

---

MOODY'S



# First Quarter 2016 Earnings Call

---

April 29, 2016

# 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. Moody's outlook for 2016 and other forward-looking statements in this presentation are made as of April 29, 2016, 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, the current world-wide credit market disruptions and economic slowdown, which is affecting and could continue to 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 credit quality concerns, changes in interest rates and other volatility in the financial markets; the level of merger and acquisition activity in the US and abroad; the uncertain effectiveness and possible collateral consequences of US and foreign government initiatives to respond to the current world-wide credit disruptions and economic slowdown; concerns in the marketplace affecting our credibility or otherwise affecting market perceptions of the integrity or utility of independent 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 US, state and local legislation and regulations, including provisions in the Dodd-Frank Wall Street Reform and Consumer Protection Act and anticipated 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 to which the Company may be subject from time to time; provisions in the Dodd-Frank 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; the outcome of those legacy tax matters and legal contingencies that relate to the Company, its predecessors and their affiliated companies for which Moody's has assumed portions of the financial responsibility; 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 levels of capital investments; a decline in the demand for credit risk management tools by financial institutions; and other risk factors as discussed in the Company's annual report on Form 10-K for the year ended December 31, 2015 and in other filings made by the Company from time to time with the Securities and Exchange Commission.

# Agenda

## **1. First Quarter 2016 Results**

Ray McDaniel, President and Chief Executive Officer

## **2. Financial and Operating Highlights**

Linda Huber, Executive Vice President and Chief Financial Officer

## **3. Updated 2016 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

Michel Madelain, President and Chief Operating Officer, Moody's Investors Service

Mark Almeida, President, Moody's Analytics

# 1. First Quarter 2016 Results

**RAY MCDANIEL**  
PRESIDENT AND CHIEF EXECUTIVE OFFICER

# First Quarter 2016 Results and Comparison to First Quarter 2015

## Moody's Corporation

- » Revenue ↓ 6% to \$816 million
  
- » Operating Expense ↑ 4% to \$512 million
  
- » Operating Income ↓ 18% to \$304 million
  - Foreign currency translation negligible
  
- » Adjusted Operating Income ↓ 16% to \$334 million

# First Quarter 2016 Results and Comparison to First Quarter 2015 (continued)

## Moody's Corporation

- » Operating Margin • 37.3%
- » Adjusted Operating Margin • 40.9%
- » EPS ↓ 16% to \$0.93

# First Quarter 2016 Investments

## » GGY

- Acquired in March
- Leading provider of actuarial software for life insurance industry
- Part of MA's Enterprise Risk Solutions line of business

## » Finagraph

- Minority investment
- Provider of cloud-enabled, automated financial data collection and business intelligence solutions for private companies



## 2. Financial and Operating Highlights

**LINDA HUBER**

EXECUTIVE VICE PRESIDENT AND CHIEF FINANCIAL OFFICER

# First Quarter 2016 Results and Comparison to First Quarter 2015

## Moody's Corporation Revenue

- » Total Global ↓ 6% to \$816 million
  - Foreign currency translation unfavorably impacted revenue by 2%
  
- » US ↓ 4% to \$480 million
  
- » Non-US ↓ 8% to \$336 million
  - 41% of total revenue
  
- » Recurring Revenue ↑ 7% to \$452 million
  - 55% of total revenue

# First Quarter 2016 Results and Comparison to First Quarter 2015 (continued)

## MIS Revenue by Geography

- » Total MIS ↓ 13% to \$525 million
  - Foreign currency translation unfavorably impacted MIS revenue by 1%
  
- » US ↓ 10% to \$336 million
  
- » Non-US ↓ 18% to \$189 million
  - 36% of total MIS revenue
  
- » Recurring Revenue ↑ 4% to \$231 million
  - 44% of total MIS revenue



# First Quarter 2016 Results and Comparison to First Quarter 2015 (continued)

## MIS Revenue by Line of Business

### » Financial Institutions: \$95 million

- Global ↑ 1%
- US ↓ 3%
- Non-US ↑ 4%

### » Public, Project & Infrastructure Finance: \$92 million

- Global ↓ 9%
- US ↓ 6%
- Non-US ↓ 14%

### » MIS Other: \$8 million in 1Q16; flat to prior-year period

# First Quarter 2016 Results and Comparison to First Quarter 2015 (continued)

## MA Revenue by Geography

- » Total MA ↑ 11% to \$291 million
  - Foreign currency translation unfavorably impacted MA revenue by 2%
  
