



# Moody's Corporation (MCO)

Updated May 24<sup>th</sup>, 2022, by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$295	<b>5 Year CAGR Estimate:</b>	6.8%	<b>Market Cap:</b>	\$53 B
<b>Fair Value Price:</b>	\$242	<b>5 Year Growth Estimate:</b>	10.0%	<b>Ex-Dividend Date:</b>	05/19/22
<b>% Fair Value:</b>	122%	<b>5 Year Valuation Multiple Estimate:</b>	-3.9%	<b>Dividend Payment Date:</b>	06/10/22
<b>Dividend Yield:</b>	0.9%	<b>5 Year Price Target</b>	\$390	<b>Years Of Dividend Growth:</b>	13
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	D	<b>Rating:</b>	Hold

## 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 \$6.2 billion in annual revenue and a market capitalization of about \$53 billion. Moody's is still one of the largest players in the traditional ratings business but has transformed itself in recent years by investing heavily in data and analytics, which is less cyclical and has very strong margins.

Moody's reported first quarter earnings on May 2<sup>nd</sup>, 2022, and results were largely in line with expectations. Adjusted earnings-per-share were \$2.89, exactly what was expected. Revenue was down 5% to \$1.52 billion, which was fractionally ahead of expectations. The company cut its guidance for the year, sending the stock lower. The prior guidance for earnings was \$11 per share, but that was cut to a midpoint of \$10.10; we've reduced our estimate significantly for this year as a result.

The company noted that greatly reduced debt issuances among corporations and other customers reduced the need for debt ratings, which is traditionally a big source of revenue and earnings for Moody's. So long as interest rates are rising, this will continue to be a risk.

The company's Analytics revenue soared 23% to \$695 million, as Decision Solutions revenue led the way at 48% growth year-over-year.

Guidance is now for flat revenue this year, down from a high-single digit increase in prior guidance. Operating margin is now expected at 41% to 42% of revenue, down from 44% to 45%.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>EPS</b>	\$3.05	\$3.60	\$4.21	\$4.60	\$4.81	\$6.07	\$7.39	\$8.29	\$10.15	\$12.29	<b>\$10.10</b>	<b>\$16.27</b>
<b>DPS</b>	\$0.64	\$0.90	\$1.12	\$1.36	\$1.48	\$1.14	\$1.76	\$2.00	\$2.24	\$2.48	<b>\$2.80</b>	<b>\$4.72</b>
<b>Shares<sup>1</sup></b>	224	214	203	196	191	191	191	187	187	186	<b>186</b>	<b>184</b>

Moody's earnings-per-share history is quite strong as it has seen profit growth in every year in the past decade. Moody's earnings growth has averaged 15% per year over the last decade. While we do not believe that sort of performance is sustainable in the long run, we forecast 10% earnings-per-share growth moving forward from 2022's very high base.

Moody's can achieve this result by continuing its long tradition of buying growth, as we saw with the Bureau van Dijk purchase and the smaller purchases made in the years since, 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 revenue at rapid rates can be expensive, and we believe this will continue to be the case moving forward. 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 relatively slowly and as such, Moody's relies almost

<sup>1</sup> Share count in millions

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entirely upon the global business for expansion, exposing it to currency risk over time as well. In addition, the company continues its torrid pace of targeted acquisitions to help it grow.

We see the dividend as growing at roughly the same rate as earnings-per-share and we are forecasting a payout of \$4.72 in five years. Moody's has not shown the dividend to be a priority, as it is instead focused on business growth. Even so, the 2022 dividend increase was nearly 13%.

## Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	13.5	17.5	20.8	22.3	20.4	20.6	22.3	23.7	26.1	28.1	29.2	24.0
Avg. Yld.	1.6%	1.4%	1.3%	1.3%	1.5%	0.9%	1.1%	1.0%	0.8%	0.7%	0.9%	1.2%

The valuation for Moody's has moved around significantly in the past decade after hitting its lowest point in 2011 at 13.5. Today's price-to-earnings ratio of is well ahead of our estimate of fair value at 29.2. That implies a sizable headwind from the valuation as we assess fair value at 24 times earnings. We see the yield ticking higher over time as dividend growth could outpace that of earnings growth, but the yield should remain below the market average.

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

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	22%	26%	23%	29%	30%	25%	24%	24%	22%	20%	28%	29%

