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Verisk Analytics, Inc. (VRSK)

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, everyone, and welcome to the Verisk First Quarter 2025 Earnings Results Conference Call. This call is being recorded. 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 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 and FP&A, Verisk Analytics, Inc.

Thank you, operator, and good day, everyone. We appreciate you joining us today for a discussion of our first quarter 2025 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 Investors 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.

A reconciliation of reported and historic non-GAAP financial measures discussed on this call is provided our 8-K and today's earnings presentation posted on the Investors 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 result 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, Chief Executive Officer & Director, Verisk Analytics, Inc.

Thanks, Stacey. Good morning, everyone, and let me welcome you to today's call.

I'm very pleased to share that 2025 is off to a positive start at Verisk as we delivered solid first quarter results, underscored by double-digit subscription growth, strong overall top line growth, healthy margin expansion, and profit growth. Organic constant currency revenue growth of 7.9% was driven by 10.6% subscription growth, which was broad-based across most of our business units.

Our focus on cost discipline delivered 130 basis points of margin expansion, resulting in OCC-adjusted EBITDA growth of 9.5%. Elizabeth will provide the details in her financial review, but these results are a demonstration of our emphasis on delivering consistent and predictable growth and our results-oriented culture.

One of the hallmarks of Verisk's business model is that we have delivered consistent levels of growth across varying macroeconomic and insurance-specific operating environments. The current industry backdrop in which we are operating has strengthened as premium increases are better matched to levels of risk, thus driving improved trends.

In fact, according to data collected by Verisk and the American Property Casualty Insurance Association, the insurance industry returned to profitability in 2024, recording an underwriting gain of \$25 billion marking the first gain recorded in four years. That said, the industry still faces an uncertain risk environment ahead as challenges, including inflation, regulatory changes, rising reconstruction costs, social inflation, and the potential impact of tariffs and severe weather events are making it more complex to operate.

Speaking of severe weather, last year marked the second worst year for catastrophic losses since 1950 with the vast majority of damages stemming from hurricane and severe convective storms including the back-to-back hurricanes of Helene and Milton, and that trend has continued in 2025 as the year started with the devastating wildfires in Los Angeles, which have had a profound impact on individuals, businesses, communities, and our insurance industry clients and which Verisk estimated would result in \$28 billion to \$35 billion in insurance losses for the industry.

At Verisk, we are focused on supporting our clients with the most advanced data analytics and insights to help them better understand risk and navigate through these dynamic times. The changes to our go-to-market strategy that we implemented in 2024 have enabled us to get ever closer to our clients, delivering better service improved customer satisfaction and strong sales results for Verisk.

We are now taking the learnings from 2024 and applying this improved sales model to a broader group of our business units in 2025 including our new growth vectors. Through our strategic and elevated dialogue with clients, we continue to hear three key resounding areas of need. Specifically, our clients are asking for, one, greater and more timely insights; two, connection across our data sets and capabilities; and three, a more efficient and effective ecosystem. Let me spend a few minutes on each and detail how we are leaning in on investment toward invention to create new solutions on behalf of the industry.

First is the demand for greater insights. Data and insights that help our clients understand risk across their portfolio is the foundation of the work we do. And through our Core Lines Reimagine project, we are converting data into insights with greater speed and frequency helping our clients navigate these dynamic market pressures.

In particular, the actuarial hub within our Core Lines platform provides insights into loss cost trends 12 months earlier than usual to help clients address the evolving pricing needs of the market. Additionally, our executive insights reports leverage our statistical data across the six largest lines of insurance to help with benchmark analyses and to evaluate individual client performance measures.

We are also delivering more granular insights throughout our underwriting data and data and analytic solutions as we are incorporating a broader range of data sources, including aerial derived analytics, permit data, property records, real estate and claims data to enhance our property databases and offer a more comprehensive risk profile of buildings and building condition.

And finally, our reconstruction cost data is updated monthly to provide granular material and labor cost information and analysis to help our clients estimate costs and align insurance to value. Our comprehensive database includes over 23,000 line item activities assembled from over 14,000 material, equipment, and labor components. Our team of researchers and analysts, survey and report pricing for these line items and components at market level for over 470 geographies in North America. In periods of rapid economic change, we often complete bimonthly updates to our research to ensure we are providing the most up-to-date market information.

In today's volatile economic environment, our clients depend on precision to maintain appropriate coverage levels and competitive pricing in the market, and they turn to Verisk as the trusted partner for our commitment to data accuracy and timeliness. We recently published our quarterly reconstruction cost analysis, which provides reconstruction cost trends at the national and state levels.

