
MOODY'S



First Quarter 2017 Earnings Call

May 5, 2017

Overview

SALLI SCHWARTZ

GLOBAL HEAD OF INVESTOR RELATIONS AND COMMUNICATIONS

Disclaimer

Certain statements contained in this presentation 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. The forward-looking statements in this presentation are made as of the date hereof, and the Company disclaims any duty to supplement, update or revise such statements on a going-forward basis, whether as a result of subsequent developments, changed expectations or otherwise. In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, the Company is identifying certain factors that could cause actual results to differ, perhaps materially, from those indicated by these forward-looking statements. Those factors, risks and uncertainties include, but are not limited to, world-wide credit market disruptions or an economic slowdown, which could affect the volume of debt and other securities issued in domestic and/or global capital markets; other matters that could affect the volume of debt and other securities issued in domestic and/or global capital markets, including regulation, credit quality concerns, changes in interest rates and other volatility in the financial markets such as that due to the U.K.'s referendum vote whereby the U.K. citizens voted to withdraw from the EU; the level of merger and acquisition activity in the U.S. and abroad; the uncertain effectiveness and possible collateral consequences of U.S. and foreign government actions affecting world-wide credit markets, international trade and economic policy; concerns in the marketplace affecting our credibility or otherwise affecting market perceptions of the integrity or utility of independent credit agency ratings; the introduction of competing products or technologies by other companies; 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, including provisions in the Financial Reform Act and regulations resulting from that Act; the potential for increased competition and regulation in the EU and other foreign jurisdictions; exposure to litigation related to our rating opinions, as well as any other litigation, government and regulatory proceedings, investigations and inquires to which the Company may be subject from time to time; provisions in the Financial Reform Act legislation modifying the pleading standards, and EU regulations modifying the liability standards, applicable to credit rating agencies in a manner adverse to credit rating agencies; provisions of EU regulations imposing additional procedural and substantive requirements on the pricing of services; the possible loss of key employees; failures or malfunctions of our operations and infrastructure; any vulnerabilities to cyber threats or other cybersecurity concerns; the outcome of any review by controlling tax authorities of the Company's global tax planning initiatives; exposure to potential criminal sanctions or civil remedies if the Company fails to comply with foreign and U.S. laws and regulations that are applicable in the jurisdictions in which the Company operates, including 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 the Company to successfully integrate acquired businesses; currency and foreign exchange volatility; 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. 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 described in greater detail under "Risk Factors" in Part I, Item 1A of the Company's annual report on Form 10-K for the year ended December 31, 2016, and in other filings made by the Company 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 the Company'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 the Company's business, results of operations and financial condition. New factors may emerge from time to time, and it is not possible for the Company to predict new factors, nor can the Company assess the potential effect of any new factors on it.

Agenda

1. First Quarter 2017 Results

Ray McDaniel, President and Chief Executive Officer

2. Financial and Operating Highlights

Linda Huber, Executive Vice President and Chief Financial Officer

3. Updated 2017 Outlook

Ray McDaniel, President and Chief Executive Officer

4. Q&A

Ray McDaniel, President and Chief Executive Officer

Linda Huber, Executive Vice President and Chief Financial Officer

Mark Almeida, President, Moody's Analytics

Rob Fauber, President, Moody's Investors Service

1. First Quarter 2017 Results

RAY MCDANIEL
PRESIDENT AND CHIEF EXECUTIVE OFFICER

First Quarter 2017 Results and Comparison to First Quarter 2016

Moody's Corporation

- » Revenue ↑ 19% to \$975 million
- » Operating Expense ↑ 4% to \$532 million
- » Operating Income ↑ 46% to \$443 million
- » Adjusted Operating Income¹ ↑ 42% to \$476 million

¹ Adjusted operating income is defined as operating income before depreciation and amortization.

