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MANAGEMENT DISCUSSION SECTION

Operator: Good day, everyone, and welcome to the Verisk Second Quarter 2023 Earnings Results Conference Call. This call is being recorded, and currently all participants are in a listen-only mode. After today's prepared remarks, we will conduct a question-and-answer session, where we will limit participants to one question, so that we can allow everyone time to ask a question. We will have further instructions for you at that time.

For opening remarks and introductions, I would like to turn the call over to Verisk's Head of Investor Relations, Ms. Stacey Brodbar. Ms. Brodbar, please go ahead.

Stacey Jill Brodbar

Head-Investor Relations, Verisk Analytics, Inc.

Thank you, Abby, and good day, everyone. We appreciate you joining us today for a discussion of our second quarter 2023 financial results. On the call today are Lee Shavel, Verisk's President and Chief Executive Officer; and Elizabeth Mann, Chief Financial Officer.

The earnings release referenced on this call, as well as our traditional quarterly earnings presentation and the associated 10-Q can be found in the Investor section of our website, verisk.com. The earnings release has also been attached to an 8-K that we have furnished to the SEC. A replay of this call will be available for 30 days on our website and by dial-in.

As set forth in more detail in today's earnings release, I will remind everyone today's call may include forward-looking statements about Verisk's future performance including those related to our financial guidance. Actual performance could differ materially from what is suggested by our comments today. Information about the factors that could affect future performance is contained in our recent SEC filings.

Finally, I'd like to remind everyone that the financial results for recent dispositions are included in our consolidated and GAAP results, but are excluded from all organic constant currency growth figures. A reconciliation of reported and historic non-GAAP financial measures discussed on this call is provided in our 8-K and today's earnings presentation posted on the Investor section of our website, verisk.com.

However, we are not able to provide a reconciliation of projected adjusted EBITDA and adjusted EBITDA margin to the most directly comparable expected GAAP results because of the unreasonable effort and high unpredictability of estimating certain items that are excluded from projected non-GAAP adjusted EBITDA and adjusted EBITDA margin including, for example, tax consequences, acquisition-related costs, gains and losses from dispositions, and other nonrecurring expenses, the effect of which may be significant.

And now I'd like to turn the call over to Lee Shavel.

Lee M. Shavel

President and Chief Executive Officer, Verisk Analytics, Inc.

Thanks, Stacey. Good morning, and thank you for participating in today's call. I'm excited to be with you today to provide an update on how our strategy, focus and results-oriented culture is translating into strong financial performance for Verisk.

I will leave the details of the financial results to Elizabeth, but in summary, Verisk delivered continued business momentum in the second quarter, underscored by strong organic revenue growth and solid margin expansion, translating into double-digit profit growth.

We are driving these results by focusing on our clients' most pressing needs as they deal with an environment marked by elevated underwriting losses, including those from catastrophes and high levels of inflation leading to pressure on profitability.

We have elevated the conversation and directed our sales focus to the solutions in our portfolio best suited to solve those challenges. A by-product of the tough operating environment is a hardening of the insurance market as carriers are taking rate actions to help drive improved profitability, leading to stronger net written premium growth.

Rate takes time to work through, so we expect this environment to persist into 2024. The crosscurrents of elevated underwriting losses and increasing pricing in the insurance industry has become a hot topic across the press with headlines about trouble spots, like Florida and California.

Specific to Florida, since our last update, there has been little change as we have not seen any additional liquidations, though uncertainty remains. We continue to watch the market carefully, particularly as we head into the Atlantic hurricane season.

We are also keeping a keen eye out for new financial stability ratings for the Florida market, which we expect in the next few weeks, and could identify further deterioration in the market. Recent legislative reforms in the property market are expected to have a positive impact, but it may take some time for that to materialize.

In California, current regulation restricts insurers from using catastrophe models in rate making, but the Department of Insurance is exploring a change to that policy. To that end, Verisk recently testified in front of the California State Assembly Joint Hearing Insurance and Emergency Management as the expert on catastrophe models and how their use can help insurers assess risk from low frequency by severity events like wildfires, ultimately benefiting the residents and businesses in the state.

This is a great example of our enhanced industry engagement as we leverage our expertise to benefit all the players in the insurance ecosystem, including carriers and regulators, and build resilience for consumers and businesses.

As I discussed at Investor Day and on prior calls, a key pillar in our strategy is elevating and strengthening the strategic dialogue with our clients. To that end, I had the opportunity in the second quarter to visit with many of our clients in the US to understand their focus and explore how we can better support their objectives. These conversations generated several initiatives for expanded dialogue with C-suite support to accelerate opportunities on technology and data initiatives, particularly regarding inflationary impacts.

During a visit to Europe, I encountered similar opportunities with our clients there, as well as exceptional energy and focus at Verisk offices in London, Málaga, Kraków and Cologne. The message that we hear is very similar across industry participants, large and small, US and international: We welcome Verisk's expertise and partnership to drive more automation, lower our investment cost and improve efficiency. Given our mission-critical data, deep customer relationships and engagement and scale, no one is better positioned to meet this need than Verisk.

A key extension of our conversations with our clients is our innovation agenda. We are listening to our customers and designing solutions to meet their most pressing needs. For example, we recently launched a new solution for carriers, contractors and adjusters within our Property Estimating Solutions called XactXpert.

XactXpert is a no-code low-code cloud-based rules engine designed to streamline the insurance restoration and claims estimation process. XactXpert targets the key challenges our clients face, including inaccurate and incomplete information in claims estimates, high compliance needs, pressure to reduce cycle times, revisions, loss adjustment expenses, and a need for more digital and simplified processes for a changing workforce demographic.

