Christopher White (cmw2202) Value Investing with Legends Final Project 5/4/2016

Moody's (NYSE:MCO) – Long

Capital structure	
Share price ($) (5/3/16)	94.57
Shares outstanding (m)	194.3
Market cap ($m)	18,375
Debt ($m)	3,429
Cash & cash equiv. ($m)	2,067
Enterprise value ($m)	19,737

Key trading statistics	
52-week range ($)	77.8 - 113.9
Dividend yield	1.5%
Daily volume ($m)	~120
Short interest	3.7%

Returns	2012	2013	2014	2015
Equity	469	428	43	(333)
Net Debt	(102)	(5)	870	1,169
Op. Leases	606	594	671	701
IC = NOA	973	1,017	1,584	1,537
ROIC		84%	75%	64%

Prospective shareholder return	
Net buyback yield	4.5%
Dividend yield	1.5%
Organic growth	6.0%
Reinvestment growth	0.0%
Total return	12.0%

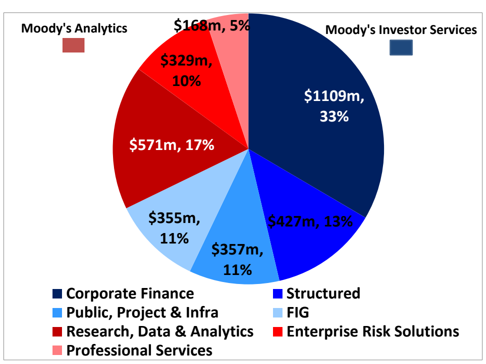
Summary P&L	2011	2012	2013	2014	2015
Revenue	2,281	2,730	2,973	3,334	3,485
EBIT	888	1,077	1,235	1,439	1,473
Margin	39.0%	39.5%	41.5%	43.2%	42.3%
NOP @ 32% tax	604	733	840	979	1,002
% yield					5.1%

Summary cash flow	2011	2012	2013	2014	2015
CFO	803	823	927	1,019	1,154
Capex	(68)	(45)	(42)	(75)	(89)
FCF	736	778	885	944	1,065
Dividends	(121)	(143)	(197)	(236)	(272)
Buybacks	(334)	(197)	(893)	(1,221)	(1,158)
Δ net debt	(106)	(575)	97	874	299
ND/EBITDA	0.5x	-0.1x	0.0x	0.6x	0.7x

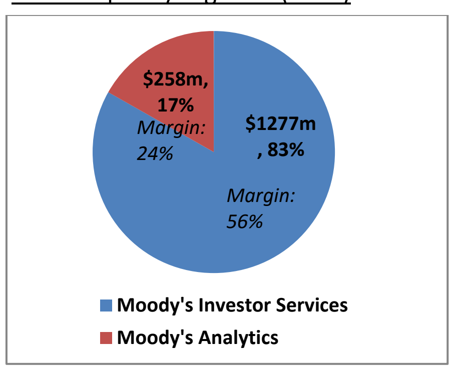
Recommendation: BUY Moody's Corporation. Moody's benefits from strong secular growth drivers for both its core credit ratings business (Moody's Investor Services) and its analytics and research business (Moody's Analytics), which should support mid-to-high single-digit group organic revenue growth over the medium term. Moody's has an entrenched competitive position and captive customer base within the duopolistic global ratings market, which underpins its high margins (EBIT margins >40%) and returns (ROIC >60%). The company is highly cash generative (FCF conversion from sales c. 30%) and has low leverage (ND/EBITDA 0.7x). Moody's has been a consistent buyer of its own stock and recently increased the level of repurchases (share count fell by 4.6% in 2015), enhancing its capital return profile. With a prospective annual shareholder return of 12%, comprising a 6% distribution yield and 6% annual value creation from sustainable organic growth (issuance volumes rising with GDP over time plus pricing power) requiring no incremental investment, Moody's stock represents an attractive return proposition when compared with an reasonable assessment of its cost of equity.

Business Description: Moody's is a provider of credit ratings and other related research and services. The company reports in two segments: Moody's Investor Services ("MIS") and Moody's Analytics ("MA"). The former consists of its credit-rating activity, the latter of all non-rating activity. Within MIS there are four lines of business: Corporate Finance, Structured Finance, Financial Institutions and Public, Project and Infrastructure Finance. Moody's typically charges a spread (e.g. c. 6bps for a corporate bond) to rate an issue of securities. Within MA there are three lines of business: Research, Data and Analytics, which sells additional research and data developed by MIS as part of the ratings process to credit market participants; Enterprise Risk Solutions, which provides software solutions and risk-management services to financial institutions; and Professional Services, which provides professional training and outsourced research and analysis to financial institutions. The contribution of MIS and MA to revenue and EBITDA is set out below:

Revenue split by segment and business line (2014)



EBITDA split by segment (2014)