First Quarter 2017 Results and Comparison to First Quarter 2016

Moody's Corporation

- » Operating Margin • 45.5%
- » Adjusted Operating Margin¹ • 48.8%
- » EPS ↑ 91% to \$1.78
- » Adjusted EPS² ↑ 58% to \$1.47
- » Expect FY 2017 EPS in the range of \$5.46 - \$5.61
- » Excluding the CCXI gain, expect FY 2017 adjusted EPS² to be toward the upper end of the range of \$5.15 - \$5.30

¹ Adjusted operating margin is defined as adjusted operating income / revenue.

² Adjusted EPS excludes a \$60 million, or \$0.31 per share, gain from a strategic realignment and expansion involving Moody's China affiliate CCXI.

2. Financial and Operating Highlights

LINDA HUBER

EXECUTIVE VICE PRESIDENT AND CHIEF FINANCIAL OFFICER

First Quarter 2017 Results and Comparison to First Quarter 2016 (continued)

MA Revenue by Geography

- » Total MA ↑ 5% to \$307 million

- » U.S. ↑ 8% to \$155 million

- » Non-U.S. ↑ 3% to \$152 million
 - 49% of total MA revenue

- » Total MA
 - Foreign currency translation unfavorably impacted MA revenue by 1%

- » Total MA ↑ 4% on a constant currency organic basis

First Quarter 2017 Results and Comparison to First Quarter 2016 (continued)

MA Revenue by Line of Business

» Research, Data and Analytics: \$175 million

- Global ↑ 6%
 - 57% of total MA revenue
- U.S. ↑ 5%
- Non-U.S. ↑ 8%

First Quarter 2017 Results and Comparison to First Quarter 2016 (continued)

Moody's Corporation

- » Operating Expense ↑ 4% to \$532 million
 - Foreign currency translation favorably impacted operating expense by 1%

- » Operating Margin ↑ 820 bps to 45.5%

- » Adjusted Operating Margin¹ ↑ 790 bps to 48.8%

¹ Adjusted operating margin is defined as adjusted operating income / revenue.

First Quarter 2017 Capital Allocation

- » During 1Q 2017, Moody's repurchased approximately 0.5 million shares at a total cost of \$55 million, or an average cost of \$112.24 per share
- » During 1Q 2017, Moody's issued 1.5 million shares as part of its annual employee stock-based compensation plans
- » During 1Q 2017, Moody's returned \$73 million to its shareholders via dividend payments
- » On April 25, 2017, Moody's announced a quarterly dividend of \$0.38 per share of Moody's common stock payable on June 12, 2017 to stockholders of record at the close of business on May 22, 2017
- » As of March 31, 2017, shares outstanding totaled 191.3 million
 - 2% decline from March 31, 2016
- » As of March 31, 2017, approximately \$700 million of share repurchase authority remaining

First Quarter 2017 Debt Financing

- » On February 27, 2017, Moody's issued \$800 million of notes:
 - \$500 million in 2.75% senior unsecured notes due 2021
 - \$300 million in floating rate senior unsecured notes due 2018

- » During 1Q 2017, Moody's repaid its outstanding \$300 million in Series 2007-1 Notes along with an associated prepayment penalty of approximately \$7 million

Balance Sheet and Free Cash Flow

- » As of March 31, 2017, Moody's had:
 - \$4.1 billion of outstanding debt
 - Approximately \$800 million of additional borrowing capacity under its commercial paper program which is backstopped by an undrawn \$1 billion dollar revolving credit facility
 - Total cash, cash equivalents and short-term investments of \$2.3 billion
 - » Approximately 83% held outside the U.S.
- » Cash flow from operations for 1Q 2017 of \$(512) million, down from \$254 million in 1Q 2016¹
- » Free cash flow for 1Q 2017 of \$(531) million, down from \$227 million in 1Q 2016¹

¹ Declines in cash flow from operations and free cash flow were due to \$864 million of payments the Company made in 1Q 2017 pursuant to its 2016 settlement with the U.S. Department of Justice and the attorneys general of 21 U.S. states and the District of Columbia.