Further, it empowers carriers, contractors and adjusters to customize organizational estimating behaviors, delivering quick, accurate claims estimation by reducing manual input errors and driving consistency, accuracy and efficiency throughout the claims estimating process. We are seeing strong interest from our customers for this newly launched solution.

In our anti-fraud solutions, we recently launched Image Forensics, an AI tool designed to detect fraud in digital images submitted as part of the claims settlement process. Image use in claims processing has grown exponentially with more and more images being submitted directly by the claimant.

In fact, just since mid-2020, photo estimates for auto claims settlement have doubled, and while virtual claims processing is driving industry efficiency and customer satisfaction, it has also exposed insurers to an increasing source of fraud from activities like reusing prior loss images, using Internet images, or digital or document manipulation.

We are leveraging the depth and breadth of our customers' relationships in building a contributory image database, combining it with images sourced from Verisk's Property Estimating Solutions databases to provide images in match reports and indications if an image was used in a prior loss.

Image Forensics is also a great example of how our innovation engine is now actively associating data sets that were previously siloed into powerful new tools for our customers as this tool combines data from anti-fraud with data from Property Estimating Solutions.

I know that generative AI has been top of mind for many. At Verisk, we have been using artificial intelligence, machine learning, computer vision, and natural language processing in many of our solutions for some time. For example, our Mozart Forms Composer uses machine learning and natural language processing to help insurers organize, track, edit and analyze insurance policy forms with greater consistency, efficiency and speed.

This tool employs advanced technology to digitize a historically document-driven process and addresses a major painpoint for our clients, managing the complex and growing problem of analyzing policy language across multiple lines and states while enhancing their ability to customize policy language more quickly.

With regard to generative AI, we are currently testing private versions of generative AI and are making an index of possible use cases focused on both customer-facing solutions and internal efficiency opportunities. We are working in partnership with our customers and state regulators to ensure that we are approaching this innovative technology with a focus on ethical use in fairness.

Finally, I would like to formally welcome Samantha Vaughan to Verisk as our Chief Privacy Officer. Data governance and stewardship have always been a key focus for Verisk, and Vaughan will lead the oversight and

enhancement of our policies to protect the data entrusted to Verisk and will help ensure the integrity of Verisk's data practices, regulation and compliance. In addition to the focus and dedicated privacy leadership, our new privacy officer expands on the thought leadership Verisk is providing across the insurance industry.

As technology and data capabilities expand, the privacy risks expand as well. Concerns about AI, data risk management and security, all have a key nexus in privacy, and we are glad to be joining the best-in-class companies that articulate a values-based approach to the privacy office.

With that, I'll hand it over to Elizabeth to review our financial results.

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

Thanks, Lee, and good morning to everyone on the call. I'm pleased to share that Verisk delivered strong second quarter financial results. On a consolidated and GAAP basis, revenue was \$675 million, up 10% versus the prior year and income from continuing operations was \$204 million, up 18% versus the prior year, reflecting strong growth across both, underwriting and claims.

Diluted GAAP earnings per share from continuing operations were \$1.35, up 9% versus the prior year.

Moving to our organic constant currency results adjusted for non-operating items, as defined in the non-GAAP financial measures section of our press release, our operating results demonstrated strong and broad-based growth from most of our businesses, aided by some in-period transactional benefits.

In the second quarter, OCC revenues grew 9.8%, with growth of 9.3% in underwriting and 11.2% in claims. This quarter's result was boosted by certain transactional revenues that we do not expect to repeat in the back half of the year.

Our subscription revenues, which comprised 79% of our total revenue in the quarter, grew 9.1% on an OCC basis. We saw contributions across nearly all of our subscription offerings. More specifically on the drivers of growth in subscription revenues, during the quarter, we experienced the continued benefit on certain of our revenues from the stronger net written premium growth in 2021, which is currently reflected in some of our contract pricing. In anti-fraud, we are driving accelerated growth from the successful conversion to subscription from previously transactional customers through our claims essential bundle.

And in Property Estimating Solutions, we continue to benefit from strong contractor subscription growth as contractors are realizing the value of being part of the Verisk network, particularly with the active weather patterns we are undergoing. In fact, according to Verisk's Property Claim Services, PCS, in 70-plus years of history, this was the most active first half of the year on record from a weather event perspective, dominated by hail, wind and thunderstorms.

Finally, liquidations and consolidation across the industry was lower than historic average during the quarter, but we continue to anticipate some normalization in the second half of the year.

Our transactional revenues representing 21% of total revenue in the second quarter grew 12.4% on an OCC basis. The largest contributor to growth for the second consecutive quarter was from our auto solutions, driven by increased rate shopping by consumers and the continuation of a large non-rate action deal with a national insurer that we told you about last quarter.

Our trends are reflective of those noted by recent J.D. Power data, which pointed to a 13% increase in shopping activity for auto insurance in the second quarter as consumers react to rate increases. However, J.D. Power also noted that carrier switching increased a much more modest 4%, which may suggest a potential slowing of the market going forward.

In addition to gains in auto, our transactional revenue growth also benefited from double-digit growth from life insurance solutions as we are seeing strong customer demand for incremental services.

And within our extreme events business, we saw a very strong transactional growth related to securitization as the second quarter marked a record for new issuance in the catastrophe bond market.

