MOODY'S CORPORATION SECOND QUARTER 2019 EARNINGS CONFERENCE CALL

WEDNESDAY, JULY 31, 2019

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Salli Schwartz:

Thank you. Good morning everyone, and thanks for joining us on this teleconference to discuss Moody's second quarter 2019 results, as well as our current outlook for full year 2019. I am Salli Schwartz, Global Head of Investor Relations and Strategic Capital Management. This morning, Moody's released its results for the second quarter of 2019, as well an update to our current outlook for full year 2019. The earnings press release and a presentation to accompany this teleconference are both available on our website at ir.moodys.com.

Ray McDaniel, Moody's President and Chief Executive Officer, will lead this morning's conference call. Also making prepared remarks on the call this morning is Mark Kaye, Moody's Senior Vice President and Chief Financial Officer.

During this call, we will also be presenting non-GAAP, or adjusted, figures. Please refer to the tables at the end of our earnings press release filed this morning for a reconciliation between all adjusted measures mentioned during this call and GAAP.

Before we begin, I call your attention to the "Safe Harbor" language, which can be found toward the end of our earnings release. Today's remarks may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. In accordance with the Act, I also direct your attention to the

"Management's Discussion and Analysis" section and the risk factors discussed in our Annual Report on form 10-K for the year ended December 31, 2018, and in other SEC filings made by the Company, which are available on our website and on the SEC's website. These, together with the "Safe Harbor" statement, set forth important factors that could cause actual results to differ materially from those contained in any such forward-looking statements.

I would also like to point out that members of the media may be on the call this morning in a listen-only mode. I'll now turn the call over to Ray McDaniel.

Ray McDaniel:

Thank you, Salli. Good morning and thank you to everyone for joining today's call.

I will begin by summarizing Moody's second quarter 2019 financial results and providing an update on the execution of our strategy. Mark Kaye will then follow with further details on our second quarter results and comments on our revised outlook for 2019. After our prepared remarks, we will be happy to respond to your questions.

I would like to start by providing select highlights for the quarter. First, Moody's second quarter performance reflected continued double-digit growth in Moody's Analytics, with strong contributions from all lines of business. Recurring revenue in MA represented 84 percent of total MA revenue for the trailing twelve months ended June 30th, 2019.

Second, excluding the impact of foreign currency translation, Moody's Investors Service revenue in the second quarter was in line with the record prior-year period, and the issuance environment is constructive as we move into the back half of the year.

Next, the charges related to our restructuring program are largely complete and we are increasing our anticipated annual run-rate savings by more than $10 million dollars to approximately $60 million dollars.

And finally, since our last earnings call, we have continued to execute on our long-term strategy in a disciplined manner through targeted acquisitions of businesses that extend our assessment and analytical solution capabilities, as well as the planned divestiture of Moody's Analytics Knowledge Services, or MAKS. In addition, I am pleased that Moody's has further strengthened its leadership in ESG engagement and disclosure.

Moving on to second quarter 2019 results, double-digit MA revenue growth and MIS's resilience despite subdued issuance activity resulted in a 3 percent revenue increase for Moody's Corporation.

Moody's adjusted operating income of $599 million dollars was up 2 percent from the prior-year period. Adjusted diluted EPS grew by 1 percent, aided by a 2 percent reduction in diluted share count from the prior-year period as a result of our share repurchase programs.

In the second quarter, issuance activity was mixed. Falling benchmark rates, tighter spreads and economic fundamentals supported strong issuance conditions. However, declining global growth forecasts, continued geopolitical uncertainty and lower M&A and investment activity kept some issuers on the sidelines. A resurgence in corporate fixed-rate issuance helped partially offset weakness in floating rate bank loans. Overall, however, global issuance activity fell for the fourth consecutive quarter. The banks have indicated that U.S. investment grade and leveraged finance issuance pipelines are moderate but CLO activity remains weak. Nonetheless, the relatively easier year-over-year comparable gives us confidence that MIS will deliver growth in the back half of the year.

Since the first quarter earnings call, we have announced several transactions that enable us to further align our portfolio of offerings with our strategic priorities. Moody's delivers trusted insights and standards that allow market participants to make informed decisions, contributing to market transparency and fairness. Our resolve to bring clarity and efficiency to markets has led us to execute these transactions as we increase our focus on providing risk assessments and analytical solutions.

Before I turn the call over to Mark, I will take a minute to review our recent strategic transactions with you.