- » Excluding revenue from March 2016 GGY acquisition, MA revenue grew 10%
  
- » US ↑ 12% to \$144 million
  
- » Non-US ↑ 9% to \$147 million
  - 51% of total MA revenue
  
- » Recurring Revenue ↑ 9% to \$222 million
  - 76% of total MA revenue







# First Quarter 2016 Results and Comparison to First Quarter 2015 (continued)

## MA Revenue by Line of Business

### » Professional Services: \$37 million

- Global  flat
- US  6%
- Non-US  3%

# First Quarter 2016 Results and Comparison to First Quarter 2015 (continued)

## Moody's Corporation

- » Operating Expense ↑ 4% to \$512 million
  - Foreign currency translation favorably impacted expense by 2%
  
- » Operating Margin • 37.3%
  
- » Adjusted Operating Margin • 40.9%
  
- » Effective Tax Rate • 32.3%

# Capital Allocation

- » During 1Q16, Moody's returned \$334 million to shareholders via share repurchases and dividends
- » During 1Q16, Moody's repurchased 2.9 million shares at a total cost of \$262 million, or an average cost of \$89.83 per share, and issued 1.6 million shares under its annual employee stock-based compensation plans
- » During 1Q16, Moody's paid \$72.1 million in dividends
- » On April 11, 2016, Moody's announced a quarterly dividend of 37 cents per share of Moody's common stock payable June 10, 2016 to stockholders of record at the close of business on May 20, 2016
- » As of March 31, 2016, shares outstanding totaled 194.3 million
  - 4% decline from March 31, 2015
- » As of March 31, 2016, \$1.2 billion of share repurchase authority remaining

## Balance Sheet and Free Cash Flow

- » As of March 31, 2016, Moody's had:
  - \$3.4 billion of outstanding debt
  - \$1.0 billion of additional debt capacity available under its revolving credit facility
  - Total cash, cash equivalents and short-term investments of \$2.1 billion
    - » Approximately 73% of cash holdings held outside the US
  
- » Free cash flow of \$211 million for 1Q16, down 13% from 1Q15

# 3. Updated 2016 Outlook

**RAY MCDANIEL**  
PRESIDENT AND CHIEF EXECUTIVE OFFICER

# Updated 2016 Full Year Outlook\*

## Moody's Corporation

- » EPS
  - \$4.55 to \$4.65
  - Inclusive of \$0.02 dilution from GGY acquisition
  
- » Revenue
  - ↑ low-single-digit % range
  
- » Operating Expense
  - ↑ mid-single-digit % range
  
- » Operating Margin
  - Approximately 41%
  
- » Adjusted Operating Margin
  - Approximately 45%
  
- » Free Cash Flow
  - Approximately \$1 billion
  
- » Capital Expenditures
  - Approximately \$125 million

\*Refer to "Moody's Corporation Reports Results for First Quarter 2016" press release for a full review of guidance

# Updated 2016 Full Year Outlook\*

## MIS

- » Revenue ↔ Approximately flat
- » US ↓ low-single-digit % range
- » Non-US ↑ low-single-digit % range
- » Corporate Finance ↓ low-single-digit % range
- » Structured Finance ↓ mid-single-digit % range
- » Public, Project & Infrastructure Finance ↑ mid-single-digit % range

\*Refer to "Moody's Corporation Reports Results for First Quarter 2016" press release for a full review of guidance





# MIS Management Change

- » Effective June 1, 2016, Michel Madelain will retire as President and COO of MIS and will assume the role of Vice Chairman of MIS
  - Michel will remain on the MIS Board of Directors and MIS European boards
  
- » Rob Fauber, who has been with Moody's for 11 years, will succeed Michel as President of MIS

## 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

- » Michel Madelain

President and Chief Operating Officer, Moody's Investors Service

- » Mark Almeida

President, Moody's Analytics

# USD Market: Issuance Views From Investment Banks

Views on this page are from three global “bulge bracket” investment banks as of April 25, 2016. Issuance views are for both financial and non-financial US dollar issuance.

