



# Moody's Corporation (MCO)

Updated October 30<sup>th</sup>, 2018 by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$141	<b>5 Year CAGR Estimate:</b>	7.7%	<b>Volatility Percentile:</b>	37.2%
<b>Fair Value Price:</b>	\$136	<b>5 Year Growth Estimate:</b>	7.3%	<b>Momentum Percentile:</b>	43.9%
<b>% Fair Value:</b>	104%	<b>5 Year Valuation Multiple Estimate:</b>	-0.8%	<b>Growth Percentile:</b>	69.6%
<b>Dividend Yield:</b>	1.2%	<b>5 Year Price Target</b>	\$193	<b>Valuation Percentile:</b>	40.3%
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	D	<b>Total Return Percentile:</b>	34.3%

## Overview & Current Events

Moody's was created back in 1909, becoming the first company to analyze securities and rate their investment quality for investors on a large scale. Moody's began with its *Analyses of Railroad Investments* in 1909 and has blossomed into the company we know today, with \$4.6 billion in annual revenue and a market capitalization of more than \$25 billion.

Moody's reported Q3 earnings on 10/26/18 and results missed expectations, sending the stock lower. Revenue was up 2% as strength in Moody's Analytics was partially offset by weakness in Moody's Investors Services. Margins expanded only slightly as adjusted operating income rose 3%, just outpacing revenue growth. Adjusted diluted earnings-per-share came in at \$1.69, an 11% increase year-over-year, due to operating income growth and a lower tax rate. However, the relative weakness of the quarter caused management to lower guidance for this year, and we've reduced our estimate in sympathy to \$7.60 for 2018. In addition, Moody's continued its acquisition spree, adding commercial real estate provider Reis as well as credit training firm Omega during the quarter, as acquisitions remain key to its strategy.

## Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
<b>EPS</b>	\$1.86	\$1.69	\$2.15	\$2.49	\$3.05	\$3.60	\$4.21	\$4.60	\$4.81	\$6.07	<b>\$7.60</b>	<b>\$10.80</b>
<b>DPS</b>	\$0.40	\$0.40	\$0.42	\$0.54	\$0.64	\$0.90	\$1.12	\$1.36	\$1.48	\$1.14	<b>\$1.76</b>	<b>\$2.24</b>
<b>Shares</b>	235	237	231	222	224	214	203	196	191	191	<b>195</b>	<b>189</b>

Moody's earnings-per-share history is quite strong as it has seen just one year in the past decade where its profits have dipped from the prior year. Since then, Moody's earnings growth has averaged 15% per year. While we do not believe that sort of performance is sustainable in the long run, we see 7.3% earnings-per-share growth moving forward.

Moody's can achieve this result by continuing its long tradition of buying growth, as we saw late last year with the Bureau Van Dijk purchase and the smaller purchases made in Q3, as well as a smaller amount of organic revenue growth. The company's operating costs have hampered earnings growth at times in the past as growing at rapid rates is expensive, and we believe this will continue to be the case for the balance of 2018, although Q3 did see a small amount of operating leverage. However, longer term tailwinds are in place for Moody's as it continues to feed seemingly insatiable investor demand for real-time analytical data on a wide variety of global securities. Keep in mind the core US business is growing very slowly and as such, Moody's relies almost entirely upon the global business for expansion, exposing it to currency risk over time as well. This year will see a significant boost in earnings-per-share from a lower tax rate but that tailwind will not reoccur after 2018.

We see the dividend as growing at roughly the same rate as earnings-per-share and thus, are forecasting a payout of \$2.24 in five years. Moody's has not shown the dividend to be a priority, as it is instead focused on business growth.

## Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
<b>Avg. P/E</b>	17.9	14.5	11.7	13.5	13.5	17.5	20.8	22.3	20.4	20.6	<b>18.6</b>	<b>17.9</b>
<b>Avg. Yld.</b>	1.2%	1.6%	1.7%	1.6%	1.6%	1.4%	1.3%	1.3%	1.5%	0.9%	<b>1.2%</b>	<b>1.2%</b>