The analysis is derived from building cost research using our Property Estimating Solution. In an effort to support our clients with detailed data to navigate the changing operating environments, this quarter's report includes detailed coverage of cost changes, inclusive of recent severe weather and macroeconomic events.

The second area of need for our clients that I referenced is better connections across our data sets and capabilities, and we have many active projects here. One such example is our Enterprise Exposure Manager, a cloud-native solution that combines the unique capabilities from our Specialty Business Solutions and Extreme Events businesses.

Enterprise Exposure Manager is a scalable solution that enables users to evaluate enterprise-wide risk across billions of locations with performance and stability, providing an improved understanding of global exposures and insights into portfolio-wide risk accumulations to enable better informed business decisions.

This solution can utilize and analyze clients data across insurance and reinsurance to create real-time insights, including identifying the risk of multiple claims from a single event as well as trend in comparative analytics. This new solution is also creating opportunities for us to address the needs of chief risk officers across our clients, a newer constituent for our services.

Another example of our work to connect our data and capabilities is in our Extreme Events business. We are reimagining the core catastrophe modeling software platform into a fully cloud-native, scalable workflow solution, we are calling Verisk Synergy Studio, launching in 2026.

We recently engaged in more than 100 live one-on-one client demonstrations of Verisk Synergy Studio at our Verisk Insurance Conference last month, and client interest and reception was very strong. Upon release, Verisk Synergy Studio will provide a flexible, fast, and stable platform on which our full global suite of catastrophe models will be deployed at a lower cost of ownership, allowing for a better understanding of the near-present climate risk impacting the global insurance market. Importantly, Verisk Synergy Studio can also serve as a platform to connect the functionality of Verisk products and data sets and serve as an ecosystem hub for all Verisk's clients. We are excited about this rollout and are in active dialogue with clients ahead of the launch.

The third demand we are addressing is the need for an efficient and effective ecosystem that benefits all parties, namely insurers, reinsurers, brokers, regulators and ultimately policyholders. The insurance industry is strengthened through the many ecosystem players being linked together and our ability to drive connectivity enables us to support many constituencies through data relationships and partners.

Specifically, we are continuing to grow our ecosystem by continually adding new partners to our various platforms across underwriting and claims, including Property Estimating Solutions and anti-fraud. This is driving increased revenues for Verisk, more choice for clients and more connectivity and interoperability within the industry.

We are also creating new platforms to connect different parts of the ecosystem, such as Regulatory Data Exchange launched in April to regulators. This platform streamlines data sharing between regulators and carriers across multiple jurisdictions. RDX enables regulators to review data elements that have been requested in prior data calls, both in their own and other jurisdictions in order to make regulatory data calls more consistent efficient and less costly to insurers.

And finally, just last month, we closed on the strategic acquisition of Simplitium from NASDAQ, a SaaS platform that will be part of our Extreme Events business. Simplitium supports an open ecosystem, where specialized model partners make models, hazard data and analytics available to the industry to help assess the global insurance protection gap. This acquisition will provide our clients with access to over 300 third-party models, providing unique niche views of risk across the globe, supporting the entire risk transfer ecosystem.

Now let me turn the call over to Elizabeth to review our detailed financial results for the first quarter.

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

Thanks, Lee, and good day to everyone on the call.

On a consolidated and GAAP basis, first quarter revenue was \$753 million, up 7% versus the prior year, reflecting solid growth across both underwriting and claims. Net income was \$232 million, up 6% versus the prior year, while diluted GAAP earnings per share, or EPS, were \$1.65, up 9% versus the prior year. The increase in diluted GAAP EPS was driven by strong operating performance and a lower average share count.

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 continued broad-based growth across both underwriting and claims. In the first quarter, OCC revenues grew 7.9% with growth of 7.2% in underwriting and 9.6% in claims. This strong revenue growth represents a solid start to the year and reinforces our ability to deliver consistent levels of growth across varying macroeconomic and insurance-specific operating environment.

Our subscription revenues, which comprised 83% of our total revenue in the quarter, grew 10.6% on an OCC basis during the first quarter. We experienced solid growth across most of our largest subscription-based solutions with strong price realization in our renewals, expanded relationships with existing clients and solid sales of new solutions. We also continue to see a benefit from the conversions to committed subscriptions from previously transactional contracts.

Within Forms, Rules, and Loss Costs, we continue to see improved value capture through pricing as we digitize our content, expand our insights, and release more client-facing innovations as part of Reimagine. This quarter, expanded executive insights and the ISO Experience Index to another major line of insurance, Commercial Auto

and brought several new innovations to market, including Reimagine ratings for homeowners and personal auto. We also introduced a generative AI tool within our Mozart Forms management platform to help clients efficiently compare changes in our proprietary forms and migrated additional circular content to our new client platform.

