

MOODY'S | Better decisions

Third Quarter 2021 Earnings Call

October 28, 2021

Introduction



Shivani Kak

Head of Investor Relations

Disclaimer

Certain statements contained in this document are forward-looking statements and are based on future expectations, plans and prospects for Moody's business and operations that involve a number of risks and uncertainties. The forward-looking statements in this document are made as of the date hereof, and Moody's disclaims any duty to supplement, update or revise such statements on a going-forward basis, whether as a result of subsequent developments, changed expectations or otherwise. In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, Moody's is identifying certain factors that could cause actual results to differ, perhaps materially, from those indicated by these forward-looking statements. Those factors, risks and uncertainties include, but are not limited to the impact of COVID-19 on volatility in the U.S. and world financial markets, on general economic conditions and GDP in the U.S. and worldwide, and on the Moody's own operations and personnel; future world-wide credit market disruptions or economic slowdowns, which could affect the volume of debt and other securities issued in domestic and/or global capital markets; other matters that could affect the volume of debt and other securities issued in domestic and/or global capital markets, including regulation, credit quality concerns, changes in interest rates, inflation and other volatility in the financial markets such as that due to Brexit and uncertainty as companies transition away from LIBOR; the level of merger and acquisition activity in the U.S. and abroad; the uncertain effectiveness and possible collateral consequences of U.S. and foreign government actions affecting credit markets, international trade and economic policy, including those related to tariffs, tax agreements and trade barriers; concerns in the marketplace affecting our credibility or otherwise affecting market perceptions of the integrity or utility of independent credit agency ratings; the introduction of competing products or technologies by other companies; pricing pressure from competitors and/or customers; the level of success of new product development and global expansion; the impact of regulation as an NRSRO, the potential for new U.S., state and local legislation and regulations; the potential for increased competition and regulation in the EU and other foreign jurisdictions; exposure to litigation related to our rating opinions, as well as any other litigation, government and regulatory proceedings, investigations and inquiries to which Moody's may be subject from time to time; provisions in U.S. legislation modifying the pleading standards and EU regulations modifying the liability standards, applicable to credit rating agencies in a manner adverse to credit rating agencies; provisions of EU regulations imposing additional procedural and substantive requirements on the pricing of services and the expansion of supervisory remit to include non-EU ratings used for regulatory purposes; the possible loss of key employees; failures or malfunctions of our operations and infrastructure; any vulnerabilities to cyber threats or other cybersecurity concerns; the outcome of any review by controlling tax authorities of Moody's global tax planning initiatives; exposure to potential criminal sanctions or civil remedies if Moody's fails to comply with foreign and U.S. laws and regulations that are applicable in the jurisdictions in which Moody's operates, including data protection and privacy laws, sanctions laws, anti-corruption laws, and local laws prohibiting corrupt payments to government officials; the impact of mergers, acquisitions or other business combinations and the ability of Moody's to successfully integrate acquired businesses; currency and foreign exchange volatility; the level of future cash flows; the levels of capital investments; and a decline in the demand for credit risk management tools by financial institutions. Other factors, risks and uncertainties relating to our acquisition of RMS could cause our actual results to differ, perhaps materially, from those indicated by these forward-looking statements, including risks relating to the integration of RMS's operations, products and employees into Moody's and the possibility that anticipated synergies and other benefits of the acquisition will not be realized in the amounts anticipated or will not be realized within the expected timeframe; risks that the acquisition could have an adverse effect on the business of RMS or its prospects, including, without limitation, on relationships with vendors, suppliers or customers; claims made, from time to time, by vendors, suppliers or customers; changes in the U.S., Europe (primarily the U.K.), Japan, India or global marketplaces that have an adverse effect on the business of RMS; and other factors, risks and uncertainties relating to the transaction as set forth under the caption "'Safe Harbor' Statement under the Private Securities Litigation Reform Act of 1995" in Moody's report on Form 8-K filed on August 6, 2021, which are incorporated by reference herein. These factors, risks and uncertainties as well as other risks and uncertainties that could cause Moody's actual results to differ materially from those contemplated, expressed, projected, anticipated or implied in the forward-looking statements are currently, or in the future could be, amplified by the COVID-19 outbreak, and are described in greater detail under "Risk Factors" in Part I, Item 1A of Moody's annual report on Form 10-K for the year ended December 31, 2020, and in other filings made by Moody's from time to time with the SEC or in materials incorporated herein or therein. Stockholders and investors are cautioned that the occurrence of any of these factors, risks and uncertainties may cause Moody's actual results to differ materially from those contemplated, expressed, projected, anticipated or implied in the forward-looking statements, which could have a material and adverse effect on Moody's business, results of operations and financial condition. New factors may emerge from time to time, and it is not possible for Moody's to predict new factors, nor can Moody's assess the potential effect of any new factors on it.

Overview & 3Q 2021 Results



Rob Fauber

President and Chief Executive Officer

Executive Summary

- » Strong third quarter financial results: MCO revenue of \$1.5 billion, up 13%; adjusted diluted EPS¹ of \$2.69
- » Double-digit revenue growth in both MIS and MA:
 - MIS: Attractive market conditions facilitate opportunistic refinancing and M&A activity, specifically for leveraged loan and structured finance issuance
 - MA: Recurring revenue growth and stable retention rates across multiple products and solutions
- » Continued innovation and investment in high-growth markets
- » Updated FY 2021 guidance²: MCO revenue growth raised to low-teens percent range; adjusted diluted EPS² raised and narrowed to \$12.15 - \$12.35²

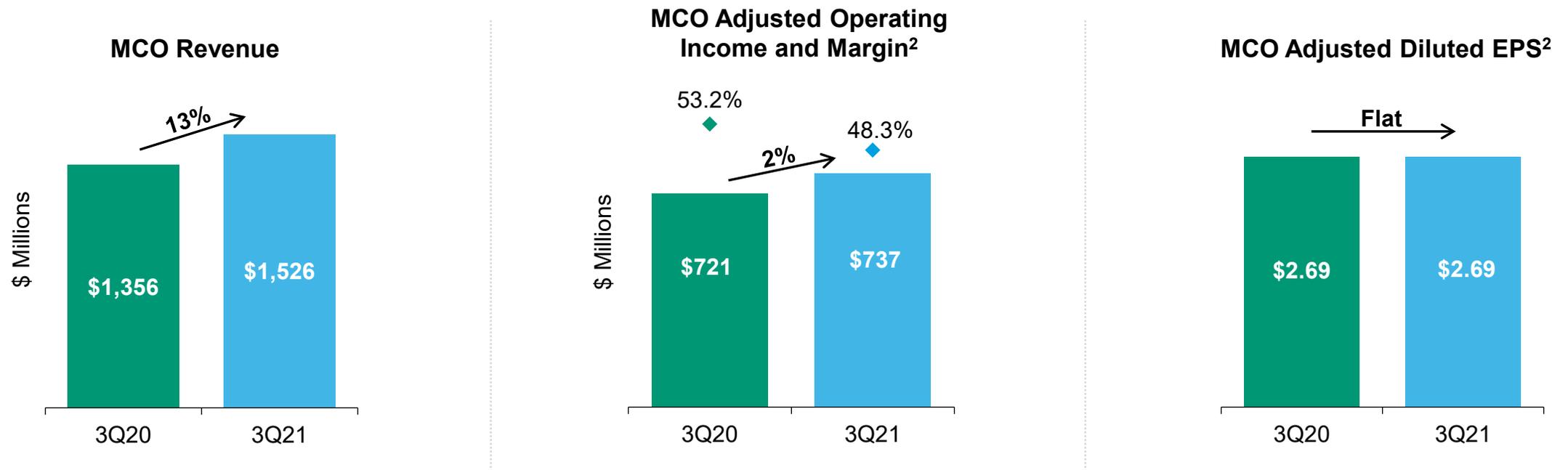
1. Refer to the Appendix for a reconciliation between all adjusted measures mentioned throughout this presentation and U.S. GAAP.

2. Guidance as of October 28, 2021. Refer to Table 12 – “2021 Outlook” in the press release for a complete list of guidance and a reconciliation between all adjusted measures mentioned throughout this presentation and U.S. GAAP, as well as assumptions used by the Company with respect to its guidance.



3Q 2021: Results Bolstered by Double-Digit Revenue Growth

- » MCO revenue increased 13%, including 13% growth from MA and 12% growth from MIS
 - MA organic¹ revenue growth of 8%
- » Adjusted operating income² up 2% and adjusted diluted EPS² of \$2.69



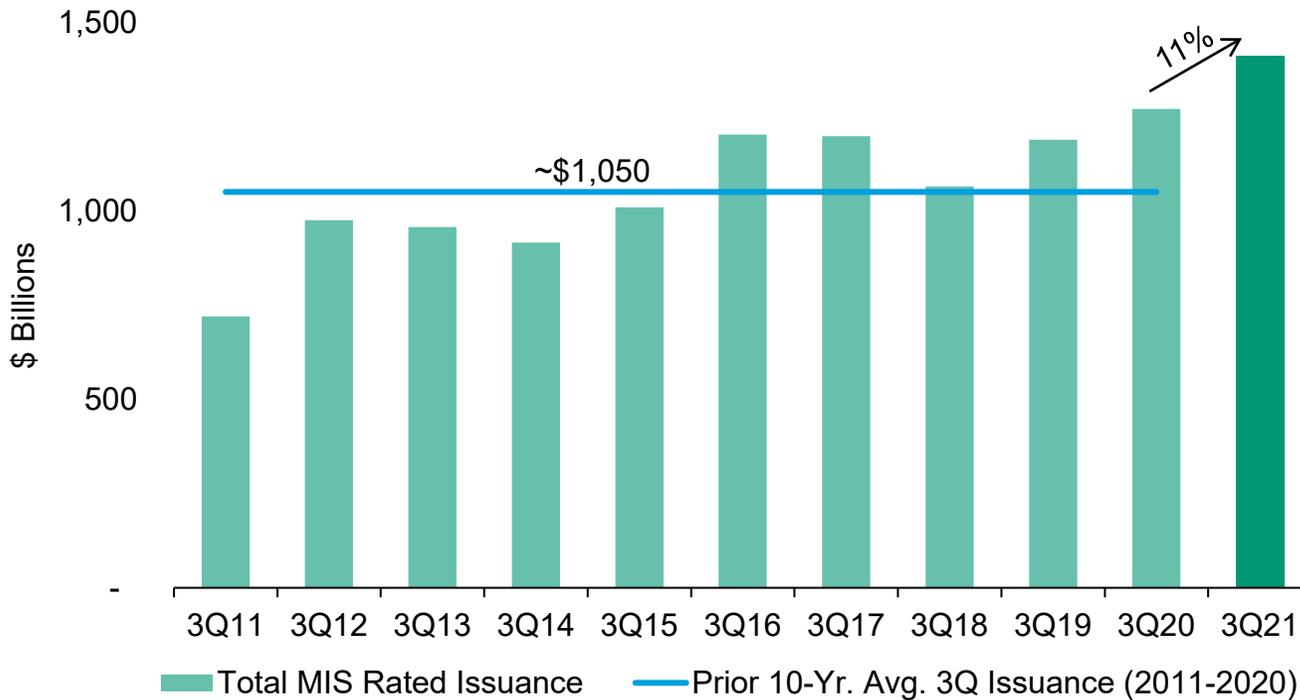
1. MA organic revenue growth as defined in the reconciliation tables in the Appendix.

