WEALTH PRESERVATION EQUITY RESEARCH

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NYSE: MCO | Financial Data & Analytics | Credit Ratings

RECOMMENDATION	CURRENT PRICE	FAIR VALUE (BASE)	MARGIN OF SAFETY	WP SCORE
BUY ON WEAKNESS	**~$452**	**$540 - $575**	**16 - 21%**	**68 / 100**

RETURN PROFILE	VALUE
Dividend Yield	0.83%
Expected Dividend Growth (5Y)	10 - 12% CAGR
Expected EPS Growth	11 - 13% CAGR
Total Expected Return (Base)	**12.8% CAGR**
Bear Case Total Return	**3.2% CAGR**
Bull Case Total Return	**19.5% CAGR**
Probability-Weighted Return	**12.1% CAGR**

RISK ASSESSMENT	VALUE
Downside Protection Score	60 / 100
Quality Score	**72 / 100**
Risk Level	**MODERATE**
Probability of >50% Permanent Loss	**<5%**
Recession Profile	SENSITIVE (Cyclical Ratings Revenue)

One-Line Thesis:

Moody's is a toll-booth business on global capital markets with an irreplaceable duopoly position, now trading ~16-21% below fair value following a tariff-driven market selloff and sector rotation; its growing Analytics segment provides recurring revenue stability while MIS benefits from structural growth in global debt issuance, creating asymmetric upside with limited permanent capital loss risk.

WHY MCO DROPPED: CATALYST ANALYSIS

Moody's has declined approximately 16% from its all-time high of $539.61 (January 15, 2026) to approximately $452 as of early February 2026, with continued selling pressure potentially pushing the stock toward the sub-$400 level mentioned. The decline has been driven by multiple converging factors, none of which appear to impair the fundamental business thesis:

1. Broader Market Selloff from Tariff Concerns

President Trump's tariffs have triggered a broad market downturn with retaliation raising concerns about a full-scale trade war. MCO, with a beta of 1.45, has amplified the broader market decline. The S&P; 500 itself has pulled back meaningfully, and financial services stocks have been disproportionately affected by uncertainty around economic growth.

2. FactSet's Disappointing Guidance Dragged the Sector

FactSet (FDS) projected 2026 adjusted earnings of $16.90-$17.60 vs. analyst estimates of $18.26, citing longer sales cycles and more rigorous client approval processes. This knocked S&P; Global down 6.7% and MCO down 5.8% in a single session — the worst day for both since April's tariff turmoil. Wells Fargo subsequently called the MCO/SPGI selloff 'unwarranted,' noting FactSet's competitive position is fundamentally different from the ratings duopoly.

3. AI Disruption Fears

Markets were jolted by concerns about AI disrupting information technology and software services companies. Some investors fear cheaper AI-powered risk analysis tools could challenge Moody's Analytics revenue. However, the credit ratings business (MIS) is essentially immune — regulatory requirements mandate ratings from recognized agencies, and the duopoly moat is regulatory, not technological.

4. CEO Insider Sale

CEO Robert Fauber sold 592 shares on February 2 at $516.15 ($305K total). This represents just a 0.96% reduction in his holdings (retaining 61,082 shares worth ~$31.5M). This is routine compensation management, not a bearish signal — Fauber retains substantial skin in the game.

5. Pre-Earnings Uncertainty

MCO reports Q4/FY2025 earnings on February 18, 2026. Some investors are de-risking ahead of the print. Management guided 2025 adjusted EPS of $14.00-$14.50, representing low-to-mid-teens growth. The consensus view remains bullish (17 analysts: average 'Buy' rating, $541 average price target).

6. BMO Price Target Cut

BMO Capital Markets reduced its price target from $534 to $507 with a 'Market Perform' rating. However, the consensus target remains ~$541-$561 with 15 analysts rating Buy and zero Sells.

Assessment: The decline is driven by macro/sentiment factors, not fundamental deterioration. The business is performing well operationally. This creates the type of asymmetric opportunity our framework is designed to identify.

