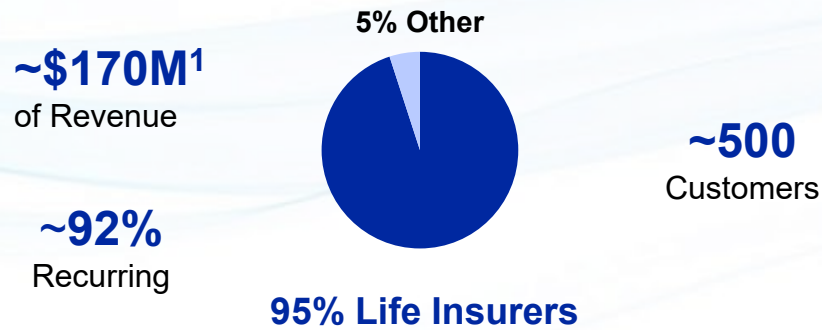


» Increasing need to insure against losses related to weather events accelerated by climate change

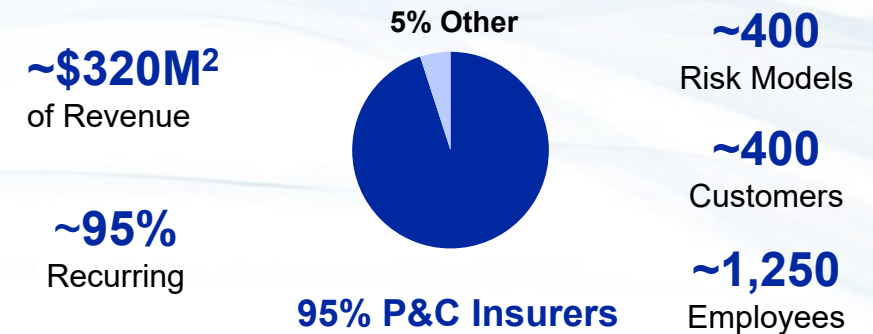
RMS Enhances and Scales Moody's Insurance Analytics Offerings

Moody's and RMS have complementary assets in the Life and P&C insurance segments; potential for significant revenue opportunities with combined scale and capabilities

MOODY'S



- » Leading provider of risk and finance solutions for life insurers including **pricing, capital management, financial and regulatory reporting** capabilities
- » Ability to generate **unique, secondary insights from the cross-pollination of credit, entity, economic, ESG and climate data** with powerful analytic tools and software



- » RMS is a critical component underpinning the P&C market, **enabling insurers and reinsurers to understand, measure and manage risk**
- » **World-class climate scientists and risk modelers** have created a robust risk technology platform, including a SaaS solution for CAT risk modeling

1. Forecasted 2021 MA Insurance and Asset Management revenue, as of August 5, 2021.

2. RMS projected revenue for fiscal year ending September 30, 2021, as of August 5, 2021. Subject to final conformity of RMS's accounting policies to Moody's policies.

Moody's and RMS Will Enable CRE Professionals to Make Better Decisions



CRE PROFESSIONALS



Brokers

Enhanced, accurate valuation



Lenders

Estimate cash flow and LTV



Portfolio Managers

Financial impact on portfolios



Property Owners

Understand tenant quality



Property Developers

Site selection

Locale

What are the characteristics of this neighborhood and location?



- » Forecasts for the local economy
- » Location attractiveness
- » Construction trends

Environment

How exposed is this property to catastrophe risk and extreme weather events?



- » Earthquakes
- » Wildfires
- » Other weather risks

Building

What should I know about this building?

- » Insurable value and insurance premiums
- » Capitalization rates
- » Vacancies and absorption



Tenants

What should I know about the tenants?