First, with our majority acquisition of Four Twenty Seven, a provider of data and analytics on physical climate risks, we will significantly bolster our capabilities to integrate environmental and climate risk factors into economic modeling and credit ratings.

Second, our acquisition of RiskFirst extends Moody's reach into the buy-side with market-leading solutions for portfolio management and risk analytics, delivered on a software-as-a-service, or SaaS, platform.

Third, our newly established joint venture with Team8 combines Moody's experience in developing methodologies and global standards with Team8's expertise in cybersecurity technologies.

And finally, our planned divestiture of MAKS reflects MA's increasing strategic focus on providing scalable data, financial intelligence and analytical tools, rather than bespoke service-oriented engagements.

These transactions are included in our updated full year 2019 guidance. We expect they will have a dilutive impact of approximately 5 cents to adjusted diluted EPS.

I will now turn the call over to Mark Kaye to provide further details on our second quarter performance and review our updated outlook for 2019.

Mark Kaye:

Thank you, Ray.

For MIS, second quarter issuance activity was down 14 percent from the prior-year period. However, MIS revenue was down only 2 percent, demonstrating the continued resilience of the business model. As Ray mentioned earlier, issuance was skewed toward fixed-rate activity given lower benchmark interest rates. Additionally, the mix of jumbo M&A-related issuance and infrequent issuers coming to market was favorable. MIS's recurring revenue base, supported by pricing initiatives, as well as monitored credit growth, also contributed to substantially offset the decline in issuance levels. For the second quarter, the slight revenue contraction alongside relatively flat expense growth led to a decline in MIS's adjusted operating margin, which was 60.2 percent.

For MA, each business contributed to the achievement of an aggregate 12 percent revenue growth rate, concurrently enabling 350 basis points of improvement in adjusted operating margin. This was the second consecutive quarter of year-over-year adjusted operating margin improvement of 350 basis points. Organic MA revenue was up 10 percent from the prior-year period.

RD&A revenue grew 14 percent due to strong sales of credit research and ratings data feeds, buttressed by sales growth at Bureau van Dijk and contribution from the Reis acquisition. On an organic basis, RD&A delivered double-digit revenue growth of 11 percent.

In ERS, strong demand for subscription products, particularly from insurance companies, drove a 7 percent revenue increase. We also continued to benefit from the transition to a SaaS-based operating model. Trailing twelve-month ERS revenue was up 1 percent but sales were up 8 percent, which bodes well for potential future revenue growth.

Professional services revenue growth of 13 percent was driven by strong global demand for training solutions. Organic Professional Services revenue was up 10 percent.

I'll now discuss Moody's updated full year 2019 guidance.

Moody's outlook for 2019 is based on assumptions about many geopolitical conditions and macroeconomic and capital market factors, including, but not limited to, interest and foreign currency exchange rates, corporate profitability and business investment spending, mergers and acquisitions, and the level of debt capital markets activity. These assumptions are subject to uncertainty, and results for the year could differ materially from our current outlook.

Our guidance assumes foreign currency translation at end-of-quarter exchange rates. Specifically, our forecast for the remainder of 2019 reflects exchange rates for the British pound of $1.27 and for the euro of $1.14.

We continue to forecast that revenue will increase in the mid-single-digit percent range, while anticipating total operating expenses to increase in the high-single-digit percent range. Operating expense guidance includes depreciation and amortization, restructuring charges, an impairment charge related to the planned divestiture of MAKS and Acquisition-Related Expenses. Excluding the incremental restructuring and MAKS impairment charges, total operating expense guidance would have still been an increase in the mid-single-digit percent range. Of note, we are still not expecting a significant ramp in expenses from the first to the fourth quarter of 2019 as we start to realize savings from the restructuring program.

The full year 2019 operating margin is now expected to be approximately 42 percent, with the adjusted operating margin anticipated to be approximately 48 percent. We now forecast net interest expense to be approximately $195 million dollars. The full year effective tax rate is anticipated to be in the range of 21 to 22 percent, notwithstanding the low effective rate in the first half of the year. Diluted EPS and adjusted diluted EPS are forecast to be $7.15 to $7.35 and $7.95 to $8.15, respectively. Share repurchases are anticipated to be in the range of $1 billion to $1.3 billion dollars. For a full list of our guidance, please refer to Table 13 of our earnings release.

