



Moody's Corporation (MCO)

Updated February 19th, 2024, by Josh Arnold

Key Metrics

Current Price:	\$371	5 Year CAGR Estimate:	8.4%	Market Cap:	\$68 B
Fair Value Price:	\$289	5 Year Growth Estimate:	13.0%	Ex-Dividend Date:	02/22/24
% Fair Value:	128%	5 Year Valuation Multiple Estimate:	-4.9%	Dividend Payment Date:	03/15/24
Dividend Yield:	0.9%	5 Year Price Target	\$532	Years Of Dividend Growth:	15
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 \$6.5 billion in annual revenue and a market capitalization of about \$68 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 fourth quarter and full-year earnings on February 13th, 2024, and results were worse than expected, as well as weak guidance for fiscal 2024. Adjusted earnings-per-share came to \$2.19, which was 13 cents worse than expected. Revenue was up 16% year-over-year to \$1.5 billion, and fractionally beat estimates. Moody's Analytics revenue grew 11%, or 10% on a constant currency basis, with all of its lines posting double-digit revenue growth. Moody's Investor Services saw revenue grow 19%, or 17% on a constant currency basis. The company saw debt capital markets continue to recover, driving the strong top line result.

Operating margin was 42.6% of revenue on an adjusted basis. This was a staggering 560 basis points higher year-over-year, and drove earnings up strongly year-over-year. Expenses were \$982 million, essentially flat year-over-year, but rising revenue helped drive margins higher.

Guidance was for \$10.25 to \$11 in adjusted earnings-per-share for this year, weaker than consensus that was for \$11.15. In addition, it boosted its dividend by 10.4% to a new annualized payout of \$3.40, and added \$1 billion to its share repurchase authority. We start the year with \$10.70 as an initial estimate based upon that guidance range.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$4.21	\$4.60	\$4.81	\$6.07	\$7.39	\$8.29	\$10.15	\$12.29	\$8.57	\$9.90	\$10.70	\$19.71
DPS	\$1.12	\$1.36	\$1.48	\$1.14	\$1.76	\$2.00	\$2.24	\$2.48	\$2.80	\$3.08	\$3.40	\$5.73
Shares¹	203	196	191	191	191	187	187	186	183	183	180	175

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 2024's 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 continues its torrid pace of targeted acquisitions to help it grow. Higher interest rates around the world have crushed

¹ Share count in millions

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demand for debt issuances, so that is likely to remain a headwind for some time. However, second half results showed some signs of life with bond issuance, which is very good for the top line, and indeed margins.

We see the dividend as growing at roughly the same rate as earnings-per-share and we are forecasting a payout of \$5.73 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 2024 dividend increase was 10%.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	20.8	22.3	20.4	20.6	22.3	23.7	26.1	28.1	32.5	39.5	34.7	27.0
Avg. Yld.	1.3%	1.3%	1.5%	0.9%	1.1%	1.0%	0.8%	0.7%	1.0%	0.8%	0.9%	1.1%

The valuation for Moody's has moved around significantly in the past decade. Today's price-to-earnings ratio of 34.7 is well ahead of our estimate of fair value at 27.0, and elevated by any measure. That implies a big 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	23%	29%	30%	25%	24%	24%	22%	20%	33%	31%	32%	29%

