Moody's Corporation (MCO) CEO Ray McDaniel on Q3 2019 Results - Earnings Call Transcript

Oct. 30, 2019 8:05 PM ET | 1 Like
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Q3: 10-30-19 Earnings Summary

Press Release *10-Q*

EPS of $2.15 beats by $0.16 | Revenue of $1.24B (14.78% Y/Y) beats by $65.19M

Earning Call Audio

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Moody's Corporation (NYSE:MCO) Q3 2019 Earnings Conference Call October 30, 2019 11:30 AM ET

Company Participants

Shivani Kak - Head of Investor Relations

Ray McDaniel - President & Chief Executive Officer

Mark Kaye - Chief Financial Officer

Mark Almeida - President of Moody's Analytics

Rob Fauber - Chief Operating Officer

Conference Call Participants

Michael Cho - JPMorgan.

Manav Patnaik - Barclays

Toni Kaplan - Morgan Stanley

Andrew Nicholas - William Blair

Bill Warmington - Wells Fargo

Christian Bolu - Autonomous Research

Joseph Foresi - Cantor Fitzgerald

Craig Huber - Huber Research Partners

George Tong - Goldman Sachs

Henry Chien - BMO

Shlomo Rosenbaum - Stifel

Operator

Good day, and welcome, ladies and gentlemen to the Moody's Corporation Third Quarter 2019 Earnings Conference Call. At this time, I would like to inform you that this conference is being recorded and that all participants are in a listen-only mode. At the request of the company, we will open the conference up for question-and-answer following the presentation.

I will now turn the conference over to Shivani Kak, Head of Investor Relations. Please go ahead.

Shivani Kak

Thank you. Good morning, everyone and thanks for joining us on this teleconference to discuss Moody's third quarter 2019 results as well as our current outlook for full year 2019. I'm Shivani Kak, Head of Investor Relations.

This morning, Moody's released its results for the third quarter of 2019 as well as an update to our current outlook for full year 2019. The earnings press release and the presentation to accompany this teleconference are both available on our website at ir.moodys.com.

Ray McDaniel, Moody's President and Chief Executive Officer will lead this morning's conference call. Also making prepared remarks on the call this morning is Mark Kaye, Moody's Chief Financial Officer.

During this call, we will also be presenting non-GAAP or adjusted figures. Please refer to the tables at the end of our earnings press release filed this morning for a reconciliation between all adjusted measures mentioned during this call and GAAP.

Before we begin, I call your attention to the Safe Harbor language, which can be found towards the end of our earnings release. Today's remarks may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

In accordance with the Act, I also direct your attention to the Management's Discussion and Analysis section and the risk factors discussed in our Annual Report on Form 10-K for the year ended December 31, 2018 and in other SEC filings made by the company, which are available on our website and on the SEC's website. These, together with the Safe Harbor statement set forth important factors that could cause actual results to differ materially from those contained in any such forward-looking statements.

I would also like to point out that members of the media may be on the call this morning in a listen-only mode. I'll now turn the call over to Ray McDaniel.

Ray McDaniel

Thanks, Shivani. Good morning, and thank you everyone for joining today's call. I'll begin by summarizing Moody's third quarter 2019 financial results and provide an update on the execution of our strategy. Mark Kaye will then follow with further details on our third quarter results and comment on our revised outlook for 2019. After our prepared remarks, we'll be happy to respond to your questions.

I'd like to start by providing select highlights for the quarter. First, Moody's has achieved substantial revenue growth with Moody's Investors Service attaining its second highest quarterly revenue result ever as well as continued strength in Moody's Analytics which has now delivered double-digit growth in eight of the past nine quarters.

Second, the adjusted operating margin of 49.5% was up 190 basis points as compared to the prior year period. Next in light of stronger-than-anticipated top-line growth and disciplined expense management, we're raising our full year adjusted diluted EPS guidance range to $8.05 to $8.20.

And finally, since our last earnings call, we continue to execute on our long-term strategy of targeted investment in regional and product expansion opportunities. In addition, I am pleased that Moody's has bolstered its leadership in ESG engagement and disclosure.

Moving on to third quarter 2019 results. Robust performance across both business segments resulted in a 15% revenue increase from Moody's overall driven by 16% growth in MIS and 13% growth in MA. Moody's adjusted operating income of $614 million was up 19% from the prior year period and the adjusted operating margin of 49.5% was up 190 basis points. Adjusted diluted EPS grew 27% driven by strong business performance.

We continue to enhance our core ratings and analytics businesses, while pursuing strategic growth opportunities both down the corporate credit pyramid and across into new geographies and adjacent product areas. I'd like to take a few minutes to review several key initiatives Moody's has undertaken in the last few months in line with our strategic priorities.

I'll speak -- I'll first speak to our enhanced regional presence in China and Latin America. Starting with China we forecast the domestic ratings market to generate industry-wide revenue of approximately $270 million in 2019. And for our joint venture, CCXI to have market share in the low 40s percent range up from the high 30s during 2018.

With CCXI we are well-positioned with 30% ownership stake in China's largest domestic rating agency, which has approximately 1,700 rated customers including approximately 40 new public ratings year-to-date.

In addition, earlier this week we announced that we acquired a minority stake in SingTel Green Finance. SingTel obtains data from more than 1,200 publicly listed companies in China to provide environmental data and analytics green bond verification and green finance solutions to Chinese banks, institutional investors, corporate and policy research organizations. The SingTel investment complements our recent acquisitions of majority stakes in Vigeo Eiris and Four Twenty Seven and advances our global commitment to establishing transparent standards for evaluating ESG risks.

Moving to Latin America. Last month we launched Moody's Local. Subject to regulatory approvals this new platform will provide domestic ratings and research for financial institutions, corporates, local governments and other sectors in Peru, Panama and Bolivia. From this foundation, we look forward to further expanding our presence in domestic markets across the region. To learn more about Moody's Local, please visit moodyslocal.com.

Shifting to our expansion down the credit pyramid and into business adjacencies. In the third quarter, we added new product capabilities to further enhance our portfolio. First, at Bureau van Dijk, we launched Compliance Catalyst 2, an enhanced platform to streamline customer identity analysis, facilitating compliance with know-your-customer, anti-money laundering, anti-bribery and related rules and regulations.