In anti-fraud, we experienced underlying strength in the business augmented by strong sales of new solutions like Claims Scoring as well as the continued benefit from the conversion to subscription of previously transactional clients. And within Extreme Event Solutions, we delivered another quarter of high single-digit subscription growth, driven by strong multiyear renewals with existing clients as well as the addition of new logos to Verisk.

In our Marketing business, we have experienced a recovery and growth from our insurance clients, but continue to experience headwinds in other client segments that are more economically sensitive. Our transactional revenues, which comprised 17% of total revenues, declined 4% on an OCC basis during the first quarter. We have had continued success converting transactional revenues to committed subscriptions including the one discrete contract that we have previously mentioned, which has reduced our transactional revenue growth.

In addition, we continue to experience soft results in our personal auto business as well as lower levels of service revenue in certain of our software-related businesses. This decline was partially offset by better-than-expected transactional growth within Extreme Event Solutions related to securitization.

Moving now to our adjusted EBITDA results; OCC-adjusted EBITDA growth was 9.5% in the quarter, while total adjusted EBITDA margin, which includes both organic and inorganic results, was 55.3%, up 130 basis points from the reported results in the prior year. This level of margin expansion reflects the positive impact of sales leverage, the timing of certain expenses and our ongoing cost discipline, including the benefits from our global talent optimization efforts. This level of expansion also embeds the self-funded investments back into our business for invention and future growth. On a trailing 12-month basis, adjusted EBITDA margins were 55%, up 110 basis points over last year's levels.

Moving down the income statement; net interest expense was \$36 million in the quarter compared to \$29 million in the same period last year, resulting from higher debt balances and higher interest rates. During the first quarter, we issued \$700 million of senior notes at 5.25% due 2035, and subsequently in April, retired \$500 million of 4% notes that were due in June 2025.

While we still expect our full year interest expense to be in line with the previously guided range, the net effect of these transactions is that our ongoing quarterly run rate for the remainder of the year will be higher than in the first quarter. That said, we are comfortable with our current leverage, which stands at 2 times the EBITDA and is at the low end of our targeted range of 2 to 3 times EBITDA.

Our reported effective tax rate was 21.6% compared to 20.3% in the prior-year quarter. This year-over-year increase was primarily related to a onetime tax benefit in the prior-year period. We continue to believe our tax rate will be in the range of 23% to 25% for the year. So, there could be some quarterly variability related to employee stock option exercise activity.

Adjusted net income increased 4.5% to \$245 million and diluted adjusted EPS increased 6.1% to \$1.73 for the quarter. The increase is primarily driven by solid revenue growth, strong margin expansion, and a lower average share count. This was partially offset by higher depreciation expense, higher interest expense, and a higher tax rate.

From a cash flow perspective, on a reported basis, net cash from operating activities increased 20% to \$445 million, while free cash flow increased 23% to \$391 million. This was driven by an increase in operating profit and the timing of certain tax funds received in the quarter.

As of March 31, we had \$1.1 billion in cash on our balance sheet. However, on April 21, we retired \$500 million of our 4% notes due June 2025, reducing our cash balance.

We are committed to returning capital to shareholders. During the first quarter, we paid a cash dividend of \$0.45 per share, a 15% increase from the prior year. We also initiated a \$200 million accelerated share repurchase program, which was completed in April. We continue to have \$1.4 billion in capacity remaining under our share repurchase authorization.

We are pleased with our strong results for the first quarter and reiterate our outlook for 2025 or specifically, we expect consolidated revenue for 2025 to be in the range of \$3.03 billion to \$3.08 billion. We expect adjusted EBITDA to be in the range of \$1.67 billion to \$1.72 billion and adjusted EBITDA margins in the range of 55% to 55.8%.

We expect our tax rate to be in the range of 23% to 25% and adjusted earnings per share in the range of \$6.80 to \$7.10. A complete listing of all guidance measures can be found in the earnings slide deck, which has been posted to the Investors section of our website, verisk.com.

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

Lee M. Shavel

President, Chief Executive Officer & Director, Verisk Analytics, Inc.

Thanks, Elizabeth.

We are pleased that 2025 is off to a solid start. Our execution priorities are unchanged as we remain focused on delivering consistent and predictable growth while allocating capital back toward investment for future growth. Our heightened strategic engagement with clients has strengthened relationships and fostered new product and business opportunities for the industry, where we can invest at scale to drive value for clients, employees, and shareholders. Our durable subscription-based economic model and strong cash flow enable us to continue to invest in our business while also returning capital to shareholders.

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.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] And your first question comes from the line of Toni Kaplan with Morgan Stanley. Your line is open.