2. Adjusted operating income, adjusted operating margin and adjusted diluted EPS are non-GAAP measures.

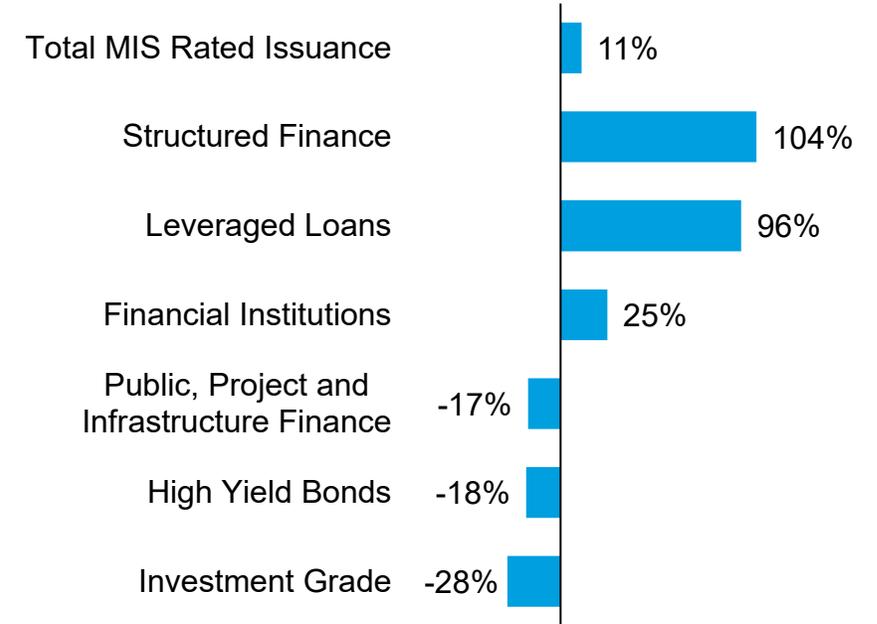
Refer to the Appendix for a reconciliation between all adjusted and organic measures mentioned throughout this presentation and U.S. GAAP.

Heightened Issuance Activity Continued in 3Q 2021

Historical MIS Rated Issuance¹ – Third Quarters



3Q 2021 Year-Over-Year Issuance¹ Growth



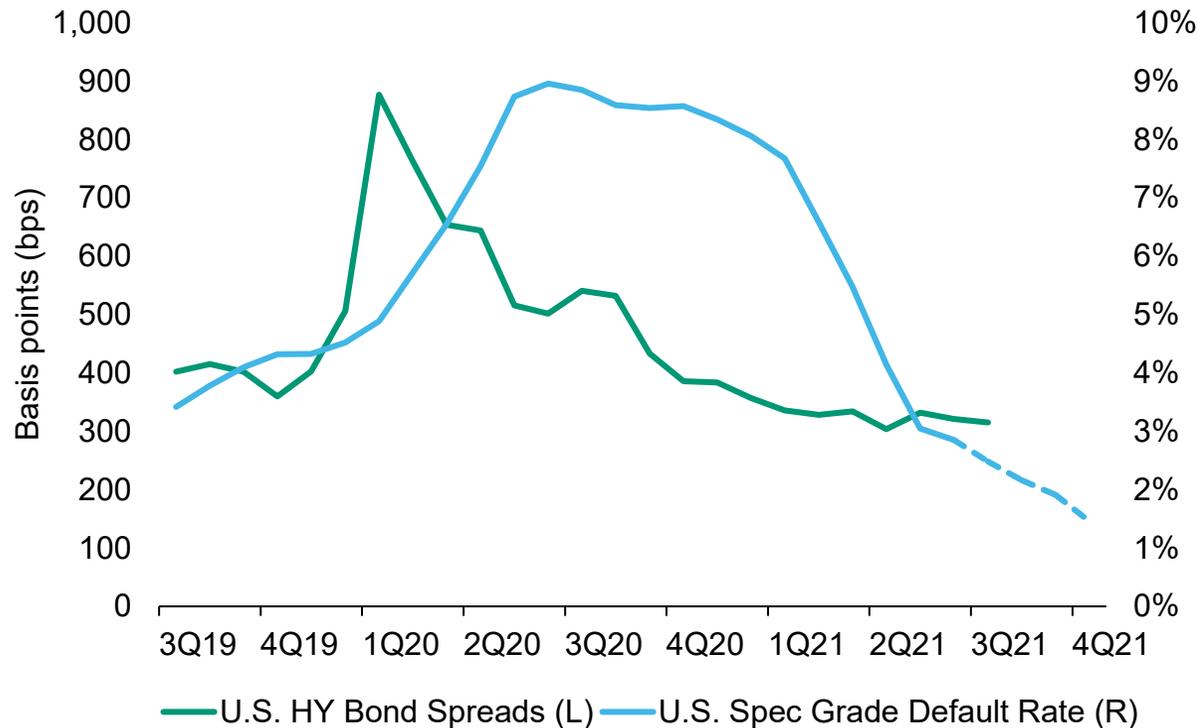
- » Overall issuance volumes remained above the prior 10-year average; while investment grade issuance declined in 3Q 2021, activity was still 5% above the historical average²
- » Ongoing momentum in leveraged loans and structured finance issuance

1. Issuance figures are subject to amendment given face variations that may occur following the reporting cycle.
 2. MIS-rated investment grade prior 10-year 3Q quarterly average.

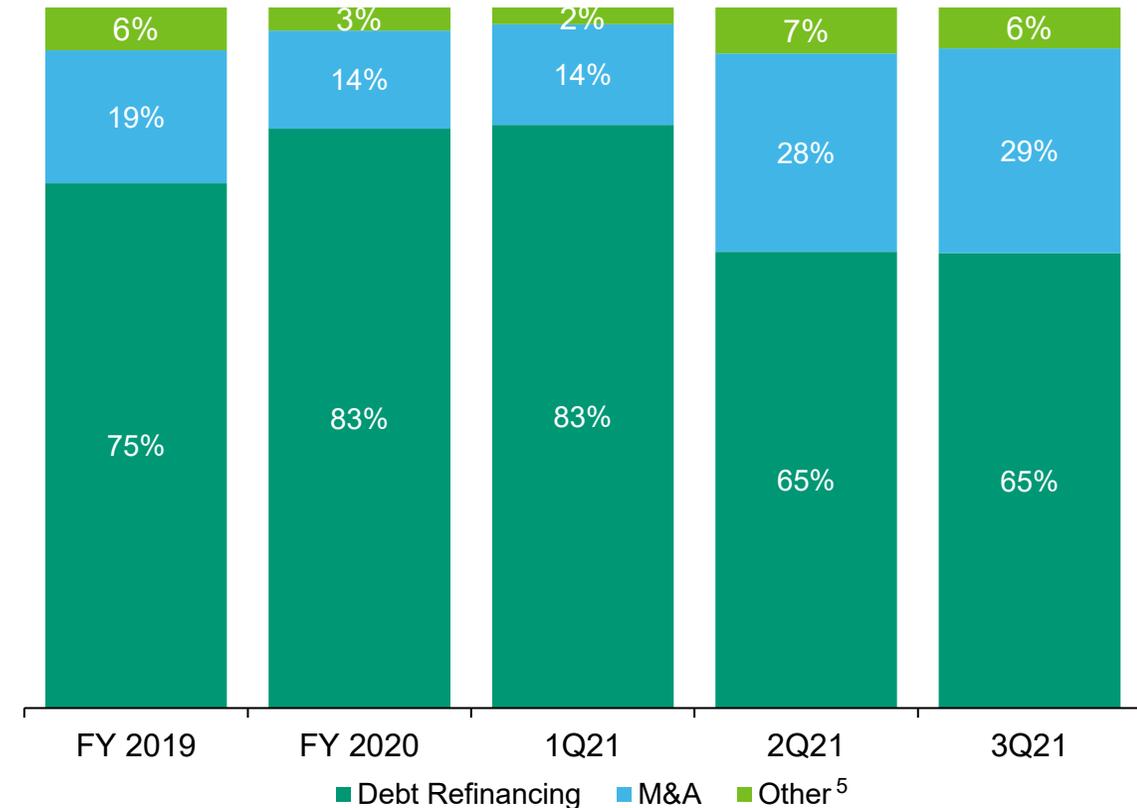
Note: MIS rated issuance, excludes sovereign debt issuance. Issuance figures displayed in billions, except for year-over-year growth calculations.