Second, earlier this month, we acquired ABS Suite, a software platform used by issuers and trustees to administer and report on asset-backed and mortgage-backed securities programs. This acquisition strengthens MA's leading position in securitized markets, serving issuers dealers and investors with data analytics and operational tools.

Third, MIS's public finance rating group use data and analytics from Four Twenty Seven to analyze U.S. local government heat stress exposure and credit risk. This demonstrates our ability to integrate ESG data into credit analysis and research. Finally, our acquisition of RiskFirst, which closed in July, provides MA with the award-winning PFaroe platform, a leading solution for asset managers and pension plan sponsors, supporting more than 3000 plans in more than $1.4 trillion in assets.

RiskFirst offers extensive unique data and advanced analytics for management of long-dated assets and liabilities. These new capabilities demonstrate our ability and commitment to enhancing the relevance of Moody's brand to an ever-expending range of analytical disciplines, simulating the growth prospects of our business. Issuance and activity increased after four consecutive quarters of decline and was a key driver of our third quarter operating performance.

Central bank actions and falling benchmark rates created issuer friendly market conditions, overcoming continued geopolitical uncertainty and various global growth forecasts. Strong corporate fixed rate bond issuance, driven by opportunistic and M&A-related financing, aided MIS in delivering robust growth in the third quarter. Corporate finance was a significant driver of MIS' year-over-year performance.

So I'd like to spend another minute on U.S. investment grade and high-yield bond issuance as well as bank loan issuance in the third quarter. Due to the flattening of the yield curve in the third quarter, fixed income market issuance was strong across all asset classes, relatively lower financing costs drove increases in investment grade and high-yield bond issuance by 45% and more than 100% respectively.

Issuance of floating rate loans, which has slightly higher year-over-year financing cost, increased by 21%, reversing a string of year-over-year declines in the prior four quarters. In light of a delayed Brexit, it is important to reiterate that since the U.K. referendum in June 2016, Moody's has taken steps to ensure that we have appropriate operational capacity, both in the EU 27 and the U.K. We have also adjusted our processes to conduct credit rating activities effectively and without interruption, irrespective of the outcome of the Brexit process. In short, we are prepared for the delayed scenario. And in the event of a no-deal Brexit, MIS is ready to carry out operations in the EU 27 and the U.K.

I'd like to review a few recent initiatives that underscore our commitment to a sustainable future. First, I am proud to announce that Moody's has published its inaugural Sustainability Accounting Standards Board index on moodys.com/csr, which includes information consistent with SASB's objectives. Second, senior management participated in multiple UN Global Compact events related to ESG during UN General Assembly week. MIS in partnership with Climate Bonds Initiative also hosted a briefing during Climate Week New York City on pace and cost of carbon transition and the financial tools deployed to facilitate it.

Third, MIS is hosting an ESG conference in London next week, together with Vigeo Eiris and Four Twenty Seven, where key industry figures will share their insights on important ESG themes and the impact on global credit markets. Finally, Moody's announced Pathway to Prosperity, a collaboration between our affiliate Finagraph and America's

Small Business Development Centers. Pathway to Prosperity is a financial empowerment initiative dedicated to helping entrepreneurs overcome the challenges of growing a small business.

I'll now turn the call over to Mark Kaye to provide further details on our third quarter performance and our updated outlook for 2019.

Mark Kaye

Thank you, Ray. For MIS, third quarter revenue was up 16% from the prior year period and above the 10% increase in overall debt issuance due to a favorable mix of debt issuers. As Ray mentioned earlier, issuance growth was skewed towards fixed-rate activity, given lower benchmark interest rates. Moreover, results were bolstered by elevated levels of borrowing among infrequent issuers.

MIS also benefited from strong U.S. public finance issuance, including increases in refunding supply taxable transactions. Strong business performance resulted in 250 basis points of adjusted operating margin expansion in the third quarter. MA achieved an overall revenue growth rate of 13%, reflecting strong contributions from each business. This enabled 80 basis points of improvement in the adjusted operating margin compared to the third quarter of 2018. Organic MA revenue was up 10% from the prior year period.

RD&A revenue grew 13% due to strong demand for Bureau van Dijk solutions that address customer identity requirements as well as sales of credit research and ratings data feeds.

On an organic basis RD&A delivered double-digit revenue growth of 10%. In ERS revenue grew 16% for the quarter or 13% organically led by strong demand for our new credit assessment and loan origination platform along with products that enable compliance with new accounting standards for banks and insurers.

Trailing 12 months ERS revenue was up 5%, while sales were up 10%. As Ray mentioned earlier, MA has now delivered double-digit growth in eight of the last nine quarters. I'd like to highlight the robust performance of ERS thus far this year. The increase in ERS recurring revenue base, which has grown by $160 million since 2015 remains a significant driver of MA revenue.

Recurring revenue as a share of the total ERS business was 78% on a trailing 12-month basis through the third quarter. This demonstrates the continuing shift in the ERS business mix. On a trailing 12-month basis as of the third quarter, subscription sales increased 16%, while sales of one-time products and services declined 6%. The strategic shift to expand our subscription business will support ongoing scalability and drive future operating leverage in MA.

We remain disciplined in managing expenses to drive strong operating performance. In the third quarter, total operating expenses increased 13% with approximately 10 percentage points related to incentive compensation operating expenses attributable to acquisitions completed within the last year a captive insurance company settlement and an impairment charge related to the planned divestiture of Max.

Year-to-date total operating expenses increased 11% with approximately nine percentage points related to the restructuring charge, operating expenses attributable to acquisitions, high accruals for incentive compensation, the captive insurance company settlements and the Max impairment charge.

Details regarding the captive insurance company litigation matter were previously disclosed in our Form 10-Q filings and that disclosure will be updated to reflect the settlement in our upcoming Form 10-Q that we plan on filing later this week.

I'll now discuss Moody's updated full year 2019 guidance. Moody's outlook for 2019 is based on assumptions about many geopolitical conditions and macroeconomic and capital market factors. These include, but are not limited to interest in foreign currency exchange rates, corporate profitability and business investment spending, mergers and acquisitions and the level of debt capital markets activity. These assumptions are subject to uncertainty and results for the year could differ materially from our current outlook.