Toni Michele Kaplan

Analyst, Morgan Stanley

Q

Thanks so much. I was hoping you could give us your latest observations and thoughts on the Marketing Solutions, particularly, you called out the noninsurance business seemed like that was a bit of a drag this quarter on the transactional side. I was really wondering, is this core to your business or are there synergies that you have with your insurance Marketing Solutions, and that's why you have it or just wondering if it makes sense to continue to be in that business? And just any color on the outlook for the Marketing business overall in '25, especially if we were to see a bit of a macro slowdown. Thank you.

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

A

Yes. Thanks for the question, Toni.

Yes, the Marketing business that we entered a couple of years ago does present us an opportunity to access some of the spend that takes place at our insurance carrier clients. And that part of the business has continued to grow. As you know, we entered those businesses from acquisition. And so, those remain exposed to a couple of other customer segments, particularly within financial services and mortgages. And those have been going through some headwinds over the last couple of years. And then as we look ahead with potential pressures on discretionary spend, that could be a challenge for the balance of the year.

Toni Michele Kaplan

Analyst, Morgan Stanley

Q

Thank you.

Operator: And your next question comes from the line of Kelsey Zhu with Autonomous Research. Your line is open.

Kelsey Zhu

Analyst, Autonomous Research US LP

Q

Hi. Good morning. Thanks for taking my question. You caught out strong pricing realization and forms, rules, loss cost. I was just wondering what's contributing to trends you're seeing there. Obviously, we know 20% to 25% of your revenues come from contracts that have a direct input based on premium growth from two years ago. I was wondering if that was the main driver of that strong pricing realization and just how much did pricing contribute to overall growth in Q1.

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

A

Yes. Thanks, Kelsey.

Of course, our main focus in that business is delivering the value to clients. And as you've heard us talk about the developments in Core Lines Reimagine, I think there's getting to be more and more tangible that they can see and feel and experience that's contributing to that sense of value. That is supported by the strong premium environment. And so, for those contracts with a premium input, the full year '23 premium strength was very strong at over 10%, around 11%. So, both of those things are factors.

Lee M. Shavel

President, Chief Executive Officer & Director, Verisk Analytics, Inc.

And I might add, Kelsey, that this is one example. We have also seen this in other product areas. And I think we've talked previously about the strength of the performance in our Extreme Event solution. It's a function of not only investing, but also elevating the dialogue and the awareness of the value that we're creating across the enterprise that I think is supporting that.

And in terms of ongoing developments, I'm going to ask Saurabh Khemka with us to talk about some of the features that we're continuing to roll out over the next year or so that will add to the value, the incremental value that we're providing to clients.

Saurabh Khemka

Co-President, Underwriting Solutions, Verisk Analytics, Inc.

Yes, absolutely. Happy to, Lee.

So, on two fronts; one, we've talked about on the executive insights, the Experience Indexes, which provide more insights and thus more value to our customers as they think about this – their pricing in this environment. There's also a lot of tools that we're providing for automation and that are driving efficiencies in their operations. So, they see value both from an insight perspective, but also from a cost savings perspective.

Operator: Thank you. And your next question comes from the line of Faiza Alwy with Deutsche Bank. Your line is open.

Faiza Alwy

Analyst, Deutsche Bank Securities, Inc.

Yes. Hi. Thank you.

So, I wanted to ask about margins. You've had really strong margin performance over the last couple of years. And even now, you've been above sort of the long-term level of margin growth that you had talked about. So, I'm curious, I know you mentioned some timing of expenses, but maybe talk a little bit about where you are in the journey of the – your global talent optimization efforts and how we should think about efficiencies in the business going forward.

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

Yes. Thanks for the question, Faiza.

It is – margin efficiency has become a discipline that I think has become really embedded into our processes. And there's always more that we can do on the efficiency front. That said, as you've highlighted, we had a couple of years of very, very significant focus on margin expansion. And I think the trajectory of margin expansion from here may taper a bit as our guidance indicates.

For the quarter itself, it was a pretty strong margin expansion. Some of that reflects, as I said, the timing of spend can vary quarter-to-quarter, which is why we always tend to look at the trailing 12 months.

The other thing I mentioned is we had a benefit – it was a relatively strong revenue performance quarter. It did include and maybe we'll get to this, there was a modest benefit of some storm associated revenue in the Property Estimating Solutions business, which always comes at high incremental margin.

Lee M. Shavel

President, Chief Executive Officer & Director, Verisk Analytics, Inc.

And Faiza, I would add one other thing, which is the counterbalance to those operating efficiencies is our level of investment intensity. And so, what we are always trying to do is balance that incremental investment that will support growth and even efficiency down the road with the more immediate margins. And so, it's going to vary from quarter-to-quarter. But that is also a moderating influence that we think is in the best long-term interest for our shareholders.