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



# Moody's Corporation (MCO)

Updated October 30<sup>th</sup>, 2018 by Josh Arnold

The valuation for Moody's has moved around significantly in the past decade after hitting its lowest point in 2010 at 11.7. Today's price-to-earnings ratio of 18.6 is slightly above what we see as fair value at 17.9, meaning it now looks fairly valued. That implies a diminutive 0.8% headwind to total returns from the valuation changing. We also see the dividend yield as being maintained near 1.2% over time but Moody's is certainly not a pure income stock.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	71.9%	70.4%	70.2%	70.0%	70.9%	72.3%	72.1%	72.0%	71.5%	70.9%	<b>71.0%</b>	<b>71.0%</b>
Debt/A	156%	130%	112%	103%	88%	90%	99%	107%	119%	101%	<b>100%</b>	<b>95%</b>
Int. Cov.	19.4	20.4	14.7	14.6	17.2	13.8	13.6	13.1	5.1	10.6	<b>12.0</b>	<b>18.0</b>
Payout	21%	24%	20%	22%	22%	26%	23%	29%	30%	25%	<b>23%</b>	<b>21%</b>
Std. Dev.	53.1%	60.8%	36.3%	31.6%	23.9%	31.2%	15.5%	15.4%	24.7%	12.5%	<b>20.0%</b>	<b>27.5%</b>

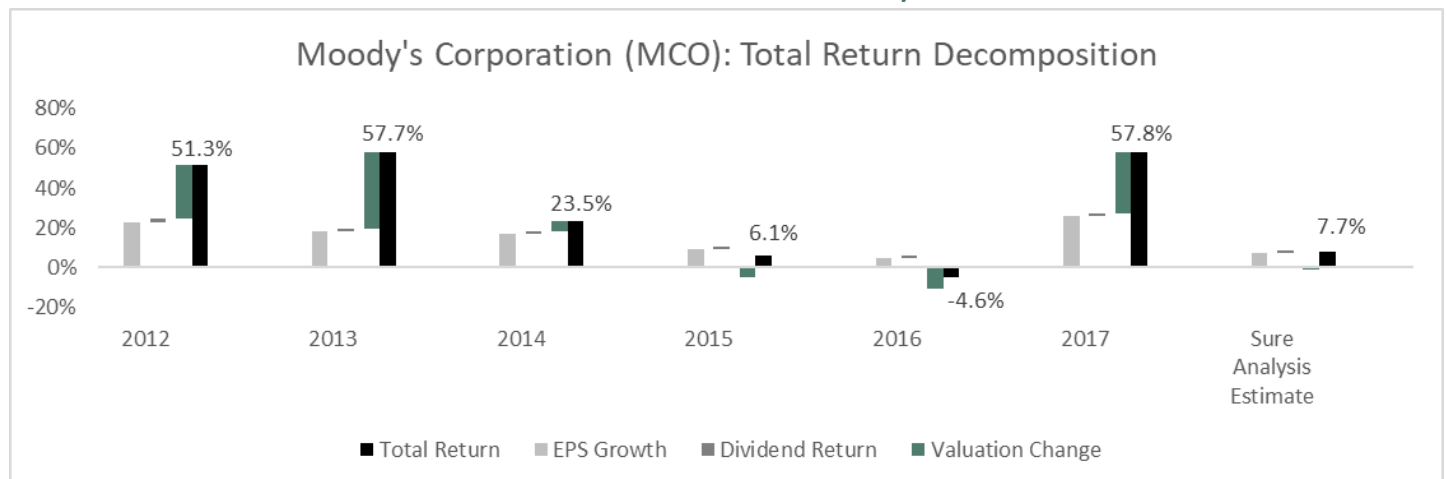
Moody's has realized steady margins over time, something we do not think will change in the foreseeable future. With its gross margins in excess of 70% and adjusted operating margins nearing 50%, there is certainly nothing wrong with that. Moody's used to have significant leverage but has reduced it meaningfully over the last decade. Even with liabilities roughly equal to assets, interest coverage is superb and should continue to get better as earnings rise. Overall, Moody's is in fantastic shape financially and should be able to continue to grow moving forward.

Moody's competitive advantage is that it was the company that basically created the industry more than 100 years ago. Its recent acquisitions and internal product advancements have kept it relevant with data-hungry investors. Moody's product assortment is strong at a time when competition is tougher than ever, and we think that will serve Moody's well during the next recession, which should not crimp earnings unduly.