Tight Spreads and Lower Defaults Supported Opportunistic Refinancing and M&A Activity

U.S. HY Bond Spreads^{1,2} and U.S. Spec Grade Default Rate^{1,3}



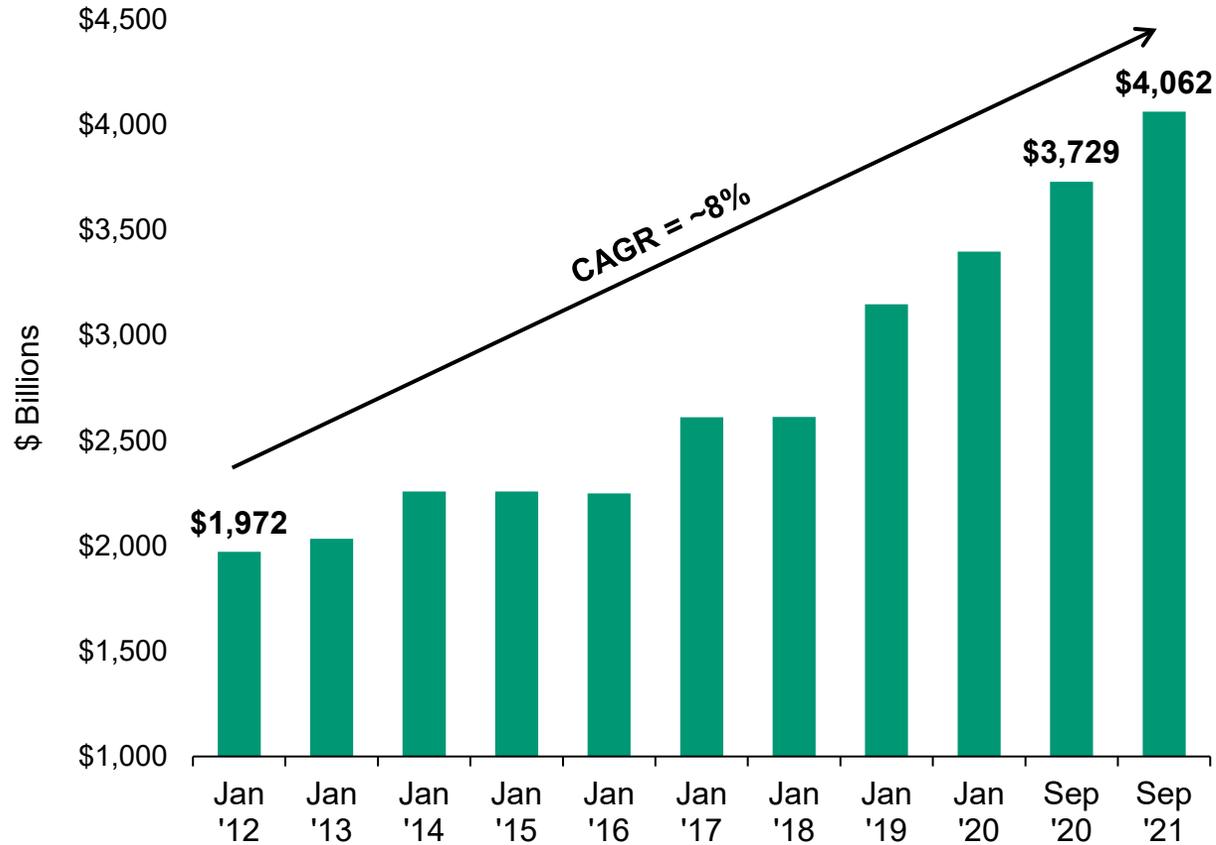
Uses of Funds from USD High Yield Bonds and Bank Loans^{1,4}



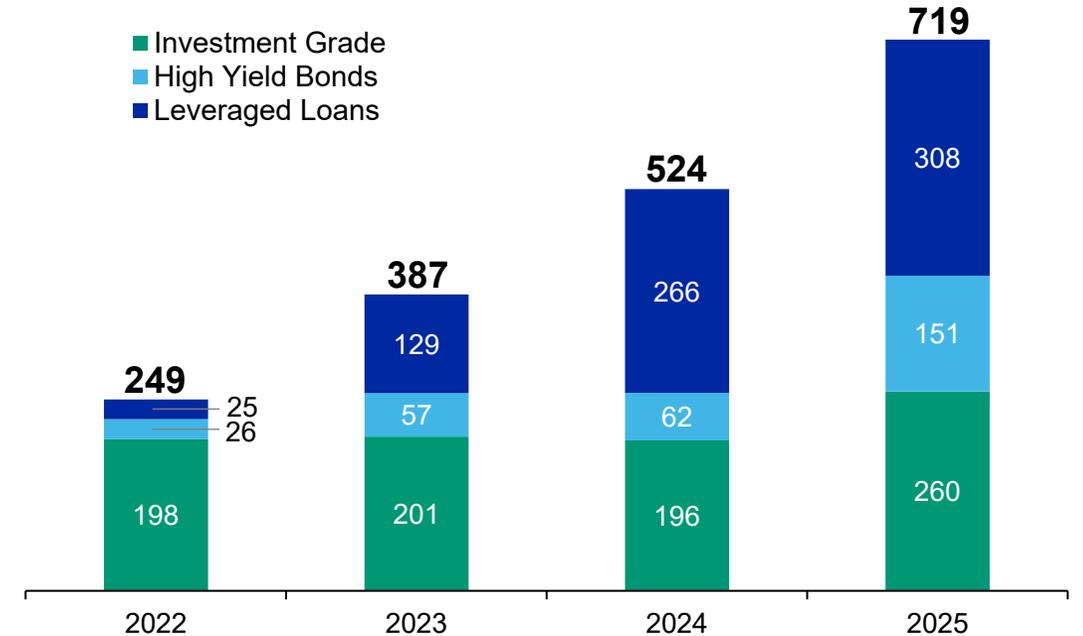
1. Reported data as of September 30, 2021.
 2. Bond spreads as of the last day of each month. Source: St. Louis Fed Database.
 3. Trailing twelve months U.S. speculative grade corporate default rates. Dashed lines represent forecast. Source: Moody's Investors Service "September 2021 Default Report" published October 11, 2021.
 4. Percent of mentions for each respective period in bond issue or bank loan program tranche documents. Excludes issues of less than \$25 million and general corporate purposes. Historical data has been restated to reflect updated methodology. Source: Dealogic.
 5. Other includes Shareholder Payments, Working Capital and Capital Spending.

Refunding Walls Continue to Build

Next Four Years U.S. and EMEA Total Refunding Needs¹ as of:



U.S. Non-financial Corporate Bond and Loan Maturities (\$B)²



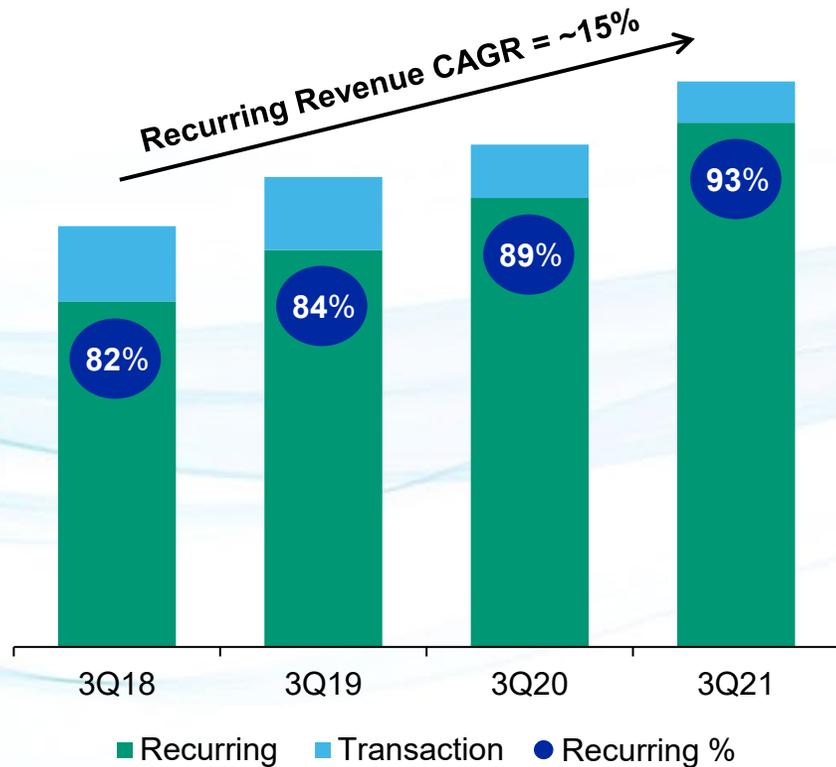
- » Four-year U.S. and EMEA refunding walls increased ~9% YoY, slightly above the historical CAGR of ~8%
- » U.S. four-year refinancing needs grew ~9%, driven by a ~19% and ~7% increase in leveraged loans and investment grade bonds, respectively

1. Amount reflects total MIS-rated U.S. non-financial corporate bond and loan maturities and rated EMEA non-financial corporate and infrastructure bond and loan maturities as defined in Moody's Investors Service's refunding needs reports January 2012 – October 2021.