Operator: Your next question comes from the line of Andrew Nicholas with William Blair. Your line is open.

Andrew Nicholas

Analyst, William Blair & Co. LLC

Hi. Good morning.

Lee, in your prepared remarks, you talked about bringing the improved sales model to a broader group of businesses and your new growth vectors. Could you spend a little bit more time flushing that out? I mean is that specific to speaking to executive groups more regularly being more in tune with their needs or is there something beyond that? And maybe what it looks like in practice in terms of flushing that out and bringing it to other groups within the organization. Thank you.

Lee M. Shavel

President, Chief Executive Officer & Director, Verisk Analytics, Inc.

Right. Thank you, Andrew.

And so, it really relates to – when we did the review of our go-to-market strategy, it was focused on our largest businesses. And so, our Claims sales team, our Extreme Events, sales team, our underwriting decision analytics sales team. We obviously wanted to identify where we could have the biggest impact across those large businesses. And what we're referring from extending that is bringing some of the disciplines and what we have learned from the very positive impact we've had across those larger businesses, to some of our growth businesses.

So, with our life insurance business, with our SBS business, with Verisk Marketing Solutions, how can we leverage some of that – some of those learnings against those businesses. And so, we're hopeful that we'll see a similar level of success that we've had in some of the larger businesses. So, that's the extension. You referred to the broader elevation of our strategic dialogue. I think that's already in place. I do think that has been focused on our largest customers, but those skill sets are something that we will look to expand and be part of our philosophy in terms of how we think about serving our – all of our clients with more of a relationship and enterprise orientation.

Operator: Your next question comes from the line of Alex Kramm with UBS. Your line is open.

Alex Kramm

Analyst, UBS Securities LLC

Yes. Good morning, everyone.

Just wanted to come back to the, I guess, uncertain environment over the last months, tariffs, et cetera. I think your end market is generally fairly insulated against that. But obviously, you already mentioned with the Marketing side that there's some of the industry. So, just wondering, across the business, are you seeing any delays in decision-making or is it true as it always been that the insurance industry seems to be very immune some of what's going on. But anything you're seeing would be helpful. Thanks.

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

Yes. Thanks a bunch for the question, Alex. It's certainly so we've been monitoring very closely.

From our own business, from a Verisk financial perspective, we don't believe we have kind of a material direct exposure to tariffs and the implications. I think for the insurance industry overall, I think there are potential impacts if there were to be an environment with higher costs, that would translate into higher costs for claims and claims fulfillment. And so that could potentially lead to lower profitability in the insurance industry in the short term. And so, that's something that our clients are monitoring very closely, and we're working with them. Indeed, our data and analytics is doing a lot to try to support them in measuring and assessing the environment that they are in. So, those are kind of some of the factors that we have been following.

Operator: Your next question comes from the line of Andrew Steinerman with JPMorgan. Your line is open.

Andrew C. Steinerman

Analyst, JPMorgan Securities LLC

Hi, Elizabeth. Could you – on Slide 10, the guide, could you just focus just a little bit more on the D&A line? I know I asked you about this last quarter. Do you feel like D&A as a percentage of revenues will kind of stay in this range going forward from here? Like is there a bias upwards? Is there a bias downwards again, D&A as a percentage of revenues? And what the implications on ROIC are going forward?

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

Yes, Andrew, thanks for the question.

It is something that we take a look at. We haven't given a long-term forecast for D&A as a percent of revenue. The D&A is a direct consequence, obviously, of the CapEx and the projects that we've placed in service. And I think for this year, these quarters, you're seeing the impact of some projects placed into service that were actually fairly long-term builds both the work we've been doing on the Core Lines Reimagine program as well as the next-generation financial models that were developed in Extreme Event Solutions.

So, both of those things were some long-term builds that are being placed into service. I think from where we are now, the growth rate of that D&A will probably, well, the number will converge with the CapEx. I think the growth from here will probably be a bit – a hair below the CapEx, because we're reflecting some of those longer-term builds.

Lee M. Shavel

President, Chief Executive Officer & Director, Verisk Analytics, Inc.

A

And Andrew, it's Lee. I can't resist a return on invested capital question. And I just want to make certain that you understand when we are looking at our return on invested capital, depreciation and amortization, which is an expensing of that CapEx is removed. We put all of our CapEx into invested capital. So, our returns, which would be a classic net operating profit loss after tax, excludes any accounting expense related to that, the CapEx is the capital element or the invested capital element that we're engaging a return off of.