Our guidance assumes foreign currency translation at end of quarter exchange rates. Specifically, our forecast for the remainder of 2019 reflects U.S. exchange rates for the British pound of $1.23 and for the euro $1.09. We now anticipate that both Moody's revenue and operating expenses will increase in the high single-digit percent range with operating expense guidance reflecting depreciation and amortization, restructuring charges, captive insurance company settlement and impairment charge related to the planned divestiture of Max and acquisition-related expenses.

Of note, we do not expect a significant ramp-up in expenses from the first to the fourth quarter of 2019 as we realize savings from the restructuring program. The full year 2019 operating and adjusted operating margins are forecast to be approximately 42% and 48% respectively. We're targeting net interest expense to be approximately $195 million. The full year effective tax rate is now anticipated to be in the range of 21.5% to 22.5%.

Diluted EPS and adjusted diluted EPS are forecast to increase to $7.20 to $7.35 and $8.05 to $8.20 respectively. Share repurchases are anticipated to be approximately $1 billion. For full list of our guidance please refer to table 12 of our earnings release.

For MIS, we have revised our full year revenue outlook to be in the mid-single-digit percent range, due to the support of market conditions that Ray spoke about earlier. We anticipate U.S. revenue to increase in the mid-single-digit percent range. Non-U.S. revenue is now forecast to increase in the low single-digit percent range.

Our estimate for 2019 debt issuance is approximately flat when compared to 2018. We forecast stronger activity from fixed-rate corporate bonds in the public sector as well as continued support from debt funded M&A. We expect lower conditions from floating rate bank loans and CLOs and assume ongoing low benchmark rates and accommodative monetary policy.

Our estimate to achieve approximately 900 first-time mandates in 2019 remains on track. The MIS adjusted operating margin expectation is still approximately 58% for 2019. For MA, we anticipate total revenue to increase in the low double-digit percent range given strong sales growth across all business lines bolstered by stable recurring revenue. We continue to expect the MA adjusted operating margin to expand 150 to 250 basis points to the 28% to 29% range in 2019. Full year 2019 guidance reflects the aggregate impact of announced acquisitions as well as the planned divestiture of Max.

Before turning the call back over to Ray I would like to emphasize a few key takeaways from the quarter. Moody's core business continues to grow. As noted earlier, we are actively pursuing innovation and extension into business adjacencies in regional geographies.

These efforts reflect our ability and commitment to enhance the relevance and growth prospects of both MIS and MA. Last, we are pleased to raise adjusted diluted EPS guidance, due to stronger-than-anticipated revenue growth, and disciplined expense management.

I will now turn the call back over to Ray, for his final remarks.

Ray McDaniel

Thanks Mark. Before turning to Q&A, I'd like to take a few minutes to introduce the incoming presence of Moody's Analytics and Moody's Investors Service. Effective November 1 Steve Tulenko will assume the role of President of Moody's Analytics.

Steve joined Moody's in 1990. And he is currently the Executive Director of ERS, a role he has held since 2013. He previously led sales, customer service and marketing for M&A.

Prior to the formation of MA, he held various sales, product development, and product strategy roles at MIS. Steve comes to this role with deep leadership experience and domain expertise.

Also effective November 1, with Rob Fauber assuming the role of Chief Operating Officer, Mike West will succeed Rob as President of Moody's Investors Service. Mike joined Moody's in 1998. And he is currently the Head of MIS, Ratings & Research.

Previously Mike served as both the Head of Global Corporate, and of Structured Finance. Earlier in his career, he was responsible for the research strategy for the Ratings businesses and before that, led Corporate Finance, for the European Middle East Africa region.

European Corporates in the EMEA leveraged finance business. Mike's extensive leadership experience in MIS makes him ideally suited to lead the ratings business. I would like to congratulate Steve and Mark on their new -- Steve and Mike on their new roles.

I'm confident that with Rob Fauber in his new role, as Chief Operating Officer. We are positioned to continue strengthening Moody's ability to offer trusted insights and standards. And thereby support informed decisions that promote progress, through clarity, knowledge, and fairness.

Listed on this slide are the conferences that we expect to attend in the next two months in New York City, Boston and San Francisco. Investors will be able to meet Steve Tulenko at the Barclays Global TMT Conference in mid-December.

Please contact your bank representative to request a meeting with Moody's management at these events. Finally, I'd like to remind everyone that Moody's will be hosting its next Investor Day, on March 11 2020 in New York City.

The event, which will be webcast live, will feature presentations from management and showcase important aspects of the company's business. This concludes our prepared remarks. And joining Mark Kaye and me, for the question-and-answer session are Mark Almeida and Rob Fauber.

We'd be pleased to take your questions, Operator?

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] Our first question comes from Michael Cho with JPMorgan. Please go ahead.

Michael Cho

Hi, good morning. Thanks for taking my question I appreciate the update the 2019 debt issuance. I was hoping you can provide some commentary on your 2020 outlook as well? And maybe some of the assumptions, you're baking in there today?

Ray McDaniel

Sure. We'd be happy to offer some preliminary comments. I'll turn to Rob, for issuance commentary.

Rob Fauber

Yeah. So for 2020, like we were -- like we talked about and we were asked the same question a year ago, in October. We like to get to the end of the year, so we can see where the current year issuance ends up.

And then be able to triangulate both our own bottoms-up build. And forecast with what we're seeing from The Street, in terms of their forecast. So, that said, as really for the last two years we see both tailwinds and headwinds to issuance.

We got low -- very low benchmark rates obviously, but amidst a weaker global macro backdrop. And that leads us to kind of think that issuance, could be at roughly similar levels in 2020 as to what we've seen this year.

But I'd also say, as we've seen in recent years, the mix of issuance, is also quite important to our overall revenues. And we may be able to see our way towards mid-single-digit growth in issuance next year, if we see a few things, heading into the end of this year and into next year.