I will remind you that the catastrophe bond market is seasonal and we do not expect this level of activity to continue in the second half of 2023. These transactional results also included some one-time benefits, including overage charges on specific large underwriting contracts that renewed in the quarter.

Moving now to our adjusted EBITDA results. OCC adjusted EBITDA growth was 12.6% in the second quarter, reflecting core operating leverage on the strong revenue growth and the impact of certain cost reduction actions we have taken in connection with our margin expansion objectives.

Total adjusted EBITDA margin, which includes both organic and inorganic results, was 54.1%, up 160 basis points from the reported results in the prior year. On a pro forma basis for all divestitures, the second quarter margin expanded 140 basis points from margins of 52.7% in Q2 2022. The margin rate in any given quarter can be influenced by the revenue mix, leading to a seasonal pattern in our margins.

As such, we think it's helpful to look at our margins on a trailing 12-month basis, within the second quarter were 53.1% on a trailing 12-month basis, up 140 basis points over the prior period.

The year-over-year change in the second quarter margin reflects the impact of certain one-time expenses in the prior year quarter as well as strong cost and operational discipline and the impact of our cost reduction program. This was offset in part by higher levels of performance-based compensation, including commissions related to our stronger year-to-date performance, as well as a decrease in our pension credit, negative margin impact from recent acquisitions and higher T&E expenses.

Reflecting on our ongoing cost reduction plans, we continue to have confidence in our ability to deliver on the margin targets that we articulated in our 2023 guidance and at Investor Day in mid-March.

Continuing down the income statement. Net interest expense was \$31.6 million for the second quarter, compared to \$31.9 million in the prior year. With the divestitures now behind us, the proceeds from the sales directed to our \$2.5 billion accelerated share repurchase plan and the long-term capital structure now in place, we now expect this current level of net interest expense to be at a similar quarterly run rate for the remainder of the year.

On taxes, our reported effective tax rate was 23.8%, compared to 19.2% in the prior year quarter. The year-over-year change in the tax rate is related to lower stock compensation benefits in this quarter versus the prior year's period. Going forward, we still expect the tax rate for the remainder of the year to be in the originally guided range of 23% to 25%.

Adjusted net income increased 8.5% to \$219.8 million, and diluted adjusted EPS increased 18.9% to \$1.51 for the second quarter 2023. These changes reflect organic growth in the business, contributions from acquisitions and a lower average share count, offset in part by a higher tax rate.

With regard to the share count, we received the vast majority of the shares from the \$2.5 billion accelerated share repurchase plan when we entered into the plan back in March. And while we did not make any repurchases in the second quarter, we do have the ability to repurchase some additional shares outside of the ASR, and we may do so in the future.

From a cash flow perspective, net cash from operating activities increased 48% to \$193 million due to strong operations and a decrease in cash taxes paid. The decrease in taxes paid is primarily related to the non-recurring gain on the 3E disposition in the prior year quarter. Though there was also a one-time cash tax payment of \$17 million paid in the second quarter of 2023 related to the energy divestiture. I will remind you that the prior year cash flow metrics include the results from previously divested businesses.

Turning to guidance, given our strong first half performance as well as the contribution from recent acquisitions, we are increasing our financial outlook for 2023.

We have posted a summary of all guidance measures in the earnings deck on the Investor's section of our website, verisk.com. Specifically for 2023, we now expect consolidated revenue to be in the range of \$2.63 billion to \$2.66 billion and adjusted EBITDA to be in the range of \$1.39 billion to \$1.43 billion. We continue to expect adjusted EBITDA margins to be in the range of 53% to 54%.

Walking further down the P&L, we still expect fixed asset D&A to be between \$175 million and \$195 million and intangible amortization to be approximately \$70 million. Both depreciation and amortization elements are subject to currency variability, the timing of purchases, the completion of projects, and future M&A activity.

Regarding capital expenditures, we now expect CapEx to be between \$220 million and \$240 million, reflecting increases associated with recent acquisitions, as well as our continued focus on investing organically behind our highest return on investment opportunities.

These include a modernization of our Forms, Rules and Loss Costs, a migration of our extreme events platform to a cloud-native architecture and further investments across our growth businesses. We are also investing in an upgrade of our financial and human capital systems that will enable future efficiencies once implemented.

As previously communicated, we expect the tax rate to be in the range of 23% to 25%, bringing adjusted earnings per share to a range of \$5.50 to \$5.70.

And now I will turn the call back over to Lee for some closing comments.

Lee M. Shavel

President and Chief Executive Officer, Verisk Analytics, Inc.

Thanks, Elizabeth. In summary, we're excited about the opportunity ahead and our ability to focus all our attention, talent and resources on the global insurance industry. Verisk is best positioned to capitalize on the opportunity because of our scale and expertise.

Our motivating purpose is to work together with our clients in building resilience for individuals, communities and businesses globally. The combination of our focused business model, deep customer relationships and strategy

to deliver value for clients through improved decision-making and operational efficiency is a formula that we're confident will also deliver value to our shareholders through growth and returns.

We continue to appreciate the support and interest in Verisk. Given the large number of analysts we have covering us, we ask that you limit yourself to one question.

And with that, I'll ask the operator to open the line for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And we will pause for just a moment to compile the Q&A roster. And we will take our first question from Heather Balsky with Bank of America. Your line is open.

Heather Balsky

Analyst, BofA Securities, Inc.

Q

Hi. Good morning. Thanks for taking my question. I wanted to ask about the outlook for the back half on sales. I know that both this quarter and last quarter you ring fenced some items that you articulated were potentially one time, but it seems like guidance implies at the high end 7.5% revenue growth versus you did 10% organic sales in the first half.

