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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 2019 Earnings conference calls. This call is being recorded. At this time for opening remarks and introductions, I would like to turn the call over to Verisk Head of Investor Relations, Stacey Brodbar. Ms. Brodbar, you may begin your conference.

Stacey Brodbar

Head of Investor Relations, Verisk Analytics, Inc.

Thank you, Natalia, and good day to everyone. We appreciate you joining us today for a discussion of our first quarter 2019 financial results. Today's call will be led by Scott Stephenson, Chairman, President and Chief Executive Officer, who will provide a brief overview of the business. In an effort to provide the investment community with a broader perspective on our industry verticals and to offer deeper access to our senior operating executives, Neal Anderson, President of Wood Mackenzie, will then provide an update on our Energy and Specialized Markets segment. Lastly, Lee Shavel, Chief Financial Officer, will highlight some key points about our financial performance. Mark Anquillare, Chief Operating Officer, will join the team for Q&A.

The earnings release referenced on this call as well as 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 dialing. Finally, as set forth in more detail in today's earnings release, I will remind everyone that today's call may include forward-looking statements about Verisk's future performance. 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.

Now, I'll turn the call over to Scott.

Scott G. Stephenson

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

Thanks, Stacey, and good morning everyone. I'm pleased to be able to report that 2019 is off to a solid start at Verisk. The first quarter was marked by solid organic constant-currency revenue growth of 6.7%, which remains the most important measure of our vitality as an organization. Moreover, our growth was driven by continued broad-based strength across our Insurance vertical and ongoing improvements in Energy and Specialized Markets. This growth was a product of our continued efforts to get closer to our customers, to introduce new innovative solutions and to cross-sell existing solutions to help accelerate value creation for our customers. With regard to innovation and cross-sell, we are beginning to see early success from the integration of some of our more recent acquisitions into the Verisk family. To that end, we are leveraging technologies and capabilities across all of Verisk to deliver new innovation and leveraging client relationships to drive cross-sell.

In the Insurance vertical, we are working with a number of clients in the London markets to help them achieve an integrated work flow across the suite of Verisk products, helping them to be more responsive to their clients while at the same time improving the quality of their analytics. As an example, Verisk clients who insure commercial properties are now able to leverage integrations that we have built between applications from Sequel, AIR and Analyze Re to review exposure accumulations, assess extreme event risk, and determine the impact of a policy on the overall portfolio in real-time during the quoting process. These integrated products enable insurers to

perform such analytics in minutes, where previously it could have taken at least a day. We think this early success with clients can be replicated more broadly within London and the United States.

In Energy and Specialized Markets, PowerAdvocate, our market and cost intelligence solution, is seeing early success expanding out of their core markets of oil and gas utilities into new end markets including metals and mining by leveraging Wood Mackenzie's deep customer relationships. Neal will talk to you about these opportunities in more detail.

In the Financial Services vertical, we've integrated LCIs comprehensive bankruptcy data with our proprietary Argus credit card industry consortium data to more accurately predict bankruptcy as much as 6 to 12 months prior to a bankruptcy filing. This should enable our bank customers to significantly reduce bankruptcy losses through the appropriate utilization and credit line management strategies.

We had a very active quarter with regard to customer engagement. In fact, in the quarter we hosted 17 customer events, and attendance and engagement were very solid. In February we hosted our Elevate Conference in Salt Lake City. The attendance included almost 1,000 insurance claims adjusters, contractors and vendors from the U.S., Canada and Europe. The event focused on artificial intelligence and automation to enhance the claims process and introduced the many enhanced features and new products offered by our claims team. Insurers clearly understand the disruptive innovation that is taking place throughout the industry and they are intent on maintaining a competitive advantage. This is driving increased engagement and focus around increased use of data and analytics as well as digital engagement.

The conference featured first, the use of computer vision such as remote imagery and image interpretation to automate the claims cycle. Second, utilizing natural language processing to better respond to policyholders through advanced analytics and chat box to speed the claims process and better digitally engage with customers. And third, product demos of our enhanced solutions and an innovation lab to showcase our cutting-edge InsurTech. The unprecedented interest in these topics resulted in over 150 requests from customers to meet with our product managers, industry experts and account executives. This level of customer engagement positions us well for future growth.

And now, I'd like to turn the call over to Neal to provide some additional insights on our Energy and Specialized Markets segment. Welcome, Neal.

Neal Anderson

President, Wood Mackenzie Ltd.

Thank you, Scott. It's a pleasure to be here this morning to talk to you about our Energy and Specialized Markets business. I will discuss the microenvironment in which the Energy and Specialized vertical operates with a focus on how our businesses are performing. I will also highlight our recent success, leverage and expertise of our PowerAdvocate business and to the extent of Wood Mackenzie energy and mining customer base. And lastly I will give you an update on the customer response to Lens, Wood Mackenzie's new data analytic platform.

Regarding the microenvironment, as you are aware, the oil and gas industry has been through a very challenging time over the last few years due to the fall in oil prices. However, the industry in 2019 is in a much better shape than it was prior to the oil price crash in 2015. The oil and gas industry responded with amazing speed and focus to the drop in oil prices, aggressively cutting costs and rebuilding balance sheets, divesting non-core assets, which allowed them to concentrate on low-cost, long-life [ph] themes (07:18). In turn, free cash flow has become the key financial metric. Indeed in 2018, free cash flow surpassed the previous peak seen in 2012 when oil prices

were above \$100 a barrel. In summary, our oil and gas customers are in robust health, with our focus now returning to new investments.

