

News

MOODY'S CORPORATION SECOND QUARTER 2022 EARNINGS CONFERENCE CALL

TUESDAY, JULY 26, 2022

ROB FAUBER, SHIVANI KAK

Shivani Kak:

Thank you. Good afternoon, and thank you for joining us to discuss Moody's second quarter 2022 results and our revised outlook for full year 2022. I am Shivani Kak, Head of Investor Relations. This morning, Moody's released its results for the second quarter of 2022, as well as our revised outlook for full year 2022. The earnings press release and a presentation to accompany this teleconference are both available on our website at ir.moody.com.

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 referenced during this call and U.S. GAAP.

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, 2021 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.

Before we begin, I'm pleased to announce that, in response to feedback from our external stakeholders, we have enhanced our earnings materials and changed the format of our call this quarter. This morning, on our IR website, we published our supplementary presentation along with our updated earnings release - materials that we believe provide substantial insights into our business. As such, during the call, we will not be going through our usual presentation. Instead, Rob Fauber, Moody's President and Chief Executive Officer, will provide a brief overview of our results and outlook, after which he'll be joined by Mark Kaye, Moody's Chief Financial Officer, to answer your questions. I will now turn the call over to Rob Fauber.

Rob Fauber:

Thanks, Shivani. Hello and thanks to everyone for joining today's call.

As Shivani mentioned, I am going to keep my opening remarks brief so that we can get straight to your questions. I appreciate that it's been a very busy morning for many of you on the call so let me begin with a few key takeaways about our results, and then I want to spend a few minutes on our outlook and the continued strength and relevance of our business.

Let me start by reinforcing that, as challenging and volatile conditions in global capital markets continue, we are leading the way in providing integrated perspectives on risk for our customers. This quarter was really a tale of two cities, as our ratings business was significantly impacted by the slowdown in issuance activity, and our MA business continued to grow very nicely.

And as we've said previously, year-on-year comparisons with our record performance in 2021 would be unfavorable this year. Overall, Moody's revenue declined approximately 11 percent in the second quarter; and, given the operating leverage in the MIS business, as well as the negative impact of foreign exchange, adjusted diluted earnings per share declined by 31 percent from the prior-year period to \$2.22.

MIS, which was significantly impacted by ongoing cyclical disruption in the global debt markets due to a few things: rising interest rates, high inflation and unsettled geopolitical conditions, MIS generated revenue of \$706 million dollars. To put that in perspective, global rated issuance was down 32 percent for the quarter, and transaction revenue was down 40 percent, and that reflects a negative mix driven by weakness in the leveraged finance markets. When balanced by our recurring

revenue, this translated to a 28 percent decline in total MIS revenue for the quarter.

On the other hand, customer demand for our MA suite of solutions that help navigate market uncertainty and identify, measure and manage risk, that demand remained robust. And this fueled steady growth in our subscription and SaaS-based products, which, along with contributions from prior year acquisitions, delivered revenue growth of 18 percent. And MA revenue growth was negatively impacted by 5 percentage points due to FX in the quarter.

You'll recall earlier this year we introduced an Annualized Recurring Revenue, or ARR metric for MA, and we believe is a good indicator of future growth. This quarter, our organic ARR grew by 9 percent, and we expect this growth to further increase to low-double-digits by year-end. That's supported by both our ongoing product development investments that broaden the ways in which we serve our customers, and by the growth in our sales force and strong sales execution.

I expect many of you will have questions about our outlook in a few minutes, and I would like to make a few comments about our expectations before we get to it in the Q&A. We anticipate that the current market disruption to persist for the remainder of the year - and we have updated our guidance to reflect that. Now, obviously, if actual conditions differ from the assumptions underlying our guidance, our results for the year may differ from our revised outlook.

For MIS, we expect issuance to decline approximately 30 percent for the year and full-year 2022 revenue to decrease in the low-twenties percent range. The last two-and-a-half years have been unusual, to say the least, so I have to acknowledge that, with all the uncertainty in the market, the confidence interval around our outlook is probably wider than it was pre-pandemic.

Our business outlook for MA remains unchanged, however, due to the impact of the weakening Euro and British pound against the U.S. Dollar, we are slightly reducing MA's revenue growth outlook to the mid-teens percent range.