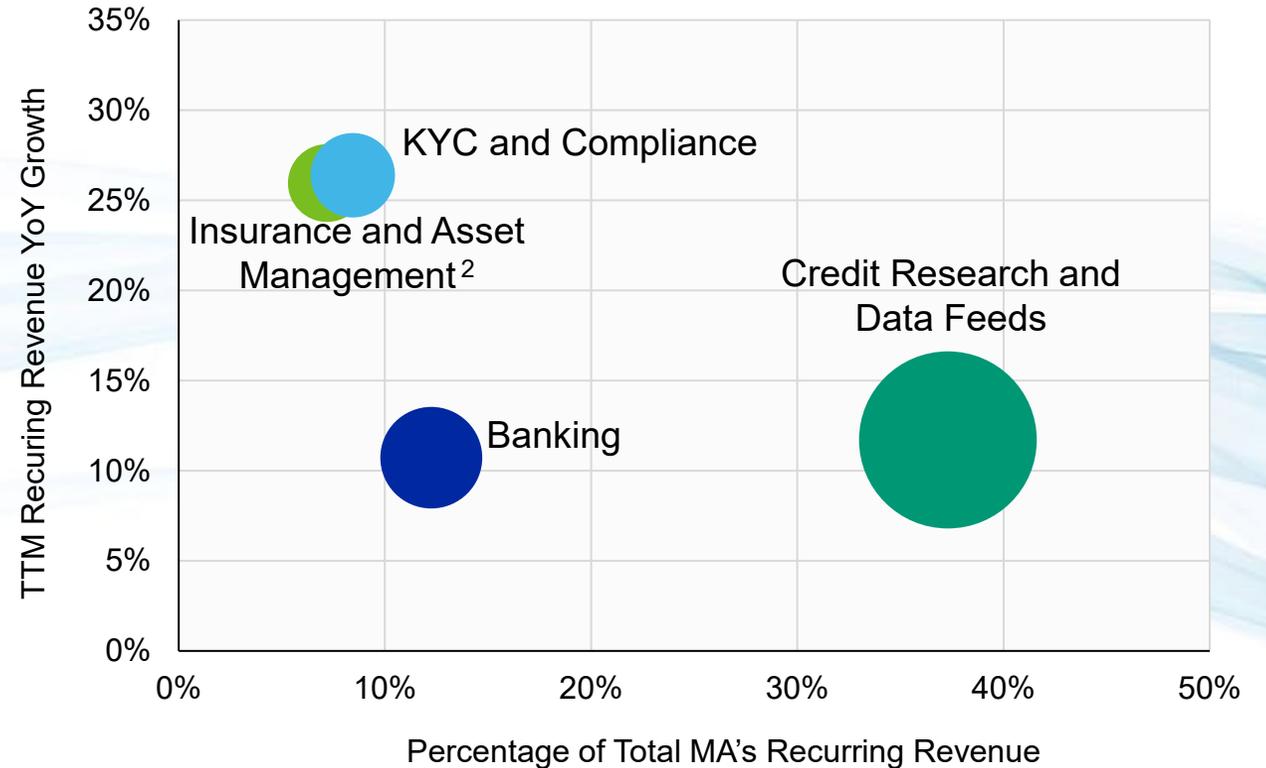
2. Data represents MIS-rated U.S. non-financial corporate bond and loan maturities. Source: Moody's Investors Service, October 2021.

MA Recurring Revenue Above 90%

TTM MA Recurring and Transaction Revenue¹



Key Contributors to TTM MA Organic Recurring Revenue¹



1. Trailing twelve months as of September 30, 2021.
 2. Insurance and Asset Management excludes RMS.

KYC Tools Integral to an Increasing Number of Customer Use Cases

Continued strategic investment driving >25% growth¹



Banking

- » Enhanced bank's ability to prevent money laundering
- » Delivering comprehensive mapping of entity and ownership linkages across their customer database



Leasing

- » Automated leasing company's onboarding and monitoring of third parties
- » Leveraging KYC solutions to identify ultimate beneficial owners and comply with AML regulation



Transportation

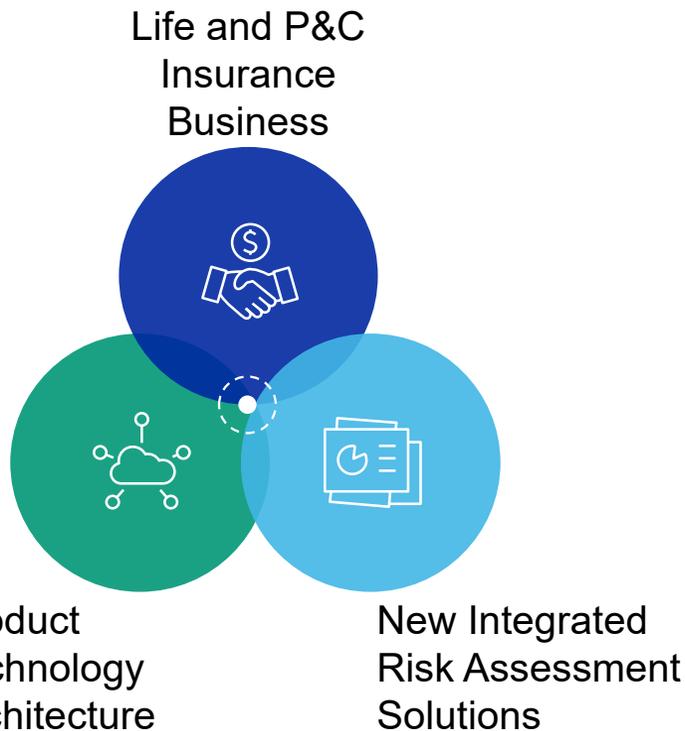
- » Augmented supplier risk assessment processes for transportation company
- » Providing integrated approach that combines anti-bribery and corruption, ESG and financial risk capabilities

1. Trailing twelve months organic revenue growth as of September 30, 2021.
Note: AML = Anti-Money Laundering.

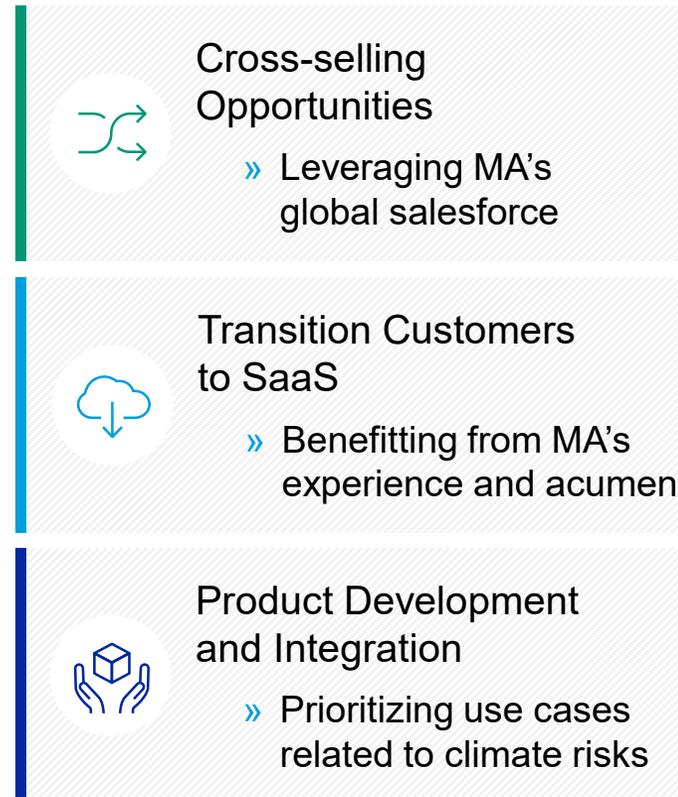
RMS: Mission Critical Role in Global Insurance Markets

Climate capabilities further accelerate our integrated risk assessment strategy

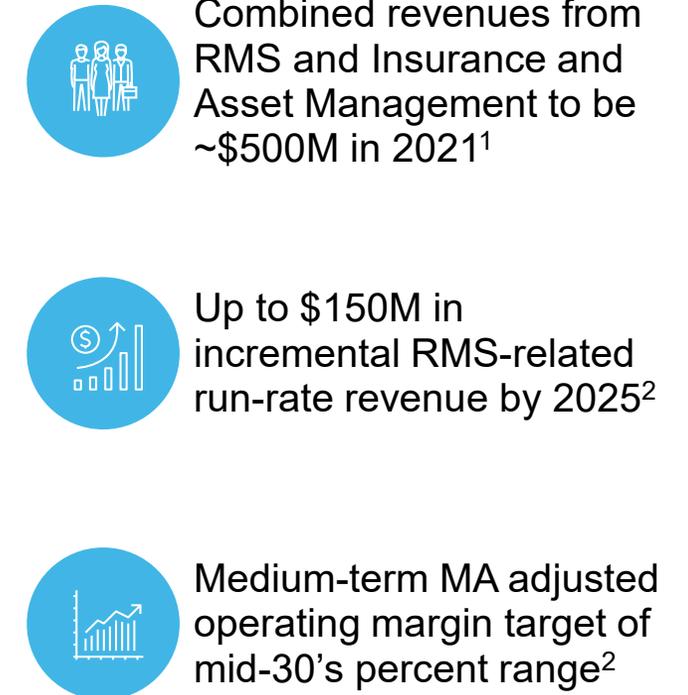
Areas of Focus for Integration



Path to Achieving Targets



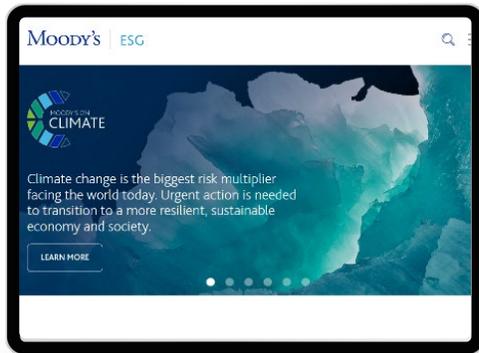
Financial Targets



1. RMS revenue for fiscal year ending September 30, 2021. Forecast as of October 28, 2021 for MA Insurance and Asset Management.