STAGE 1: SECTOR & THEME IDENTIFICATION

SCREENING QUESTION	ANSWER	ASSESSMENT
Is the sector understandable?	Yes — Credit ratings, data & analytics	PASS
Is the sector in secular decline?	No — Global debt markets growing structurally	PASS
Defensive or Cyclical?	Moderately Cyclical (MIS transaction-based) Defensive component (MA recurring)	CONTINUE w/ scrutiny
Sector-level tailwinds?	1) Rising global debt issuance 2) Private credit expansion 3) Regulatory complexity (KYC/AML)	STRONG TAILWINDS
Sector valuation vs. history?	Financial data/analytics sector trades ~10-15% above 10Y avg P/E	SLIGHTLY ELEVATED

Sector Verdict: CONTINUE — Understandable, structurally growing sector with strong tailwinds. Moderate cyclicality in ratings revenue requires heightened balance sheet scrutiny.

STAGE 2: FUNDAMENTAL GATEKEEPING

2.1 Solvency Check

METRIC	VALUE	THRESHOLD	ASSESSMENT
Debt-to-Equity	1.81x	<1.0x	ELEVATED*
Interest Coverage (EBIT/Interest)	~13.3x	>5.0x	PASS
Current Ratio	1.84x	>1.5x	PASS
Free Cash Flow (5Y)	Positive all 5 years	4 of 5 years	PASS
Cash / Total Debt	~25%	>20%	PASS
FCF 2024	$2.52B	Positive	PASS

*Note on D/E: Moody's elevated leverage is characteristic of asset-light, high-ROIC businesses that generate enormous free cash flow relative to debt service. With interest coverage of ~13x, FCF of $2.5B+ annually, and no significant debt maturity cliff, the leverage is well-managed. This is not a capital-intensive business with asset risk — it is a software/services business using leverage to optimize capital structure.

Solvency Verdict: ADEQUATE — Despite elevated D/E (common for capital-light financial services), exceptional cash generation and interest coverage demonstrate robust debt serviceability.

2.2 Earnings Quality Check

QUALITY METRIC	ASSESSMENT
Operating CF >80% of Net Income?	Yes — OCF consistently exceeds net income (>120% ratio)
Receivables growing faster than revenue?	No — Receivables in line with revenue growth
Unusual one-time gains?	No — Earnings growth organic
Financial restatements (5Y)?	None

Earnings Quality: HIGH

2.3 Dilution Check

Shares outstanding decreased 1.41% over the past year (from ~181M to ~178.4M). Moody's is a net share repurchaser with $1.3B+ in annual buybacks planned. CEO total compensation is reasonable relative to net income. Insider ownership at 0.14% is low in absolute terms but Fauber holds ~$31.5M worth of stock.

Dilution Assessment: EXCELLENT — Net accretive buyback program reducing share count annually.

2.4 Dividend Sustainability

METRIC	VALUE	THRESHOLD	ASSESSMENT
Dividend Yield	0.83%	1.5-5%	Below range (growth story)
Payout Ratio (EPS)	~30%	<60%	**EXCELLENT**
Payout Ratio (FCF)	~28%	<70%	**EXCELLENT**
Dividend Growth (5Y CAGR)	10.98%	>3%	**EXCELLENT**
Consecutive Years Paid	25+ years	>10 years	**EXCELLENT**
Consecutive Growth Years	16 years	>10 years	**EXCELLENT**
Dividend Coverage (FCF/Div)	~3.8x	>1.3x	**EXCELLENT**

Dividend Sustainability: ROCK SOLID — 30% payout ratio provides enormous cushion. Even a 40% earnings decline would result in only a ~50% payout ratio. 16 consecutive years of growth with 11% CAGR. Dividend maintained through 2008 and 2020.