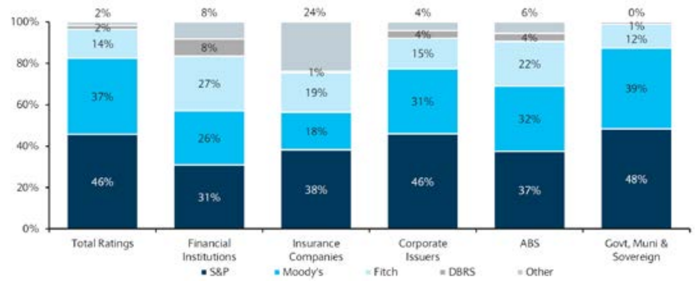


Source: company financials

Ratings industry structure, competition and regulation

The global debt ratings industry is highly concentrated. There is effectively a duopoly structure, with Moody's accounting for 37% of all global ratings issued by Nationally Recognized Statistical Ratings Organizations ("NRSROs") registered with the SEC and S&P 46%. The next biggest player is Fitch, which has just 13% of the market. The dominance of Moody's and S&P has been in place for many years and substantially applies within all the major issuance categories.

Market share by issuance category



Source: SEC, Barclays Research

Total ratings market share over time

	2009	2010	2011	2012	2013
S&P	40%	42%	42%	45%	46%
Moody's	36%	37%	37%	38%	37%
Fitch	21%	18%	18%	13%	14%
Other	3%	3%	4%	3%	3%

Dodd Frank Act (2010)

Following the financial crisis and criticism of the ratings agencies for attaching high ratings to structured securities which turned out to have little value, provisions were included in the Dodd Frank Act which aimed to reform the credit ratings market. These included:

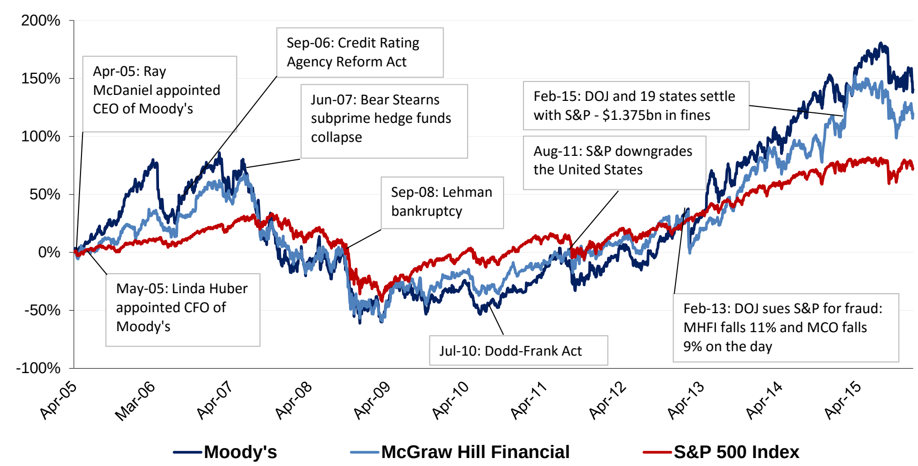
- Heightened liability provisions: increased legal and regulatory penalties for issuing inaccurate ratings, attempting to encourage rating agencies to invest in due diligence, improve methodologies and better monitor the performance of their credit analysts
- Public disclosure requirements: requirement to disclose more information on initial credit ratings and any subsequent changes to those ratings to increase transparency and generate competition among NRSROs by making it easier for users to compare ratings

These changes, whilst designed in part to increase competition, have in fact enhanced barriers to entry in the industry by increasing the fixed regulatory costs that have to be borne by all players. Moody's estimates that annual regulatory costs for NRSROs have risen from $30m to $100m. DBRS, a smaller agency, wrote in a letter to the SEC that 'fostering competition among rating agencies was a primary goal of both the Rating Agency Act of 2006 and the Dodd-Frank Act … [but] the proposed rules will be so costly to implement that additional credit rating agencies are unlikely to register as NRSROs and the existing pool of registrants may contract."

Situation overview and recent history

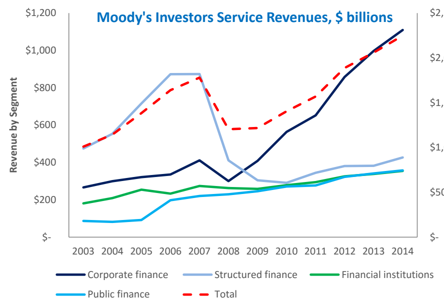
The current top management team has been in place since 2005. The ratings agencies suffered a couple of years of poor performance in the subprime and subsequent credit market collapses of 2007-8. Since then both Moody's and McGraw-Hill (the owner of S&P) have performed very strongly as issuance has recovered, in spite of Dodd-Frank and the US government's lawsuit against S&P relating to fraudulent ratings in the run-up to the crisis, which resulted in a $1.4bn fine. (It was feared at one point that action would also be taken against Moody's but it now seems clear this is not going to happen.)