Is it those items tapering off? Do you have a different outlook for the environment? It would be really helpful to reconcile how you did in the first half and your expectation for the back half.

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

A

Yes, Heather, thanks for the question. We've been very happy in the first half that we've been kind of firing on all cylinders. We have a diversified business within the insurance space, and we've called out a number of different environmental or industry factors where the revenue growth in the first half may not be sustained into the second half.

And so for those, just to reiterate them, I think there's no fewer than six different factors that have contributed to the strength in the first half. To go through those, there has been low attrition and consolidation in the industry, which has the potential to re-normalize in the second half of the year and in the future.

Second, the level of auto shopping activity driving transactional volume in our auto insurance business may moderate.

Third, the level of weather activity has been elevated in the first half, although no specific catastrophe events. And also related to weather is the fact that there was obviously a large hurricane in the fourth quarter of last year, so that will create a difficult comp in the fourth quarter.

Fourth on the list of reasons for strength, in our anti-fraud business we've been driving strong growth by converting transactional customers to subscription in our claims essential bundle. We will start to lapse that benefit which started roughly this time last year.

Fifth, we talked about the securitizations and the strength of the ILS market, which was elevated in the second quarter, and we don't expect that to continue.

And then last, we had called out various technical items, like billing catch-ups or overages and the extra business day in the quarter. All of those have been contributing to the 9.8% revenue growth, which has been above our long-term sustainable 6% to 8% target, and may not continue in the second half.

Lee M. Shavel

President and Chief Executive Officer, Verisk Analytics, Inc.

A

And, Heather, if I can put a wrapper around the detail that Elizabeth provided, you asked the question initially in terms of a sales dynamic in the second half, and as Elizabeth was describing, these really aren't sales-related elements, they're more environmental factors that contributed to a strong first half that we think are likely to moderate in the second half or we can't have confidence that they will continue to reoccur. So there's nothing that we see that this is predominantly sales driven. It is more environmental.

Heather Balsky

Analyst, BofA Securities, Inc.

Q

Appreciate it. Thank you.

Operator: And we will take our next question from George Tong with Goldman Sachs. Your line is open.

George K. Tong

Analyst, Goldman Sachs & Co. LLC

Q

Hi. Thanks. Good morning. Just to follow up on the prior question, as you think about the normalization of trends in the external environment, acknowledging that the internal execution has been relatively stable and strong, when would you expect that normalization? How would you expect the subscription and transaction revenue performance to normalize in the coming quarters? Thank you.

Lee M. Shavel

President and Chief Executive Officer, Verisk Analytics, Inc.

A

Yeah. So, George, thanks for the question. I mean, I'll start off by saying that I think implicit if you go through all of those details that Elizabeth has gone through, it's difficult to predict what that is going to happen. I think the sense is, look there is probably some reversion to mean in the ILS market. We had a strong second quarter. It's not – typically, you see that from quarter-to-quarter, but it's difficult to predict.

The shopping activity is one where we're seeing some early trends, but that's going to depend upon macroeconomic factors. So I don't think that, given the nature of that and its particular strength on the transactional side, we're in a position to estimate or predict when that's likely to moderate. We're simply taking a more conservative point of view around the impact in the second half.

George K. Tong

Analyst, Goldman Sachs & Co. LLC

Q

Got it. Thank you.

Operator: We will take our next question from Andrew Steinerman with JPMorgan. Your line is open.

Andrew C. Steinerman

Analyst, JPMorgan Securities LLC

Q

Hi. I was hoping to revisit kind of an older question about net written premiums. I know it has less of effect on Verisk pricing, but it's still part of the Verisk pricing.

And looking back to 2021 and 2022, those were strong growth years for net written premiums for the US P&C insurance industry. And I just wanted to get a sense with the two-year lag that I think is typical for a contract, how much is that helping this year's organic revenue growth?

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

A

Yes. Thanks, Andrew. It is helping this year's revenue growth, and we're looking back to 2021 on our 2023 contract. I think we've previously called out that was a 9.6% net written premium growth across the industry. And as I called out, the factors of strength in our subscription growth that and the strength in our Forms, Rules and Loss Costs business has probably been the largest contributor to our subscription growth.

Lee M. Shavel

President and Chief Executive Officer, Verisk Analytics, Inc.

A

And Andrew, to add a little bit of context around that. As Elizabeth described, it has been a benefit. But there are also, I think, the impact of inflation is clearly driving some of that net written premium. We're also seeing the benefit of a hardening market within the insurance as a whole.

But the other element is because of inflation, our costs are going up, that gives us a little bit more scope on the pricing side, and we're also continuing to add value to those products, which particularly in this environment with insurance industry focused on improving their efficiency.

We've been able in a number of areas to deliver substantial value on that front given those pressures. And those elements are probably a larger factor than the pure net written premium. I think, we estimate that the portion of our revenues that has some exposure to that is in the 15% to 20% type of range.

Andrew C. Steinerman

Analyst, JPMorgan Securities LLC

Q

Perfect. Thanks, Lee. Thanks, Elizabeth.

Operator: We will take our next question from Toni Kaplan with Morgan Stanley. Your line is open.

Toni Kaplan

Analyst, Morgan Stanley & Co. LLC

Q

Thanks so much. I'm going to ask a question that's sort of a compilation of the prior three. When you think about the sort of abnormal items or one-time items that have been benefiting, I think most of those seem to impact the non-subscription business.

