

Moody's Corp.

Investment to drive growth, but we think growth story intact

Reiterate Rating: BUY | PO: 430.00 USD | Price: 369.23 USD

Growth story not broken despite 2024 investments

We view the post-print pullback in MCO's share price as a good investment opportunity. Shares underperformed amid a 4Q margin miss and softer than expected 2024 guidance. We acknowledge that the 2024 guidance was disappointing. However, we think the company's decision to invest an incremental \$60mn (~1% of 2024 sales and \$0.26 of EPS) doesn't change the mid-term growth story, nor do we think that MCO is entering a multi-year margin dilutive investment cycle. In addition, we think there's opportunity for upside on the 2024 outlook based on the company's 2023 approach to guidance. We reiterate our Buy recommendation.

Sales in line but margins miss in 4Q and 2024 guide

MCO's \$2.19 4Q23 adj. EPS was below our/consensus' \$2.47/2.32 due to lower margins. MA margins were 31.4% vs. the Street's 32.7%, while MIS margins were 51.9% vs. the Street's 58.4%. MCO initiated \$10.25-\$11.00 2024 EPS guidance on high-single digit to low-double digit sales growth and 44-46% adj. EBITDA margin. MA sales guide is for 10% growth and 30-31% EBITDA margin. MIS sales guide is high-single digit to low double-digit growth and 55.5-57.5% EBITDA margin. We're lowering our 2024E EPS by \$1.17 to \$10.89 on a modestly more cautious issuance outlook and lower margins, while our 2024E EPS is higher as we're bullish on issuance over the next two years. Our PO is going to \$430 as we roll forward our valuation estimates to 2025 and a higher multiple (34x FY25 P/E vs. 33x FY24 prior) given that we are passed the bottom for issuance.

Near term spending to fuel long term growth

MCO plans to invest an incremental \$60mn in 2024. The key areas of investment include 1) Gen AI (MA-focused), 2) ratings of digital currency bonds (MIS-focused), and 3) its technology platform (both segments). GenAI investments include both internal tools and new products, as well as investments in its go-to-market strategy. Mgmt indicated it has a customer Beta testing its Research Assistant, but we would like to see additional customers adopt the product to get confidence in that particular tool. We think it's more likely GenAI is a 2026+ sales growth driver. Despite these investments, mgmt reiterated its mid-30% MA margin target, but noted that margin expansion was not going to be linear. For now, we model ~33.7% MA margins for 2026.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	8.57	9.90	10.89	12.53	13.84
GAAP EPS	7.44	8.74	10.08	11.74	13.06
EPS Change (YoY)	-30.3%	15.5%	10.0%	15.1%	10.5%
Consensus EPS (Bloomberg)			11.20	12.83	14.60
DPS	2.87	3.16	3.47	3.82	4.20
Valuation (Dec)					
P/E	43.1x	37.3x	33.9x	29.5x	26.7x
GAAP P/E	49.6x	42.2x	36.6x	31.5x	28.3x
Dividend Yield	0.8%	0.9%	0.9%	1.0%	1.1%
EV / EBITDA*	31.7x	28.4x	24.5x	22.0x	20.4x
Free Cash Flow Yield*	1.8%	2.8%	3.1%	3.4%	3.7%

* For full definitions of *IQmethod*SM measures, see page 4.

13 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	411.00	430.00
2024E Rev (m)	6,637.5	6,569.4
2025E Rev (m)	6,920.4	6,933.9
2026E Rev (m)	7,098.1	7,217.9
2024E EPS	12.06	10.89
2025E EPS	13.60	12.53
2026E EPS	14.48	13.84
2024E DPS	3.41	3.47

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Stock Data

Price	369.23 USD
Price Objective	430.00 USD
Date Established	13-Feb-2024
Investment Opinion	B-1-7
52-Week Range	278.23 USD - 407.62 USD
Mrkt Val (mn) / Shares Out (mn)	67,569 USD / 183.0
Free Float	85.9%
Average Daily Value (mn)	245.17 USD
BofA Ticker / Exchange	MCO / NYS
Bloomberg / Reuters	MCO US / MCO.N
ROE (2024E)	53.9%
Net Dbt to Eqty (Dec-2023A)	140.1%
ESGMeter TM	Medium

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Timestamp: 13 February 2024 09:01PM EST

iQprofileSM Moody's Corp.