	1Q 2016	MTD Apr 16	FY 2016E
<b>Investment Grade Bonds</b>	~\$340 billion (about flat YOY)	~\$65 billion	~\$1.2 trillion (about flat YOY)
<ul style="list-style-type: none"><li>▪ Robust pipeline</li><li>▪ Market expected to remain active as long as the backdrop continues to be stable</li><li>▪ Supply is expected to be heavy post “black-outs”</li></ul>			
<b>High Yield Bonds</b>	~\$40 billion (down 60% YOY)	~\$25 billion	~\$230 billion (down 15% YOY)
<ul style="list-style-type: none"><li>▪ Improved overall market tone with new issue activity steadily returning alongside the better macro backdrop</li><li>▪ Market still bifurcated between “haves” and “have nots” (new issue volume skewed toward higher rated credits)</li><li>▪ Meaningful spread tightening should continue to encourage issuers to come to market</li></ul>			
<b>Leveraged Loans</b>	~\$40 billion (down 25% YOY)	~\$15 billion	~\$260 billion (down 10% YOY)
<ul style="list-style-type: none"><li>▪ Stability in macro backdrop is also aiding the leverage loan market</li><li>▪ Loan market currently weaker than high yield bond market, driven by fund outflows and CLO formation slowdown</li><li>▪ Increased default activity to continue to serve as a headwind</li></ul>			

# Euro Market: Issuance Views From Investment Banks

*Views on this page are from three global “bulge bracket” investment banks as of April 25, 2016. Issuance views are for both financial and non-financial Euro issuance.*

## **Investment Grade**

- Robust pipeline and expected to pick-up further as a result of the ECB's corporate sector purchase program
- Uncertainty around “Brexit” could sideline issuers during already slow summer season
- US corporates continue to see value in accessing the Euro market and are expected to remain a heavy component of supply

## **Speculative Grade**

- Market had a muted start to the year with supply down 70% and a volatile first quarter
- ECB's move to commence purchases of investment grade bonds has sparked a renewed risk appetite and is leading to a pick-up in high yield activity
- Tighter spreads may encourage further issuance

## Replay Details

» Available from 3:30pm (Eastern Time) April 29, 2016 until 3:30pm (Eastern Time) May 28, 2016

» Telephone Details:

- US +1-888-203-1112
- Non-US +1-719-457-0820
- Passcode 2495047

» Webcast Details:

- Go to <http://ir.moody's.com>
- Click on “Events & Presentations”
- Click on the link for “1Q 2016 Earnings Conference Call”

# Appendix

# Consolidated Statements of Operations

## (Unaudited)

	Three Months Ended	
	March 31,	
	2016	2015
<i>Amounts in millions, except per share amounts</i>		
Revenue	\$ 816.1	\$ 865.6
Expenses:		
Operating	249.2	244.4
Selling, general and administrative	232.9	221.3
Depreciation and amortization	29.9	28.6
Total expenses	512.0	494.3
Operating income	304.1	371.3
Non-operating (expense) income, net		
Interest expense, net	(34.1)	(29.3)
Other non-operating income, net	5.6	2.5
Total non-operating expense, net	(28.5)	(26.8)
Income before provision for income taxes	275.6	344.5
Provision for income taxes	89.0	113.2
Net income	186.6	231.3
Less: net income attributable to noncontrolling interests	2.2	1.2
Net income attributable to Moody's Corporation	\$ 184.4	\$ 230.1
Earnings per share attributable to Moody's common shareholders		
Basic	\$ 0.95	\$ 1.14
Diluted	\$ 0.93	\$ 1.11
Weighted average number of shares outstanding		
Basic	195.0	202.7
Diluted	197.9	206.5

# Supplemental Revenue Information

## (Unaudited)

<i>Amounts in millions</i>	Three Months Ended March 31,	
	2016	2015
<b>Moody's Investors Service</b>		
Corporate Finance	\$ 240.3	\$ 298.7
Structured Finance	90.6	101.3
Financial Institutions	94.9	93.8
Public, Project and Infrastructure Finance	91.5	100.7
MIS Other	7.8	7.8
Intersegment royalty	24.0	22.3
Sub-total MIS	549.1	624.6
Eliminations	(24.0)	(22.3)
Total MIS revenue	<u>525.1</u>	<u>602.3</u>
<b>Moody's Analytics</b>		
Research, Data and Analytics	164.9	149.6
Enterprise Risk Solutions	89.5	77.1
Professional Services	36.6	36.6
Intersegment revenue	2.8	3.3
Sub-total MA	293.8	266.6
Eliminations	(2.8)	(3.3)
Total MA revenue	<u>291.0</u>	<u>263.3</u>
<b>Total Moody's Corporation revenue</b>	<b><u>\$ 816.1</u></b>	<b><u>\$ 865.6</u></b>
<b>Moody's Corporation revenue by geographic area</b>		
United States	\$ 480.0	\$ 499.8
International	336.1	365.8
	<u>\$ 816.1</u>	<u>\$ 865.6</u>