3. Updated 2017 Outlook

RAY MCDANIEL
PRESIDENT AND CHIEF EXECUTIVE OFFICER

Updated 2017 Financial Outlook¹

Our outlook assumes foreign currency translation at end-of-year exchange rates. Specifically, our forecast reflects exchange rates for British pound of \$1.25 to £1 pound and for the euro of \$1.07 to €1 euro.

- » EPS²
 - \$5.46 - \$5.61
- » Adjusted EPS^{2,3}
 - \$5.15 - \$5.30
- » Adjusted Operating Expense⁴
 - ↑ mid-single-digit % range
- » Effective Tax Rate
 - Approximately 30%

¹ Refer to Table 11 - "Moody's Corporation Reports Results for First Quarter 2017" press release for a full review of guidance.

² Current guidance is now expected to be toward the upper end of the range.

³ Current guidance excludes the \$0.31 CCXI Gain.

⁴ Excludes payment of the settlement charge related to an agreement with the U.S. Department of Justice and the attorneys general of 21 U.S. states and the District of Columbia.

4. Q&A Session

- » Ray McDaniel

President and Chief Executive Officer, Moody's Corporation

- » Linda Huber

Executive Vice President and Chief Financial Officer, Moody's Corporation

- » Mark Almeida

President, Moody's Analytics

- » Rob Fauber

President, Moody's Investors Service

USD Market: Issuance Views From Investment Banks

Views on this page are from various investment banks. Issuance views are for both financial and non-financial US dollar issuance and may not align with Moody's revenue categorizations.

	YTD 2017	FY 2017E
Investment Grade Bonds	~\$450 billion	Flat to Down 10%
<ul style="list-style-type: none">» Record 1Q 2017 reflects low market volatility, sustained high equities, attractive rates, and tight spreads» Market is currently pricing in 1-2 additional FOMC rate hikes in 2017» Issuance slowed in April due to earnings "black-outs"; expect issuance to pick up in May (~\$40 billion in issuance over the last week)		
High Yield Bonds	~\$100 billion	Flat to Up 5%
<ul style="list-style-type: none">» HY market firm given investors' reach for yield, low volatility, decline in default rates, and stable commodity prices» Issuers capitalized on highly supportive debt markets to refinance on issuer-friendly terms» Pipeline is "light" influenced in part by upcoming geopolitical events and investors seeking floating rate product		
Leveraged Loans	~\$300 billion	Up 5% to 10%
<ul style="list-style-type: none">» Loan market saw a record start to 2017, with ~75% of volume from refinancings / repricings» CLO issuance has also been robust year-to-date at ~\$25 billion» Pipeline is strong; investor demand remains elevated as rising rate concerns persist		

Euro Market: Issuance Views From Investment Banks

Views on this page are from various investment banks. Issuance views are for both financial and non-financial euro issuance and may not align with Moody's revenue categorizations.

Investment Grade

- » Both the euro and sterling markets remain resilient and issuance conditions are constructive
- » Spreads remain near all-time lows and rates remain historically low (especially when compared to rates in the US), offering issuers attractive funding costs
- » Busy political calendar and expected ECB and Bank of England QE tapering could pressure the market as 2017 progresses

Speculative Grade

- » Strong leveraged finance activity continued across both leveraged loan and high yield bond markets
- » Leveraged loan issuance reached a post-financial crisis high in Q1 and high-yield bond spreads are at a 10-year low
- » Key events that could cause market volatility include: the second round of French elections, the snap UK election in June, a potential Italian snap election, the German election and continued Brexit negotiations

Moody's Investor Day 2018

Moody's Corporation is holding its annual Investor Day in late-February / early-March 2018 in New York City. The event, which will be webcast live, will feature presentations from management and showcase important aspects of the Company's business.

Additional details to follow.