Moody's share price performance since appointment of Ray McDaniel as CEO (Apr-2005)



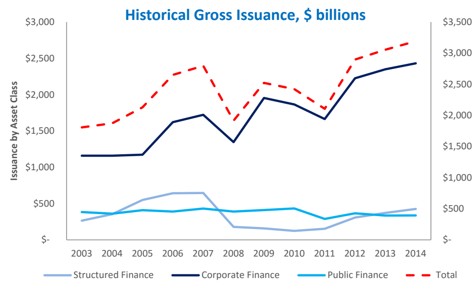
MIS revenue has rebounded (2009-14 CAGR: 13.2%) driven by strong growth in corporate finance, with structured issuance and revenues still in the early stages of recovery. At the same time, Moody's Analytics has also grown very strongly (2009-14 CAGR: 13.0%). RD&A has benefitted from demand for additional credit research beyond just the rating, particularly as investors have increasingly looked for opportunities in higher-yielding, less vanilla assets in an era of low rates. ERS, which provides tools and software for banks and insurance companies to manage and monitor their investing and lending portfolios as well as their own capital adequacy, has seen rapid growth driven by the raft of new regulatory requirements that have been imposed on financial institutions since the crisis. The growth in Professional Services has been largely down to acquisitions; recently the business has been challenged because of cut-backs at investment banks, which are its largest customers.

MIS revenue by issuance category since 2003



Source: company financials

Global issuance volumes by category since 2003



Source: Barclays Research

Moody's Analytics: recent history

	09-'14 CAGR	1H15 vs. 1H14
RD&A	7%	11%
ERS	18%	26%
PS	N/A	-4%
Total	13%	12%

Note: figures for 1H15 are at constant FX

Investment Thesis:

1. Strong demand outlook for ratings business driven by favorable issuance environment and long-term structural trends.

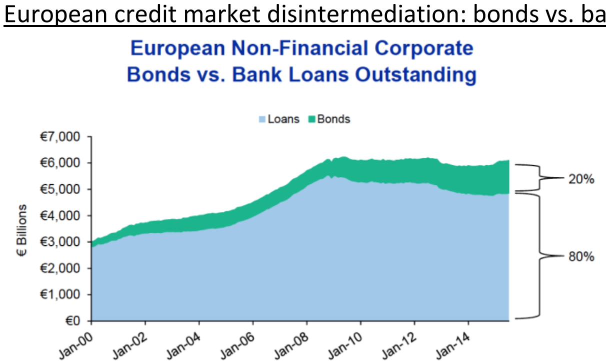
Structural factors:

- Economic growth: issuance increases economic growth over time to meet rising funding needs
- Credit market disintermediation: international corporate issuance is set to be supported by a long-term trend towards 'disintermediation' in credit markets, that is, greater reliance on the capital markets rather than banks for financing. In Europe the share of non-financial corporate debt represented by bonds (rather than bank loans) has gone from 8% in 2000 to 20% in 2014, but remains a long way behind the US where the split is closer to 50/50. There is even further to go in EM. Moody's estimates that this process of disintermediation will contribute 2-3%pts per year to long-term top-line growth.

Cyclical factors:

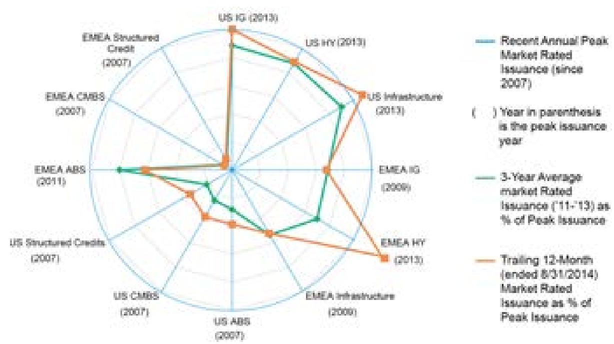
- Favourable issuance conditions in the US: the environment for issuance in MIS's largest market (c. 60% of revenues) remains supportive, with sustained economic growth, a benign interest rate environment and strong M&A and buyback activity. Total debt/EBITDA and net debt/EBITDA for S&P 500 companies remain well below pre-crisis levels and credit quality remains solid. Rates are only likely to rise slowly as inflation remains low – gradual rate rises have not historically hurt issuance (see risks).
- QE in Europe: the extension of quantitative easing by the ECB until at least March 2017 should be supportive of EU issuance
- Issuance categories still to recover: a number of issuance categories, including structured issuance globally and EMEA IG and infrastructure issuance remain well below peak levels, with US structured issuance showing good recent growth

