



Moody's Corporation (MCO)

Updated July 30th, 2023, by Josh Arnold

Key Metrics

Current Price:	\$353	5 Year CAGR Estimate:	7.3%	Market Cap:	\$65 B
Fair Value Price:	\$261	5 Year Growth Estimate:	13.0%	Ex-Dividend Date:	08/28/23 ¹
% Fair Value:	135%	5 Year Valuation Multiple Estimate:	-5.8%	Dividend Payment Date:	09/09/23
Dividend Yield:	0.9%	5 Year Price Target	\$481	Years Of Dividend Growth:	14
Dividend Risk Score:	B	Retirement Suitability Score:	D	Rating:	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 about \$6 billion in annual revenue and a market capitalization of about \$65 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 posted second quarter earnings on July 25th, 2023, and results were meaningfully better than expected on both the top and bottom lines. Adjusted earnings-per-share came to \$2.30, which was eight cents better than expected. Revenue was up 8% year-over-year to \$1.49 billion, which was \$40 million ahead of estimates. Revenue was higher due to an 11% gain in Analytics revenue, and a 6% increase in Investors Services revenue.

Operating expenses were up 8% year-over-year, including 5% higher incentive compensation accruals, and stock-based compensation expense. Forex translation was immaterial in Q2 given the movements in the US dollar.

The company boosted guidance for this year to a new range of \$9.75 to \$10.25 in earnings-per-share, and we've set our estimate accordingly just above the midpoint of that range. The new guidance range is an increase of 25 cents on both ends of the range.

Revenue is now expected to grow in the high-single digits, a small increase over prior guidance, while operating expense guidance was unchanged. Share buybacks are now expected to be \$500 million for the year, double the previous target.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$3.60	\$4.21	\$4.60	\$4.81	\$6.07	\$7.39	\$8.29	\$10.15	\$12.29	\$8.57	\$10.05	\$18.52
DPS	\$0.90	\$1.12	\$1.36	\$1.48	\$1.14	\$1.76	\$2.00	\$2.24	\$2.48	\$2.80	\$3.08	\$5.19
Shares²	214	203	196	191	191	191	187	187	186	183	182	180

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 10% per year over the last decade. While Moody's has inherently volatile earnings, we forecast 13% earnings-per-share growth moving forward from 2023's still relatively low base.

Moody's can achieve this result by continuing its long tradition of buying growth, as we saw with the large 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 upon the global business for expansion, exposing it to currency risk over time as well. In addition, the company

¹ Estimated date

² Share count in millions

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continues its torrid pace of targeted acquisitions to help it grow. Higher interest rates around the world have crushed demand for debt issuances, so that is likely to remain a headwind for some time.

We see the dividend as growing at roughly the same rate as earnings-per-share and we are forecasting a payout of \$5.19 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 2023 dividend increase was 10%.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	17.5	20.8	22.3	20.4	20.6	22.3	23.7	26.1	28.1	32.5	35.1	26.0
Avg. Yld.	1.4%	1.3%	1.3%	1.5%	0.9%	1.1%	1.0%	0.8%	0.7%	1.0%	0.9%	1.1%

The valuation for Moody's has moved around significantly in the past decade. Today's price-to-earnings ratio of 35.1 is well ahead of our estimate of fair value at 26.0, and sky-high by any measure. That implies a sizable headwind from the valuation. We see the yield ticking higher over time as dividend growth could outpace that of earnings growth, but the yield should remain well below the market average.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	26%	23%	29%	30%	25%	24%	24%	22%	20%	33%	31%	28%