And that includes the escalation of the U.S. China trade tensions that I think would remove a key threat to global growth. A slightly more settled picture in Europe and that includes resolution of the Brexit uncertainty. And an improvement in growth sentiments, amidst what is clearly some accommodative monetary policy.

And also the potential for more pull forward from the existing maturity walls. So we're going to be looking to see whether this gets us more comfortable with growth particularly, in the corporate market.

And of course, the downside risks around global recession end of cycle concerns any kind of risk of sentiment or widening of spreads, could provide some headwinds. So, we'll provide a more fulsome view on our next earnings call. But that's kind of a -- out of saddle reaction.

Michael Cho

Okay. Great. Thanks. That's great color. Just wanted to follow-up Ray, I mean you highlighted some of the progress that you made in recent months and recent years on Moody's key initiatives along the strategic priorities. I guess if, I just take a step back and topline trends certainly seems to be favorable in the near term does that change your posture when thinking about categories as well as priorities of organic reinvestments in M&A?

Ray McDaniel

No. It really doesn't. Our strategy is built with a long-term view. The initiatives that we have been pursuing are tightly aligned with that strategy. And so -- while we're enjoying favorable market conditions now the investment is really looking into the longer-term future, whether it's organic or the inorganic opportunities we've seen. So, it's very much stay the course approach.

Michael Cho

Thank you.

Operator

Our next question is from Manav Patnaik from Barclays.

Manav Patnaik

Thank you very much. So my first question maybe you could just ask on Moody's Analytics, the double-digit growth has been pretty consistent as you pointed out. Is there any reason that that 10% organic number is not sustainable looking out into the future?

Mark Almeida

Manav, it's Mark thanks for the question. I would say that, we feel very good about the performance of the business and we're bullish on the business. I would say over short periods of time, you do need to be aware of some of the quarterly patterns we're seeing in

ERS revenues.

If you go back and look at ERS revenue going back to the beginning of 2018, when the new accounting standard was introduced, you actually see some pretty interesting behavior. The ASC 606 is more sensitive to product mix than frankly we anticipated when that standard was introduced. And so, you see some ups and downs in the ERS growth from quarter-to-quarter under 606.

So again I think in the -- over the long run, we feel very good about the outlook for MA and its status as a double-digit growth business. But in the short run I think you're going to see a little bit of noise from that accounting standard.

Manav Patnaik

Got it. Okay. And Ray, if I could just ask on China I mean that slide you put up I mean the -- I guess what you did in Latin America by putting the Moody's brand on the local side like is that ultimately the plan for China?

Ray McDaniel

Right now as far as we're concerned the investment in CCXI is the most favorable approach for us in domestic China. And CCXI has a very well-known brand in China. I would also emphasize that the Chinese character of the joint venture, I think is an important element of our investment there. And so I would anticipate using the CCXI brand for the foreseeable future whether we retain our current stake or change the level of our investment.

Manav Patnaik

Got it. Thank you.

Operator

Our next question comes from Toni Kaplan with Morgan Stanley. Please go ahead. Your line is open.

Toni Kaplan

Ray, just hoping you could talk a little bit about the puts and takes of the guidance change. You had a solid quarter, this quarter but only raised the guidance sort of modestly. Was that because of the higher tax rate or is there anything else that you'd call out in terms of what you're expecting for the fourth quarter?

Ray McDaniel

Well there are number of puts and takes as you might imagine. But I'll turn this over to Mark Kaye for some color commentary.

Mark Kaye

I think there are really two that we want to keep in here -- in mind here Toni. First is FX. We are incurring roughly a $0.04 headwind from our FX assumption as of the end of September visited the comparable period last year. The delay in Max is probably worth another $0.01 or so. And then as we look at results emerge or early indications of results emerging in the month of October, we feel probably more comfortable saying that we're in that upper probably 1/3 of the guidance range, where we anticipate completing the year.

Toni Kaplan

Yes. It's great. And then just given some of the political debates going on right now and the rating agencies back in the news about the business model, any comments on the overall regulatory environment? And how you're thinking about any potential change in market structure or would you expect sort of the regular business as usual?

Ray McDaniel

Well, I think it's important to remember that over the last decade the business model for the ratings industry has been examined very closely. And it's been looked at by regulatory authorities in multiple jurisdictions. And certainly scrutinized by the SEC. And in that context, the conclusion that the existing business model was the best for all market participants. And that the emphasis should be on transparency and compliance with regulation and inspection and review to assure that that compliance occurs was really determined to be the best outcome for all market participants.

I have -- those of you who've been on this call in past years, I have always acknowledged that there are conflicts of interest inherent with the business model as there are with many, many business models in different industries. The conflicts of interest have to be managed, that's why we have public disclosure of our methodologies which market participants can review. They can see whether they agree or disagree with our analytical approach. And they can see whether we're adhering to the analytical approach that we have published.

So, the business model allows for us to engage in a very important public good, which is the free simultaneous release of credit ratings to all market participants big or small. There is no other model that allows for that. And so, we emphasize the managing of the conflict of interest that is inherent in the business and the public good that comes from that. Unless we can find someone, who really doesn't care about our conclusions or our research or our analysis and still wants to write us a check, we're not going to be able to find a business model that doesn't have some conflicts.

Toni Kaplan

Very helpful. Thank you.

Operator

Our next question comes from Andrew Nicholas with William Blair. Please go ahead. Your line is open.

Andrew Nicholas

Hi. Good morning. I guess I just want to start with SingTel green finance acquisition you announced this week. Just curious if you could talk a little bit more about that. And maybe more broadly if you could kind of frame where demand for ESG is in China relative to where you see it in Europe and in the U.S.?

Ray McDaniel

Yeah. Rob has been closest to this. So, I'm going to invite him to make a couple of remarks.

Rob Fauber

Yeah. So, it's a small minority investment. It's really at the intersection of our efforts in both China and ESG. China is the second largest green bond market globally, after the U.S. It's over $40 billion of issuance last year. And the government there recently announced some new requirements for publicly listed companies to make disclosures around ESG risks starting in 2020.

So, SingTel is a provider of ESG and green finance data and analytics. They're normally based in China, but they're focused on China. They collect currently data on over 1,200 listed Chinese companies and that number is growing. They were in fact the first Chinese signatory of the UN's principles for responsible investment.