Replay Details

- » Available from 3:30pm (Eastern Time) May 5, 2017 until 3:30pm (Eastern Time) June 3, 2017
- » Telephone Details:
 - US +1-888-203-1112
 - Non-US +1-719-457-0820
 - Passcode 3261676
- » Webcast Details:
 - Go to <http://ir.moodys.com>
 - Click on “Events & Presentations”
 - Click on the link for “1Q 2017 Earnings Conference Call”

Appendix

Consolidated Statements of Operations

(Unaudited)

	Three Months Ended March 31,	
	2017	2016
<i>Amounts in millions, except per share amounts</i>		
Revenue	\$ 975.2	\$ 816.1
Expenses:		
Operating	277.4	249.2
Selling, general and administrative	221.9	232.9
Depreciation and amortization	32.5	29.9
Total expenses	531.8	512.0
Operating income	443.4	304.1
Non-operating (expense) income, net		
Interest expense, net	(42.4)	(34.1)
Other non-operating (expense) income, net	(9.4)	5.6
CCXI Gain	59.7	-
Total non-operating income (expense), net	7.9	(28.5)
Income before provision for income taxes	451.3	275.6
Provision for income taxes	105.4	89.0
Net income	345.9	186.6
Less: net income attributable to noncontrolling	0.3	2.2
Net income attributable to Moody's Corporation	\$ 345.6	\$ 184.4
Earnings per share attributable to Moody's common shareholders		
Basic	\$ 1.81	\$ 0.95
Diluted	\$ 1.78	\$ 0.93
Weighted average number of shares outstanding		
Basic	191.1	195.0
Diluted	194.3	197.9

Supplemental Revenue Information

(Unaudited)

<i>Amounts in millions</i>	Three Months Ended	
	March 31,	
	2017	2016
Moody's Investors Service		
Corporate Finance	\$ 352.8	\$ 240.3
Structured Finance	100.2	90.6
Financial Institutions	112.3	94.9
Public, Project and Infrastructure Finance	98.1	91.5
MIS Other	4.8	7.8
Intersegment royalty	26.0	24.0
Sub-total MIS	<u>694.2</u>	<u>549.1</u>
Eliminations	<u>(26.0)</u>	<u>(24.0)</u>
Total MIS revenue	<u>668.2</u>	<u>525.1</u>
Moody's Analytics		
Research, Data and Analytics	175.4	164.9
Enterprise Risk Solutions	95.9	89.5
Professional Services	35.7	36.6
Intersegment revenue	3.7	2.8
Sub-total MA	<u>310.7</u>	<u>293.8</u>
Eliminations	<u>(3.7)</u>	<u>(2.8)</u>
Total MA revenue	<u>307.0</u>	<u>291.0</u>
Total Moody's Corporation revenue	<u>\$ 975.2</u>	<u>\$ 816.1</u>
Moody's Corporation revenue by geographic area		
United States	\$ 577.8	\$ 480.0
International	397.4	336.1
	<u>\$ 975.2</u>	<u>\$ 816.1</u>

Selected Consolidated Balance Sheet Data (Unaudited)

<i>Amounts in millions</i>	<u>March 31, 2017</u>	<u>December 31, 2016</u>
Cash and cash equivalents	\$ 2,129.6	\$ 2,051.5
Short-term investments	132.8	173.4
Total current assets	3,485.5	3,253.1
Non-current assets	1,950.4	2,074.2
Total assets	5,435.9	5,327.3
Total current liabilities ^(1,2)	1,423.8	2,428.2
Total debt ⁽³⁾	4,075.7	3,363.0
Other long-term liabilities	874.4	863.4
Total shareholders' deficit	(724.2)	(1,027.3)
Total liabilities and shareholders' deficit	5,435.9	5,327.3
Actual number of shares outstanding	191.3	190.7

(1) The 2016 amount includes an \$863.8 million accrued settlement charge related to the agreement with the U.S. Department of Justice and 21 U.S. states and the District of Columbia to resolve pending and potential civil claims related to credit ratings that MIS assigned to certain structured finance instruments in the financial crisis era. This settlement charge was paid by the Company in the first quarter of 2017.

(2) The 2017 amount includes \$213.8 million of borrowings under the Company's commercial paper program. The 2016 amount includes \$300 million of debt classified as a current liability as it was set to mature in September 2017. The Company prepaid this debt in the first quarter of 2017.