European credit market disintermediation: bonds vs. bank loans



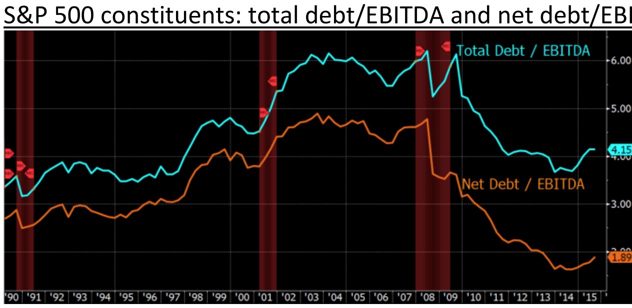
Source: Moody's

Issuance categories: current issuance levels vs. history



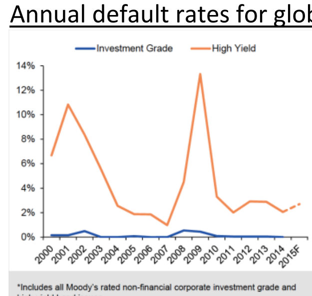
Source: Moody's

S&P 500 constituents: total debt/EBITDA and net debt/EBITDA



Source: Bloomberg

Annual default rates for global corporate rated issuance



Source: Moody's

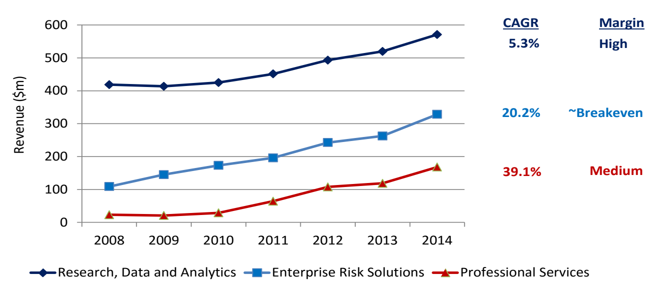
2. Rapid Emerging Market revenue growth from low base, with strong presence in China and India.

MIS's revenue from developing markets has grown at a 19% CAGR from $87m in 2008 to $242m over the last 12 months (this excludes Moody's unconsolidated stake in CCXI – see below). Moody's currently makes just $6 in revenue per $1m of outstanding debt in Asia vs. $34 in the US. Private sector bonds outstanding in most of EM equate to 40% of GDP or below vs.120% in the US, so there is a long runway for further capital markets development to expand the addressable pool of issuance in the future. Moody's has a majority stake in ICRA, the #3 player in India, and a 49% stake (maximum allowed) in CCXI, the #1 player in China. ICRA's revenues have grown at a 14% CAGR over the last five years (2011-15) and its share price is up 232% over the same period (market cap: $624m).

3. Long growth runway for Moody's Analytics supported by banking sector regulatory trends; margin opportunity in ERS.

RD&A: This is a very attractive business for Moody's because it essentially repackages and sells a lot of work that has already been done by MIS as part of the ratings process, which means margins are high. Demand has been strong from credit market participants who need extra analysis particularly for more complex securities (structured finance analytics grew 35% in 1H15). Moody's has developed an efficient delivery channel in Moody's.com, through which clients access data using their own logins. This has fostered a high degree of customer loyalty: annual revenue retention - the proportion of one year's revenue that recurs the next year – is consistently around 95% (see (5) below). Strong pricing power has also helped growth (5% avg. price increase in 2014 – see (5) below).
ERS: Banks and insurance companies face growing regulatory requirements, notably around capital adequacy and stress-testing. This has driven strong demand for the specialist software and services ERS provides to help institutions cope with the increase in reporting and monitoring obligations in relation to their balance sheets. Moody's is uniquely well placed to provide these services because of the expertise it can bring to bear in analysing the underlying credit exposures within lending books. The company estimates the immediate addressable market for ERS to be $3.5bn, of which it currently has just 10% share. As an example, Citigroup spent $180m in 2H14 alone to prepare for its 'CCAR' stress test by the Fed and there are 30 other banks in the US subject to the same process. There is also a big margin opportunity in ERS (currently just breaking even), now that it has a more fully developed product suite after a period of heavy investment, from selling more standardized products that can be consistently implemented for multiple customers. The company has guided that this should drive MA EBITDA margin from 24% (2014) up to high-20s% over the medium term.

Moody's Analytics revenue progression by business line



Source: company financials

Moody's Analytics margin and profit contribution

	2012	2013	2014	Target
Moody's Analytics revenue	844	901	1,068	
Operating margin (%)	16%	18%	20%	25%
Group sales contribution (%)	31%	30%	32%	
Group profit contribution (%)	12%	13%	15%	↑

4. Large proportion of recurring revenues.

Moody's splits its revenue into 'recurring' and 'transaction'. In 2014 the split was 50/50. In MIS 39% of revenues were classified as recurring versus 74% in MA. Recurring revenues in MIS include annual debt monitoring fees and annual fee arrangements with frequent issuers. A large part of MA's business relates to subscription services, explaining the higher share of recurring revenues. The high proportion of recurring revenues is a feature of Moody's business model that is underappreciated by the market and serves to reduce the cyclicality of revenues and their dependence on issuance volumes (see risks).

5. Powerful market position underpinning consistently high margins and returns and strong pricing power.

Moody's has achieved 50%+ ROIC every year for the last five years and improved its returns year on year (73% in 2014). Group EBITDA margin was 46% in 2014, up from 41% in 2010. These high incremental returns and margins are supported by the barriers to entry that surround the ratings industry. First, there is a high degree of customer captivity, because of the cost to an issuer of not having a rating: there is a measurable difference in the spread on an unrated bond as compared to a rated bond (in the order of tens of basis points), which substantially outweighs the cost of a rating. The absence of a Moody's rating is viewed with suspicion by many market participants (for example, the CEO of Rapid Rating, a newer rival ratings service, has said that 'It's very hard to convince someone to stop using S&P and Moody's ratings …If you don't have one, people will wonder what's wrong with you'). Moody's also benefits from fixed cost economies of scale: the high fixed cost of regulation and of building up the necessary databases and expertise to be able compete effectively represent big challenges for new entrants/smaller players. Customer captivity gives Moody's substantial pricing power: the company estimates pricing initiatives in MIS and MA together have the potential contribute 4%pts to revenue growth over the long term. Moody's has demonstrated its ability to raise prices well above the rate of inflation over time.