So, this investment I think is going to help SingTel accelerate its coverage and adoption in the Chinese market and its ability to serve Chinese market participants. And it's also going to enhance Moody's global ESG offerings. It is going to give us access to what we think is going to be some pretty valuable and rich Chinese content sets around ESG.

We see the green finance market as an important one in China. As I said, it's a clear policy focus. The data and analytics market serving that is in its infancy. So we're pretty excited about getting into this market in the kind of nascent stages with a -- what we think is a prominent Chinese player much like we did with CCXI years ago in the rating business.

Andrew Nicholas

Great. Thank you. That's helpful color. And then, just a couple of housekeeping items. First, do you have an update on when you expect the Max sale to close?

And then second, I was hoping you could size the one-time license delivery in ERS in the quarter?

Ray McDaniel

With respect to Max, I think we would anticipate it closing in the first half of November.

Mark Kaye

As relates to the license delivery in ERS, we don't specifically break out that. I wouldn't say it is material enough to influence the directional guidance the numbers that we provided.

Andrew Nicholas

Perfect, and thank you.

Operator

Our next question comes from Bill Warmington with Wells Fargo. Please go ahead. Your line is open.

Bill Warmington

Good afternoon, everyone. So a question for you on Moody's Local, Peru, Panama and Bolivia. just wanted to know if you could share with us how much revenue is coming out of Latin America currently? And whether the thought here is to -- an ability to accelerate the revenue growth there? And maybe talk a little bit about what's behind the timing?

Ray McDaniel

Sure. Go ahead Rob.

Rob Fauber

Yeah. Bill, it's Rob. And one thing I -- distinction I wanted to draw between what we've done with Moody's Local and the earlier question with CCXI and the branding. These are wholly-owned subsidiaries that we have in Latin America. So, we've decided to take a bit of a new approach in the region around the domestic bond markets, because -- and it's interesting you look at the overall rating opportunity in Latin America, a meaningful part of that is coming from the domestic bond markets. So we rebranded as Moody's Local and the focus is going to be providing as the name says, local ratings in local language to meet specific local needs. And we think that is going to help us better capture this domestic rating revenue opportunity across the region.

I would say, the Moody's Local platform itself in terms of revenues is quite small. The Latin America -- the overall Latin America for MIS is actually a fairly small part of the overall total of our revenues. But the first step here was the repositioning of the equilibrium businesses. And I think you're going to see us continue to expand on that platform in the coming 12 to 24 months to best serve that market.

Bill Warmington

And then on -- for my follow-up I wanted to check in on Reis, just ask about new products that have been introduced and also ask if you're seeing some success going after the U.S. bank market?

Ray McDaniel

Yes. Reis is performing very much as we expected. But I'll just remind you that we recognized when we acquired Reis that that was a business that did require some work and some effort particularly around product strategy. We've done a tremendous amount of work there. We feel like we are moving forward nicely.

One of the things we're very excited about in Reis is that, as we're spending more time with more customers in the commercial real estate space, it's very clear that there is a lot of demand for better data solutions and more advanced analytical tools. And that's exactly why we bought Reis because we thought that they provided the data foundation to which we could apply our analytical skills and really upgrade the practice of risk management in commercial real estate.

So it's moving very much as we expected. We remain bullish and excited about the business. We think there's a big opportunity there. But frankly there's a lot of work for us yet to do there. We've accomplished a lot but still there's a lot on our to-do list.

Bill Warmington

Yes. So I just wanted to say to Steve, Rob and Mike, congratulations on the promotions. And to Mark Almeida, congratulations on a great run and happy trails. Thank you.

Ray McDaniel

Thank you, sir. Appreciate it.

Operator

Our next question comes from Christian Bolu with Autonomous Research. Please go ahead. Your line is open.

Christian Bolu

Good morning. Maybe on ESG. You spoke a lot about efforts around ESG. Help us understand kind of how in aggregate your target offering compares to your main competitor? Maybe also speak to kind of how you plan to sort of monetize these efforts over time? And then any sort of color around how you think the revenue opportunity evolves over the next two to three years?

Ray McDaniel

Yes. Let me start and then I'll see if my colleagues want to add anything. When we're looking at the ESG space. First of all were looking at a much more fragmented market than some of the core markets that we operate in. So there are large number of competitors. There are not a lot of established standards. There is a move towards standards that I think is going to be helpful for the ESG sector.

And looking at ESG, I think it's very important obviously, to separate out the E from the S from the G. We have made efforts, particularly in the environmental area. Although, Vigeo Eiris in particular, provide some broader ESG assessment rather than just environmental.

But SingTel and Four Twenty Seven are more in the environmental sector. And also support other work that we're doing and other products that we're developing whether it's in Moody's Analytics or Moody's Investors Service.

So you can see that Four Twenty Seven for example, aligns very nicely with some of our commercial real estate efforts both in the Rating agency and in Moody's Analytics. I would also point out just to temper expectations that we are looking at markets that in some ways are just beginning to monetize.

And what those addressable markets will ultimately become has fair amount of uncertainty around it. Nonetheless, and one of the reasons why we're bullish about this is that, regardless of how each sector in the ESG space might evolve. We think there is a relevance to the other work we do in our core businesses so that the investments will not be stranded no matter what.

Rob Fauber

Exactly. Maybe just to build on that a little bit that's exactly right, Ray. In some ways this is a good investment as R&D into the rating agency and we've rolled out some new tools, corporate governance and carbon transition assessment tools that are topic and sector-specific. And when we think that meets the needs of fixed income investors.

And then, I think Ray is right. I mean we're going to be monetizing this both through the businesses that we've acquired, but also through the integration of the data and the analytics in products in services in both MA and MIS. Maybe just to spotlight a little bit. And there's also the growth of what I think I'll call the labeled bond market started as the green bond market, but really has gone beyond that into -- more broadly into sustainability. And that market has been growing quite rapidly.

So label bond volumes are going to hit something like $280 billion of issuance this year. Something like $220 billion, $230 billion of that is in green bonds and another $40 billion to $50 billion is in social and sustainability. So that's an emerging area. And then you've got sustainability in green-linked loans. And that's probably something like another $70 billion. So you can see your way to about $350 billion of this labeled bond issuance. And there are few drivers for that you've got investor demand for ESG compliant securities.