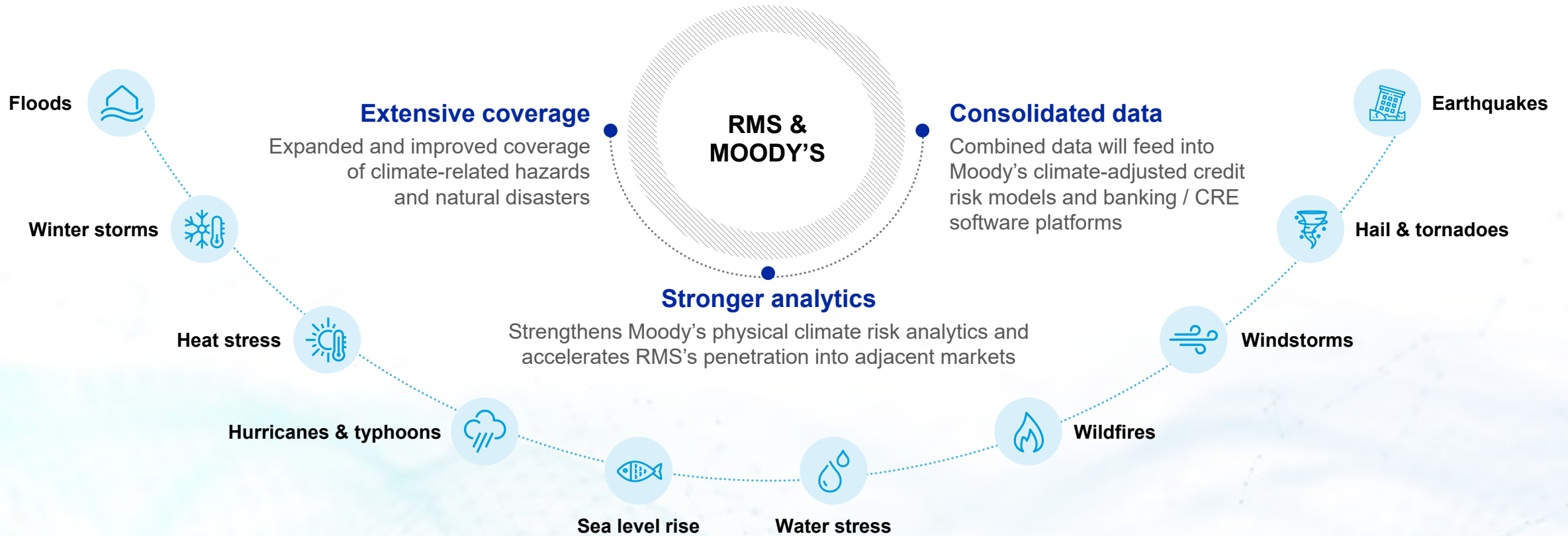
- » KYC screening – financial crime checks
- » ESG profile and reputation risk
- » Creditworthiness



Note: KYC = Know Your Customer, LTV = Loan-to-Value.

Expanding Moody's Climate Solutions

RMS data can be leveraged for a wide range of Moody's applications



RMS + MOODY'S

» Short, medium, and long-term risk

» Forward-looking climate data

» Global coverage

Financial Highlights



Mark Kaye

Chief Financial Officer

Path to Achieving Financial Targets



Core Insurance

- » Scale RMS's sales force
- » CAT risk market growth
- » Expansion into uninsured risk markets
- » Accelerated shift to SaaS



Cross-selling

- » New customer base for Moody's Analytics' offerings
- » RMS model insights for Moody's existing customer base



Cyber

- » Fast-growing, billion-dollar emerging opportunity in the cyber risk market for loss modeling and security profiling



Commercial Real Estate

- » RMS physical property data enhances Moody's CRE solutions



Supply Chain Resiliency

- » RMS risk models enable development of supply chain risk analytics



ESG & Climate

- » Increased precision in quantifying the impact and losses due to climate change, as well as credit risk

Financial Targets¹

- » Introducing medium-term MA adjusted operating margin target of mid-30's % range
- » RMS 2021² revenue of ~\$320M and adjusted operating income of ~\$55M
- » Up to \$150M in incremental RMS-related run-rate revenue by 2025
- » Up to ~\$30M in integration costs and ~\$100M in deal-related stock compensation expenses expected through 2023
- » Accretive to adjusted EPS in 2024

1. Forecast as of August 5, 2021.

2. RMS projected revenue for fiscal year ending September 30, 2021, as of August 5, 2021. Subject to final conformity of RMS's accounting policies to Moody's policies.