A couple of them seem to apply to subscription, but I guess when you think about the traditional like subscription business, is it the pricing? Or is it the low attrition – like what's happening the biggest impact? And maybe if you think about the net written premium growth in 2022 versus 2021, how should we be thinking about that with regard to pricing in 2024? Thanks.

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

A

Thanks, Toni. Yeah. So on the subscription growth side, I would call out kind of the top three drivers to the strong subscription growth. The first is across the Forms, Rules, and Loss Costs business, and that includes both the pricing dynamic that we talked about as well as the low historical industry liquidations or consolidation.

The second biggest contributor to growth in subscriptions has been the anti-fraud business, particularly with the transition from the previously transactional customers to the claims essential bundle that has been adding to subscription growth.

And then third, on the Property Estimating Solutions, subscription growth has been strong this quarter, driven by continued contractor usage and as well as insurance carrier usage, given the weather events. So, those have been the main drivers of subscription growth. It is broad-based. It is not just a pricing dynamic. I think that's fair to say.

Moving to your question about net written premium and 2022, the Verisk review of the 2022 net written premiums is not yet published, but the AM Best data came out recently. It showed 8.4% net written premium growth across the US P&C industry. That's in line with the preliminary Verisk data that we've quoted previously. So, that is a positive tailwind.

On the other hand, as Lee highlighted, some of the challenges on inflation and profitability, the AM Best data also shows a 15% increase in losses with overall combined ratios above 100%. So that points to the challenges facing the carriers and the difficulty and profitability for which many of our solutions and products are designed to help them address.

Toni Kaplan

Analyst, Morgan Stanley & Co. LLC

Q

Thank you.

Operator: And we will take our next question from Manav Patnaik with Barclays. Your line is open.

Manav Patnaik

Analyst, Barclays Capital, Inc.

Q

Thank you. I just had a question on the margins. I know you reiterated the number. I was just hoping you could give us an update on how much of the long-term kind of cost actions have been taken, as you did last quarter. And I was just curious, the talk on Gen AI and then I think you had CapEx going up as well. Is that – I mean, if you have to spend more on that, does that change your perhaps range of margin outcomes thinking a couple of years out?

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

A

Yeah. Thanks, Manav, for the question. A couple of comments on the margins. I think, as we've highlighted before, I think we said that about 90% of the cost actions would be seen within the run rate in 2023, so we are largely working through that. I think that as we look – we have called out previously some of the investments on the business side, maybe just to give some color for the quarter, the M&A has been probably a 40-basis point headwind for the quarter from recent acquisitions.

The investments that we're doing in the business on the cloud side as well as the ERP investments and the renormalization of T&E, all add up to about 90-basis point headwind for the quarter.

And then finally, as a non-operating item, the pension has been a 50 basis point headwind for the quarter. Going forward in terms of investment in technology, look, we continue – our margin targets continue to support as they have been already our investments in technology. To the extent, as Lee highlighted, we're in early days on reviewing some of the opportunities with our clients and some new opportunities opened up with Gen AI. So to the extent we learn more, we'll come back to you on that in the future.

Lee M. Shavel

President and Chief Executive Officer, Verisk Analytics, Inc.

A

Yes. And I would just add, I think, on a lot of those investment opportunities, they are more CapEx driven than OpEx driven at this point. And we have given you our targets that we are very focused on achieving, while at the same time, continuing to maintain the necessary investment, both in OpEx and CapEx to make certain that we're delivering on our top priority, which is organic growth in the business.

Operator: And we will take our next question from Greg Peters with Raymond James. Your line is open.

C. Gregory Peters

Analyst, Raymond James & Associates, Inc.

Q

Good morning, Lee, Elizabeth and Stacey. I'm going to focus my question on the transactional revenue component. And I'm curious if there is a reporting lag and some of your transactional revenue. For example, you called out the benefit from auto in the second quarter yet.

We're seeing some of the large auto insurance companies really cut back in their marketing expenses in their second quarter results. And would it be appropriate for us to match property transactional revenue with either PCS events and/or hurricane activity because you called that out in one of your answers? Thank you.

Lee M. Shavel

President and Chief Executive Officer, Verisk Analytics, Inc.

A

So Greg, thanks for the question. I'll take kind of the first half. And I would say, first, we have a lot of complex factors in the overall financial reported results, the marketing dimension is being reflected in weaker performance in our Verisk Marketing Solutions. And so I think we are experiencing that. The shopping activity, however, does generate some offsetting revenue as people are exploring potential rate opportunities that are out there.

On the homeowners, I think there are so many different products that react in different ways to the dynamics. It's hard to tie them to a single metric. And I would also just make a comment that the activity in auto is really being driven right now by consumer activity rather than carrier activity at this point.

So hopefully, it's not a – probably a satisfying answer, but it's very difficult to tie the performance – the financial performance in a broad sense to kind of specific leading indicators on the auto side, it's just too many factors going on.

C. Gregory Peters

Analyst, Raymond James & Associates, Inc.

Q

Understand. It's an intricate question. Thanks for the account.

Lee M. Shavel

President and Chief Executive Officer, Verisk Analytics, Inc.

Thank you.

A

Operator: And we will take our next question from Andrew Jeffrey with Truist. Your line is open.

Andrew W. Jeffrey

Analyst, Truist Securities, Inc.

Hi. Good morning everybody. Appreciate taking the question. Lee, I continue to be intrigued by some of the conversations around moving up into the C-suite and perhaps sort of expanding the scope of your relationships with some of the carriers given relatively low sort of share of net written premium.