MIS pricing – standard corporate bond rating

Vanilla corporate bond pricing				
	2010	2011	2015	CAGR
Rating fee (bps)	4.65	5	~6	5.2%

Source: market participants, BloombergBusiness

Research, Data & Analytics pricing

	2012	2013	2014
Revenue growth	8.7%	7.8%	9.8%
Price increase	3.4%	4.9%	5.0%
Customer retention	94.1%	94.7%	95.9%

Source: Moody's

Valuation

Asset value: it is clear that Moody's is a franchise business, so taking an asset value approach is going to be of limited value

- Moody's book value of equity was negative $(352m) as of Q1 2016, as compared with its market cap of $18.9bn; the book value of its net operating assets (excluding operating leases) was $1,010m, as compared with its enterprise value of $20.3bn
- Very limited tangible asset base (net PP&E c. $300m)
- Even if one were to adjust for substantial value of large skilled workforce, famous brand, repository of credit information and long-term relationships with issuers worldwide, to the extent these are possible to estimate, Moody's is clearly value substantially more highly than the reproduction cost of its assets

Earnings power value: the analysis below shows that Moody's earnings power value only accounts for around half of its enterprise value, with the rest accounted for, therefore, by value the market is ascribing to profitable growth within Moody's franchise:

Earnings power	**2015**	**Comment**
Sales	3,485	
2015 OPM	42.3%	
97-'15 average OPM	46.3%	
Sustainable OPM	42.3%	Boom in high margin structured issuance pushed margin >50% in 2000s
Maintenance capex/depreciation adjustment	0	Over time capex has broadly tracked D&A; 2016 guidance capex $125m, D&A $130m
Sustainable distributable EBIT	1,473	
Tax rate	32.0%	Fairly consistent over time
NOP = earnings power	1,002	
Cost of capital		
Cost of equity	10%	
Cost of debt	3.0%	YTM on 2024 BBB+ senior unsecured notes
After-tax cost of debt	2.0%	
Equity market cap/EV	93%	
Cost of capital	9.5%	
Earnings Power Value	10,601	NOP/Cost of capital
Enterprise value	19,737	
Value implied for growth within franchise	9,135	

Prospective return analysis: provided one can have confidence in the durability of Moody's franchise, which is reasonable given its 100-year track record, the continued absence of new entrants, and the critical role the firm plays in financial markets, the prospective return to shareholders at the current price is an attractive 12.5% p.a., exceeding any reasonable cost of equity for Moody's with a margin of safety.

Prospective return analysis		**Comment**
Buybacks	4.5%	Approximate annual share count reduction
Dividends	1.5%	Dividend yield
Total cash return	6.0%	Higher than NI yield of c. 5%, but sustainable given low debt
Organic volume growth	3.0%	Issuance increases in line with nominal GDP
Pricing power	3.0%	In line with guidance; recently has been closer to 5%
Value creation from organic growth	6.0%	
Value creation from reinvestment	0.0%	Essentially no incremental capital deployed in business
Total prospective return	12.0%	
Cost of equity	10.0%	Long-term history of Moody's franchise: arguably conservative
Margin of safety	2.5%	

Private market value

It is also worth taking note of a recent private market transaction in the sector: in December 2014 Hearst Corp purchased an additional 30% of Fitch Group from Fimalac S.A. for $1.965BN (implied $6.55BN firm valuation), at a valuation of 14 to 15x 2014E EBITDA (Barclays estimates), to take its stake from 50% to 80%. Though the price is likely to have included a control premium, the multiple is two turns higher than Moody's current EV/EBITDA multiple (c. 12.5x) and represents what an informed strategic buyer was willing to pay for a clearly inferior asset.

Conclusion

Despite the high value being assigned to profitable growth in the future by the market, Moody's presents an attractive prospective 12.0% annual return for shareholders at the current price. Moody's is a rare case where one can pay for this growth with confidence given the proven strength and durability of the firm's franchise and the formidable barriers to entry in the ratings business. It is also worth noting that Moody's is able to both distribute a lot of cash – de-risking the return to an extent – and benefit from growth, because of the extremely capital light nature of the business.