Operator: Your next question comes from the line of Jeff Meuler with Baird. Your line is open.

Jeffrey P. Meuler

Analyst, Robert W. Baird & Co., Inc.

Q

Yes. Thank you. Do you expect the increased contribution to forms, rules and loss cost revenue growth from Core Lines to play out over kind of the two to three-year adoption period or can it extend beyond that with ongoing better innovation and starting to implement AI and whatnot, I guess at the very least help us with cross-sells and other businesses in conjunction with the enhanced go-to-market effort?

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

A

Yes, I'll start with that.

I think, look, the goal in the investments that we're making in Core Lines Reimagine is absolutely to be a platform to continue to deliver long-term value for clients and to continue to innovate as the possibility of what you can do with data and analytics and now incorporating Gen AI can do over time. So, we expect to continue delivering more value.

Saurabh Khemka

Co-President, Underwriting Solutions, Verisk Analytics, Inc.

A

Yes. And 1 thing I would add is for a majority of our clients, they are signing long-term contracts with us. So, as they are signing these contracts, they are seeing this value being accrued to them over long term as we do the contracts today.

Lee M. Shavel

President, Chief Executive Officer & Director, Verisk Analytics, Inc.

A

Yes. And Jeff, thanks for the question. I think one dimension of this is that we are enabling the deeper and more efficient integration of our data sets into their processes, which then becomes just part of the way that they're doing business. And so, I think there's inherently a real long-term benefit and value to them from that.

Operator: Your next question comes from the line of Gregory Peters with Raymond James. Your line is open.

C. Gregory Peters

Analyst, Raymond James & Associates, Inc.

Q

Good morning, everyone. Appreciate your comments at the opening about helping your clients become more efficient with their ecosystems. It seems like that's a pretty ripe area. I was wondering if you could just build on some of your information in that, because it feels like even though you have a cloud-based approach and using

up-to-date technology, a lot of your customers are operating on legacy platforms that are clunky and outdated to say the least. Maybe you could just give us some color on how challenging it is to deploy your solutions when you're dealing with these legacy systems, which are old to say as a – to say the least.

Lee M. Shavel

President, Chief Executive Officer & Director, Verisk Analytics, Inc.

A

Greg, thanks for the question. I mean I think it's a very relevant question. And the way I would answer it is that there are two factors here. One is I think that the industry is taking more steps than ever to modernize that infrastructure through work with third-party vendors, many of which are partners of ours. And so that is facilitating our ability to enable some of the benefits from our Core Lines Reimagine investments for their benefit. So, I think we are seeing that. A lot of our work isn't necessarily directly with the carriers, but with their vendors and integrating that that data set. And I also think that a variety of technologies that are facilitating more connectivity with the industry is helping regard.

In that vein, our role as a connector within the industry and within specific functions like claims or in risk modeling are providing a level of connectivity and integration that is very costly to your point for a lot of our customers to handle on their own. And I'll give you a specific example. And so, you've heard us talk about our efforts to make our claims platform on the – our Property Estimating Solutions or Xactware platform a more open ecosystem.

And that was based on a lot of feedback that we had from clients, where there were complementary vendors or service providers that much of the industry had to invest in diligencing and connecting into their systems, which was problematic. But with our existing connection to insurers, contractors, adjusters, clients on that platform, it was much more efficient and easy for us to be able to validate, ensure security standards for those vendors, and that's an inherent efficiency. And we're doing that in claims. I think we're increasingly doing that on the underwriting side. And as you hear us talk about Synergy Studio, that is also a connective network that I think is facilitating at greater efficiency on behalf of the clients.

Operator: Your next question comes from the line of George Tong with Goldman Sachs. Your line is open.

George K. Tong

Analyst, Goldman Sachs & Co. LLC

Q

Hi. Thanks. Good morning. I wanted to go back to your point on improved price realization. It sounds like this is a structural change to your approach to pricing. Can you talk about what proportion of your broader business you've begun to accelerate your pricing increases? And how long it may take to close the gap between pricing and value provided at the broader company level?

Lee M. Shavel

President, Chief Executive Officer & Director, Verisk Analytics, Inc.

A

George, thanks for the question. I would – I'd say the avenues have been focused on where we are making investments based upon feedback from clients on how we can create value for them and recognizing that that requires investment on our part. And I think that dialogue, which has benefited from that higher level, more strategic dialogue has helped us clarify and improve an understanding of where we are creating value for them and how we participate in that value creation.

And I think you asked around which channels I think it's really all of our major channels on the underwriting side, Extreme Events within our claims business that has been part of what we have improved in our ability to achieve a stronger price realization through that.