# Selected Consolidated Balance Sheet Data (Unaudited)

<i>Amounts in millions</i>	March 31, 2016	December 31, 2015*
Cash and cash equivalents	\$ 1,576.1	\$ 1,757.4
Short-term investments	490.6	474.8
Total current assets	3,085.3	3,243.1
Non-current assets	2,029.6	1,859.9
Total assets	5,114.9	5,103.0
Total current liabilities	1,151.9	1,218.5
Total debt	3,428.6	3,380.6
Other long-term liabilities	885.9	836.9
Total shareholders' (deficit)	(351.5)	(333.0)
Total liabilities and shareholders' equity	5,114.9	5,103.0
Actual number of shares outstanding	194.3	196.1

\*In the first quarter of 2016, the Company adopted a new accounting update on a retrospective basis which requires debt issuance costs to be presented as a reduction of debt rather than as an asset. Accordingly, the Company reclassified debt issuance costs, which were previously included in non-current assets, as a reduction of total debt.

# Selected Consolidated Balance Sheet Data (continued) (Unaudited)

Total debt consists of the following:

	March 31, 2016				
	Principal Amount	Fair Value of Interest Rate Swap <sup>(1)</sup>	Unamortized (Discount) Premium	Unamortized Debt Issuance Cost <sup>(2)</sup>	Carrying Value
Notes Payable:					
6.06% Series 2007-1 Notes due 2017	\$ 300.0	\$ -	\$ -	(0.1)	\$ 299.9
5.50% 2010 Senior Notes, due 2020	500.0	22.1	(1.6)	(1.9)	518.6
4.50% 2012 Senior Notes, due 2022	500.0	-	(2.7)	(2.4)	494.9
4.875% 2013 Senior Notes, due 2024	500.0	-	(2.2)	(3.0)	494.8
2.75% 2014 Senior Notes (5-Year), due 2019	450.0	10.2	(0.5)	(2.2)	457.5
5.25% 2014 Senior Notes (30-Year), due 2044	600.0	-	3.4	(6.1)	597.3
1.75% 2015 Senior Notes, due 2027	569.8	-	-	(4.2)	565.6
<b>Total long-term debt</b>	<b>\$ 3,419.8</b>	<b>\$ 32.3</b>	<b>\$ (3.6)</b>	<b>\$ (19.9)</b>	<b>\$ 3,428.6</b>
	December 31, 2015				
	Principal Amount	Fair Value of Interest Rate Swap <sup>(1)</sup>	Unamortized (Discount) Premium	Unamortized Debt Issuance Cost <sup>(2)</sup>	Carrying Value
Notes Payable:					
6.06% Series 2007-1 Notes due 2017	\$ 300.0	\$ -	\$ -	(0.2)	\$ 299.8
5.50% 2010 Senior Notes, due 2020	500.0	9.4	(1.6)	(2.0)	505.8
4.50% 2012 Senior Notes, due 2022	500.0	-	(2.8)	(2.5)	494.7
4.875% 2013 Senior Notes, due 2024	500.0	-	(2.3)	(3.1)	494.6
2.75% 2014 Senior Notes (5-Year), due 2019	450.0	2.3	(0.5)	(2.4)	449.4
5.25% 2014 Senior Notes (30-Year), due 2044	600.0	-	3.4	(6.2)	597.2
1.75% 2015 Senior Notes, due 2027	543.1	-	-	(4.0)	539.1
<b>Total long-term debt</b>	<b>\$ 3,393.1</b>	<b>\$ 11.7</b>	<b>\$ (3.8)</b>	<b>\$ (20.4)</b>	<b>\$ 3,380.6</b>

<sup>(1)</sup> Reflects interest rate swaps on the 2010 Senior Notes and the 2014 Senior Notes (5-Year).

<sup>(2)</sup> Pursuant to a new accounting update, unamortized debt issuance costs are presented as a reduction to the carrying value of the debt.