Revised FY 2021 Guidance

	Updated FY 2021 Guidance ¹	FY 2021 Guidance as of July 28, 2021
Revenue	No change	Increase in the low-double-digit % range
Expenses	Approximately 10%	Increase in the mid-single-digit % range
Operating Margin	45% to 46%	Approximately 47%
Adjusted Operating Margin²	Approximately 50%	Approximately 51%
Diluted EPS³	\$10.90 to \$11.20	\$10.95 to \$11.25
Adjusted Diluted EPS²	No change	\$11.55 to \$11.85
Share Repurchases³	Approximately \$750 million	Approximately \$1.5 billion
MA Revenue⁴	Increase in the mid-teens % range	Increase in the low-double digit % range
MA Adjusted Operating Margin	Approximately 29%	30% to 31%

1. Guidance as of August 5, 2021. Refer to Table 1 – “2021 Outlook” in the August 5, 2021 press release for a complete list of guidance and a reconciliation between all adjusted measures mentioned throughout this presentation and U.S. GAAP, as well as assumptions used by the Company with respect to its guidance. Assumes acquisition closes in late 3Q 2021.

2. Adjusted operating margin and adjusted diluted EPS are non-GAAP measures. Refer to the Appendix for a reconciliation between all adjusted measures mentioned throughout this presentation and U.S. GAAP.

3. Subject to available cash, market conditions and other ongoing capital allocation decisions.

4. RMS will be reported within the Enterprise Risk Solutions line of business.

Transaction Financing and Capital Allocation Strategy

Capital Allocation Priorities

Investing in Growth Opportunities



Reinvestment



Acquisitions

Return of Capital



Dividends



Share repurchases

Financing Considerations

- » Subject to customary approvals, acquisition expected to close in late 3Q 2021
- » ~\$2.0B RMS purchase price funded with a combination of cash-on-hand and new debt issuance
 - Commitment for a \$1 billion dollar bridge loan
 - Establishment of a USD/GBP purchase price hedge
- » No material balance sheet deleveraging; capital structure remains anchored around a BBB+ rating
- » No change to dividend policy

Key Takeaways

- » Accelerates Moody's integrated risk assessment strategy, providing new expansion opportunities across multiple risk adjacencies while also enhancing Moody's core offerings
- » RMS meaningfully expands our existing insurance business and provides entry into the P&C insurance and reinsurance sector
- » Adds RMS's best-in-class climate and natural disaster risk modeling expertise for domains where we see long-term customer demand
- » Addressable market increases to \$40B+ and supports a runway for continued sustainable and profitable growth
- » Efficient financing while maintaining balance sheet flexibility



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Questions and Answers



Rob Fauber

President and Chief Executive Officer



Mark Kaye

Chief Financial Officer



Steve Tulenko

President, Moody's Analytics

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2021 Outlook

The following are reconciliations of the Company's adjusted forward looking measures to their comparable U.S. GAAP measure:

	Projected for the Year Ended December 31, 2021
Operating margin guidance	45% to 46%
Depreciation and amortization	Approximately 4.5%
Restructuring	Negligible
Adjusted Operating Margin guidance	Approximately 50%
	Projected for the Year Ended December 31, 2021
Diluted EPS guidance	\$10.90 to \$11.20
Acquisition-Related Intangible Amortization	Approximately \$0.65
Restructuring	Negligible
Adjusted Diluted EPS guidance	\$11.55 to \$11.85

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