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	12.2%	14.7%	16.4%	18.1%	19.0%
Return on Equity	56.4%	59.1%	53.9%	53.9%	50.4%
Operating Margin	34.4%	36.1%	39.0%	41.6%	43.4%
Free Cash Flow	1,191	1,880	2,110	2,271	2,479

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.9x	1.2x	1.3x	1.2x	1.2x
Asset Replacement Ratio	0.9x	0.7x	0.9x	0.9x	0.9x
Tax Rate	21.9%	16.9%	21.0%	21.0%	21.0%
Net Debt-to-Equity Ratio	209.0%	140.1%	113.6%	85.6%	59.6%
Interest Cover	8.2x	8.5x	10.6x	13.5x	16.0x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	5,468	5,916	6,569	6,934	7,218
% Change	-12.1%	8.2%	11.0%	5.5%	4.1%
Gross Profit	3,855	4,229	4,671	4,917	5,100
% Change	-15.8%	9.7%	10.5%	5.3%	3.7%
EBITDA	2,328	2,597	3,013	3,345	3,608
% Change	-24.9%	11.6%	16.0%	11.0%	7.8%
Net Interest & Other Income	(123)	(202)	(241)	(213)	(196)
Net Income (Adjusted)	1,582	1,822	1,979	2,251	2,456
% Change	-31.5%	15.2%	8.6%	13.7%	9.1%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	1,374	1,608	1,834	2,110	2,318
Depreciation & Amortization	331	373	450	460	475
Change in Working Capital	(427)	(38)	23	(91)	(100)
Deferred Taxation Charge	48	(38)	0	0	0
Other Adjustments, Net	148	246	203	213	223
Capital Expenditure	(283)	(271)	(399)	(421)	(438)
Free Cash Flow	1,191	1,880	2,110	2,271	2,479
% Change	-36.2%	57.9%	12.2%	7.6%	9.1%
Share / Issue Repurchase	(1,044)	(511)	(1,022)	(1,024)	(1,025)
Cost of Dividends Paid	(515)	(564)	(617)	(686)	(746)
Change in Debt	(10)	0	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	1,769	2,130	2,599	2,459	3,165
Trade Receivables	1,652	1,659	1,824	1,963	2,083
Other Current Assets	673	552	606	674	739
Property, Plant & Equipment	502	603	737	878	1,016
Other Non-Current Assets	9,753	9,678	9,619	9,547	9,468
Total Assets	14,349	14,622	15,386	15,521	16,471
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	2,375	2,500	2,764	2,931	3,066
Long-Term Debt	7,389	7,001	6,999	6,299	6,299
Other Non-Current Liabilities	1,896	1,645	1,748	1,806	1,851
Total Liabilities	11,660	11,146	11,512	11,036	11,216
Total Equity	2,689	3,476	3,874	4,485	5,255
Total Equity & Liabilities	14,349	14,622	15,386	15,521	16,471

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Business Services

Company Description

Moody's is a global integrated risk assessment business that provides credit rating opinions, analytical solutions and insights, Investor Services segment (49% of 2022 sales) provides credit ratings and Moody's Analytics (51%) offers risk management data and information, research and insights, and decision solutions.

Investment Rationale

Moody's has high exposure to the likely credit issuance recovery via its ratings business (49% of sales), but also a very resilient Analytics business. Moody's Analytics offers risk-management related assessments and data, research, and decision solutions. We expect higher issuance, demand for its risk-management tools, and material cost cuts to drive outsized EPS growth, positive earnings revisions, and multiple expansion.

Stock Data

Average Daily Volume 664,009

Quarterly Earnings Estimates

	2023	2024
Q1	2.99A	2.85E
Q2	2.30A	2.82E
Q3	2.43A	2.68E
Q4	2.19A	2.71E

Price objective basis & risk

Moody's Corp. (MCO)

Our \$430 price objective is based on 34x 2025E P/E, a 4x premium to its current multiple. This is above Information Services peers. We think a premium to peers is warranted given higher earnings growth.

Downside risks to our price objective are: 1) issuance recovery is weaker than expected due to higher rates, 2) an economic downturn leads to further issuance declines and reduces demand for Moody's Analytics' tools, and 3) adoption of Moody's Analytics' products is slower than expected.