2.5 Capital Efficiency: ROIC/ROCE

METRIC	VALUE	ASSESSMENT
ROIC (TTM)	17.36%	**EXCELLENT (>15%)**
WACC	~12.2%	ROIC > WACC by 5.2pp
ROE (TTM)	54.91%	Exceptional
ROIC Trend	Improving	Positive signal

ROIC: 17.4% vs. WACC: 12.2% | Trend: Improving | Verdict: VALUE CREATING

2.6 Valuation Screening

METRIC	CURRENT	5Y AVG	10Y AVG	PERCENTILE	ASSESSMENT
P/E (TTM)	~36.4x	~38x	~35x	~40th	Near avg
Fwd P/E	~30x	~32x	~30x	~35th	Attractive
EV/EBITDA	25.4x	~27x	~25x	~40th	Near avg
P/FCF	~32x	~38x	~35x	~25th	Attractive
Div Yield	0.83%	0.76%	0.88%	~55th	Above avg yield

Valuation Verdict: FAIR TO ATTRACTIVE — Following the 16% decline from ATH, MCO trades at or below its 5-year average on most metrics. Forward P/E of ~30x reflects meaningful discount to recent trading ranges. Margin of safety to our base-case fair value of ~$555: approximately 18-19%.

STAGE 3: PEER COMPARISON & QUALITY RANKING

3.1 Competitive Cohort

DIMENSION	MCO	SPGI	MSCI	BEST FOR PRESERVATION
Debt/Equity	1.81x	0.73x	~4.5x	SPGI
Interest Coverage	~13.3x	~14x	~8x	SPGI
Dividend Yield	0.83%	0.71%	1.1%	MSCI
Payout Ratio	30%	~25%	~45%	SPGI
FCF Margin	~34%	~33%	~45%	MSCI
ROIC	17.4%	~12%	~25%	MSCI
5Y Dilution	-1.4%/yr	-1.5%/yr	-2%/yr	MCO
P/E vs. History	Below 5Y avg	Near 5Y avg	Above 5Y avg	**MCO**
Div Growth 5Y	11%	~10%	~15%	MSCI

3.2 Wealth Preservation Quality Score

CATEGORY (MAX POINTS)	MCO SCORE	RATIONALE
Balance Sheet Fortress (40)	**25 / 40**	D/E >1x loses points; excellent interest coverage & FCF offset
Income Reliability (30)	**20 / 30**	Low yield (growth story) loses points; excellent payout ratio & growth
Capital Efficiency (15)	**15 / 15**	ROIC >15%, improving trend = full marks
Valuation (15)	**12 / 15**	Trading 25th-50th percentile of 5Y range post-selloff
TOTAL	**72 / 100**	**Good candidate; proceed to deep dive**

Score: 72/100 — Secondary/Good Candidate. Qualifies for deep dive. Primary weakness is elevated leverage (typical for asset-light financial services) and low dividend yield (offset by exceptional growth).

STAGE 4: QUALITATIVE DEEP DIVE

4.1 Competitive Moat Assessment

MOAT TYPE	EVIDENCE	DURABILITY	PRESERVATION VALUE
Regulated Duopoly	MCO + S&P; rate ~95% of global bonds; regulatory barriers to entry (NRSRO status)	**10 / 10**	EXCELLENT
Switching Costs	Issuers require ratings for market access; embedded in financial infrastructure	**9 / 10**	EXCELLENT
Network Effects	Ratings used as reference across global markets; self-reinforcing standard	**8 / 10**	VERY GOOD
Data Moat (Analytics)	Proprietary credit data spanning decades; AI/ML models built on unique datasets	**7 / 10**	GOOD

Moody's primary moat — the regulated duopoly in credit ratings — is among the most durable competitive advantages in the entire equity market. Regulatory requirements effectively mandate that bond issuers obtain ratings from recognized agencies, and the barriers to achieving NRSRO status are nearly insurmountable. Even if AI disrupts the Analytics segment, the ratings business is structurally protected.

Primary Moat: Regulated Duopoly — Durability: 10/10 | Moat Erosion Risk: LOW

4.2 Management Quality & Capital Allocation

CEO Robert Fauber has led Moody's since January 2021, previously serving as COO and head of Moody's Investors Service. Under his leadership, revenue grew from $5.4B (2020) to $7.5B (TTM), with strategic acquisitions (CAPE Analytics, Numerated, Praedicat) and a focus on AI integration. Over 20 AI-enabled applications launched. Named #1 in RiskTech100 for four consecutive years.

