

Mossberg's Investor Digest

Best Idea Profile

Moody's Corporation (NYSE: MCO)

DESCRIPTION:

Moody's is a leading provider of credit rating services, economic related research, risk management software, quantitative credit risk measures and credit portfolio management solutions. MCO currently reports in two segments: MIS and Moody's Analytics. MIS, the credit rating agency, publishes credit ratings on a wide range of debt obligations and the entities that issue such obligations in markets worldwide, including various corporate and governmental obligations, structured finance securities and commercial paper programs. Revenue is derived from the originators and issuers of such transactions who use MIS ratings to support the distribution of their debt issues to investors. The MA segment develops a wide range of products and services that support the risk management activities of institutional participants in global financial markets. MA distributes investor-oriented research and data developed by MIS as part of its ratings process, including in-depth research on major debt issuers, industry studies, commentary on topical credit related events, economic research and credit data along with analytical tools. MA customers represent more than 4,800 institutions worldwide operating in approximately 115 countries.

KEY INVESTMENT CONSIDERATIONS:

A Dominant Franchise with high barriers to entry – MCO is a dominant and enduring franchise. MCO provides debt ratings around the globe in more than 110 countries and has relationships with nearly 12,000 corporate and 25,000 public finance issuers. MCO monitors nearly 106,000 structured finance obligations and has research analytics relationships with 29,000 clients. These services cannot easily be replicated or replaced by the market. MCO's size and industry reputation are a barrier to entry for new players in the market. Also, many of Moody's clients would not welcome the confusion that new players would bring to the financial markets with additional ratings and standards. Past competitors have not done well or established strong long-term competition to MCO.

Market Misperception - Moody's has an accepted and established track record in bond ratings. Investors have recently become concerned about the impact of the financial and credit crisis on rating agencies. Moody's ratings and services have long been respected in its industry. The company's problems are mainly confined to just one line of the business, Collateralized Debt Obligations (CDO's) with respect to mortgage related securities and derivatives.

Restructuring Complete – In 1Q09 MCO approved a plan to reduce costs in response to weak global economic and market conditions. The 2009 plan primarily consisted of headcount reductions of approximately 150 positions, or 4% of the workforce and the closing of some offices. The 2009 Restructuring Plan was substantially complete by September 30, 2009.

Strong Business Model - The company's business model produces strong operating margins. Moody's currently has an operating margin in the 40% range which it has exceeded in the past. The company continued to produce strong results in 2Q10. Moody's quarterly revenue was \$477.8 million, an increase of 6% on a year-over-year basis. Operating income was \$190.5 million or up 2% over the same period. When excluding legacy taxes and restructuring items the company's earnings per share was \$0.49 which represented a 14% per cent year-over-year increase.

VALUATION:

Current analysts EPS estimates on Moody's call for \$1.82 and \$2.06 for FY2010 and FY2011. Based on these estimates the company seems cheaply priced for a dominant franchise with a stable dividend and an improving outlook.

(NYSE: MCO)	
Investment Data (as of 7/30/10)	
Recent Price	\$23.55
52-Week Range	18.50 - 31.04
Fiscal Year End	December
Dividend	\$0.42
Yield	1.8%
Shares Outstanding	237MM
Average Trading Volume (3 mos)	4.4MM
Market Capitalization	\$5.5B
Cash	\$504MM
Long Term Debt	\$743MM
Enterprise Value (EV)	\$6.2B
LT Debt/ Equity	NA
BV/ Share	NA
TTM Revenue	\$1.85B
P/ Revenue	3x
TTM EPS	\$1.78
P/ EPS	13.2x
TTM EBITDA	\$805MM
EV/ EBITDA	7.7x

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