Can you just talk about a little bit how you think that will affect the long-term trajectory of your revenue growth? And if that's still a benefit sort of yet to come over the next several years?

Q

Lee M. Shavel

President and Chief Executive Officer, Verisk Analytics, Inc.

Yeah. Thank you very much for the question, Andrew. And it has been something that I've emphasized across the enterprise and we have really been pleasantly surprised at the receptivity that we've had at that level where I don't think we had really prosecuted that dialogue as effectively or in a coordinated fashion as we probably should have.

And in the past two weeks, I've had conversations at the CEO level with three executives of large clients or partners of ours, actually four over the past three weeks. And in one instance, it was very clear the CEO was focused on the impact of climate change on their business model over the long-term.

And they asked us to come in and give a broader perspective on what we see in terms of the impact of the longer-term model and how we see that potentially impacting their underwriting decisions within geographies. So tying together some of our underwriting benchmark and analysis with our longer-term weather trends, that's an opportunity for us to tie together some of our data sets and analytics.

In another conversation, there was a focus around some of the regulatory challenges on rate approval. So it was an opportunity for us to deliver some of our expertise around non-rate actions to enable the carriers to realize some lift on the rate side.

And in the third instance, there was a recognition that the client was facing some technology and process challenges as they were trying to move their organization forward, where we could lend some technical support in building and helping them build technology that meets their client needs more effectively. And in each of those, I think it opened up opportunities for us to tie our data sets together to deliver an integrated product.

And the other dynamic is that I think when you have that support at the C-suite rather than us pushing product up within the organization, you have a mandate that motivates and energizes that client if we can demonstrate real value. And I think we're really just at the early stages of that as we find opportunities to address these broader needs that then can be expanded to new industry solutions across all of our client sets.

A

So at this stage, I think what you are seeing in our performance is some beneficial environment, the focus within certain of our businesses, energy released by some of our organizational changes, but I think we're still at a very early stage in expanding and opening a more strategic relationship and partnership with our clients.

Andrew W. Jeffrey

Analyst, Truist Securities, Inc.

Very thorough. Thanks.

Q

Operator: And we will take our next question from Jeff Silber with BMO Capital Markets. Your line is open.

Jeffrey M. Silber

Analyst, BMO Capital Markets Corp.

Thank you so much. Elizabeth, I think you called out about a half a dozen items that you think may not recur in the second half of the year. I know it may be difficult to quantify the impact on that. But is it possible to quantify the impact those items had either in the first half of the year or maybe just this past quarter?

Q

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

Thanks for the question, Jeff. Yeah, we haven't quantified kind of the components of each of these. I would say two things. As I've listed out factors on contributing to subscription and transactional growth, those have been in order of magnitude to help you size them up. And the other point, we have a rough rule of thumb of calling out kind of one-time events that contribute more than 1% to revenue growth. None of these single factors hit that threshold.

A

Lee M. Shavel

President and Chief Executive Officer, Verisk Analytics, Inc.

And I would say, Jeff...

A

Jeffrey M. Silber

Analyst, BMO Capital Markets Corp.

Appreciate it.

Q

Lee M. Shavel

President and Chief Executive Officer, Verisk Analytics, Inc.

...you can certainly see some of the outperformance relative to our long-term targets. And so some significant portion of that delta reflects those one-time elements, otherwise, they would be part of our normal operating cost. So I think it gives you some kind of sense of the scale of the impact of some of these.

A

Jeffrey M. Silber

Analyst, BMO Capital Markets Corp.

Okay. Great. That's helpful. Thanks so much.

Q

Operator: And we will take our next question from Andrew Nicholas with William Blair. Your line is open.

Andrew Nicholas

Analyst, William Blair & Co. LLC

Q

Hi. Good morning. Thanks for taking my question. Just wanted to circle back on marketing solutions. I think you called out in the prepared remarks or in the slide deck that you continue to see some pressure there and new customer acquisition spend is low amongst the carriers.

Any signs of moderation there? It does seem like, in general, they continue to pull back. I think the expectation previously was that was going to improve in the second half. Just wondering what kind of the latest temperature check is there? And what's kind of baked into guidance in terms of a recovery?

Lee M. Shavel

President and Chief Executive Officer, Verisk Analytics, Inc.

A

Yes. Thank you, Andrew. I think you're reading the situation correctly. The carriers are pulling back on marketing expense, largely driven by uncertainty around whether they can underwrite profitably within certain markets or product lines and that is having an effect – it had an effect for us in the first half.

And based upon what we are seeing, we do expect that effect to continue in the second half for that business. It's a small part of our business. But I want to come back and emphasize that there's clearly shopping appetite. As consumers naturally are seeing higher rates, there is a desire to find a more competitive alternative to what they have currently.

And so that latent energy is there. I think we expect over time that as the regulators approve some of the rate increases, and we are seeing some positive signs on that, as we alluded to in some of our earlier comments that, that will give us a greater opportunity to support our carriers and our clients with that marketing analysis.

But one thing I want to emphasize that longer term, the demand from our clients were sophisticated analytics around how are they – who is looking to shop for insurance in an online context? What are they looking for? How can we deliver the right product at the right time is something that they are strategically committed to? And we see a broadened growing opportunity to continue to serve that, notwithstanding some of the marketing headwinds that we are experiencing in the industry.

Andrew Nicholas

Analyst, William Blair & Co. LLC

Q

Understood. Thanks, Lee.