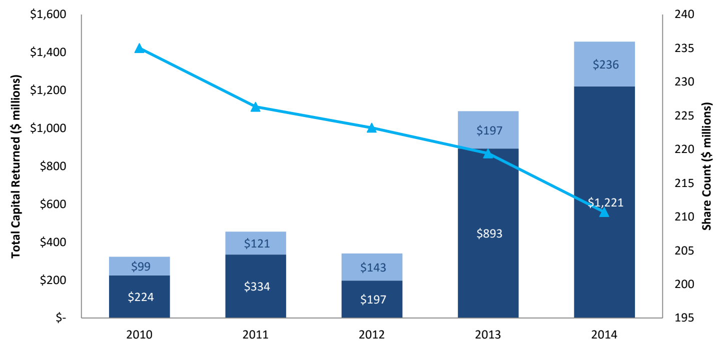
Capital allocation

Management has a long track record of returning capital through dividends and buybacks. The level of share repurchases has recently been substantially increased: Moody's bought back more than $1bn of stock in both 2014 and 2015, versus a 2009-2013 average of $331m. The share count has fallen from 230.8m at the end of 2010 to 194.3m as of 1Q16 (a decline of 16%) and fell 4.6% in 2015.

The company has indicated that it will have capacity to return $1.0-1.25bn per year in future through buybacks while remaining at its current low leverage (1.0x ND/EBITDAR). This is supported by Moody's very strong FCF generation (28% 2014 sales to FCF conversion; 5.0% 2015E FCF yield), aided by its limited investment requirements (no/negative NWC investment; capex <3% of sales) – on my estimates Moody's will generate $982m of FCF in 2015. The company also intends to maintain a dividend payout ratio of 25-30% and currently yields 1.4%.

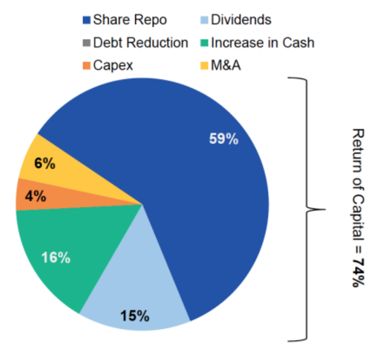
Repurchases of $1.0-1.25bn per year represent >5% of the current market cap at the lower end of the guidance range, meaning that once the dividend is included Moody's intends annually to return capital equivalent to 6% of its current market cap even once employee stock grants are accounted for, and has the capacity to do so without incurring further leverage. This represents a compelling capital return profile for a company that is also growing its top line at sustainable mid to high single digit rates.

Dividends, repurchases and share count since 2010



Source: company financials

Uses of cash 2012-2015



Source: Moody's

Moody's has deployed only a limited amount of capital in making acquisitions (in contrast to McGraw-Hill which this year spent $2.23bn to acquire SNL financial) and has an explicitly stated set of criteria for evaluating deals, restricting itself only to obviously complementary/adjacent businesses, with a preference for high recurring revenue and low capital intensity business models, and requiring a 10% cash-on-cash yield within 3-5 years.

Management team and incentives

Management team

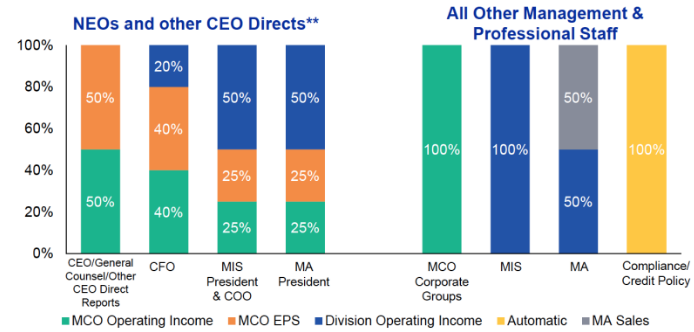
Moody's CEO and CFO have been in place since 2005 and have generated significant value for shareholders over that period (see share price chart above). The other two key members of the top management team who manage the two operating segments have both spent considerable time in their current positions and have worked at Moody's for more than twenty years. The experience and stability of the top team, who in the case of all but the CFO have grown up in the business, is a clear positive investment factor.

Name	Title	Date of appointment	Biography
Raymond McDaniel	President and CEO	April 2005	CEO of Moody's since 2005; prior to that held senior roles in MIS since 1996
Linda Huber	CFO	May 2005	CFO of Moody's since 2005; prior to that CFO of U.S. Trust Compay
Michael Madelain	President, Moody's Investors Service (MIS)	November 2010	President of MIS since 2010; prior to that held senior roles in MIS since 1994; partner of E&Y before joining Moody's
Mark Almeida	President, Moody's Analytics	January 2008	President of MA since 2008; joined Moody's in MIS in 1988

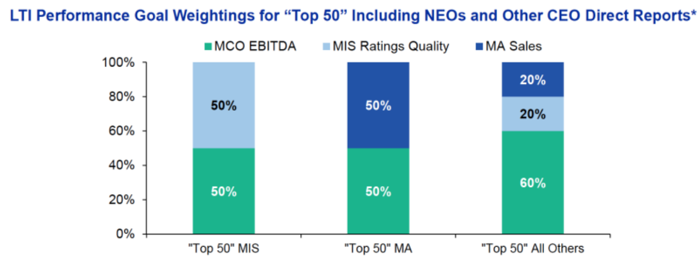
Compensation

Executive compensation comprises base salary, annual cash incentive and long-term stock incentive ('LTI') components. The criteria on which the cash incentive and LTI are awarded are set out below. Key points to note here are that the incentives are almost entirely based on divisional and group profitability (operating income and EPS), rather than sales, which aligns with shareholders' interests; the exception is for Moody's Analytics in the LTI, which makes sense given the business is younger and still being built out. Half of the LTI for MIS executives is based on ratings quality, to remove the incentive to cut corners to boost short-term profitability. There is a direct link between compensation and share price performance in the LTI, because the LTI takes the form of options, which vest over four years, and/or performance shares (RSUs), which are awarded when certain 3-year criteria are met.