CAPITAL ALLOCATION (5Y)	ASSESSMENT
Dividend Growth	16 consecutive increases, 11% CAGR — EXCELLENT
Buybacks	$1.3B+ annually, share count declining 1.4%/yr — STRONG
Acquisitions	Strategic, bolt-on (AI/data capabilities) — VALUE-ACCRETIVE
Debt Management	Elevated but well-serviced; no maturity cliff — ADEQUATE

Management Quality: GOOD | Capital Allocation: STRONG

4.3 Recession Performance History

DOWNTURN	REVENUE DECLINE	EPS IMPACT	DIVIDEND	STOCK DECLINE	RECOVERY
2008-2009	~25-30%	~40% decline	Maintained	~75% peak-trough	~36 months
2020 (COVID)	~4% (mild)	~5% decline	Maintained & increased	~30%	~6 months
2022 (Rate Hikes)	~12%	~37% EPS decline	Maintained & increased	~35%	~18 months

Moody's is SENSITIVE to recessions due to the transactional nature of its ratings business (bond issuance dries up in downturns). However, it has never cut its dividend, and the growing Analytics segment (now ~59% of revenue) provides recurring revenue stability. Post-2008 regulatory changes actually expanded MCO's addressable market.

Recession Profile: SENSITIVE — Revenue cyclical but dividend protected; recovery typically swift once issuance normalizes.

STAGE 5: VALUATION & SCENARIO ANALYSIS

5.1 Financial Performance Summary

METRIC	2021	2022	2023	2024	TTM
Revenue ($B)	$6.22	$5.47	$5.92	$7.09	$7.50
Operating Income ($B)	$2.84	$2.00	$2.22	$2.98	$3.11
Net Income ($B)	$2.21	$1.37	$1.61	$2.06	$2.24
EPS (Diluted)	$11.78	$7.44	$8.73	$11.26	$12.42
FCF ($B)	$2.16	$1.19	$1.88	$2.52	~$2.6
Gross Margin	73.7%	70.5%	71.4%	66.4%	72.8%
Operating Margin	45.7%	36.5%	37.6%	42.0%	42.5%
Net Margin	35.6%	25.1%	27.2%	29.0%	29.9%

5.2 Total Return Model (10-Year Horizon)

Using current price of ~$452 and 2025E adjusted EPS of ~$14.25 (midpoint of guidance):

RETURN COMPONENT	CONTRIBUTION	RATIONALE
Dividend Yield	0.83%	$3.76 annual / $452 price
Dividend Growth	+0.5% (reinvested)	Growing ~11% CAGR compounds over time
Earnings Growth	+11.0%	Consensus: 11-13% EPS CAGR; using conservative 11%
Multiple Change	+0.5%	Slight mean reversion from current compressed level
TOTAL EXPECTED RETURN	**~12.8% CAGR**	**Well above 7% hurdle rate**

5.3 Scenario Analysis

SCENARIO	REV CAGR	EPS CAGR	TERMINAL P/E	10Y PRICE	TOTAL CAGR	WEIGHT
BEAR	3%	5%	22x	$512	3.2%	25%
BASE	7%	11%	28x	$1,180	12.8%	50%
BULL	10%	14%	32x	$1,900	19.5%	25%

PROBABILITY-WEIGHTED EXPECTED RETURN	
Bear (25% x 3.2%)	0.8%
Base (50% x 12.8%)	6.4%
Bull (25% x 19.5%)	4.9%
EXPECTED TOTAL CAGR	**12.1%**

5.4 Downside Protection Analysis

Bear case 10-year price of ~$512 vs. current $452 implies +13.3% total price appreciation over 10 years, plus ~$50+ in cumulative dividends. Bear case total return of ~3.2% CAGR — capital is preserved even in the downside scenario, though return is below our 7% hurdle. Maximum estimated drawdown from current levels: ~20-25% (to ~$340-360 range, which would be near the 52-week low territory). Probability of permanent capital loss (>50% decline not recovered in 5 years): less than 5%.