You've got the market focus on climate risk and you've got issuers also wanting to demonstrate their own sustainability credentials. So we think we're really well placed in this market with the Vigeo Eiris acquisition, because that's given us a leadership position in the label bond space that we're going to continue to build on. Just to give you a sense through the first three quarters of this year, we signed a little over a 100 second-party opinion mandates Vigeo Eiris did 53 all of last year.

In this past quarter, we actually -- Vigeo Eiris actually issued a second-party opinion on the first gender bond in Latin America. And that's going to finance winter-led SMEs in Panama. So in general, we're pretty excited about the opportunity in front of us. To leverage all of this I think we should see some growth. But as Ray said, it's fragmented and we're going to have to see how the market evolves over the next one, two, three years.

Christian Bolu

Great. Thanks for the very comprehensive answers. And then maybe just a quick follow-up on earlier question on China. I believe there's a recent article in Bloomberg suggesting Moody's having an issue with Chinese government in terms of recent stake in CCXI. So not sure how accurate that is, but it would be great to get a sort of comment around the relationship with the Chinese government plans for CCXI? And any updated thoughts around going fully on the JV versus going stand-alone like your peers?

Raymond McDaniel

Well the relationship with Chinese authorities for us is really with regulatory authorities more so than the policymakers in other areas of the government. And that relationship with the regulatory authorities has always been constructive and continues to be. I think we're able to have good dialogue at both the staff level and at the leadership level at the major regulatory institutions. And are able to be pretty candid in sharing our thoughts and views and hearing their thoughts and views.

That being said, I think it's difficult to completely separate the relationship with the authorities from what's going on at a geopolitical level. And so we're behaving conservatively in terms of how we are thinking about the pace and the nature of the opportunity in China. We remain committed to CCXI. We remain committed to providing ratings and research services and Moody's Analytics products in the cross-border markets into large financial institutions in China and we'll continue to do so. And we're very satisfied with our stake in CCXI. It's a good business and we're proud to be there.

Christian Bolu

Okay. Thank you very much.

Operator

Our next question comes from Joseph Foresi with Cantor Fitzgerald. Please go ahead. Your line is open.

Joseph Foresi

Hi. My first question is just on margins. How do you think about the margin profile heading into 2020? Can you remind us of some of the drivers? And I know in the past we've talked about the analytics business is potentially continuing to move their margins up. Maybe we can get an update there?

Mark Kaye

I'll start with the broader view for MCOs and I'm going to ask Mark Almeida to talk about MA specifically. As we sort of think about margins both for the third quarter and year-to-date, there's really two items that are worth keeping in mind. First is margin expansion in the third quarter would have been 260 basis points on an organic basis. The inorganic acquisitions and ongoing investments that we've made in year-to-date and obviously in the third quarter. It really impacts the margin negatively by around 70 bps.

The second thing I'd keep in mind is sort of FX movements across time periods they tend to swing margins in different directions depending on the rates and the underlying movements themselves. As I try to think forward, margins are principally driven by underlying growth in the business itself. And that's really been the primary driver of the performance this quarter and certainly is our expectation to be the primary driver of performance in the -- in future periods.

And then lastly, we do have the opportunity not necessarily through margins, but through ongoing capital management activities to use the tools that we have to drive our EPS growth and accretion. You've certainly seen us take some of those steps with the management of our debt and interest rate portfolio in the first three quarters of 2019.

Ray McDaniel

So, in MA, I would just make a couple of notes. We continue to deliver consistent and gradual margin expansion in MA. With this latest quarter, we've now delivered nine consecutive quarters of margin expansion both on a trailing 12 months and on a year-on-year basis.

And over that period of nine quarters, we've taken the margin up by more than 500 basis points. So, we're very happy with what we've done there. We're doing it in a number of different ways. We're -- certainly as MA grows, we're seeing operating leverage come through. Also we are realizing the positive margin impact from ongoing adjustments we're making in our product portfolio.

And third we continue to execute on operational improvements across the business. We think we're disciplined business people and we would expect to continue to apply rigor to our oversight of the operation. So, we see a number of things contributing to margin expansion and we're going to continue to be working at all of them.

Joseph Foresi

Okay. And then my second follow-up is just on China. What's your liability in that region to the -- I guess the joint ventures in the subsidiaries? Are they separate entities? And then my second part of that question is how do you view your risk from a ratings perspective versus the rest of the world? Thanks.

Ray McDaniel

Yes. I mean CCXI is a separate company. We are a 30% investor. So, obviously, a minority shareholder in CCXI. We don't have management control. We are not directing the ratings that is being done on the ground by employees at CCXI who are not Moody's employees.

So, in that respect you should think of us as a financial investor in the entity. We're obviously happy to provide assistance where it's appropriate to do so. But that's not in the form of controlling ratings or research for the entity.

They have done well in the domestic market in terms of their performance, as we all know the ratings of the domestic market -- rating agencies in China are generally higher than what you would see from the international rating agencies providing ratings on a global scale.

But in that context what I would emphasize is the importance of correctly force ranking the credits that are receiving ratings. So, the lower end of the rating spectrum has the higher default risk entities and the upper end has the lower default risk entities almost regardless of the absolute levels that those ratings are assigned.

So, I think that's what we look for, at least, in the early stages of the development of that domestic market to see that domestic rating industry is doing a good job of that forced ranking.

Joseph Foresi

Thank you.

Operator

Our next question comes from Craig Huber with Huber Research Partners. Please go ahead, your line is open.

Craig Huber

Thank you. Two quick housekeeping questions. First, Mark what was the incentive comp in the quarter? What was it a year ago? And then also did I hear you correctly say you thought that costs for the fourth quarter would likely be similar to the first quarter level? I have a follow-up.

Mark Kaye

Thanks Craig. Incentive compensation for the third quarter of 2019 was $65 million. The comparable number for the third quarter of 2018 was $43 million. From an expense ramp perspective, from the first to the fourth quarter of 2019, we're expecting less than $10 million. And we do expect that obviously fourth quarter expenses to be below both the second and third quarter level as we start to realize savings from the restructuring program and other cost control initiatives.