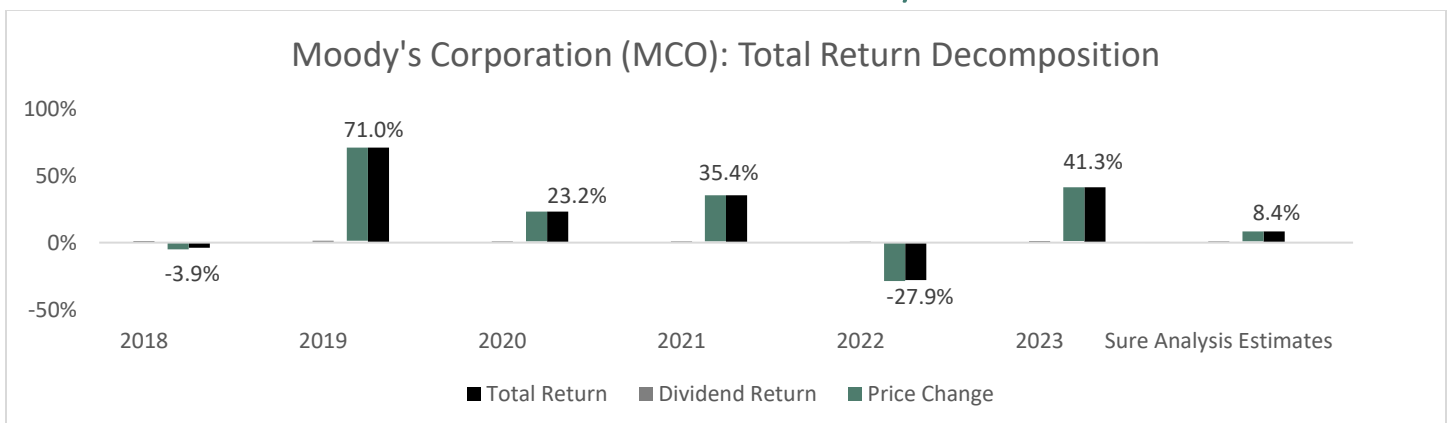
Moody's payout ratio is one-third of earnings, which is in-line with its historical norms. We do not believe that will change materially in the years to come as the company continues to grow earnings rapidly, and as it focuses on growth more than a high dividend yield.

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 overvalued. We are forecasting 8.4% in total annual returns moving forward, consisting of the 0.9% current yield, 13% earnings-per-share growth and a 4.9% headwind from the valuation. Moody's looks well-positioned for further growth, but given the stock has risen markedly since our last update, we're reducing Moody's from buy to hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	3,334	3,485	3,604	4,204	4,443	4,829	5,371	6,218	5,468	5,916
Gross Profit	2,404	2,508	2,585	2,988	3,197	3,442	3,896	4,581	3,855	4,229
Gross Margin	72.1%	72.0%	71.7%	71.1%	72.0%	71.3%	72.5%	73.7%	70.5%	71.5%
SG&A Exp.	869	921	931	986	1,080	1,167	1,229	1,480	1,527	1,632
D&A Exp.	96	114	127	158	192	200	220	257	331	373
Operating Profit	1,446	1,480	1,528	1,844	1,925	2,075	2,447	2,844	1,997	2,224
Op. Margin	43.4%	42.5%	42.4%	43.9%	43.3%	43.0%	45.6%	45.7%	36.5%	37.6%
Net Profit	989	941	267	1,001	1,310	1,422	1,778	2,214	1,374	1,607
Net Margin	29.7%	27.0%	7.4%	23.8%	29.5%	29.4%	33.1%	35.6%	25.1%	27.2%
Free Cash Flow	944	1,109	1,144	664	1,370	1,606	2,043	1,866	1,191	1,880
Income Tax	455	430	282	779	352	381	452	541	386	327

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	4,669	5,103	5,327	8,594	9,526	10,265	12,409	14,680	14,349	14,622
Cash & Equivalents	1,220	1,757	2,052	1,072	1,685	1,832	2,597	1,811	1,769	2,130
Acc. Receivable	792	802	887	1,147	1,287	1,419	1,430	1,720	1,652	1,659
Goodwill & Int.	1,367	1,275	1,320	5,385	5,347	5,220	6,380	8,466	8,049	8,005
Total Liabilities	4,626	5,436	6,355	8,709	8,870	9,434	10,646	11,764	11,660	11,146
Accounts Payable	19	22	28	22	30	38	39	47	52	---
Long-Term Debt	2,547	3,381	3,363	5,541	5,676	5,581	6,422	7,413	7,389	7,001
Total Equity	-188	(565)	-1,225	-328	459	612	1,569	2,727	2,519	3,318
LTD/E Ratio	-13.56	(5.98)	-2.75-	-16.91	12.37	9.12	4.09	2.72	2.93	2.11

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	21.8%	19.3%	5.1%	14.4%	14.5%	14.4%	15.7%	16.3%	9.5%	11.1%
Return on Equity	---	---	---	---	---	266%	163%	103%	52.4%	52.1%
ROIC	39.2%	33.4%	9.9%	25.8%	22.3%	22.3%	24.4%	23.9%	13.5%	15.6%
Shares Out.	203	196	191	191	191	187	187	186	185	184
Revenue/Share	15.53	17.13	18.45	21.65	22.85	25.20	28.37	33.09	29.60	32.15
FCF/Share	4.40	5.45	5.85	3.42	7.05	8.38	10.79	9.93	6.45	10.22

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

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