Taking the reduced MIS revenue guidance and the impact of foreign exchange into account, we now forecast Moody's full-year 2022 revenue to decline in the high-single-digit percent range, and adjusted earnings per share is now projected to be in the range of \$9.20 to \$9.70.

Incorporated into our outlook is a new restructuring program, and that's part of our broader approach to expense management. The geolocation restructuring

program helps us further adapt to new global workplace and talent realities and it accelerates a number of ongoing cost efficiency initiatives, and that includes real estate optimization and increased utilization of lower cost operational hubs. We expect this program to generate \$40 to \$60 million dollars in annualized savings, with up to \$75 million dollars in aggregate charges through 2023. We plan to partially redeploy these savings back into the business to support ongoing organic investments, including things like sales deployment and employee retention.

Before I open it up to questions, let me try to put all this into perspective for a few minutes. Now, debt issuance markets are clearly in a period of cyclical turbulence; however, we believe that the fundamental drivers of issuance remain firmly intact.

Taking a medium-term view, we expect issuance to resume as capital markets adjust to a higher interest rate environment. As you saw in the slides that we shared this morning, the volume of outstanding corporate debt in the U.S. has grown each year for the last 30 years, and we believe the fundamental role of debt in fueling economic activity and financing business growth remains unchanged. Global GDP growth is expected to continue, albeit at a lower rate, corporate refinancing needs remain strong and, on a historical basis, rates and spreads are relatively aligned to their averages despite some recent increases.

During this period of market turbulence, we are going to continue to focus on what we can control in MIS: and that is to ensure that Moody's remains the rating agency of choice: providing a world-class experience for issuers and ensuring the quality, relevance and timeliness of our ratings, research and insights that all reinforce investor demand pull.

MA remains a strong and resilient business with almost 60 quarters of consecutive growth and our investments in product development and sales are accelerating our organic ARR growth, and we're realizing the benefits of our recent acquisitions. In fact, we're ahead of, or have met the targets we set for our acquisitions of BvD and RDC, and – though it's early days – we are on track to meet our targets for RMS.

Stepping back and looking at the big picture again for just a moment, we see strong demand for our integrated risk assessment offerings. The value that Moody's provides to our customers – especially in these uncertain times – remains unmatched. Across the business, we are innovating and investing to provide our customers and market participants with the products and insights that they need to decode risks and unlock opportunities.

And lastly, all of this would not be possible without the tremendous efforts of our people and I want to thank them for all of their continued hard work and dedication.

That concludes my prepared remarks. Mark and I would be pleased to take your questions.

"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 Moody's business and operations that involve a number of risks and uncertainties. Such statements involve estimates, projections, goals, forecasts, assumptions and uncertainties that could cause actual results or outcomes to differ materially from those contemplated, expressed, projected, anticipated or implied in the forward-looking statements. Stockholders and investors are cautioned not to place undue reliance on these forward-looking statements. The forward-looking statements in this release are made as of the date hereof, and Moody's 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, Moody's 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 impact of general economic conditions, including inflation, on worldwide credit markets and economic activity and its effect on the volume of debt and other securities issued in domestic and/or global capital markets; the global impacts of each of the crisis in Ukraine and COVID-19 on volatility in the U.S. and world financial markets, on general economic conditions and GDP in the U.S. and worldwide, on global relations, on Moody's own operations and personnel; 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, inflation and other volatility in the financial markets; 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, tax agreements and trade barriers; the impact of MIS's withdrawal of its credit ratings on Russian entities and of Moody's no longer conducting commercial operations in Russia; 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; 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 inquiries to which Moody's may be subject from time to time; provisions in U.S. 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; uncertainty regarding the future relationship between the U.S. and China; 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 Moody's global tax planning initiatives; exposure to potential criminal sanctions or civil remedies if Moody's fails to comply with foreign and U.S. laws and regulations that are applicable in the jurisdictions in which Moody's 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, such as our acquisition of RMS, or other business combinations and the ability of Moody's 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 Moody's annual report on Form 10-K for the year ended December 31, 2021, 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. New factors may emerge from time to time, and it is not possible for Moody's to predict new factors, nor can Moody's assess the potential effect of any new factors on it.