Now in terms of closing the gap, I don't know that you ever get there. There's always going to be a difference in perception between how we think we're providing value and where our clients are providing value. I think there is a gap. The objective is to continue to use that as a means for us to deliver more value and capture that with our clients. So, in that sense, I think it's a continuous journey.

Operator: Your next question comes from the line of David Motemaden with Evercore ISI. Your line is open.

David Motemaden

Analyst, Evercore ISI

Q

Hi. Good morning. I have a question on just the broader market. And so, it looks like in commercial P&C, pricing is starting to get a little bit more competitive. We're also seeing that on the personal auto side. Are you seeing any early signs that your customers are getting a little bit more focused on expenses?

Lee M. Shavel

President, Chief Executive Officer & Director, Verisk Analytics, Inc.

A

David, thanks for the question.

I would say that our customers have been focused on efficiency pretty consistently at an enterprise level. And I don't think that the – it wouldn't be our observation that trends in pricing have a material impact. I certainly think that when the – when overall profitability is challenged and you're seeing greater combined ratios, there's a natural inclination to try to find greater efficiencies. But the general trend that we've observed and which we referenced in the opening comments, is that 2024 was the first year in the past four years, I'm aware you had an underwriting gain and we saw – I think 96% combined ratio for the industry.

So, I would say, generally, the premium growth has led to more appetite for investment to support continued efficiencies across it. So, I think that's just a general trend. We haven't seen a particular inflection point based upon trends in commercial P&C or personal auto from my perspective.

Operator: Your next question comes from the line of Ashish Sabadra with RBC Capital Markets. Your line is open.

David Paige

Analyst, RBC Capital Markets LLC

Q

Hi. Good morning. This is David Paige on for Ashish. Thanks for taking our question.

I was wondering on the buyback. Can you just maybe give a little cadence or just a full year 2025? How are you thinking about buybacks for 2Q to 4Q? Thank you.

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

A

Yes. Thanks, David. We don't give a forecast for buyback amount for the year. And the real reason for that is that we follow our capital allocation framework. So, we prioritize organic investment in the business. We look – we explore M&A opportunities. We've obviously committed to the dividend return. And then – and then we balance kind of balance sheet availability and attractiveness of share repurchase. But to the extent we don't have a need for capital, we will continue returning it to shareholders in the form of buybacks as well as dividends.

Operator: Your next question comes from the line of Russell Quelch with Redburn Atlantic. Your line is open.

Russell Quelch

Analyst, Redburn Atlantic

Q

Yes. Hi. Good morning. So, Elizabeth, you made some remarks in your opening comments, but maybe you could give a clearer breakdown of the various drivers of the 4% year-on-year fall in transaction revenue and disclose perhaps what the growth in transactional revenue was excluding the impact of onetime conversions.

I'm also particularly interested in why there was not a positive tailwind to transactional revenue growth from the – in the auto shopping sector, given strong J.D. Power data in the quarter? Maybe you could discuss that as well. Thanks.

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

A

Yes, sure. Thanks for the question, Russell. I'll take that as a two parter. So first, the transactional and the 4% decline. We quantified for you the one contract conversion that we've called out in the past. This is the last full quarter of that. And that's an impact of 200 to 250 basis points for the quarter.

Other headwinds in transactional more generally is contract conversions, and we've talked about that before in our anti-fraud space. We had, in the past, great success with the TPA customer segment, and it's a playbook that's been very successful for us to continue to get customers to commit to committed contracts. So, we will continue playing that in other customer segments as we see the opportunity. In addition, some of our ecosystem partners are now shifting to committed contracts. So, that's a benefit for us. But apart from that one single contract we haven't and aren't able to quantify the full aggregate impact of it.

Finally, some of our transactional revenue comes from implementation of software programs. And so those can be sometimes lumpy in the start of ongoing subscription. So, our Specialty Business Solutions had some significant projects last year that we're now comping the impact of. So again, that transactional revenue is really the output of how we run our business in the aggregate rather than something we are managing as a bucket in and of itself. So, that was the first part of your question.

I think the second part of your question was on the auto business and on some of the transactional headwinds there. The shopping activity does continue. So that business is – has balanced results. I think we talked in the last quarter about some attrition, particularly in the insure tech customer segment and our overall mix in that auto business may not be an exact match for the market as a whole.

The final point – the final dynamic that's going on in the auto segment – we've talked about our non-rate action business. As rates overall have recovered in the industry, there's been less activity on that non-rate action deal as carriers shift their focus.

Operator: Your next question comes from the line of Jason Haas with Wells Fargo. Your line is open.