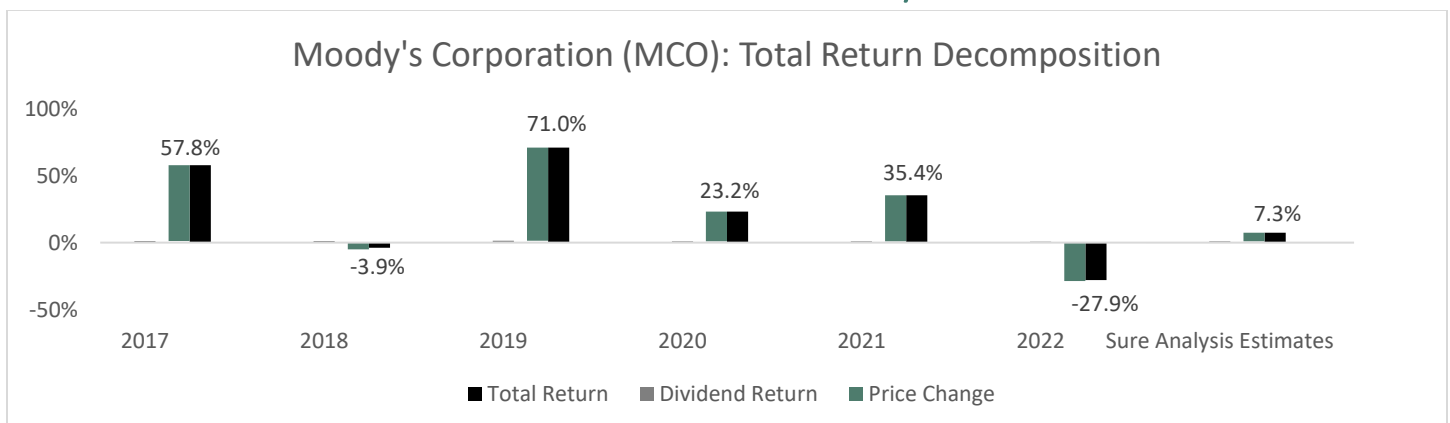
Moody's payout ratio is one-third of earnings, which is in-line with its historical norms. We do not believe that will change materially in the years to come as the company continues to grow earnings rapidly, and as it focuses on growth more than a high dividend yield.

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 quite overvalued. We are forecasting 7.3% in total annual returns moving forward, consisting of the 0.9% current yield, 13% earnings-per-share growth and a 5.8% headwind from the valuation. Moody's looks well-positioned for further growth, and we are reiterating it at a hold rating given its valuation.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	2,973	3,334	3,485	3,604	4,204	4,443	4,829	5,371	6,218	5,468
Gross Profit	2,150	2,404	2,508	2,585	2,988	3,197	3,442	3,896	4,581	3,855
Gross Margin	72.3%	72.1%	72.0%	71.7%	71.1%	72.0%	71.3%	72.5%	73.7%	70.5%
SG&A Exp.	822	869	921	931	986	1,080	1,167	1,229	1,480	1,527
D&A Exp.	93	96	114	127	158	192	200	220	257	---
Operating Profit	1,254	1,446	1,480	1,528	1,844	1,925	2,075	2,447	2,844	1,997
Op. Margin	42.2%	43.4%	42.5%	42.4%	43.9%	43.3%	43.0%	45.6%	45.7%	36.5%
Net Profit	805	989	941	267	1,001	1,310	1,422	1,778	2,214	1,374
Net Margin	27.1%	29.7%	27.0%	7.4%	23.8%	29.5%	29.4%	33.1%	35.6%	25.1%
Free Cash Flow	885	944	1,109	1,144	664	1,370	1,606	2,043	1,866	1,474
Income Tax	353	455	430	282	779	352	381	452	541	386

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	4,395	4,669	5,103	5,327	8,594	9,526	10,265	12,409	14,680	14,349
Cash & Equivalents	1,920	1,220	1,757	2,052	1,072	1,685	1,832	2,597	1,811	1,769
Acc. Receivable	694	792	802	887	1,147	1,287	1,419	1,430	1,720	1,652
Goodwill & Int.	887	1,367	1,275	1,320	5,385	5,347	5,220	6,380	8,466	8,049
Total Liabilities	4,047	4,626	5,436	6,355	8,709	8,870	9,434	10,646	11,764	11,660
Accounts Payable	16	19	22	28	22	30	38	39	47	---
Long-Term Debt	2,102	2,547	3,381	3,363	5,541	5,676	5,581	6,422	7,413	7,389
Total Equity	337	-188	(565)	-1,225	-328	459	612	1,569	2,727	2,519
LTD/E Ratio	6.24	-13.56	(5.98)	-2.75-	-16.91	12.37	9.12	4.09	2.72	2.93

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	19.3%	21.8%	19.3%	5.1%	14.4%	14.5%	14.4%	15.7%	16.3%	9.5%
Return on Equity	222.8%	---	---	---	---	---	266%	163%	103%	52.4%
ROIC	35.6%	39.2%	33.4%	9.9%	25.8%	22.3%	22.3%	24.4%	23.9%	13.5%
Shares Out.	214	203	196	191	191	191	187	187	186	185
Revenue/Share	13.30	15.53	17.13	18.45	21.65	22.85	25.20	28.37	33.09	29.60
FCF/Share	3.96	4.40	5.45	5.85	3.42	7.05	8.38	10.79	9.93	7.98

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

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