From: Mahoney, Christopher [redacted]
Sent: Friday, November 16, 2007 1:25 AM (GMT)
To: Almeida, Mark [redacted] McDaniel, Raymond [redacted]
Subject: Cheesehead

First, I am painfully a long time holder. I have ridden this up from $14 to $72 and back down to $40s.

Second, MCO has made mistakes in the CDO and MBS sectors and in particular I think the mezz and high grade CDO backed by subprime were not sufficiently rigourous. On the subprime side I think the some mis-estimates were made also but more importantly I think sector wide risk managment rules should have done more to alert investors of problems.

Third, I think the manager in charge of the securitization area should be held account for faulty monitor and standard setting.

Fourth, I think it is not likely permenant damages has been done to securitization so that market will eventually come back and a third party risk assessor will be involved. Banks cannot finance the paper and I think MCO will retain a significant position in the US and emerging markets for these risk assessments.

Fifth, current EPS estimates are (yahoo) are 2007 2.39, 2008 2.49. Goldman has 2009 3.24, 2008, 2.84 and 2007 2.56.
Using 2007 and assuming no growth (admitted also no decline) the valuation at about a 5% discount rate is mid $40 to almost $50. 20% decline permenant decline with same discount rate get to the current $40ish price. Cash flow estimates are just shy of $2 a share in 2007 and $2.75 in 2008. Even with reduced EPS continued share buybacks should substantially limit the ability to assume a permenant 20% decline of EPS. The stock is at least 20% undervalued.

Sixth, current estimates are that $380 billion of subprime will ultimately turn to loss. Something just short of another $100 billion will be losses in the CDO sector but 4/5ths of that probably will come from synthentics based off of subprime. Much of the headline CDO losses reported therefore have someone on the other side of the trade getting a profit (but not putting it in the press). Headline risk is real but flush out as less than reported by at least 20%.

MCO needs to stop providing managers with options at the current share price. It needs to ask for some retirments to send a message to the troops. It needs to quickly address ratings in bond insurance and mortgage sectors to avoid ongoing claims of being too slow and it need ti examine the munipal sector and highlight early the continued underfuding of liabilities that has taken a significant turn for the worse with a nearterm decline of real estate values and related taxing potential.