Cash incentive criteria



LTI criteria



Source: Moody's. Note: NEO stands for 'named executive officer', i.e. an executive named in the proxy filing.

The table below sets out the breakdown of compensation for each of the four executives. This shows that salary and cash incentive make up only around half of the executives' compensation, with the rest (i.e. the LTI – options and RSUs) tied to long-term objectives and linked to long-term share price performance.

	2011	2012	2013	2014	2011	2012	2013	2014
	Raymond McDaniel - CEO				**Linda Huber - CFO**			
Salary	954,800	974,000	1,000,000	1,000,000	546,300	568,000	591,000	591,000
Annual cash incentive	2,375,400	2,502,110	2,250,000	2,250,000	952,000	995,400	903,800	1,040,700
All Other Compensation	71,131	53,840	70,134	7,800	41,597	29,000	36,259	12,133
Restricted Stock Awards	1,380,010	1,949,998	2,249,998	2,460,004	655,508	688,185	722,404	798,602
Option Awards	1,379,995	1,300,006	1,499,996	1,639,999	436,995	458,803	481,604	532,401
Total compensation	6,161,336	6,779,954	7,070,128	7,357,803	2,632,400	2,739,388	2,735,067	2,974,836
	Michel Madelein - President, MIS				**Mark Almeida - President, MA**			
Salary	465,955	507,049	548,599	515,632	477,500	497,000	507,000	507,000
Annual cash incentive	738,008	1,015,562	896,819	854,142	730,900	674,300	715,200	989,300
All Other Compensation	53,733	62,412	91,126	63,185	33,188	22,721	30,070	40,565
Restricted Stock Awards	540,000	610,192	656,381	690,017	510,830	581,389	610,183	634,173
Option Awards	360,004	406,793	437,601	460,006	340,557	387,598	406,801	422,785
Total compensation	2,157,700	2,602,008	2,630,526	2,582,982	2,092,975	2,163,008	2,269,254	2,593,823

Source: CapitalIQ

Insider ownership

The CEO is required to hold at least 6x his base salary in stock and all other Named Executive Officers are required to hold at least 3x. All the key executives easily exceed these requirements. The CEO holds a material amount of stock in relation to his annual cash compensation of $3.0-3.5m.

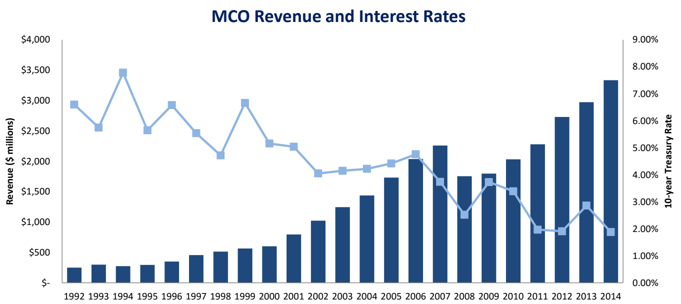
Name	Title	# shares held	Market value	x base salary
Raymond McDaniel	President and CEO	224,712	$21.5m	22x
Linda Huber	CFO	49,947	$4.8m	8x
Michael Madelain	President, Moody's Investors Service (MIS)	68,605	$6.6m	13x
Mark Almeida	President, Moody's Analytics	151,326	$14.5m	29x

Source: CapitalIQ

The only recent instances of these executives selling stock outside of ordinary-course options exercises have been the sale of 10,000 shares by the CEO on 3-Nov-15 and the sale of 15,054 shares by the CFO on 8-May-15. The CEO's sale was immaterial in the context of his holdings. The CFO's sale represented 23% of her shareholding and so is potentially more significant, but given the one-off nature of the transaction there does not appear to be any real cause for concern here.

Risk factors and mitigants

Risk: The primary risk to which Moody's is exposed is a decline in global debt issuance volumes, given that it generates a significant proportion of its revenues from ratings fees tied to debt issues. Issuance volumes could be negatively affected by a variety of factors including a change in the economic environment, increased capital markets volatility and a sharp increase in interest rates.
Mitigant: Moody's has reduced its reliance on ratings fees through growing its Moody's Analytics business, which has a high proportion of recurring revenues. Two further points can be observed from history: first, rising interest rates do not imply declining issuance in the context of a healthy economy; and secondly, Moody's revenues have proved defensive across all interest rate and issuance environments over the last 25 years, having only declined twice, in the bond market collapse of 1994 and in 2008.