# Non-operating (Expense) Income, Net

<i>Amounts in millions</i>	Three Months Ended	
	March 31,	
	2016	2015
<b>Interest expense, net:</b>		
Expense on borrowings	\$ (34.6)	\$ (28.3)
Income	2.9	1.9
UTPs and other tax related liabilities	(2.8)	(3.2)
Interest capitalized	0.4	0.3
<b>Total interest expense, net</b>	<u>\$ (34.1)</u>	<u>\$ (29.3)</u>
<b>Other non-operating (expense) income, net:</b>		
FX gain	\$ 4.0	\$ -
Joint venture income	1.9	1.9
Other	(0.3)	0.6
<b>Other non-operating income, net</b>	<u>5.6</u>	<u>2.5</u>
<b>Total non-operating expense, net</b>	<u>\$ (28.5)</u>	<u>\$ (26.8)</u>

# 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,							
	2016				2015			
	MIS	MA	Eliminations	Consolidated	MIS	MA	Eliminations	Consolidated
Revenue	\$ 549.1	\$ 293.8	\$ (26.8)	\$ 816.1	\$ 624.6	\$ 266.6	\$ (25.6)	\$ 865.6
Operating, selling, general and administrative expense	278.6	230.3	(26.8)	482.1	281.3	210.0	(25.6)	465.7
Adjusted operating income	<u>270.5</u>	<u>63.5</u>	<u>-</u>	<u>334.0</u>	<u>343.3</u>	<u>56.6</u>	<u>-</u>	<u>399.9</u>
Depreciation and amortization	17.5	12.4	-	29.9	16.0	12.6	-	28.6
Operating income	<u>\$ 253.0</u>	<u>\$ 51.1</u>	<u>\$ -</u>	<u>\$ 304.1</u>	<u>\$ 327.3</u>	<u>\$ 44.0</u>	<u>\$ -</u>	<u>\$ 371.3</u>
Adjusted operating margin	49.3%	21.6%		40.9%	55.0%	21.2%		46.2%
Operating margin	46.1%	17.4%		37.3%	52.4%	16.5%		42.9%

# 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 outsourced research and analytical engagements.

	Three Months Ended March 31,					
	2016			2015		
	Transaction	Relationship	Total	Transaction	Relationship	Total
Corporate Finance	\$151.0	\$89.3	\$240.3	\$213.6	\$85.1	\$298.7
	63%	37%	100%	72%	28%	100%
Structured Finance	\$49.8	\$40.8	\$90.6	\$61.8	\$39.5	\$101.3
	55%	45%	100%	61%	39%	100%
Financial Institutions	\$37.0	\$57.9	\$94.9	\$37.8	\$56.0	\$93.8
	39%	61%	100%	40%	60%	100%
Public, Project and Infrastructure Finance	\$53.8	\$37.7	\$91.5	\$64.4	\$36.3	\$100.7
	59%	41%	100%	64%	36%	100%
MIS Other	\$2.9	\$4.9	\$7.8	\$3.3	\$4.5	\$7.8
	37%	63%	100%	42%	58%	100%
<b>Total MIS</b>	<b>\$294.5</b>	<b>\$230.6</b>	<b>\$525.1</b>	<b>\$380.9</b>	<b>\$221.4</b>	<b>\$602.3</b>
	<b>56%</b>	<b>44%</b>	<b>100%</b>	<b>63%</b>	<b>37%</b>	<b>100%</b>
Moody's Analytics	\$69.3	\$221.7	\$291.0	\$60.6	\$202.7	\$263.3
	24%	76%	100%	23%	77%	100%
<b>Total Moody's Corporation</b>	<b>\$363.8</b>	<b>\$452.3</b>	<b>\$816.1</b>	<b>\$441.5</b>	<b>\$424.1</b>	<b>\$865.6</b>
	<b>45%</b>	<b>55%</b>	<b>100%</b>	<b>51%</b>	<b>49%</b>	<b>100%</b>

# Moody's Analytics and Enterprise Risk Solutions Revenue Excluding GGY

	ERS Revenue %	MA Revenue %
Reported revenue growth	16%	11%
Less: Impact of GGY	3%	1%
Revenue growth excluding GGY	13%	10%