(3) Includes both debt classified in current liabilities and long-term debt.

Selected Consolidated Balance Sheet Data (continued)

(Unaudited)

Total debt consists of the following:

	March 31, 2017				
	Principal Amount	Fair Value of Interest Rate Swap	Unamortized (Discount) Premium	Unamortized Debt Issuance Costs	Carrying Value
Notes Payable:					
5.50% 2010 Senior Notes, due 2020	\$ 500.0	\$ 3.7	\$ (1.3)	\$ (1.5)	\$ 500.9
4.50% 2012 Senior Notes, due 2022	500.0	(0.3)	(2.3)	(2.0)	495.4
4.875% 2013 Senior Notes, due 2024	500.0	-	(2.0)	(2.6)	495.4
2.75% 2014 Senior Notes (5-Year), due 2019	450.0	(0.2)	(0.3)	(1.6)	447.9
5.25% 2014 Senior Notes (30-Year), due 2044	600.0	-	3.3	(5.9)	597.4
1.75% 2015 Senior Notes, due 2027	534.8	-	-	(3.5)	531.3
2.75% 2017 Senior Notes, due 2021	500.0	-	(1.5)	(3.8)	494.7
2017 Floating Rate Senior Notes, due 2018	300.0	-	-	(1.1)	298.9
Commercial Paper	214.0	-	(0.2)	-	213.8
Total debt	<u>\$ 4,098.8</u>	<u>\$ 3.2</u>	<u>\$ (4.3)</u>	<u>\$ (22.0)</u>	<u>\$ 4,075.7</u>
Current portion					<u>(213.8)</u>
Total long-term debt					<u>\$ 3,861.9</u>

	December 31, 2016				
	Principal Amount	Fair Value of Interest Rate Swap	Unamortized (Discount) Premium	Unamortized Debt Issuance Costs	Carrying Value
Notes Payable:					
4.98% Series 2005-1 Notes, due 2015					
6.06% Series 2007-1 Notes due 2017	\$ 300.0	\$ -	\$ -	\$ -	\$ 300.0
5.50% 2010 Senior Notes, due 2020	500.0	5.5	(1.3)	(1.6)	502.6
4.50% 2012 Senior Notes, due 2022	500.0	(0.2)	(2.4)	(2.1)	495.3
4.875% 2013 Senior Notes, due 2024	500.0	-	(2.1)	(2.7)	495.2
2.75% 2014 Senior Notes (5-Year), due 2019	450.0	0.9	(0.4)	(1.7)	448.8
5.25% 2014 Senior Notes (30-Year), due 2044	600.0	-	3.3	(5.9)	597.4
1.75% 2015 Senior Notes, due 2027	527.4	-	-	(3.7)	523.7
Total long-term debt	<u>\$ 3,377.4</u>	<u>\$ 6.2</u>	<u>\$ (2.9)</u>	<u>\$ (17.7)</u>	<u>\$ 3,363.0</u>
Current portion					<u>(300.0)</u>
Total long-term debt					<u>\$ 3,063.0</u>

Non-operating (Expense) Income, Net

	Three Months Ended March 31,	
	2017	2016
<i>Amounts in millions</i>		
Interest expense, net:		
Expense on borrowings ⁽¹⁾	\$ (44.7)	\$ (34.6)
Income	4.1	2.9
UTPs and other tax related liabilities	(2.1)	(2.8)
Interest capitalized	0.3	0.4
Total interest expense, net	\$ (42.4)	\$ (34.1)
Other non-operating (expense) income, net:		
FX (loss) gain	\$ (9.6)	\$ 4.0
Joint venture income	1.0	1.9
Other	(0.8)	(0.3)
Other non-operating (expense) income, net	(9.4)	5.6
CCXI Gain ⁽²⁾	59.7	-
Total non-operating income (expense), net	\$ 7.9	\$ (28.5)

(1) The 2017 amount includes an approximate \$7 million prepayment penalty relating to the early repayment to the Series 2007-1 Notes.