YOY % Change	2010	2011	2012	2013	2014	2010 – 2014 CAGR
Global Issuance	- 16%	2%	11%	1%	5%	5%
Revenue	13%	12%	20%	9%	12%	13%

Source: treasury.gov; company financials

Risk: Moody's is subject to regulatory risk in relation to the integrity of its ratings in the lead up to the financial crisis. S&P recently agreed to pay a $1.4bn fine to the DOJ. The WSJ at one stage reported that the DOJ was in the early stages of a similar investigation into Moody's.

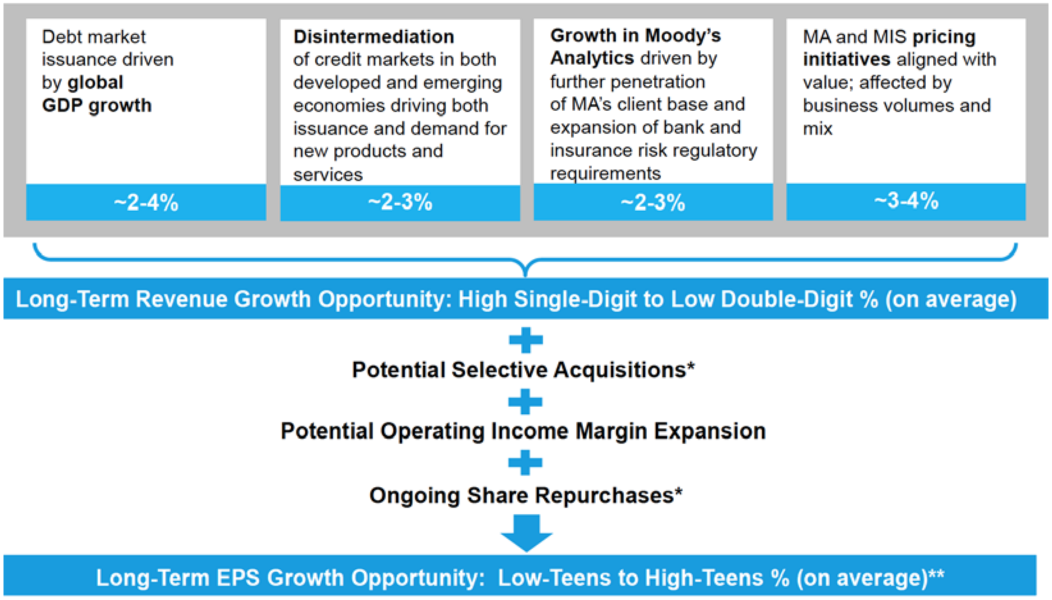
Mitigant: It appears that the DOJ had much stronger evidence against S&P and therefore chose to go after S&P first. $1.4bn (<1x Moody's EBITDA) thus probably represents the absolute ceiling for a Moody's fine several years down the line. The most likely scenario almost ten years on is that no action will be taken.

Risk: Pricing pressure from competitors and/or customers may reduce the company's ability to put through price increases without losing market share, which could hamper revenue growth, particularly in the event of more aggressive competition or a weaker economic environment.
Mitigant: Moody's attempts to compete primarily on the quality of its product rather than on price and there is has been no change to speak of to the very high concentration of the ratings business over the last few years despite the efforts of regulators.

Financial risk: I would argue that financial risk is limited for Moody's given its low leverage, very limited capital requirements and strong cash generation (in my downside case leverage only rises to 2.1x EBITDAR by 2019, with continued share repurchases).

Corporate governance: corporate governance/management risk is similarly quite contained given the longstanding top management team and its record of shareholder-focused capital allocation.

Appendix 1 – management long-term guidance



Source: Moody's 2015 Investor Day presentation

Appendix 2 – ownership

Top 20 shareholders

Holder	Shares held	% Of CSO	Market Value (USD in mm)	Change in shares (3M)
Berkshire Hathaway	24,669,778	12.5	2,450	-
The Vanguard Group	14,224,316	7.2	1,413	94,814
BlackRock	12,232,780	6.2	1,215	146,601
Capital Research and Management Company	8,767,130	4.4	871	(253,121)
State Street Global Advisors	7,192,070	3.6	714	(288,822)
Baillie Gifford & Co.	5,312,866	2.7	528	174,323
J.P. Morgan Asset Management	4,180,197	2.1	415	71,079
TCI Fund Management	3,894,104	2.0	387	-
Investec Asset Management	3,668,090	1.9	364	(35,365)
Akre Capital Management	3,605,620	1.8	358	42,489
Teachers Insurance and Annuity Association	3,540,803	1.8	352	(27,803)
Fidelity Investments	3,503,273	1.8	348	86,662
Principal Global Investors	3,265,071	1.7	324	98,850
Columbia Management Investment Advisers	3,070,367	1.6	305	(84,863)
Fiera Capital Corporation	3,048,130	1.5	303	(11,187)
BNY Mellon Asset Management	2,683,090	1.4	267	(56,960)
William Blair Investment Management	2,676,903	1.4	266	651,151
Northern Trust Global Investments	2,313,116	1.2	230	(20,790)
Massachusetts Financial Services	2,166,315	1.1	215	(42,923)
Davis Selected Advisers	1,974,918	1.0	196	(321,269)
Total	115,988,937	58.7	11,520	222,866

Source: CapitalIQ