Operator: And we will take our next question from Alex Kramm with UBS. Your line is open.

Alex Kramm

Analyst, UBS Securities LLC

Q

Yes. Hey. Good morning, everyone. I may be scrutinizing the guidance change a little bit too much, but just a quick question about the margin. When I look at the change in guidance before revenue and on EBITDA, it seems like the incremental margins you're implying here are at the midpoint in the low-40s and even at the high end, only 50%.

So again, this may be just like some of the – like a number thing. But I'm just wondering why the incremental margins on the outperformance would be lower than your overall margins? Is it performance-based payments? Is it incremental investing? Or is it just the mix of business?

Elizabeth Mann*Chief Financial Officer, Verisk Analytics, Inc.*

A

Yes. Thanks, Alex. Good question. One is, they're each ranges, so there is some range there. But I would say, in general, there's a couple of different things. One is the M&A, the incremental M&A that's been added since we gave guidance. Obviously, as we've talked about the pattern where our recent acquisitions typically have lower margins than our existing business.

Some of it, yeah, there's a little bit of business mix across the full year. There are incentive-based payments based on the strong performance in the year-to-date. And in general, there's some seasonality in our margins. But finally, also, there is, as we talked about before, there's investment over the course of the year as we look to balance efficient operation with also our goals for long-term sustainable growth.

Alex Kramm*Analyst, UBS Securities LLC*

Q

Fair enough. Thank you.

Operator: And we will take our next question from Russell Quelch with Redburn. Your line is open.

Russell Quelch*Analyst, Redburn (Europe) Ltd.*

Q

Hi. [Technical Difficulty] (00:48:33 – 00:48:51).

Lee M. Shavel*President and Chief Executive Officer, Verisk Analytics, Inc.*

A

I'm sorry. Operator, we can – it's not legible or we're not able to hear what the analyst is saying.

Operator: Sir, yes, we have a very garbled connection. If you could try reconnecting and rejoining the queue, please?

Russell Quelch*Analyst, Redburn (Europe) Ltd.*

Q

Sure, is that better now?

Operator: It is. Thank you.

Russell Quelch*Analyst, Redburn (Europe) Ltd.*

Q

Thank you. Apologies for that. And thank you for having me on. So the question was, could you give us the H1 revenue numbers for the marketing business, the EES business and the life insurance and the international businesses, so we can assess you versus the numbers that you gave at the Investor Day earlier in this year. And

also, I wondered if you might consider increasing disclosure going forward, so we can better assess the growth in the business. Now it's solely an insurance business. Thank you.

Elizabeth Mann*Chief Financial Officer, Verisk Analytics, Inc.*

A

Thanks for the question, Russell. Yeah, we don't give that level of disclosure at the moment on our businesses. The Investor Day was to give a long-term – a sense of our long-term overall portfolio and was more disclosure than we've ever given in the past. So, we'll take your feedback on that and consider it.

Russell Quelch*Analyst, Redburn (Europe) Ltd.*

Q

Okay. It was worth a try. And then just a quick follow-up on the revenue to CapEx, I appreciate that's higher than most of your peers. And I heard you talk earlier about incremental investment from a CapEx perspective for AI, I wondered if you'd be willing to take that revenue to CapEx ratio over 10% if you were to see a great opportunity to invest in AI opportunities in the next couple of years.

Elizabeth Mann*Chief Financial Officer, Verisk Analytics, Inc.*

A

So thanks for the question. In terms of CapEx as a percent of revenue, again, we've talked about it, that's not a metric that we target. What we target is strong returns on invested capital for our capital deployment. But if you are benchmarking against our peers, there's two things that you have to keep in mind, in terms of CapEx as a percent of revenue. One is our very high margins, which would make the CapEx as a percent of revenue skewed and maybe we should look at CapEx as a percent of EBITDA or free cash flow.

The second point is that our R&D is very low, just given the way that we classify items. And so you should look at CapEx plus R&D. And on that basis, you'd get to a more normalized level. As to kind of where we would take it. I think at Investor Day, I pointed to a similar range of sort of high single digits area, and we continue to assess what the opportunity is and what's the best way to create value for shareholders.

Russell Quelch*Analyst, Redburn (Europe) Ltd.*

Q

Okay. Good stuff. Thanks for that. And apologies for the connection issues.

Elizabeth Mann*Chief Financial Officer, Verisk Analytics, Inc.*

A

Thanks, Russell.

Operator: And we will take our next question from Ashish Sabadra with RBC. Your line is open.

Ashish Sabadra*Analyst, RBC Capital Markets LLC*

Q

Thanks for taking my question. I wanted to drill down further on the new product innovation. Lee, you mentioned several new products that were launched in the quarter that are gaining traction with customers. I was wondering how do you track those KPIs internally?

And is there anything that you can share externally on how we can track the success that you're having with this new Verisk initiative and the new product innovation over the near term, but also over the next three to five years? Thanks.

Lee M. Shavel

President and Chief Executive Officer, Verisk Analytics, Inc.

A

Yes. Thank you, Ashish. I think given the scale of these and that they're deeply embedded, this is something where I think we will continue to describe anecdotally our success and what we – our traction with clients around these, but it's at a level of detail. And certainly, at this stage, isn't a significant financial impact. And so we won't be providing specific items around that.

But I think they reflect a few of a larger portfolio of investments that we make across the business that over time, we expect can be contributors to perhaps tie it to other innovations that we have made are LightSpeed suite of products is an example of where we identified a need, we developed an application and now that has been a significant contributor to growth as we've been able to help our clients grow their – or improve their ability to deliver a bindable quote on an accelerated basis.