Craig Huber

Okay. Then Ray I wanted to ask you your updated thoughts on the debt issuance environment right now when you sort of think about the credit spreads in the U.S. and Europe if you think about your outlook for default rates the economic outlook? And then how you sort of -- what you sort of sense now in the debt issuance environment?

Ray McDaniel

Rob offered I think some very good thoughts on this earlier in the call. But what we're seeing obviously is an accommodative environment for debt issuance. There are limits to the positive attributes of low interest rates, especially as we look outside the United States where negative interest rates are increasingly important feature of the debt markets.

And I would observe that the reason for negative interest rates is I would actually characterize negative interest rates as a headwind as opposed to a tailwind, because it's a policy and market response to expectations for very low or negative growth. And so -- while low interest rates are positive, this trend to ultra-low rates and negative rates, I think, we would have to count -- I would at least count it as a headwind.

That being said, the default rate is low. It continues -- average, even though it's going to uptick in our view in 2020. It's still going to be, if our forecast is correct, conducive of good market activity. What will be very interesting to see in 2020 is whether this favorable mix in debt issuance that we've seen in 2019 continues.

Obviously, the infrequent issuers acting opportunistically have been a characteristic of the 2019 debt market profile. And we will be very interested observers as to whether that mix that we've seen this year continues in 2020 or shifts to more frequent issuers, less opportunistic refinancing, et cetera.

Craig Huber

And then, my last question, Ray, if I could ask. Your guidance for the year -- the updated guidance adjusted EPS of $8.05 to $8.20. I mean, historically you guys are typically conservative with your outlook. It seems to me like that might be the case here again in the remaining part of this year.

I'm just wondering what you're sensing? What's in your budget here to make the top of the range only $8.20, because, I mean, just look at the math you've done $6.29 of adjusted EPS through nine months and as far as $1.90 $1.91 of EPS in the fourth quarter. Decently below what you had each of the first three quarters, are you basically forecasting transaction revenues, for example, in your ratings area to be down versus what you had, let's say, the two middle quarters fairly meaningful?

Ray McDaniel

Yes. I mean, there are a number of puts and takes to this as you would expect. And Mark Kaye offered some commentary earlier about the impact of FX, the divestiture of Max. And I would add to that, that we're hopeful and expect that we're going to have a solid quarter for the fourth quarter. The early numbers on October are encouraging.

And as Mark said, those early numbers, although they are preliminary, are leaning us more to the upper end of that $8.05 to $8.20 range. If we're looking for what could go wrong as opposed to what could go right, I would have to say that if we saw a pull forward into the September-October period from what would've come in November and December, we may not see as much strength as people are anticipating for closing out the year. So the amount of opportunistic financing that goes on in these last couple of months is obviously an important factor. So I'll leave it at that unless Mark Kaye wants to add anymore. And so…

Craig Huber

What about the positive case to that though on top of the negative intentionally? But what's the positive case of that where things could come in better than this top of your range here?

Ray McDaniel

Yes. No, I mean, it certainly could. We can continue to have strength in the form of opportunistic refinancing, especially by infrequent issuers that would be very beneficial for the business. The timing of some of the product sales on the Moody's Analytics side can be influential and could help the fourth quarter. Maybe, Rob wants to offer a couple of comments on what the pipeline looks like. That might be helpful.

Rob Fauber

Yes. Sure, Ray. So in the U.S., I'd say, that in the investment-grade market we're still seeing pretty strong investor appetite. You saw earlier this week a mid-sized acquisition finance deal get done that was heavily oversubscribed. So that's good to see. My sense is, we're going to have active weeks heading into Thanksgiving here in the United States. I'd say the same for investment grade in Europe, pretty strong pipeline. We've got U.S. issuers also looking to tap the euro market, given where rates are there.

For leveraged finance, really both in the U.S. and Europe, we've seen some bifurcation of market sentiments. So you've got very strong demand for the larger more well-known spec grade issuers in that Ba category. And you can see that with the Ba index at record lows in terms of yield. We saw a recent print in Europe for a Ba2 name, it was the lowest coupon ever in the high-yield space.

So, in general, I'd expect issuance to continue in November and early December. Ray talked about the pull forward. There's also the potential, I guess, that some deals in the pipeline could slide into Q1. Just given the expectation for accommodative conditions to continue well into next year.

So the other thing I would mention is that in the U.S. public finance market, which is -- we saw very good issuance this quarter that continues to be active. And we're seeing this trend of taxable refunding because you've got very low funding costs and that means the economics are favoring the refunding of tax exempt debt with taxable debt. So if we see that keep up that could provide maybe some upside to our outlook.

Craig Huber

Great. Thank you.

Operator

Our next question comes from George Tong with Goldman Sachs. Please go ahead. Your line is open.

George Tong

Hi, thanks good morning. Global issuance volume is on track to be flat this year. And you mentioned that volumes next year could be flat to possibly up mid-single digits. Can you comment on how the pricing environment and rating should change depending on issuance growth, and if you've seen improving pricing power especially among infrequent issuers?

Ray McDaniel

No, I think that the impact of pricing – well, first of all when we talked about three points of contribution from price that's assuming a static debt market profile both in terms of the issuance volumes and the mix of frequent and infrequent issuers. So when we see growth, for example, in infrequent issuers we get more benefit because they are being priced on a transactional basis as opposed to on a long-term basis.

And that's why the pricing even though we can talk about pricing at a relatively -- in a relatively simple way, it's impacted potentially materially up or down by both issuance and by mix because some of the pricing does relate to bonds actually being issued. And so if they're not, there's no price impact. So I don't see any change in course around that in 2020. And we'll have to watch carefully to see what the insurance levels and mix are and the impact on price from that.

Rob Fauber

Yeah. The other thing I'd add just to clarify, I think our initial thinking where we sit now is more around flattish for next year. And when I commented on mid-single-digit it was -- what would you have to believe to be able to get there.