## Final Thoughts & Recommendation

Overall, Moody's looks like a strong growth story that is now fairly valued after a sizable selloff. We are forecasting 7.7% in total annual returns moving forward, consisting of the 1.2% current yield, 7.3% earnings-per-share growth and a 0.8% headwind from a lower valuation. Moody's looks well-positioned for further growth, and for the first time in several quarters, the valuation is reasonable. The selloff after the Q3 report appears to be a chance for interested investors to begin building a position at a fair price. We've upgraded our rating to hold following the selloff given the long-term growth story is intact, but the stock is now reasonably priced.

## Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



# Moody's Corporation (MCO)

Updated October 30<sup>th</sup>, 2018 by Josh Arnold

## Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Revenue</b>	1755.4	1797.2	2032	2280.7	2730.3	2972.5	3334.3	3484.5	3604.2	4204.1
<b>Gross Profit</b>	1262.1	1264.8	1427.2	1597.2	1935.3	2150.1	2404	2508.2	2577.6	2981.3
<b>Gross Margin</b>	71.9%	70.4%	70.2%	70.0%	70.9%	72.3%	72.1%	72.0%	71.5%	70.9%
<b>SG&amp;A Exp.</b>	441.3	495.7	588	629.6	752.2	822.1	869.3	921.3	936.4	991.4
<b>D&amp;A Exp.</b>	75.1	64.1	66.3	79.2	93.5	93.4	95.6	113.5	126.7	158.3
<b>Operating Profit</b>	745.7	705	767.7	889.8	1107.2	1248.8	1440.4	1475.2	1508.5	1816.3
<b>Op. Margin</b>	42.5%	39.2%	37.8%	39.0%	40.6%	42.0%	43.2%	42.3%	41.9%	43.2%
<b>Net Profit</b>	457.6	402	507.8	571.4	690	804.5	988.7	941.3	266.6	1000.6
<b>Net Margin</b>	26.1%	22.4%	25.0%	25.1%	25.3%	27.1%	29.7%	27.0%	7.4%	23.8%
<b>Free Cash Flow</b>	455.3	553.1	574.3	735.6	778.1	884.5	944	1109.1	1144	656.9
<b>Income Tax</b>	268.2	239.1	201	261.8	324.3	353.4	455	430	282.2	779.1

## Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Total Assets</b>	1773.4	2003.3	2540.3	2876.1	3960.9	4395.1	4669	5103	5327.3	8594.2
<b>Cash &amp; Equivalents</b>	245.9	473.9	659.6	760	1755.4	1919.5	1219.5	1757.4	2051.5	1071.5
<b>Acc. Receivable</b>	421.8	444.9	497.5	489.8	621.8	694.2	792.4	802	887.4	1147.2
<b>Goodwill &amp; Int.</b>	452	454.1	634.3	896.5	863.6	886.8	1366.6	1275.4	1320	5384.8
<b>Total Liabilities</b>	2759.5	2599.4	2838.7	3034.5	3564.3	4047.2	4626.1	5436	6354.6	8709.1
<b>Accounts Payable</b>	8.6	7.1	14.3	16.4	14.3	16.4	19.4	22.2	28.4	21.8
<b>Long-Term Debt</b>	1467.7	1193.7	1239.6	1243.8	1671.2	2101.8	2547.3	3380.6	3363	5540.5
<b>Total Equity</b>	-994.4	-606.2	-309.6	-169	385.2	337	-187.8	-565	-1225	-327.7
<b>D/E Ratio</b>	-1.48	-1.97	-4.00	-7.36	4.34	6.24	-13.56	-5.98	-2.75	-16.91

## Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Return on Assets</b>	26.2%	21.3%	22.4%	21.1%	20.2%	19.3%	21.8%	19.3%	5.1%	14.4%
<b>Return on Equity</b>	-52%	-50.2%	-111%	-239%	638%	223%	1325%	-250%	-29.8%	-129%
<b>ROIC</b>	108%	74.5%	66.0%	56.4%	43.8%	35.6%	39.2%	33.4%	9.9%	25.8%
<b>Shares Out.</b>	235	237	231	222	224	214	203	196	191	191
<b>Revenue/Share</b>	7.16	7.56	8.59	9.94	12.05	13.30	15.53	17.13	18.45	21.65
<b>FCF/Share</b>	1.86	2.33	2.43	3.21	3.43	3.96	4.40	5.45	5.85	3.38

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

### Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.