

Moody's Corp.

MCO 4Q quick take: margins, margins, margins (drives a 4Q miss)

Reiterate Rating: BUY | PO: 411.00 USD | Price: 401.09 USD

Some questions around MCO's margin story

MCO missed 4Q EPS on margins, and we have questions. Investors we spoke with have been wary about investment spend and were cautious into the print on margins, especially 2024 guidance. However, we were caught off guard by the MIS margin miss. Is the Street overestimating the potential flow through from the ratings recovery? Does this mean Moody's needs to reinforce its cost base as issuance recovers? We look for color on the earnings call on how to think about flowthrough. We reiterate our Buy rating; we think the stock works now that issuance has bottomed. The 4Q call is today at 11:30am ET.

4Q sales in line, but EPS misses meaningfully on margins

MCO's \$2.19 4Q23 adj. EPS we below our/Visible Alpha consensus of \$2.47/2.32 due to lower margins. Sales were roughly in line with consensus (+14.7% vs. our/the Street's 14.2/14.9%), but EBIT margins were well below (42.6% vs. our/the Street's +44.2/44.1%). We infer that some of the miss was related to incremental investment spending, but MIS margins also missed Street expectations. MA margins were 31.4% vs. the Street's 32.7%, while MIS margins were 51.9% vs. the Street's 58.4%.

2024 guidance misses Street: margins + taxes

MCO provided its initial 2024 guidance for \$10.25-11.00 EPS, below the Street's \$11.12 (we were higher at \$12.06). We infer the miss partly due to higher taxes (MCO is guiding to 22-24% vs. ~18% in 2023), but also lower margins at the low-end of the guidance range. Higher taxes have been pressuring our global Information Services companies. Guidance factors in high-single to low-double-digit sales growth and 44-46% operating margins. The Street had been modeling ~10% sales growth and 45.9% EBITDA margins.

Questions for the earnings call

MIS: We would like more details on understanding the flowthrough of MIS revenue growth to earnings. Does the company need to reinvest in that business as it recovers? What's MCO's visibility (and is there potential upside) to the company's mid-to-high-single-digit growth target for debt issuance? **MA:** What is the demand for MA's GenAI Research assistant? What has the company learned from this launch? What gets the company to the high- vs. the low-end of the margin range? Is there a scenario where the company invests even more?

13 February 2024

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Stock Data

Price	401.09 USD
Price Objective	411.00 USD
Date Established	23-Oct-2023
Investment Opinion	B-1-7
52-Week Range	278.23 USD - 407.62 USD
Mrkt Val (mn) / Shares Out (mn)	73,399 USD / 183.0
Free Float	85.9%
Average Daily Value (mn)	256.53 USD
BofA Ticker / Exchange	MCO / NYS
Bloomberg / Reuters	MCO US / MCO.N
ROE (2023E)	61.3%
Net Dbt to Eqty (Dec-2022A)	209.0%
ESGMeter™	Medium

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Timestamp: 13 February 2024 08:59AM EST

Price objective basis & risk

Moody's Corp. (MCO)

Our \$411 price objective is based on 33x 2024E P/E, a 8x premium to its current multiple. This is 8.5x 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

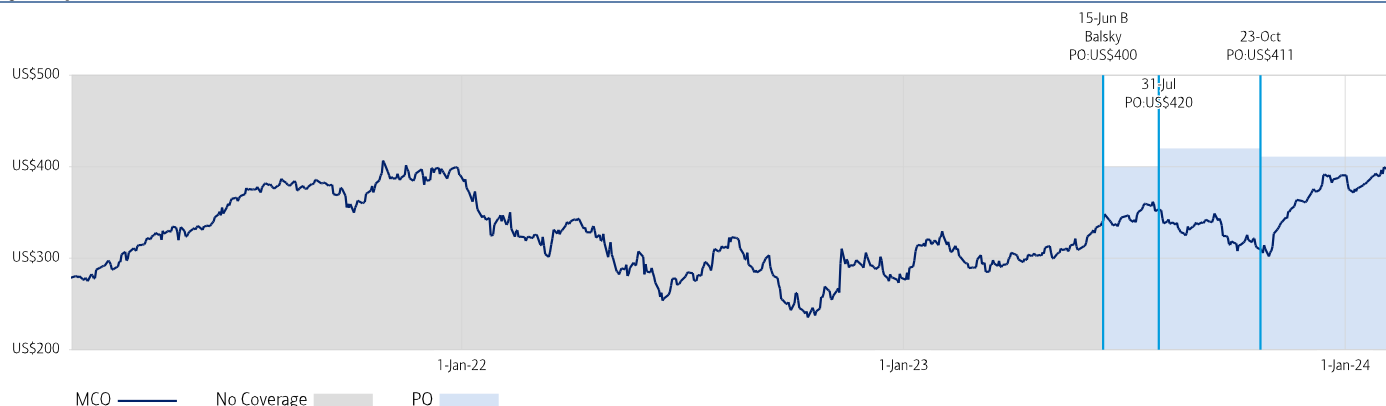
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Moody's Corp. (MCO) Price Chart



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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%

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