2. Forecast as of August 5, 2021.

Innovation and Thought Leadership Accelerate Our Integrated Risk Assessment Strategy



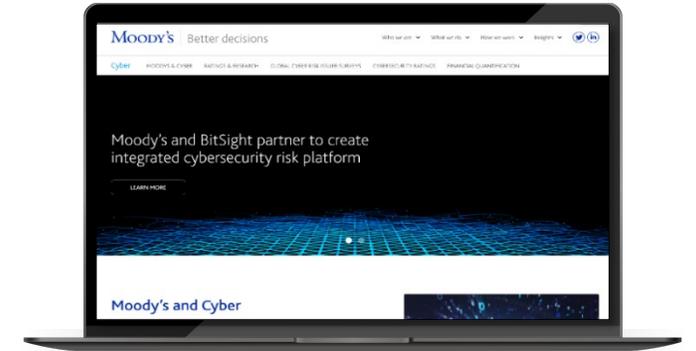
ESG & Climate

- » Launched climate-conditioned default probabilities on 40K+ public entities
- » Expanded MIS Credit Impact Score methodology to cover rated financial institutions
- » Integrated Climate Risk Scores into our CRE product suite, quantifying physical risk exposures to climate change



SaaS Solutions

- » Introduced Data Alliance dashboards for CECL customers, providing peer benchmarks to contributors
- » Released PortfolioStudio™, a solution that identifies and measures risks to drive effective capital allocation and management decisions
- » Rolled out new capabilities in CreditLens™, integrating property data and NOI analytics to support CRE lenders



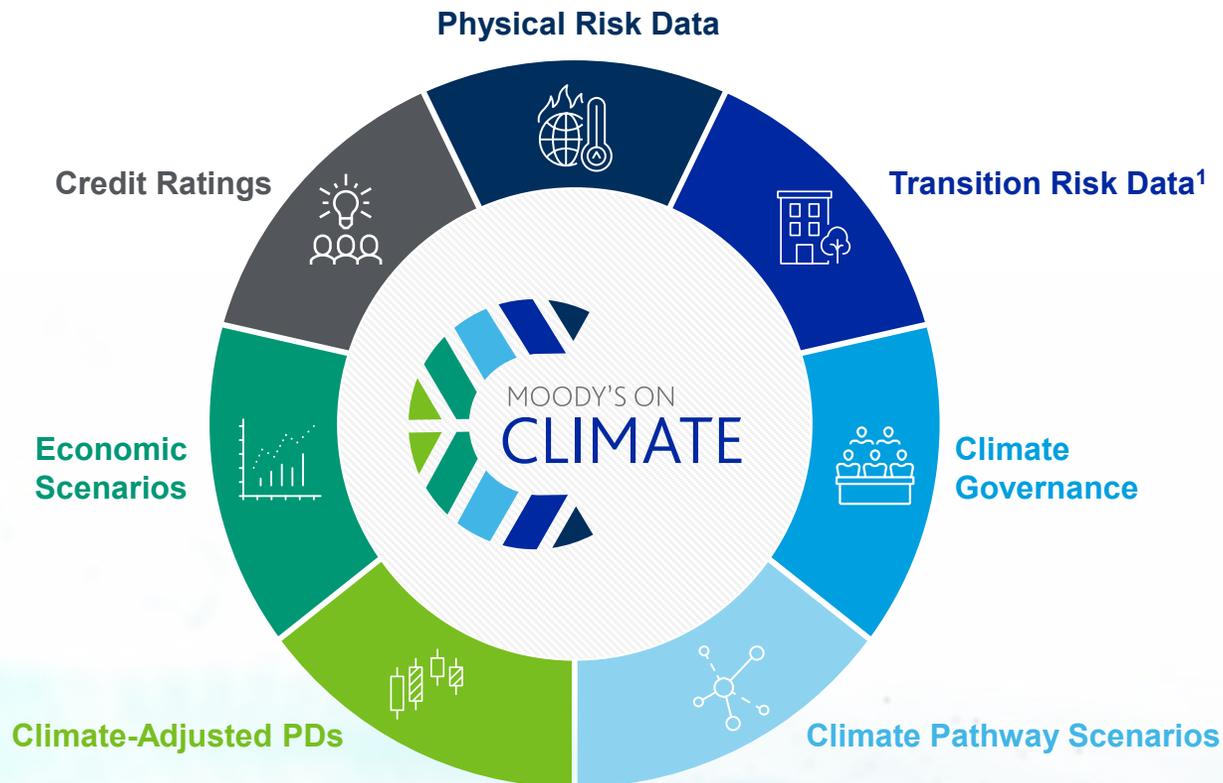
Cyber

- » Significant investment in BitSight to create a market-leading cyber risk platform
- » Enhancing analytical capability by leveraging BitSight's cyber risk data and research
- » Embedding cyber risk analytics across multiple use cases

Note: CECL = Current Expected Credit Losses methodology. CRE = Commercial Real Estate. NOI = Net Operating Income.

Moody's on Climate

Leading Climate Solutions and Insights



1. Transition Risk Data includes temperature alignment, Scope 3 emissions data and carbon transition assessments.
Note: CCRI = Coalition for Climate Resilient Investment. GFANZ = Glasgow Financial Alliance for Net Zero. PD = Probability of Default. TNFD = Taskforce on Nature-related Financial Disclosures.

COP26 Stakeholder Engagement

- » Accelerated corporate net-zero commitment to 2040
- » Recognized as a UN Global Compact LEAD company
- » Founding member of the Net Zero Financial Services Provider Alliance, part of the GFANZ
- » Joined the CCRI to promote the efficient integration of physical climate risks in investment decision-making
- » Joined the TNFD to help develop a reporting framework and act on evolving nature-related risks