DOWNSIDE METRIC	VALUE	ASSESSMENT
Bear Case Total Return	3.2% CAGR	**Capital preserved (PASS)**
Max Estimated Drawdown	~20-25%	Moderate; within tolerance
Prob. of >50% Permanent Loss	<5%	**PASS**
Dividend in Bear Case	Maintained	30% payout provides massive cushion

STAGE 6: INVESTMENT DECISION FRAMEWORK

6.1 Wealth Preservation Scoring System

Downside Protection Score

FACTOR	POINTS	RATIONALE
Base score	+50	Starting neutral
Bear case total return positive	+15	3.2% CAGR in bear case
Dividend maintained through 2008/2020	+10	Never cut dividend
D/E >1.0x	-10	1.81x leverage is elevated
Bear case shows >20% price decline possible	-15	Could see 20-25% drawdown
Current yield <3%	+0	No income cushion bonus
Max historical drawdown <40%	+10	COVID/2022 drawdowns ~30-35%
DOWNSIDE PROTECTION SCORE	**60 / 100**	

Return Adequacy Score

Base Case Total Return CAGR of 12.8% scores **100 / 100** (>12% tier).

Quality Score (from Stage 3): **72 / 100**

Composite Wealth Preservation Score

COMPONENT	SCORE	WEIGHT	CONTRIBUTION
Downside Protection	60	45%	27.0
Return Adequacy	100	30%	30.0
Quality	72	25%	18.0
COMPOSITE WP SCORE			**75.0 / 100**

Note: The composite actually rounds to ~75 when calculated precisely: (60 x 0.45) + (100 x 0.30) + (72 x 0.25) = 27 + 30 + 18 = 75. This places MCO at the threshold between 'Good candidate' (65-75) and 'Excellent candidate' (75+).

6.2 Absolute Requirements Check

ABSOLUTE REQUIREMENT	STATUS	DETAIL
Bear case total return >= 0%	**PASS**	3.2% CAGR
Base case total return >= 7%	**PASS**	12.8% CAGR

ABSOLUTE REQUIREMENT	STATUS	DETAIL
Solvency: FORTRESS or ADEQUATE	**PASS**	ADEQUATE
Dividend sustainability: ROCK SOLID or SUSTAINABLE	**PASS**	ROCK SOLID
Prob. of >50% permanent loss <10%	**PASS**	<5%

ALL ABSOLUTE REQUIREMENTS: PASSED

STAGE 7: FINAL INVESTMENT DECISION

RECOMMENDATION: BUY ON WEAKNESS

Target Entry: $420 - $450 | Current Price: ~$452 | Scale-In Approach Recommended

7.1 BUY Criteria Checklist

QUANTITATIVE CRITERIA	STATUS
WP Score >= 65	**75 — PASS**
Base case total return >= 8% CAGR	**12.8% — PASS**
Bear case total return >= 0%	**3.2% — PASS**
Margin of safety to fair value >= 10%	**~18% — PASS**
QUALITATIVE CRITERIA	**STATUS**
Understandable business with durable moat	**Regulated duopoly — PASS**
Management track record: GOOD or better	**GOOD — PASS**
Recession profile: RESILIENT or SENSITIVE	**SENSITIVE — PASS**

7.2 Position Sizing & Entry Strategy

With a WP Score of 75, base case return of 12.8%, and bear case positive, MCO qualifies for a **Full Position**. However, given the pre-earnings uncertainty (Feb 18) and ongoing macro volatility, we recommend a **scale-in approach**:

TRANCHE	ALLOCATION	ENTRY TRIGGER	RATIONALE
Tranche 1 (50%)	50% of target	Current levels (~$452)	Already attractive; below 5Y avg multiples
Tranche 2 (30%)	30% of target	Post-earnings ($420-$440)	If earnings disappoint or further selloff
Tranche 3 (20%)	20% of target	$380-$400 (near 52W low)	Maximum conviction if reaches deep value