Upside risks to our price objective are: 1) faster than expected credit cycle recovery, 2) larger than expected margin uplift, 3) stronger adoption of new products, 4) private credit market embraces ratings in a more material way, and 5) higher than expected buybacks

Analyst Certification

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US - Business, Education & Professional Services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Alight Inc	ALIT	ALIT US	Heather Balsky
	Aramark	ARMK	ARMK US	Heather Balsky
	Cintas	CTAS	CTAS US	Heather Balsky
	CoStar Group	CSGP	CSGP US	Heather Balsky
	Dun & Bradstreet Holdings, Inc.	DNB	DNB US	Heather Balsky
	Equifax	EFX	EFX US	Heather Balsky
	Gartner	IT	IT US	Heather Balsky
	Moody's Corp.	MCO	MCO US	Heather Balsky
	S&P Global	SPGI	SPGI US	Heather Balsky
	Strategic Education	STRA	STRA US	Heather Balsky
	Thomson Reuters	YTRI	TRI CN	Heather Balsky
	Thomson Reuters	TRI	TRI US	Heather Balsky
NEUTRAL				
	FactSet Research Systems Inc	FDS	FDS US	Heather Balsky
	First Advantage Corporation	FA	FA US	Heather Balsky
	Verisk Analytics	VRSK	VRSK US	Heather Balsky
UNDERPERFORM				
	ASGN Inc.	ASGN	ASGN US	Heather Balsky
	Clarivate PLC	CLVT	CLVT US	Heather Balsky
	ManpowerGroup	MAN	MAN US	Heather Balsky
	MSCI Inc	MSCI	MSCI US	Heather Balsky
	Robert Half	RHI	RHI US	Heather Balsky
	TransUnion	TRU	TRU US	Heather Balsky



iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} +$

Other LT Liabilities

Enterprise Value

Denominator

$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$

Sales

Basic EBIT + Depreciation + Amortization

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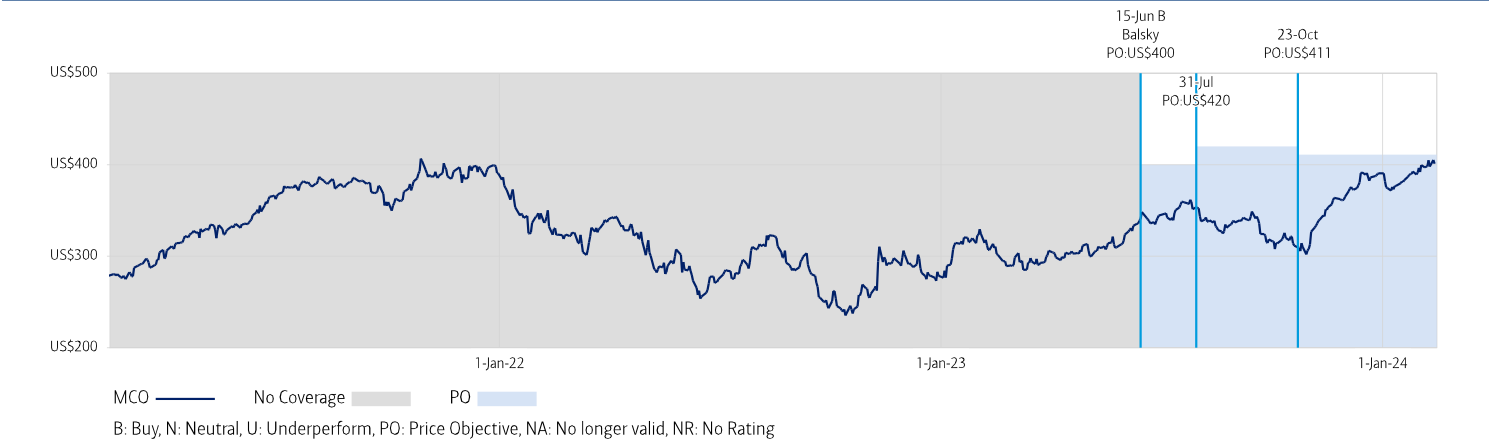
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Moody's Corp. (MCO) Price Chart



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Equity Investment Rating Distribution: Business Services Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	26	55.32%	Buy	17	65.38%
Hold	8	17.02%	Hold	3	37.50%
Sell	13	27.66%	Sell	11	84.62%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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