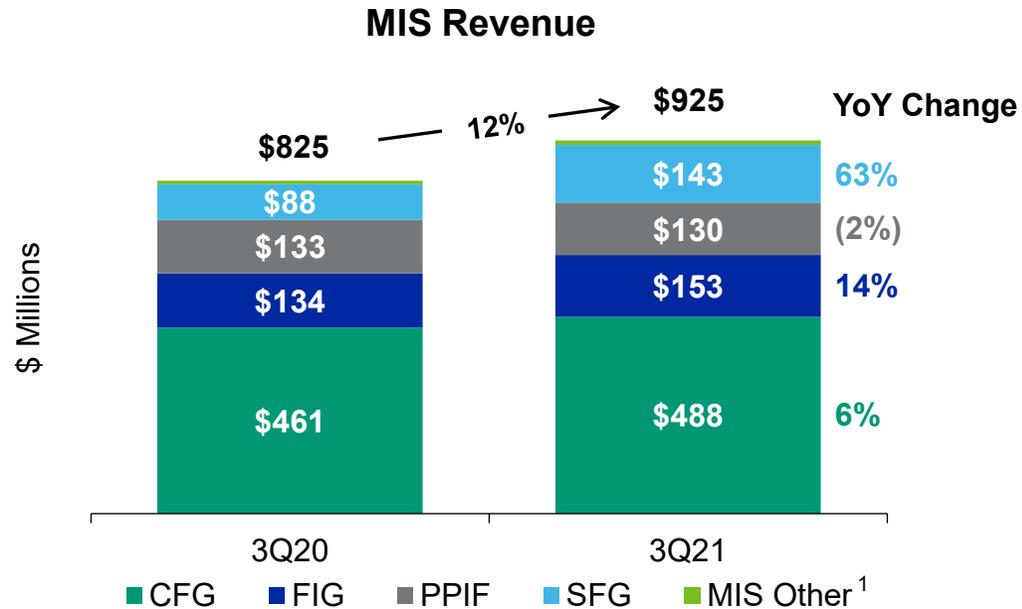
3Q 2021 Analysis & FY 2021 Outlook



Mark Kaye

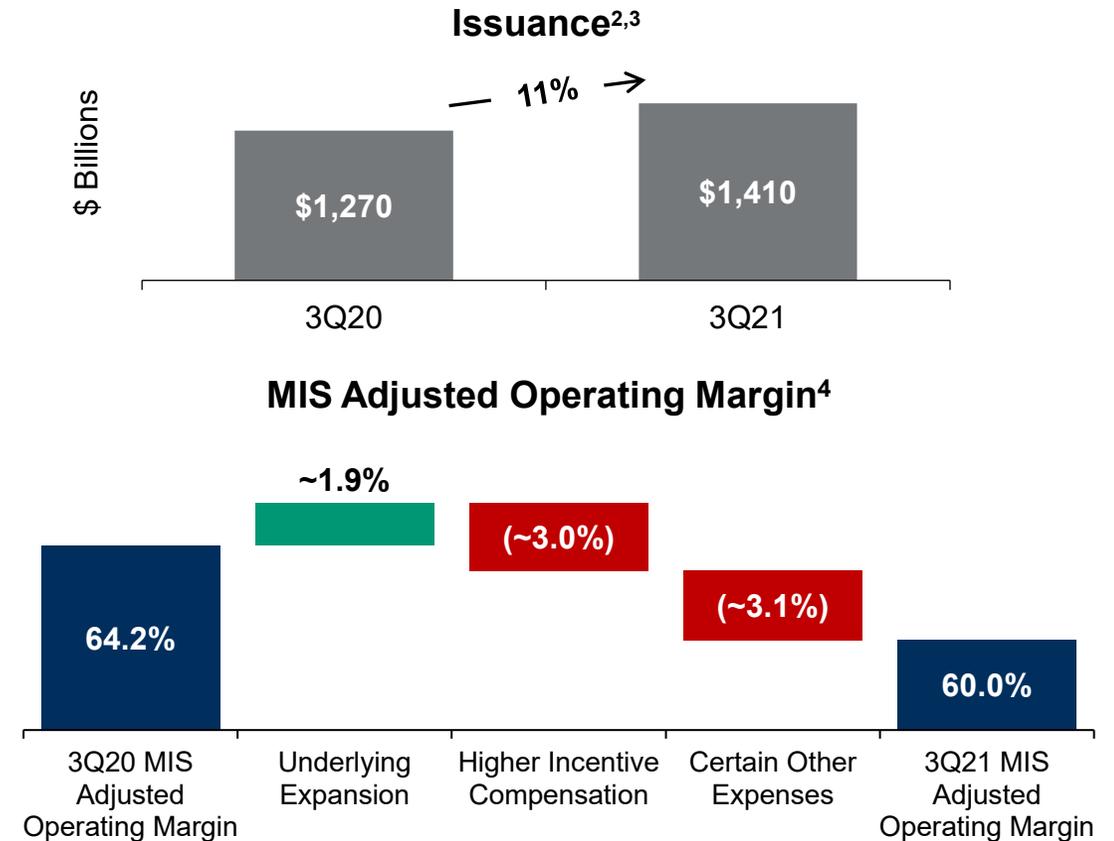
Chief Financial Officer

MIS: Significant Leveraged Loan and CLO Activity



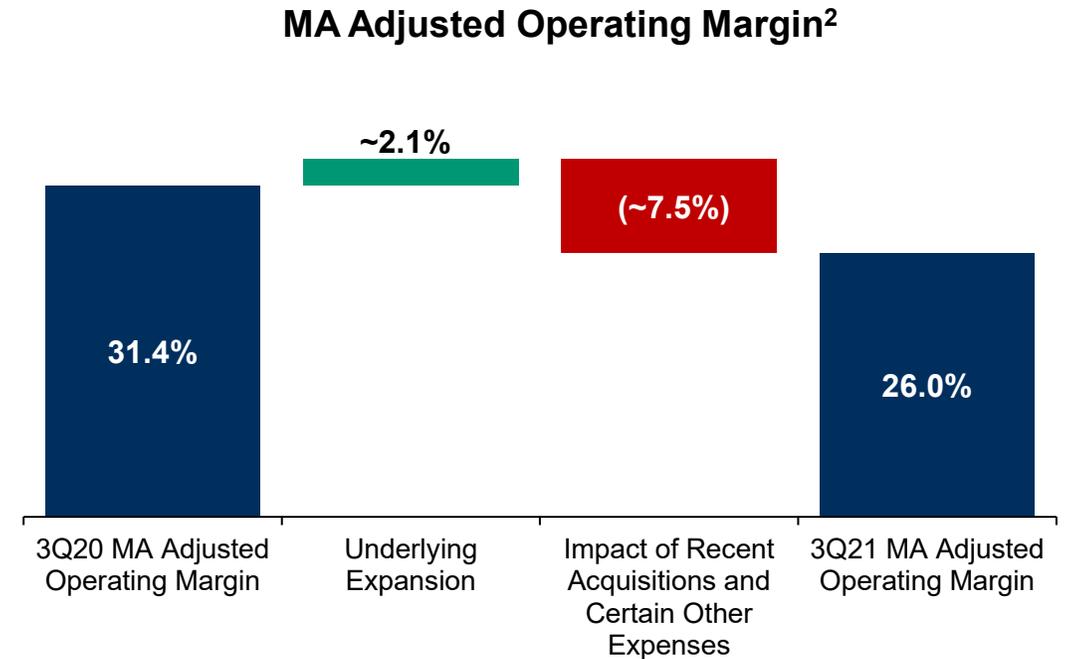
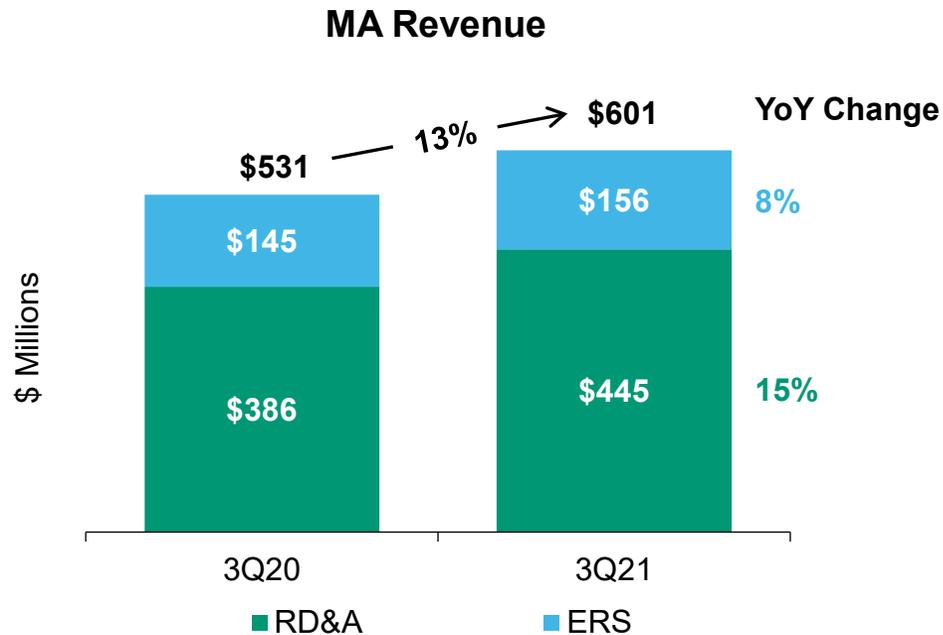
- » **CFG:** Opportunistic refinancing and elevated M&A activity drove leveraged loan issuance
- » **SFG:** Tight spreads supported CLO refinancing activity, as well as CMBS and RMBS issuance
- » **FIG:** Bank and insurance issuers secured low-cost funding given favorable market conditions

1. MIS Other revenue was approximately \$9 and \$11 million in the quarters ended September 30, 2020 and September 30, 2021, respectively.
 2. MIS rated issuance, excludes sovereign debt issuance.
 3. Issuance figures are subject to amendment given face amount variations that may occur following the reporting cycle.
 4. Underlying expansion primarily excluded the impact of higher incentive and stock compensation accruals, a prior-year period legal accrual adjustment and a charitable contribution via The Moody's Foundation. Refer to the Appendix for a reconciliation between all adjusted measures mentioned throughout this presentation and U.S. GAAP.



- » Top-line growth and ongoing expense discipline drove underlying adjusted operating margin expansion of ~190 bps

MA: Strong Renewal and Customer Retention Rates



- » **RD&A:** 12% organic revenue¹ growth driven by demand for KYC and compliance solutions, as well as credit research and data feeds
- » **ERS:** 8% revenue increase underpinned by 13% organic recurring revenue¹ growth from ongoing strategic shift to subscription-based model

- » Adjusted operating margin expanded ~210 bps excluding the impact of recent acquisitions and certain other expenses²
- » Recurring revenue comprised 95% of RD&A, 90% of ERS and 94% of total MA

1. Refer to the Appendix for a definition of organic and organic recurring revenue, as well as the reconciliation between all organic measures mentioned throughout this presentation and U.S. GAAP.

2. Underlying expansion primarily excludes the impact of recent acquisitions completed within the last twelve months, as well as one-time RMS-related transaction costs and a charitable contribution via The Moody's Foundation. Refer to the Appendix for a reconciliation between all adjusted measures mentioned throughout this presentation and U.S. GAAP.

FY 2021 Corporate-Level Guidance¹

Revenue	Increase in the low-teens percent range
Expenses	Increase of approximately 10%
Adjusted Operating Margin²	Approximately 51%
Interest Expense, Net	\$160 - \$180 million
Effective Tax Rate	19.5% - 20.5%
Diluted EPS	\$11.65 - \$11.85
Adjusted Diluted EPS²	\$12.15 - \$12.35
Free Cash Flow²	\$2.2 - \$2.3 billion
Share Repurchases³	Approximately \$750 million

Macro assumptions underpinning our guidance⁴

2021 GDP

5.5% - 6.5% United States

4.5% - 5.5% Euro area

5.5% - 6.5% Global 

Benchmark rates to increase gradually from historic lows; U.S. high yield spreads to slightly widen but remain below the historical average of ~500 bps



U.S. unemployment rate to remain below 5%

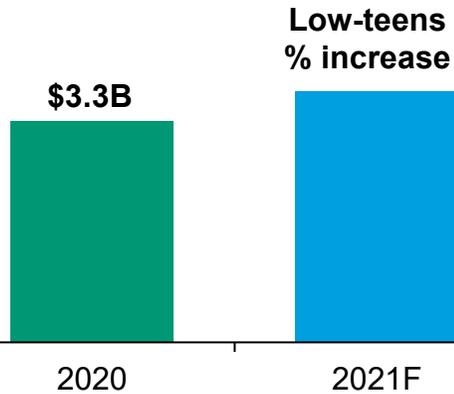
Global high yield default rate to fall below 2% by the end of 2021



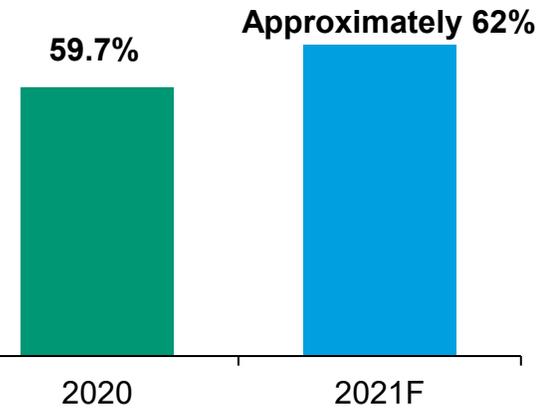
1. Guidance as of October 28, 2021. Refer to Table 12 – “2021 Outlook” in the press release for a complete list of guidance and a reconciliation between all adjusted measures mentioned throughout this presentation and U.S. GAAP, as well as assumptions used by the Company with respect to its guidance.
2. Adjusted operating margin, adjusted diluted EPS and free cash flow are non-GAAP measures. Refer to the Appendix for a reconciliation between all adjusted measures mentioned throughout this presentation and U.S. GAAP.
3. Subject to available cash, market conditions, M&A opportunities and other ongoing capital allocation decisions.
4. Sources: High yield spreads, default rate and unemployment assumptions sourced from Moody’s Investors Service “September 2021 Default Report” published October 11, 2021; GDP assumption as of October 28, 2021 from Moody’s Investors Service and consensus estimates.