7.3 Expected Outcome (10 Years)

METRIC	THIS POSITION	HYSA (4%)	OUTPERFORMANCE
Total Return CAGR	**12.1% (prob-weighted)**	4.0%	+8.1pp
Cumulative Return	**~213%**	48%	+165pp
$100 Becomes	**~$313**	$148	+$165
Bear Case: $100 Becomes	~$137	$148	-$11 (acceptable)
Base Case: $100 Becomes	**~$335**	$148	+$187

DOWNSIDE PROTECTION SUMMARY

Bear case preserves capital: YES (3.2% CAGR) | Dividend provides income floor: YES ($3.76/share, ROCK SOLID) | Balance sheet provides safety: YES (ADEQUATE, $2.5B+ FCF)

RISK ASSESSMENT

RISK CATEGORY	SCORE (1-10)	KEY CONCERN	MITIGATION
Balance Sheet	4	D/E of 1.81x above threshold	13x interest coverage; $2.5B FCF
Earnings Volatility	5	MIS revenue tied to issuance cycles	MA provides 59% recurring revenue
Competitive Threat	2	AI disruption to Analytics	Ratings duopoly is regulatory moat
Regulatory Risk	3	Potential ratings reform	Reform efforts historically unsuccessful
Management Risk	2	Key person dependency	Deep bench; institutional processes
Valuation Risk	3	Still premium to market	16% off ATH; below 5Y avg multiples
Tariff/Macro Risk	4	Trade war slows issuance	Temporary; pent-up issuance follows
AGGREGATE RISK	**3.3 / 10**		MODERATE — Manageable

MONITORING CHECKLIST

Quarterly Review Items

1) Earnings vs. expectations (particularly MIS issuance revenue and MA ARR growth) 2) Dividend maintained/increased 3) Balance sheet metrics stable (watch D/E and interest coverage) 4) Competitive position unchanged (NRSRO status, market share) 5) Management guidance updates 6) AI integration progress in Analytics segment

Exit Triggers

CONDITION	ACTION
Dividend cut	Reassess immediately; likely sell
D/E rises >2.5x without clear strategic rationale	Reduce position
ROIC falls below WACC for 2+ years	Sell
Regulatory loss of NRSRO status	Sell immediately
Bear case return turns significantly negative	Reduce/Sell
Forward return <5% at elevated prices	Trim to lock in gains
Better opportunity with 10+ point higher WP Score	Consider reallocation

ANALYST NOTES

Key Assumptions

1) Global debt issuance continues to grow at mid-single-digit rates over the next decade, driven by refinancing walls, private credit growth, and emerging market development. Sensitivity: Each 1pp change in issuance growth impacts MCO revenue CAGR by ~0.5pp.

2) Moody's Analytics maintains 7-9% ARR growth through expanding product suite and AI capabilities. Sensitivity: Each 1pp change in MA growth impacts total revenue CAGR by ~0.6pp.

3) Operating margins remain stable at 42-46% as efficiency gains offset investment spending. Sensitivity: Each 1pp margin change impacts EPS by ~$0.40-0.50.

Limitations

Q4/FY2025 earnings have not yet been reported (release Feb 18, 2026). Our analysis relies on Q3 2025 TTM data and management guidance. The tariff situation remains fluid and could further impact bond issuance volumes. MCO's elevated D/E ratio, while manageable, represents a vulnerability if interest rates spike significantly.

Upcoming Catalysts

CATALYST	TIMELINE	PROBABILITY	IMPACT
Q4/FY2025 Earnings Beat	Feb 18, 2026	65%	Positive; could recover 5-10%
Dividend Increase Announcement	Feb 2026	85%	Confirms thesis; modest positive
$1.3B+ Buyback Execution	Throughout 2026	90%	Supports EPS growth
Tariff Resolution/De-escalation	H1 2026	50%	Significant rally potential
AI-Driven Product Launches	2026	80%	Supports MA ARR growth

Confidence Level: MEDIUM-HIGH — Moody's possesses one of the most durable competitive moats in the equity market. The primary risk is cyclical (issuance volumes) rather than structural. The current selloff presents an attractive entry point, though we recommend scaling in given pre-earnings uncertainty and macro volatility. The Feb 18 earnings release will be the key near-term catalyst to confirm or adjust our thesis.

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