George Tong

Got it. That's helpful. On margins you've previously indicated that long-term EBITDA margin should be in the high 40s. Your margins are already in that range currently, so do you have a view that margins can go above 50% longer term or are there factors that could prevent that?

Ray McDaniel

I think the biggest factor that would prevent that would be the relatively higher growth rate year-on-year coming out of Moody's Analytics. And Moody's Analytics well, obviously, it's been consistently expanding margins over the last few years. It's still a lower margin business than the credit rating agency. So its accelerated growth should act to keep margins from expanding too aggressively.

George Tong

Got it. Thank you.

Operator

Our next question comes from Henry Chien with BMO. Please go ahead. Your line is open.

Henry Chien

Hey, thanks. Good morning. I wanted to ask a follow-up on the opportunity related to China. I know there's the investment in CCXI. I was curious to hear any updated thoughts on the outlook for the offshore bond market? And whether that's I guess looking to be as sizable as an opportunity as somewhat exciting.

Ray McDaniel

Yeah. I mean we have a very robust business in the cross-border bond market coming out of China. Not surprisingly this is with China's largest corporate and financial institutions for the most part including both private and state-owned enterprises. We continue to get new rating mandates coming from China that has been a steady stream. And just to try and balance that commentary a little. If China is going to have some relative sluggishness in its economic growth and I emphasize relative because it's pretty good by global standards obviously. That may slow at least cyclically some of the cross-border activity coming out of China both for new rating mandates and for entities that are already rated and thinking about whether they want to raise additional debt.

So we'll just have to watch that and see. Obviously having the trade negotiations completed in some kind of a positive way would be helpful to the global economy. It would also be helpful to the Chinese economy. And as a result, I think helpful to our cross-border business.

Henry Chien

Yeah, okay. Thank you so much.

Operator

And now we' take our last question from Shlomo Rosenbaum with Stifel. Please go ahead your line is open.

Shlomo Rosenbaum

Hi, thank you for squeezing me in. Just a couple of housekeeping items I want to ask Mark, just to kind of start. I saw the guidance for repos has tweaked down a little bit just from the range from 1.3 to -- 1 to 1.3 down to 1. Is there any reason you could point to for that? Has there been more deployed on acquisitions or anything in terms of why that would come down. The cash flow is really good from the company and the numbers are better than expected.

Mark Kaye

Shlomo, thanks for the question. Our capital allocation priorities haven't changed. I think this is a reflection of consistency in the way that we manage our cash repatriation efforts as well as an evaluation of our global cash needs. Let's make the point that we do expect the $300 million differential to be incremental for 2020 and we'll finalize the exact amount later this year when we give that guidance.

Shlomo Rosenbaum

Okay. And just -- also from Mark, just want to talk about these negative interest rates what are the opportunities for Moody's as a company to tap into those negative interest rates and get paid to hold someone else's money?

Mark Kaye

Sure. I'd definitely think negative interest rates from a individual treasure perspective, provide an interesting opportunity to manage one's own debt portfolio. We have seen a lot of reverse Yankee issuance taking place certainly earlier this year. So you can see treasurers actively engaged in that market.

And then, of course, being able to bring it back to the U.S. to deploy potentially higher-yielding opportunities. It is something we look at. Maybe to pivot again back to the way that we think about capital management here, really first and foremost they're investing in growth opportunities as Ray mentioned reinvestment acquisitions. And then to the extent that we don't have additional opportunities for growth.

Either they don't meet our strategic objectives or which don't meet our financial hurdles to return that capital back to shareholders either through dividends or through share repurchase. It's not just a matter of raising capital, it's making sure we have good use for that capital.

Shlomo Rosenbaum

Okay. If you don't mind can I squeeze in one more for Ray? Just for perspective Ray. If there was no incremental growth in some of the China initiatives you're talking about or in any of the ESG initiatives that you're talking about. There is no incremental growth from today over the next three years. Would there be any material change in outlook for this company in terms of performance?

Ray McDaniel

You mean financial growth?

Shlomo Rosenbaum

Yeah. I mean, just if you guys did not -- if everything stayed the same in those two things realistically, is this company's growth rate going to change very much in the next several years?

Ray McDaniel

With respect to the ESG space, I don't think it is going to be large enough over a three-year period that in and of itself it's going to turn the dial for the organization. I think it's going to enhance the relevance of a number of our products and our credit ratings and research and analysis. But even if there is good robust growth in these sectors that have not yet really monetized themselves. I think that's going to be a longer-term process in terms of actually turning the dial for Moody's Corporation as a whole.

Shlomo Rosenbaum

Okay. And that's the same thing for China and any of the initiatives there?

Ray McDaniel

China, I guess, would be a little more of a wildcard. Certainly, the domestic bond market in China is large and the demand for analytical products and solutions that come out of Moody's Analytics that come out of -- increasingly come out of Moody's Investors Service is there.

So it's really a question of how we're participating. And keeping in mind that fully participating in that market is participating in the domestic market for domestic investors. The domestic market for international investors looking to put capital to work in China and the true cross-border market. And we're focused on all three, the domestic market through CCXI and the other markets on our own.

Shlomo Rosenbaum

Okay. Thanks.

Operator

It appears there are no further questions at this time. I would now like to turn the conference back to Mr. Ray McDaniel for any additional and closing remarks.

Ray McDaniel

Okay. First of all, I want to thank everyone for joining. And secondly, I want to thank Mark Almeida for many decades of very skillful service on behalf of Moody's. I thank Mark for myself personally for the leadership team really for the organization as a whole.

He has been a tremendous executive for us, has kept in the growth of Moody's Analytics for the last 12 plus years -- service before that. And has just consistently provided outstanding work as an executive and he's been a great friend.

So, thank you very much Mark. And we appreciate your help with this transition and the best to you going forward.

Mark Almeida

Thank you, Ray.

Ray McDaniel

Okay. Thanks everyone for joining. We'll talk to you again in the New Year.

Operator

This concludes Moody's third quarter 2019 earnings call. As a reminder, immediately following this call, the company will post the MIS revenue breakdown under the third quarter 2019 earnings section of the Moody's IR homepage. Additionally, a replay of this call will be available after 2:30 p.m. Eastern Time on Moody's IR website. Thank you.