FY 2021 Segment-Level Guidance¹

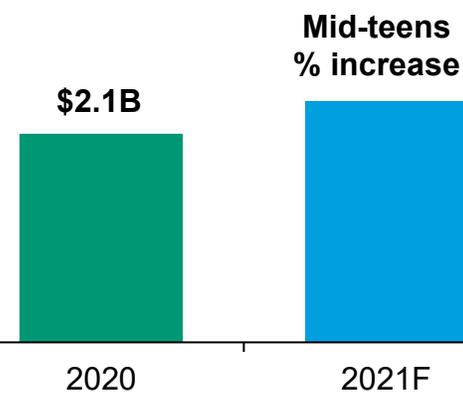
MIS Revenue¹



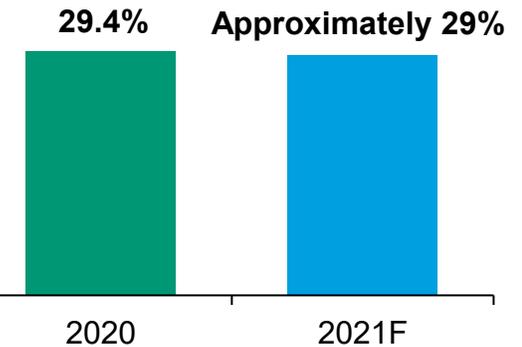
MIS Adjusted Operating Margin¹



MA Revenue¹



MA Adjusted Operating Margin¹



» **Total Issuance²:** Increase in the high-single-digit percent range

- **IG:** (~35%) - **FIG:** ~10%
- **HYB:** ~20% - **PPIF:** (~20%)
- **LL:** ~100% - **SFG:** ~100%

» Projecting 1,050 to 1,150 first time mandates

» Increased adjusted operating margin guidance driven by top-line growth and supported by ongoing operating efficiency initiatives

» Overall mid-90's percent retention rate

» Strategic shift to subscription-based products accelerates recurring revenue growth

» Expense discipline funds organic strategic investments

» M&A improves revenue growth by ~6%; lowers margin by ~300 bps

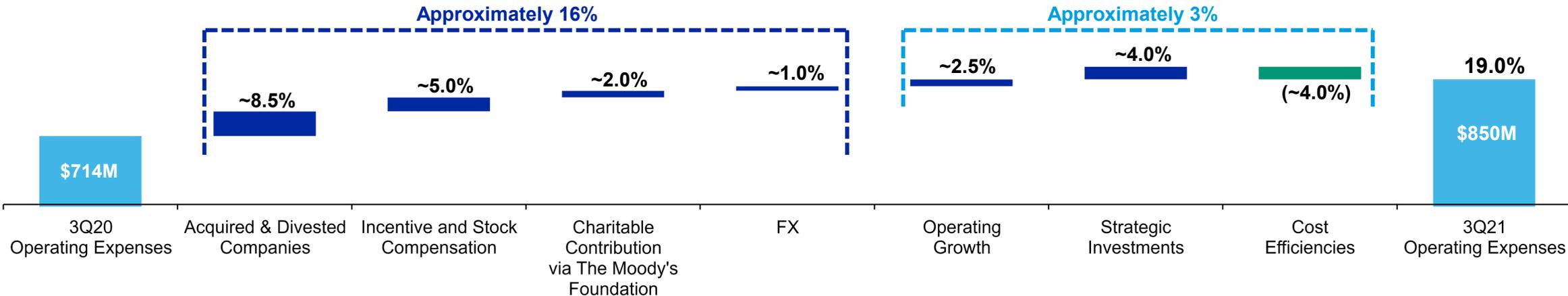
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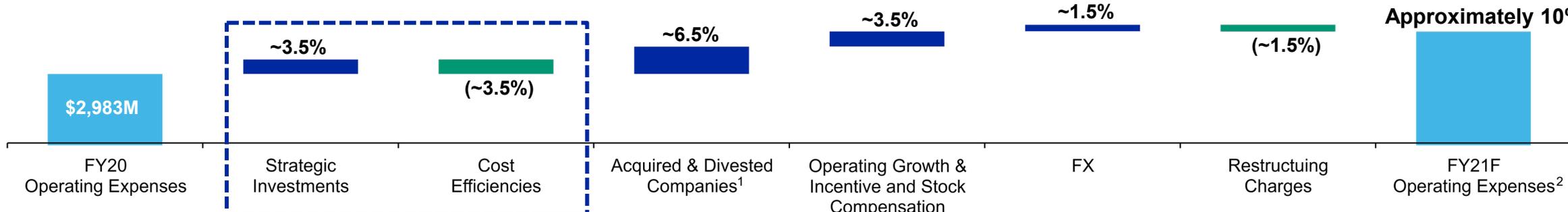
Note: IG = Investment Grade. HYB = High Yield Bonds. LL = Leveraged Loans.

Maintaining Expense Guidance; Acquisition Activity Drives Growth as Cost Efficiencies Enable Strategic Investment

3Q 2021 vs. 3Q 2020



FY 2021F vs. FY 2020



1. Includes the impact of the 1Q 2020 loss pursuant to the divestiture of MAKs.

2. Guidance as of October 28, 2021. Refer to Table 12 – “2021 Outlook” in the press release for a complete list of guidance and a reconciliation between all adjusted measures mentioned throughout this presentation and U.S. GAAP, as well as assumptions used by the Company with respect to its guidance.

Key Takeaways

- » Robust 3Q 2021 performance and improved full year 2021 revenue and adjusted EPS outlook¹
- » Economic recovery and constructive market conditions drive issuance levels and refunding activity
- » Strong MA recurring revenue base and retention rates support long-term growth
- » Key organic investments accelerate our integrated risk assessment strategy
- » Ongoing innovation delivers best-in-class ESG & Climate data and analytics

1. Guidance as of October 28, 2021. Refer to Table 12 – “2021 Outlook” in the press release for a complete list of guidance and a reconciliation between all adjusted measures mentioned throughout this presentation and U.S. GAAP, as well as assumptions used by the Company with respect to its guidance.



MOODY'S | Better decisions

Questions and Answers



Rob Fauber

President and Chief Executive Officer



Mark Kaye

Chief Financial Officer

Investor Day

March 10, 2022

Save the Date

Moody's Corporation will hold its next Investor Day on Thursday, March 10, 2022. The event will showcase important aspects of the Company's business.

Additional details to follow.

Moody's Attendance at Upcoming Conferences

NOV
04

Autonomous Operational Decisions Conference

» *Mark Kaye, Chief Financial Officer*

NOV
17

RBC Global Technology, Internet, Media & Telecommunications Conference

» *Mona Breed, Chief Information Officer*

NOV
18

J.P. Morgan Ultimate Services Investor Conference

» *Rob Fauber, President and Chief Executive Officer*

DEC
01

Barclays ESG Conference (Panel Participant)

» *Rahul Ghosh, MD - ESG Outreach & Research*

DEC
07

BMO Growth & ESG Conference (Panel Participant)

» *Emilie Mazzacurati, Global Head of Moody's Climate Solutions*

DEC
08

Goldman Sachs Financial Services Conference

» *Mark Kaye, Chief Financial Officer*

Replay Details

**Available from 4:00pm (Eastern Time) October 28, 2021
until 4:00pm (Eastern Time) November 26, 2021**

Telephone Details

- » U.S. & Canada +1-888-203-1112
- » Non-U.S. & Canada +1-719-457-0820
- » Passcode 4335083

Webcast Details

- » Go to ir.moody's.com
- » Click on “Events & Presentations”
- » Click on the link for “3Q 2021 Earnings Conference Call”

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Glossary of Terms and Abbreviations

TERM	DEFINITION
CFG	Corporate finance group; an LOB of MIS
CRE	Commercial Real Estate
ERS	The Enterprise Risk Solutions LOB within MA, which offers risk management software solutions, as well as related risk management advisory engagements services
ESG	Environmental, Social and Governance
FIG	Financial institutions group; an LOB of MIS
KYC	Know-your-customer
LOB	Line of business
MA	Moody's Analytics – a reportable segment of MCO which provides a wide range of products and services that support financial analysis and risk management activities of institutional participants in global financial markets; consists of two LOBs – RD&A and ERS
MIS	Moody's Investors Service – a reportable segment of MCO; consists of five LOBs – CFG, FIG, PPIF, SFG and MIS Other
MIS Other	Consists of non-ratings revenue from ICRA, KIS Pricing and KIS Research. These businesses are components of MIS; MIS Other is an LOB of MIS
PPIF	Public, project and infrastructure finance; an LOB of MIS
RD&A	An LOB within MA that offers subscription-based research, data and analytical products, including credit ratings produced by MIS, credit research, quantitative credit scores and other analytical tools, economic research and forecasts, business intelligence and company information products, as well as commercial real estate data and analytical tools
SFG	Structured finance group; an LOB of MIS
YoY	Year-over-year
YTD	Year-to-date

Financial Information by Segment

The table below presents revenue, operating income and adjusted operating income by reportable segment. The Company defines adjusted operating income as operating income excluding: i) depreciation and amortization; ii) restructuring; and iii) a loss pursuant to the divestiture of MAKs.

<i>Amounts in millions</i>	Three Months Ended September 30,							
	2021				2020			
	MIS	MA	Eliminations	Consolidated	MIS	MA	Eliminations	Consolidated
Revenue	\$ 967	\$ 603	\$ (44)	\$ 1,526	\$ 863	\$ 532	\$ (39)	\$ 1,356
Total expense	404	490	(44)	850	339	414	(39)	714
Operating income	\$ 563	\$ 113	\$ —	\$ 676	\$ 524	\$ 118	\$ —	\$ 642
Add:								
Depreciation and amortization	17	44	—	61	17	39	—	56
Restructuring	—	—	—	—	13	10	—	23
Adjusted Operating Income	\$ 580	\$ 157	\$ —	\$ 737	\$ 554	\$ 167	\$ —	\$ 721
Operating margin	58.2 %	18.7 %		44.3 %	60.7 %	22.2 %		47.3 %
Adjusted Operating Margin	60.0 %	26.0 %		48.3 %	64.2 %	31.4 %		53.2 %

Financial Information by Segment (Continued)

The table below presents revenue, operating income and adjusted operating income by reportable segment. The Company defines adjusted operating income as operating income excluding: i) depreciation and amortization; ii) restructuring; and iii) a loss pursuant to the divestiture of MAKs.