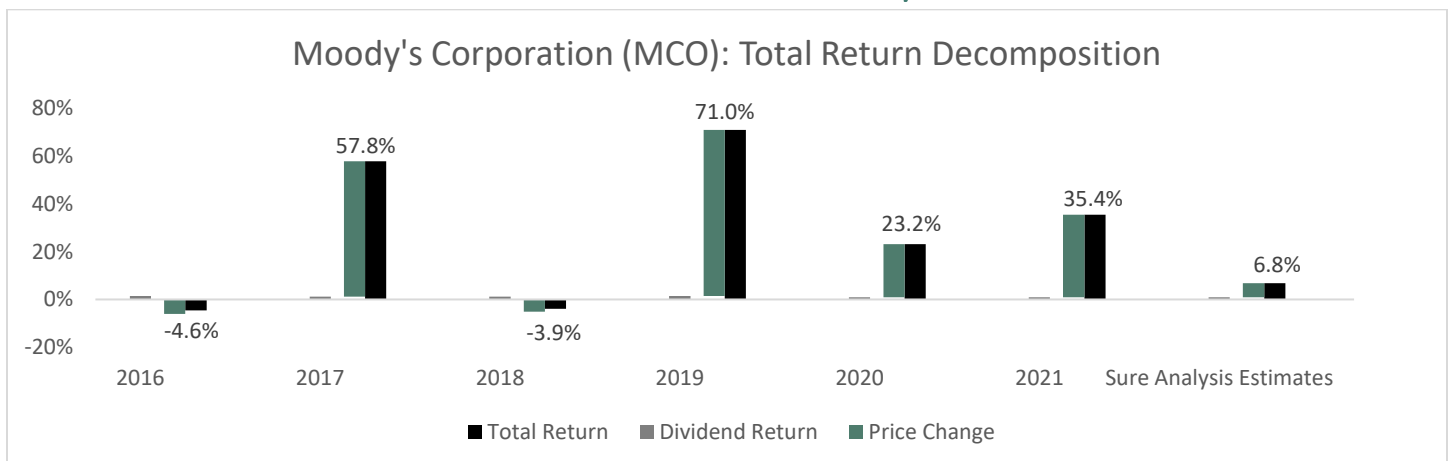
Moody's payout ratio is under one-third of earnings, which is in-line with its historical norms. We do not believe that will change materially in the years to come as the company continues to grow earnings rapidly, and as it focuses on growth more than a high dividend yield.

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 future recessions, which should not crimp earnings unduly.

## Final Thoughts & Recommendation

Overall, Moody's looks like a strong growth story that is once again overvalued. We are forecasting 6.8% in total annual returns moving forward, consisting of the 0.9% current yield, 10% earnings-per-share growth and a 3.9% headwind from the valuation. Moody's looks well-positioned for further growth, and we are reiterating it at a hold rating.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Revenue</b>	2,730	2,973	3,334	3,485	3,604	4,204	4,443	4,829	5,371	6,218
<b>Gross Profit</b>	1,935	2,150	2,404	2,508	2,585	2,988	3,197	3,442	3,896	4,581
<b>Gross Margin</b>	70.9%	72.3%	72.1%	72.0%	71.7%	71.1%	72.0%	71.3%	72.5%	73.7%
<b>SG&amp;A Exp.</b>	752	822	869	921	931	986	1,080	1,167	1,229	1,480
<b>D&amp;A Exp.</b>	94	93	96	114	127	158	192	200	220	257
<b>Operating Profit</b>	1,102	1,254	1,446	1,480	1,528	1,844	1,925	2,075	2,447	2,844
<b>Op. Margin</b>	40.4%	42.2%	43.4%	42.5%	42.4%	43.9%	43.3%	43.0%	45.6%	45.7%
<b>Net Profit</b>	690	805	989	941	267	1,001	1,310	1,422	1,778	2,214
<b>Net Margin</b>	25.3%	27.1%	29.7%	27.0%	7.4%	23.8%	29.5%	29.4%	33.1%	35.6%
<b>Free Cash Flow</b>	778	885	944	1,109	1,144	664	1,370	1,606	2,043	1,866
<b>Income Tax</b>	324	353	455	430	282	779	352	381	452	541

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Total Assets</b>	3,961	4,395	4,669	5,103	5,327	8,594	9,526	10,265	12,409	14,680
<b>Cash &amp; Equivalents</b>	1,755	1,920	1,220	1,757	2,052	1,072	1,685	1,832	2,597	1,811
<b>Acc. Receivable</b>	622	694	792	802	887	1,147	1,287	1,419	1,430	1,720
<b>Goodwill &amp; Int.</b>	864	887	1,367	1,275	1,320	5,385	5,347	5,220	6,380	8,466
<b>Total Liabilities</b>	3,564	4,047	4,626	5,436	6,355	8,709	8,870	9,434	10,646	11,764
<b>Accounts Payable</b>	14	16	19	22	28	22	30	38	39	47
<b>Long-Term Debt</b>	1,671	2,102	2,547	3,381	3,363	5,541	5,676	5,581	6,422	7,413
<b>Total Equity</b>	385	337	-188	(565)	-1,225	-328	459	612	1,569	2,727
<b>LTD/E Ratio</b>	4.34	6.24	-13.56	(5.98)	-2.75-	-16.91	12.37	9.12	4.09	2.72

## Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Return on Assets</b>	20.2%	19.3%	21.8%	19.3%	5.1%	14.4%	14.5%	14.4%	15.7%	16.3%
<b>Return on Equity</b>	638.3%	222.8%	---	---	---	---	---	266%	163%	103%
<b>ROIC</b>	43.8%	35.6%	39.2%	33.4%	9.9%	25.8%	22.3%	22.3%	24.4%	23.9%
<b>Shares Out.</b>	224	214	203	196	191	191	191	187	187	186
<b>Revenue/Share</b>	12.05	13.30	15.53	17.13	18.45	21.65	22.85	25.20	28.37	33.09
<b>FCF/Share</b>	3.43	3.96	4.40	5.45	5.85	3.42	7.05	8.38	10.79	9.93

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

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