(2) Reflects the non-cash, non-taxable gain from a strategic restructuring and expansion involving Moody's China affiliate, China Cheng Xin International Credit Rating Co. Ltd.

Financial Information by Segment

The table below presents revenue, adjusted operating income and operating income by reportable segment. The Company defines adjusted operating income as operating income excluding depreciation and amortization.

	Three Months Ended March 31,							
	2017				2016			
	MIS	MA	Eliminations	Consolidated	MIS	MA	Eliminations	Consolidated
Revenue	\$ 694.2	\$ 310.7	\$ (29.7)	\$ 975.2	\$ 549.1	\$ 293.8	\$ (26.8)	\$ 816.1
Operating, selling, general and administrative expense	288.3	240.7	(29.7)	499.3	278.6	230.3	(26.8)	482.1
Adjusted operating income	405.9	70.0	-	475.9	270.5	63.5	-	334.0
Depreciation and amortization	18.9	13.6	-	32.5	17.5	12.4	-	29.9
Operating income	\$ 387.0	\$ 56.4	\$ -	\$ 443.4	\$ 253.0	\$ 51.1	\$ -	\$ 304.1
Adjusted operating margin	58.5%	22.5%		48.8%	49.3%	21.6%		40.9%
Operating margin	55.7%	18.2%		45.5%	46.1%	17.4%		37.3%

Transaction and Relationship Revenue

The tables below summarize the split between transaction and relationship revenue. In the MIS segment, excluding MIS Other, transaction revenue represents the initial rating of a new debt issuance as well as other one-time fees while relationship revenue represents the recurring monitoring of a rated debt obligation and/or entities that issue such obligations, as well as revenue from programs such as commercial paper, medium-term notes and shelf registrations. In MIS Other, transaction revenue represents revenue from professional services and outsourcing engagements and relationship revenue represents subscription-based revenues. In the MA segment, relationship revenue represents subscription-based revenues and software maintenance revenue. Transaction revenue in MA represents software license fees and revenue from risk management advisory projects, training and certification services, and research and analytical engagements.

	Three Months Ended March 31,					
	2017			2016		
	Transaction	Relationship	Total	Transaction	Relationship	Total
Corporate Finance	\$ 260.6	\$ 92.2	\$ 352.8	\$ 151.0	\$ 89.3	\$ 240.3
	74%	26%	100%	63%	37%	100%
Structured Finance	\$ 57.5	\$ 42.7	\$ 100.2	\$ 49.8	\$ 40.8	\$ 90.6
	57%	43%	100%	55%	45%	100%
Financial Institutions	\$ 53.4	\$ 58.9	\$ 112.3	\$ 37.0	\$ 57.9	\$ 94.9
	48%	52%	100%	39%	61%	100%
Public, Project and Infrastructure Finance	\$ 59.2	\$ 38.9	\$ 98.1	\$ 53.8	\$ 37.7	\$ 91.5
	60%	40%	100%	59%	41%	100%
MIS Other	\$ 0.3	\$ 4.5	\$ 4.8	\$ 2.9	\$ 4.9	\$ 7.8
	6%	94%	100%	37%	63%	100%
Total MIS	\$ 431.0	\$ 237.2	\$ 668.2	\$ 294.5	\$ 230.6	\$ 525.1
	65%	35%	100%	56%	44%	100%
Moody's Analytics	\$ 64.6	\$ 242.4	\$ 307.0	\$ 69.3	\$ 221.7	\$ 291.0
	21%	79%	100%	24%	76%	100%
Total Moody's Corporation	\$ 495.6	\$ 479.6	\$ 975.2	\$ 363.8	\$ 452.3	\$ 816.1
	51%	49%	100%	45%	55%	100%

Adjusted Financial Measures

The tables below reflect certain adjusted results that the SEC defines as "non-GAAP financial measures" as well as a reconciliation of each adjusted measure to its most directly comparable GAAP measure. Management believes that such adjusted financial measures, when read in conjunction with the Company's reported results, can provide useful supplemental information for investors analyzing period-to-period comparisons of the Company's performance, facilitate comparisons to competitors' operating results and to provide greater transparency to investors of supplemental information used by management in its financial and operational decision-making. These adjusted measures, as defined by the Company, are not necessarily comparable to similarly defined measures of other companies. Furthermore, these adjusted measures should not be viewed in isolation or used as a substitute for other GAAP measures in assessing the operating performance or cash flows of the Company.