<i>Amounts in millions</i>	Nine Months Ended September 30,							
	2021				2020			
	MIS	MA	Eliminations	Consolidated	MIS	MA	Eliminations	Consolidated
Revenue	\$3,065	\$1,744	\$ (130)	\$ 4,679	\$2,667	\$1,529	\$ (115)	\$ 4,081
Total Expense	1,132	1,347	(130)	2,349	1,051	1,201	(115)	2,137
Operating income	\$1,933	\$ 397	\$ —	\$ 2,330	\$1,616	\$ 328	\$ —	\$ 1,944
Add:								
Depreciation and amortization	53	127	—	180	52	111	—	163
Restructuring	—	2	—	2	12	8	—	20
Loss pursuant to the divestiture of MAKs	—	—	—	—	—	9	—	9
Adjusted Operating Income	\$1,986	\$ 526	\$ —	\$ 2,512	\$1,680	\$ 456	\$ —	\$ 2,136
Operating margin	63.1 %	22.8 %		49.8 %	60.6 %	21.5 %		47.6 %
Adjusted Operating Margin	64.8 %	30.2 %		53.7 %	63.0 %	29.8 %		52.3 %

Adjusted Operating Income and Adjusted Operating Margin

The Company presents Adjusted Operating Income and Adjusted Operating Margin because management deems these metrics to be useful measures to provide additional perspective on Moody's operating performance. Adjusted Operating Income excludes the impact of: i) depreciation and amortization; ii) restructuring; and iii) a loss pursuant to the divestiture of MAKS. Depreciation and amortization are excluded because companies utilize productive assets of different estimated useful lives and use different methods of acquiring and depreciating productive assets. Restructuring charges are excluded as the frequency and magnitude of these charges may vary widely across periods and companies. The loss pursuant to the divestiture of MAKS is excluded as the frequency and magnitude of divestiture activity may vary widely from period to period and across companies.

Management believes that the exclusion of the aforementioned items, as detailed in the reconciliation below, allows for an additional perspective on the Company's operating results from period to period and across companies. The Company defines Adjusted Operating Margin as Adjusted Operating Income divided by revenue.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
<i>Amounts in millions</i>				
Operating income	\$ 676	\$ 642	\$ 2,330	\$ 1,944
Depreciation and amortization	61	56	180	163
Restructuring	—	23	2	20
Loss pursuant to the divestiture of MAKS	—	—	—	9
Adjusted Operating Income	\$ 737	\$ 721	\$ 2,512	\$ 2,136
Operating margin	44.3 %	47.3 %	49.8 %	47.6 %
Adjusted Operating Margin	48.3 %	53.2 %	53.7 %	52.3 %

Free Cash Flow

The table below reflects a reconciliation of the Company's net cash flows from operating activities to free cash flow. The Company defines free cash flow as net cash provided by operating activities minus payments for capital additions.

Management deems capital expenditures essential to the Company's product and service innovations and maintenance of Moody's operational capabilities. Accordingly, capital expenditures are deemed to be a recurring use of Moody's cash flow. Management believes that free cash flow is a useful metric in assessing the Company's cash flows to service debt, pay dividends and to fund acquisitions and share repurchases.

<i>Amounts in millions</i>	Nine Months Ended September 30,	
	2021	2020
Net cash provided by operating activities	\$ 1,706	\$ 1,488
Capital additions	(77)	(83)
Free Cash Flow	\$ 1,629	\$ 1,405
Net cash used in investing activities	\$ (2,161)	\$ (853)
Net cash provided by financing activities	\$ 135	\$ 3

Organic Revenue and Growth Measures – MA, RD&A and ERS

The Company presents the organic revenue and organic revenue growth (including organic recurring revenue and organic recurring revenue growth for the ERS LOB) because management deems these metrics to be useful measures to provide additional perspective in assessing revenue growth excluding the inorganic revenue impacts from certain acquisition activity.

The following table details the period of operations excluded from each acquisition to determine organic revenue and organic growth rates.

Acquisition	Acquisition Date	Period excluded to determine organic revenue and organic growth rates	
		Q3	YTD
Regulatory DataCorp	February 13, 2020	-	January 1, 2021 - February 12, 2021
Acquire Media	October 21, 2020	July 1, 2021 - September 30, 2021	January 1, 2021 - September 30, 2021
ZM Financial Systems	December 7, 2020	July 1, 2021 - September 30, 2021	January 1, 2021 - September 30, 2021
Catylist	December 30, 2020	July 1, 2021 - September 30, 2021	January 1, 2021 - September 30, 2021
Cortera	March 19, 2021	July 1, 2021 - September 30, 2021	March 19, 2021 - September 30, 2021
RMS	September 15, 2021	September 15, 2021 - September 30, 2021	September 15, 2021 - September 30, 2021

Below is a reconciliation of MA's reported revenue and growth rates to its organic revenue and organic growth rates:

<i>Amounts in millions</i>	Three Months Ended September 30,				Nine Months Ended September 30,			
	2021	2020	Change	Growth	2021	2020	Change	Growth
MA revenue	\$ 601	\$ 531	\$ 70	13%	\$ 1,738	\$ 1,524	\$ 214	14%
Inorganic revenue from acquisitions	(28)	—	(28)		(60)	—	(60)	
Organic MA revenue	\$ 573	\$ 531	\$ 42	8%	\$ 1,678	\$ 1,524	\$ 154	10%

<i>Amounts in millions</i>	Three Months Ended September 30,			
	2021	2020	Change	Growth
RD&A revenue	\$ 445	\$ 386	\$ 59	15%
Inorganic revenue from acquisitions	(14)	—	(14)	
Organic RD&A revenue	\$ 431	\$ 386	\$ 45	12%

<i>Amounts in millions</i>	Three Months Ended September 30,			
	2021	2020	Change	Growth
ERS revenue	\$ 156	\$ 145	\$ 11	8%
Inorganic revenue from acquisitions	(14)	—	(14)	
Organic ERS revenue	\$ 142	\$ 145	\$ (3)	(2)%

<i>Amounts in millions</i>	Three Months Ended September 30,			
	2021	2020	Change	Growth
ERS recurring revenue	\$ 141	\$ 113	\$ 28	25%
Inorganic recurring revenue from acquisitions	(13)	—	(13)	
Organic ERS recurring revenue	\$ 128	\$ 113	\$ 15	13%

Adjusted Net Income and Adjusted Diluted Earnings per Share Attributable to Moody's Common Shareholders

The Company presents Adjusted Net Income and Adjusted Diluted EPS because management deems these metrics to be useful measures to provide additional perspective on Moody's operating performance. Adjusted Net Income and Adjusted Diluted EPS exclude the impact of: i) amortization of acquired intangible assets; ii) restructuring charges; and iii) a loss pursuant to the divestiture of MAKs.

The Company excludes the impact of amortization of acquired intangible assets as companies utilize intangible assets with different estimated useful lives and have different methods of acquiring and amortizing intangible assets. These intangible assets were recorded as part of acquisition accounting and contribute to revenue generation. The amortization of intangible assets related to acquisitions will recur in future periods until such intangible assets have been fully amortized. Furthermore, the timing and magnitude of business combination transactions are not predictable and the purchase price allocated to amortizable intangible assets and the related amortization period are unique to each acquisition and can vary significantly from period to period and across companies. Restructuring charges are excluded as the frequency and magnitude of these charges may vary widely across periods and companies. The loss pursuant to the divestiture of MAKs is excluded as the frequency and magnitude of divestiture activity may vary widely from period to period and across companies.

The Company excludes the aforementioned items to provide additional perspective when comparing net income and diluted EPS from period to period and across companies as the frequency and magnitude of similar transactions may vary widely across periods. Below is a reconciliation of this measure to its most directly comparable U.S. GAAP amount:

<i>Amounts in millions</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Net income attributable to Moody's common shareholders	\$ 474	\$ 467	\$ 1,787	\$ 1,464
Pre-tax Acquisition-Related Intangible Amortization Expenses	\$ 37	\$ 31	\$ 108	\$ 90
Tax on Acquisition-Related Intangible Amortization Expenses	(8)	(7)	(24)	(20)
Net Acquisition-Related Intangible Amortization Expenses	29	24	84	70
Pre-tax restructuring	\$ —	\$ 23	\$ 2	\$ 20
Tax on restructuring	—	(5)	—	(4)
Net restructuring	—	18	2	16
Loss pursuant to the divestiture of MAKs	—	—	—	9
Adjusted Net Income	\$ 503	\$ 509	\$ 1,873	\$ 1,559

Note: The tax impacts in the table above were calculated using tax rates in effect in the jurisdiction for which the item relates.

Adjusted Net Income and Adjusted Diluted Earnings per Share Attributable to Moody's Common Shareholders (Continued)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Diluted earnings per share attributable to Moody's common shareholders	\$ 2.53	\$ 2.47	\$ 9.51	\$ 7.73
Pre-tax Acquisition-Related Intangible Amortization Expenses	\$ 0.20	\$ 0.16	\$ 0.57	\$ 0.47
Tax on Acquisition-Related Intangible Amortization Expenses	(0.04)	(0.04)	(0.13)	(0.09)
Net Acquisition-Related Intangible Amortization Expenses	0.16	0.12	0.44	0.38
Pre-tax restructuring	\$ —	\$ 0.12	\$ 0.01	\$ 0.10
Tax on restructuring	—	(0.02)	—	(0.02)
Net restructuring	—	0.10	0.01	0.08
Loss pursuant to the divestiture of MAKS	—	—	—	0.05
Adjusted Diluted EPS	\$ 2.69	\$ 2.69	\$ 9.96	\$ 8.24

Note: The tax impacts in the table above were calculated using tax rates in effect in the jurisdiction for which the item relates.

Projected Organic MA Revenue Growth and Adjusted Operating Margin Expansion

Projected MA Revenue Growth - GAAP
Less: Impact of M&A
Projected Organic MA Revenue Growth

**Projected for the Year Ended
December 31, 2021**

Mid-teens percent growth

Approximately 6%

High-single-digit percent growth

Projected MA Adjusted Operating Margin Expansion - GAAP
Impact of M&A
Projected Organic MA Adjusted Operating Margin Expansion

**Projected for the Year Ended
December 31, 2021**

Approximately flat

Approximately 300 basis points

Increase of approximately 300 basis points

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