# Non-GAAP Adjusted Operating Income and Adjusted Operating Margin

The table below as well as the Free Cash Flow table on the following page reflect certain adjusted results that the SEC defines as "non-GAAP financial measures" as well as a reconciliation of each non-GAAP measure to its most directly comparable GAAP measure. Management believes that such non-GAAP 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 non-GAAP measures, as defined by the Company, are not necessarily comparable to similarly defined measures of other companies. Furthermore, these non-GAAP 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 table below reflects a reconciliation of the Company's operating income and operating margin to adjusted operating income and adjusted operating margin. The Company defines adjusted operating income as operating income excluding depreciation and amortization. The Company presents adjusted operating income because management deems this metric to be a useful measure of assessing the operating performance of Moody's, measuring the Company's ability to service debt, fund capital expenditures, and expand its business. Adjusted operating income excludes depreciation and amortization because companies utilize productive assets of different ages and use different methods of both acquiring and depreciating productive assets. Management believes that the exclusion of this item, detailed in the reconciliation below, allows for a more meaningful comparison of the Company's 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,	
	2016	2015
Operating income	\$ 304.1	\$ 371.3
Depreciation & amortization	29.9	28.6
Adjusted operating income	\$ 334.0	\$ 399.9
Operating margin	37.3%	42.9%
Adjusted operating margin	40.9%	46.2%
Year Ended December 31, 2016		
Operating margin guidance	Approximately 41%	
Depreciation & amortization	Approximately 4%	
Adjusted operating margin guidance	Approximately 45%	

# 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 expenditures. 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. 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.

<i>(amounts in millions)</i>	<b>Three Months Ended March 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>Net cash flows from operating activities</b>	\$ 237.3	\$ 261.8
Capital expenditures	<u>(26.3)</u>	<u>(19.0)</u>
<b>Free cash flow</b>	<b>\$ 211.0</b>	<b>\$ 242.8</b>
<b>Net cash used in investing activities</b>	<b>\$ (108.4)</b>	<b>\$ (49.3)</b>
<b>Net cash (used in) provided by financing activities</b>	<b>\$ (339.2)</b>	<b>\$ 123.9</b>
	<b>Year Ended December 31, 2016</b>	
Net cash flows from operating activities guidance	Approximately \$1.1 billion	
Capital expenditures guidance	<u>(Approximately \$125 million)</u>	
Free cash flow guidance	<u>Approximately \$1.0 billion</u>	



# 2016 Outlook

Moody's outlook for 2016 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 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 \$1.44 to £1 and for the euro (€) of \$1.14 to €1.

Full-year 2016 Moody's Corporation guidance		
MOODY'S CORPORATION	Current guidance	Last publicly disclosed guidance on February 5, 2016
Revenue	increase in the low-single-digit percent range	growth in the mid-single-digit percent range
Operating expenses	increase in the mid-single-digit percent range	NC
Depreciation & amortization	Approximately \$130 million	NC
Operating margin	Approximately 41%	Approximately 42%
Adjusted operating margin	Approximately 45%	NC
Effective tax rate	32% - 32.5%	NC
EPS	\$4.55 to \$4.65	\$4.75 to \$4.85
Capital expenditures	Approximately \$125 million	\$125 - \$135 million
Free cash flow	Approximately \$1 billion	Approximately \$1.1 billion
Share repurchases	Approximately \$1 billion (subject to available cash, market conditions and other ongoing capital allocation decisions)	NC

Full-year 2016 revenue guidance		
	Current guidance	Last publicly disclosed guidance on February 5, 2016
<b>MIS</b>		
MIS global	Approximately flat	growth in the mid-single-digit percent range
MIS US	decrease in the low-single-digit percent range	growth in the mid-single-digit percent range
MIS non-US	increase in the low-single-digit percent range	growth in the mid-single-digit percent range
CFG	decrease in the low-single-digit percent range	flat
SFG	decrease in the mid-single-digit percent range	growth in the high-single-digit percent range
FIG	increase in the mid-single-digit percent range	NC
PIIF	increase in the mid-single-digit percent range	growth in the high-single-digit percent range
<b>MA</b>		
MA global	increase in the high-single-digit percent range	growth in the mid-single-digit percent range
MA US	increase in the low-double-digit percent range	growth in the high-single-digit percent range
MA non-US	increase in the mid-single-digit percent range	flat
RD&A	increase in the high-single-digit percent range	growth in the mid-single-digit percent range
ERS	increase in the high-single-digit percent range	growth in the low-single-digit percent range
PS	decrease 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.		

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

**Email:** [ir@moodys.com](mailto:ir@moodys.com)



© 2016 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND CREDIT RATINGS AND RESEARCH PUBLICATIONS PUBLISHED BY MOODY'S ("MOODY'S PUBLICATIONS") MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moody's.com](http://www.moody's.com) under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001.

MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be reckless and inappropriate for retail investors to use MOODY'S credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under US laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.