The Company presents Adjusted Operating Income because management deems this metric to be a useful measure of assessing the operating performance of Moody's. Adjusted Operating Income excludes depreciation and amortization because companies utilize productive assets of different ages and use different methods of acquiring and depreciating productive assets. Management believes that the exclusion of depreciation and amortization, detailed in the reconciliation below, allows for an additional perspective on the Company's operating results from period to period and across companies. The Company defines Adjusted Operating Margin as Adjusted Operating Income divided by revenue.

<i>Amounts in millions</i>	Three Months Ended	
	March 31,	
	2017	2016
Operating income	\$ 443.4	\$ 304.1
Depreciation & amortization	32.5	29.9
Adjusted operating income	\$ 475.9	\$ 334.0
Operating margin	45.5%	37.3%
Adjusted operating margin	48.8%	40.9%

Free Cash Flow

The table below reflects a reconciliation of the Company's net cash flows from operating activities to free cash flow. The Company defines free cash flow as net cash provided by operating activities minus payments for capital additions. Management deems capital expenditures essential to the Company's product and service innovations and maintenance of Moody's operational capabilities. Accordingly, capital expenditures are deemed to be a recurring use of Moody's cash flow. Management believes that free cash flow is a useful metric in assessing the Company's cash flows to service debt, pay dividends and to fund acquisitions and share repurchases.

<i>Amounts in millions</i>	Three Months Ended	
	March 31,	
	2017	2016
Net cash flows (used in) provided by operating activities	\$ (512.4)	\$ 253.6
Capital additions	(18.7)	(26.3)
Free cash flow	(531.1)	227.3
Net cash provided by (used in) investing activities	\$ 18.6	\$ (108.4)
Net cash provided by (used in) financing activities	\$ 553.7	\$ (355.5)

Adjusted Net Income and Earnings Per Share Attributable to Moody's Common Shareholders

The Company presents this adjusted measure to exclude the CCXI Gain as the frequency and magnitude of similar transactions may vary widely across periods. This measure allows for an additional perspective when comparing Moody's net income and diluted earnings per share from period to period. Below is a reconciliation of this measure to its most directly comparable U.S. GAAP amount:

	Three months ended March 31,	
	2017	2016
Net income attributable to Moody's common shareholders	\$ 345.6	\$ 184.4
CCXI Gain ⁽¹⁾	<u>(59.7)</u>	<u>-</u>
Adjusted net income attributable to Moody's common shareholders	<u>\$ 285.9</u>	<u>\$ 184.4</u>

	Three months ended March 31,	
	2017	2016
Earnings per share attributable to Moody's common shareholders	\$ 1.78	\$ 0.93
CCXI Gain ⁽¹⁾	<u>(0.31)</u>	<u>-</u>
Adjusted EPS attributable to Moody's common shareholders	<u>\$ 1.47</u>	<u>\$ 0.93</u>

(1) CCXI Gain is non-taxable

2017 Outlook

Moody's outlook for 2017 is based on assumptions about many macroeconomic and capital market factors, including interest rates, foreign currency exchange rates, corporate profitability and business investment spending, merger and acquisition activity, consumer borrowing and securitization, and the amount of debt issued. These assumptions are subject to some degree of uncertainty, and results for the year could differ materially from our current outlook. Moody's guidance assumes foreign currency translation at end-of-quarter exchange rates. Specifically, our forecast reflects exchange rates for the British pound (£) of \$1.25 to £1 and for the euro (€) of \$1.07 to €1.