For MIS, we expect total full year revenue to increase in the low-single-digit percent range with growth weighted towards the second half of the year as the year-over-year comparable becomes easier. We are anticipating U.S. revenue to increase in the mid-single-digit percent range with stronger contributions from fixed rate corporate bonds. Non-U.S. revenue is forecast to remain approximately flat.

Our issuance estimate remains flat to down 5 percent in comparison to 2018 with continued support from debt-funded M&A but with lower contributions from floating rate bank loans and CLOs. We are on track to achieve approximately 900 first time mandates in 2019.

The MIS adjusted operating margin remains at approximately 58 percent in 2019.

For MA, we anticipate total revenue to increase in the low-double-digit percent range as we recognize strong sales growth across all business lines, as well as the benefit from the stability of recurring revenue derived from the core RD&A business and the ongoing ERS transition to a SaaS-based model. The MA adjusted operating margin is forecast to expand 150 to 250 basis points to the 28 to 29 percent range in 2019, reflecting the aggregate impact of the announced transactions.

The charges related to our restructuring program are essentially complete.

The total restructuring charge of $108 million dollars that we took in the fourth quarter of 2018 and first half of 2019 exceeded our previously announced range of $70 to $80 million dollars.

We are revising our anticipated annualized pre-tax savings to approximately $60 million dollars, a $15 million dollar increase from the midpoint of the previously announced range of $40 to $50 million dollars. This will enable us to realize approximately $30 million dollars of savings as we move through the second half of 2019, allowing us to reinvest in our business and to provide annual margin stability. Going forward, these savings will create financial flexibility under various capital market conditions and provide additional options to reinvest in our business or bolster margins.

Before turning the call back over to Ray, I would like to note a few key takeaways.

We remain confident in Moody's ability to both deliver revenue growth and sustain high margins in 2019.

Moody's will continue to execute on its strategic vision to provide trusted insights and standards while delivering transparency to adjacent markets and emerging risk areas.

Finally, we remain confident in our disciplined and thoughtful approach to capital management and the return of free cash flow to our shareholders.

I will now turn the call back over to Ray for his final remarks.

Ray McDaniel:

Thank you, Mark.

Before turning to Q&A, I would like to review a few of our recent activities demonstrating our commitment to a sustainable future.

Each year, Moody's has further honed its CSR program to strategically focus on societal issues that we are in a unique position to help address and those that our employees are most passionate about.

Additionally, Moody's work on ESG, specifically climate-related risks and opportunities, is directed toward promoting global measurement standards for use by market participants.

Moody's continues to support disclosing and adhering to the standards set by the Task Force on Climate-Related Financial Disclosures, or TCFD. Moody's released its most recent TCFD report earlier this month which is linked to this presentation and otherwise available on moodys.com/csr.

We are also working toward incorporating disclosure metrics set out by the Sustainability Accounting Standards Board, or SASB.

We continue to engage with a multitude of other partners that develop CSR and ESG standards and frameworks, or evaluate and assess performance. Please see the press release we published yesterday highlighting our ongoing ESG initiatives available on ir.moodys.com for more details.

This concludes our prepared remarks. Joining Mark Kaye and me for the question and answer session are Mark Almeida, President of Moody's Analytics, and Rob

Fauber, President of Moody's Investors Service. We would be pleased to take any questions you may have.

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995

Certain statements contained in this release are forward-looking statements and are based on future expectations, plans and prospects for the Company's business and operations that involve a number of risks and uncertainties. Such statements may include, among other words, "believe", "expect", "anticipate", "intend", "plan", "will", "predict", "potential", "continue", "strategy", "aspire", "target", "forecast", "project", "estimate", "should", "could", "may" and similar expressions or words and variations thereof that convey the prospective nature of events or outcomes generally indicative of forward-looking statements. The forward-looking statements and other information in this release are made as of the date hereof (except where noted otherwise), and the Company undertakes no obligation (nor does it intend) to publicly supplement, update or revise such statements on a going-forward basis, whether as a result of subsequent developments, changed expectations or otherwise, except as required by applicable law or regulation. In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, the Company is identifying examples of factors, risks and uncertainties 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, credit market disruptions or economic slowdowns, 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 uncertainty as companies transition away from LIBOR and the U.K.'s pending withdrawal 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 credit markets, international trade and economic policy, including those related to tariffs and trade barriers; 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 Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank") and regulations resulting from Dodd-Frank; 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 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 and the expansion of supervisory remit to include non-EU ratings used for regulatory purposes; 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 data protection and privacy laws, 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 such 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, 2018, 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.