Jason Haas

Analyst, Wells Fargo Securities LLC

Q

Hi. Good morning and thanks for taking my question. I'm curious if you've seen any change in client conversation in the quarter-to-date period given the macro uncertainty if you're seeing any pause in projects or anything like

that? And then maybe you could talk more big picture about – curious which parts of your business you see as most economically sensitive and which parts are more resilient and even potentially countercyclical? Thank you.

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

A

Sure, Jason. Thanks. I'll start off generally saying – in terms of our dialogue with our clients, I don't think we have seen a fundamental change in terms of their priorities and what they need to accomplish day-to-day and how we serve that. Naturally, there is some greater focus on the impact of tariffs particularly to the extent that any inflationary factors are beginning to affect their claims costs. And that's something that we're very well positioned to address as Elizabeth described earlier, where through our Property Estimating Solutions business, we track a great deal of specific supplies and materials costs as well as labor costs associated with rebuilding. And so, we have already had conference calls and put out reports tracking any sensitivity and we'll continue to do so. So, I would say that's the one area they have been focused on in understanding the potential impacts of the tariff situation.

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

A

I was going to add, you were asking about other customer segments and economically sensitive customer segment. So, I was just going to add that we are watching the macroeconomic impact on some of our non-carrier customer segments. We talked last quarter, the federal government contributes less than 1% of our revenues. So, it is a small impact, but we are seeing cost pressure across federal agencies. And so, that's one that could have some sort of discretionary spend impact as well as the Marketing segments that we've already talked about.

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

A

So, we do have some small segments that are, I would describe as more economically sensitive – but of course, the vast majority of our revenues are from insurance-related clients that are relatively insensitive to the tariff impact.

Operator: [Operator Instructions] And our next question comes from the line of Manav Patnaik with Barclays. Your line is open.

Q

Hi. This is [ph] Brendan (0:52:30) on for Manav. Just wanted to ask on M&A opportunities. We could see valuations come down maybe alongside public equities at some point this year. So I guess, what kind of areas would you like to kind of augment your capabilities and kind of what are you seeing there?

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

A

Thanks, Brendan. I appreciate the question. So, certainly, the uncertainty in the market and the impact on valuations is a potential benefit. We also have observed that the private equity community generally has been more challenged in monetizing some of their investments. So, I do think that the environment has improved. What we continue – have been and will continue to look for is where are there products that have demonstrated an ability to add value to the insurance industry that we can improve either by accelerated distribution or integration

into our products to enhance their business as well as potentially contributing data sets that are valuable to our analytics business.

So, we have been actively monitoring that sector, and you saw recently a small deal the acquisition of Simplitium from NASDAQ. So, it's a sign that we are watching for opportunities with a primary focus on how do we add value to those businesses, leveraging the relationships and the capabilities that we have.

Operator: And your next question comes from the line of Jeff Silber with BMO Capital Markets. Your line is open.

Jeffrey M. Silber

Analyst, BMO Capital Markets Corp.

Q

Thanks so much for squeezing me in. In your prepared remarks, you talked about some of the weather impact on the industry. I'm just curious, is it possible to parse out what the impact was on your business in the second quarter in terms of claims from some of those events.

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

A

Yes. Thanks for the – thanks for the question, Jeff. From a wildfire perspective, which I think is what we were talking about there, it has very little sort of de minimis impact. I did mention that we had a very modest benefit from weather-related effects in PES that relates primarily to a small tail from the fourth quarter hurricanes as well as actually a pretty active severe convective storm environment across the U.S.

Lee M. Shavel

President, Chief Executive Officer & Director, Verisk Analytics, Inc.

A

And I would say, Jay, I think your fundamental question was what Elizabeth addressed. But with regard to the wildfires, clearly, that has been an important topic. And as we have said, we were the first to submit our wildfire model to the California Department of Insurance. And we've gotten a lot of questions and interest from clients around our wildfire model, and I want to ask Rob Newbold, who's with us just to give us an update in terms of the level and the quality of dialogue that we've been hearing from clients on that model in particular.

Robert Newbold

President-Extreme Event Solutions, Verisk Analytics, Inc.

A

Yes. Thanks, Lee.

We were really pleased to bring an updated view of risk for California wildfire to the market last summer, in June 2024. Our client dialogue has been really excellent on the value that model is providing to people's overall risk management. As Lee noted, we're engaging with the California Department of Insurance, allowing that model to be used for ratemaking in the state, and continue to be excited about the possibilities that will open up to bring global resilience to that particular market.

Lee M. Shavel

President, Chief Executive Officer & Director, Verisk Analytics, Inc.

A

We continue to believe that the severe weather that we're experiencing continues to point the value of the analytics and the models that we provide to our clients.

Operator: And ladies and gentlemen, that concludes today's call. Thank you all for joining. You may now disconnect.

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