Full-year 2017 Moody's Corporation guidance		
MOODY'S CORPORATION	Current guidance	Last publicly disclosed guidance on February 17, 2017
Revenue	increase in the mid-single-digit percent range	NC
Operating expense	decrease in the 25% to 30% range	NC
Adjusted operating expense ⁽¹⁾	increase in the mid-single-digit percent range	increase in the low-single-digit percent range
Depreciation & amortization	approximately \$135 million	NC
Operating margin	approximately 43%	NC
Adjusted operating margin ⁽¹⁾	approximately 46%	NC
Effective tax rate	approximately 30%	31% - 32%
EPS ⁽³⁾	\$5.46 - \$5.61	\$5.15 - \$5.30
Adjusted EPS ^(3,4)	\$5.15 - \$5.30	N/A
Capital expenditures	approximately \$100 million	NC
Operating cash flow ⁽²⁾	approximately \$600 million	NC
Free cash flow ^(1,2)	approximately \$500 million	NC
Share repurchases	approximately \$500 million (subject to available cash, market conditions and other ongoing capital allocation decisions)	NC

NC- There is no difference between the Company's current guidance and the last publicly disclosed guidance for this item.
N/A- Not applicable.
(1) These metrics are adjusted measures. See below for reconciliation of these measures to their comparable GAAP measure.
(2) Includes payment of the settlement charge related to an agreement with the U.S. Department of Justice and the attorneys general of 21 U.S. states and the District of Columbia.
(3) Current guidance is now expected to be toward the upper end of the range.
(4) Current guidance excludes the \$0.31 CCXI Gain.

2017 Outlook (continued)

Moody's outlook for 2017 is based on assumptions about many macroeconomic and capital market factors, including interest rates, foreign currency exchange rates, corporate profitability and business investment spending, merger and acquisition activity, consumer borrowing and securitization, and the amount of debt issued. These assumptions are subject to some degree of uncertainty, and results for the year could differ materially from our current outlook. Moody's guidance assumes foreign currency translation at end-of-quarter exchange rates. Specifically, our forecast reflects exchange rates for the British pound (£) of \$1.25 to £1 and for the euro (€) of \$1.07 to €1.

Full-year 2017 revenue guidance		
MIS	Current guidance	Last publicly disclosed guidance on February 17, 2017
MIS global	increase in the mid-single-digit percent range	NC
MIS U.S.	increase in the mid-single-digit percent range	NC
MIS non-U.S.	increase in the mid-single-digit percent range	NC
CFG	increase in the mid-single-digit percent range	NC
SFG	increase in the mid-single-digit percent range	NC
FIG	increase in the mid-single-digit percent range	NC
PPIF	increase in the low-single-digit percent range	NC
MA		
MA global	increase in the mid-single-digit percent range	NC
MA U.S.	increase in the low-single-digit percent range	NC
MA non-U.S.	increase in the high-single-digit percent range	NC
RD&A	increase in the high-single-digit percent range	NC
ERS	increase in the mid-single-digit percent range	NC
PS	increase in the low-single-digit percent range	NC
NC- There is no difference between the Company's current guidance and the last publicly disclosed guidance for this item.		

2017 Outlook (continued)

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

	Year Ended December 31, 2017
Operating margin guidance	Approximately 43%
Depreciation and amortization	Approximately 3%
Adjusted operating margin guidance	Approximately 46%

	Year Ended December 31, 2017
Operating expense guidance	Decrease in the 25% to 30% range <i>Impact of 2016 settlement and restructuring charges</i>
Adjusted operating expense guidance	Increase in the mid-single-digit percent range

	Year Ended December 31, 2017
Operating cash flow guidance	Approximately \$600 million
Capital additions	Approximately \$100 million
Free cash flow guidance	Approximately \$500 million

	Year Ended December 31, 2017
Diluted EPS guidance	\$5.46 - \$5.61
CCXI gain	(\$0.31)
Adjusted diluted EPS guidance	\$5.15 - \$5.30

Website: <http://ir.moodys.com>

Email: ir@moodys.com



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