So there are, throughout the organization, a large portfolio of these opportunities. It's not limited to the two or three that I've described. And so it's probably an overwhelming level of detail to kind of share all of that with you. But it's a fundamental part of our process of finding ways to add value for all of our clients.

Ashish Sabadra

Analyst, RBC Capital Markets LLC

Q

Thanks Lee. That's great color. Thank you.

Operator: [Operator Instructions] And we will take our next question from Stephanie Moore with Jefferies. Your line is open.

Stephanie Moore

Analyst, Jefferies LLC

Q

Hi. Good morning. Thank you. I was wondering if you could talk a little bit about your strategy within Europe for your international business, maybe you could touch on how organic growth is trending? Also, your thoughts on any kind of acquisitions or that could help you kind of further gain critical mass going forward? Thank you.

Lee M. Shavel

President and Chief Executive Officer, Verisk Analytics, Inc.

A

Yes. Thank you, Stephanie. And the international opportunity for us is one that we pursue in – with a couple of approaches. And I'll start with kind of the natural inclination to see if we can build off of the product sets that we have in the US.

So there are a variety of underwriting products, for instance, in our participation product, our core lines Forms, Rules and Loss Costs businesses, where international buyers see interest in that data and that information. And so we have been able to penetrate that market in delivering that product set. We also have claims products that we have developed specific to those international markets. So that is the first stage of our international approach.

In addition, as you can imagine, we have made a number of acquisitions in international markets that represent the – our ability to deliver similar services that we can add value to either by providing additional capital,

leveraging our network of relationships, adding technology expertise or improving the efficiency that accelerates the penetration of that marketplace.

And then the third element is to be able to tie those together in order to create more composite value or to create a stronger ecosystem. And there, I would point to our Specialty Business Solutions that is a combination and an integration of our original Sequel acquisition with acquisitions like Whitespace, Ignite, Rulebook and most recently Morning Data that is serving the non-standard market or the London market with a broadening and increasingly integrated sets of products that allows us to serve the insurance industry more effectively.

So though each of those are elements that we're pursuing in that international dimension. In a broad sense, we have generally been experiencing double-digit growth rates for our international business as a whole, reflecting contributions from all of those.

In some cases, we have a life and health travel that has been growing at a high rate as the global travel industry has recovered post-COVID. That's beginning to normalize, and we have other businesses that are automating or augmenting traditional functions in the claims side. Those are some of the businesses that we recently acquired in Germany and in Sweden.

And we continue to have success in the UK in serving both the general insurance market as well as the London non-standard excess and surplus market. So there are a lot of elements, but we generally view the international markets as areas where we can bring our expertise and we can augment existing insurtech players that are effectively serving the industry there.

Stephanie Moore

Analyst, Jefferies LLC

Q

Great. Really appreciate all the color.

Operator: We will take our next question from Faiza Alwy with Deutsche Bank. Your line is open.

Faiza Alwy

Analyst, Deutsche Bank Securities, Inc.

Q

Yes. Hi. Thank you and good morning. So I wanted to talk about the sales growth acceleration. You cited basically environmental factors that have accelerated your growth.

But you've also talked about innovation, better dialogue and partnership with your customers. So it seems like the financial impact of that represents more upside over time, but curious how you think about the return on the innovation and some of the cultural things that you're doing.

Is that something that you think accelerates that growth by allowing for pricing, improving retention, cross-selling, et cetera? Has your thinking evolved just over the last few months since you gave your long-term outlook?

Lee M. Shavel

President and Chief Executive Officer, Verisk Analytics, Inc.

A

Yeah. So, Faiza, thanks. There's a lot rolled up in that question. So I'm going to take – give it the best crack I can here. I think the essence of your question is, as we have come about a year from our exits from the non-insurance businesses. And we've described our ambitions for what we can do more broadly with the industry, as our culture

has evolved, becoming more focused around insurance. Do we remain confident that the growth opportunity that we described at Investor Day remains in place?

And I think the short answer is yes. We've been really happy with the level of engagement from our clients. I've been very happy with the feeling I've had within the organization of our configuration as an insurance-focused entity. I think that we are putting more energy into looking at how we can tie our data sets and our products together to serve the industry more broadly. And I think that's also improved the energy around innovating for the industry.

And we've been focused on how do we do that not only from a bottoms-up standpoint with ideas from our employee base, which are often at the closest to the products and how we add value to those for the benefit of our clients and our ability to realize the commercial benefit as well as now integrating, I think, stronger input from the top-down to make certain that in those conversations with our clients when we have identified an opportunity to address their needs by tying things together that we are productizing that and we're delivering something not just for that client, but something that we can roll out to the industry as a whole.

At the core, our economic value proposition is driven by an ability to invest in and develop a solution or an analytic that can serve not just one client, but the industry as a whole. And so our ability to generate – to rapidly monetize strong return on that investment and serving as an effective utility for the industry is quite powerful.

And so I think everything that we've seen so far is a validation of what our thesis was. And I think we're also reassured that our investors are seeing the results. At an early stage, there's a lot to build upon. And so we're hopeful we'll be able to continue to execute against that dynamic.

Faiza Alwy

Analyst, Deutsche Bank Securities, Inc.

Q

Great. Thanks, Lee. Appreciate it.

Operator: And ladies and gentlemen, this concludes today's call. We thank you for participating, and you may now disconnect.

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