We estimate future capital investment will exceed \$200 billion in the next few years. As a result, we believe the mergers will deliver stronger production growth in the coming five years, are poised to cover stronger growth five years than pre the oil price crash. Simultaneously, our [indiscernible] (08:00) refining customers are seeing continued strong demand particularly in emerging markets, leading to new investments in the Middle East, Africa and Asia. Our core Energy customers are also grappling with opportunities and challenges presented by climate change and the need for an energy transition to lower carbon energy sources. As you are aware, we've established two breakout businesses to especially support and advise our customers in these areas, namely chemicals, and power and renewables.

The chemicals business continues to deliver strong double-digit growth as customers recognize that the primary driver of oil demand is likely to become chemical demand over the medium and long term. This is a far cry from the world we've grown up in where transportation demand was the key driver. Wood Mackenzie's data across the global energy complex helps our customers navigate [ph] it (08:58).

The power and renewables business is also consistently delivering double-digit growth, driven by our traditional renewable developers and operators, complemented by strong demand from Wood Mackenzie's core oil and gas customers, as they strive to build material positions outside their core business.

We believe global investments in power and renewables will continue its [indiscernible] (09:22) rapid expansion, as the Energy mix moves from the molecule to the electron. As previously mentioned, the 2015 oil price crash drove a focus in cost efficiency to bring down production break-evens. Our PowerAdvocate business is ideally placed to help customers through applying cutting-edge, analytical techniques to [ph] diverse span (09:46) datasets allied with unique industry cost benchmarks. Wood Mackenzie's been able to expand PowerAdvocate's customer set beyond its traditional U.S. utilities to the major oil and gas customers and more recently into the mining and metals sector. As a result, deal sizes have increased significantly as have margins.

Lastly, I would like to talk about the market reaction to our new data analytic platform, Lens. We launched the first release of Lens late last year, namely the Lower 48 Upstream that focuses on exploration and production and continue to work alongside customers to develop a unique offering which is scalable, secure, mobile, dynamic, timely and integrated along the Energy value chain.

While we are still very much at the start of the journey, we have already secured 29 paying customers, with a strong near-term pipeline of opportunities. But what is truly exciting is the quality of the anchor customers which range from the major oil companies through to the leading independents and the bulge bracket banks.

With that, let me turn the call over to Lee to cover our financial results.

Lee M. Shavel

Chief Financial Officer & Executive Vice President, Verisk Analytics, Inc.

Thanks, Neal. First, I would like to bring to everyone's attention that we have posted a quarterly earnings presentation that is available on our website. The presentation provides background, data, trends and analysis to support our conversation today. One change you may notice in our disclosure is that we are no longer reporting the non-GAAP measures organic or organic constant-currency adjusted EBITDA margins. As the differential between our stated and organic margins decreased and given its complexity for investors, we have decided to simplify and just provide a single total adjusted EBITDA margin. We of course, will continue to provide organic

constant-currency growth metrics for both revenue and adjusted EBITDA, as we believe these are the best measures to evaluate the health of our overall business and are the metrics we use in our own compensation plans. Finally, we have adopted the new lease standard ASC-842 in the first quarter of 2019, and the impact to our income statement was immaterial.

Moving to the financial results for the quarter, on a consolidated and GAAP basis, revenue grew 7.5% to \$625 million. Net income increased 1% to \$134 million for the quarter. Diluted GAAP EPS was \$0.81 for the first quarter of 2019, an increase of 2.5% compared with the same period in 2018. GAAP net income and diluted GAAP EPS was impacted in the quarter by increased earn-out expense for a number of acquisitions that have been performing well relative to earn-out targets.

Let's now focus our quarterly discussion on our organic constant-currency results for all year-over-year growth rates and to eliminate the impact of currency fluctuations, recent acquisitions for which we don't have full year-over-year comparisons, non-operating acquisition related costs including earn-outs and nonrecurring items. On an organic constant-currency basis, Verisk delivered revenue growth of 6.7% in the first quarter of 2019, reflecting strong organic growth across the Insurance segment and improving results in Energy and Specialized Markets. While below our long-term target for organic constant-currency revenue growth, the results reflect the impact of some carryover nonrecurring storm and implementation revenue in the prior-year period.

Organic constant-currency adjusted EBITDA growth was 6.8%, reflecting modest EBITDA margin expansion on an organic basis. Total adjusted EBITDA margin for the quarter of 46.7% was up from 46.4% in the prior-year period, reflecting the leverage in our business model and cost discipline. This increase in total adjusted EBITDA margin includes both organic and organic revenue and EBITDA. Acquisitions reduced adjusted EBITDA margin by 27 basis points in the period, demonstrating our ability to absorb acquisitions and still expand margins through organic operating leverage.

Let's turn now to our segment results on an organic constant-currency basis. As you can see in the press release, Insurance reported 7.3% revenue growth, while adjusted EBITDA increased 6.5%, reflecting the impact of some storm revenue in the prior-year period. Within our underwriting and rating business, growth was balanced across personal lines and commercial lines. We saw healthy growth in our industry standard insurance programs, property-specific underwriting and catastrophe modeling solutions revenue.

Within claims, the strong growth was driven by solid performance in repair cost estimating solutions, claims analytics and remote imagery solutions. This was offset in part by modest weakness in workers' compensation claim resolution services.

Total adjusted EBITDA margin declined 53 basis points to 53.1% from 53.7% in the prior-year period. This decline reflects the impact of some higher margin storm revenue in the prior-year period in claims which reduced current period margin and a negative 30 basis point impact from acquisitions in the quarter offset by an improvement in the underwriting and ratings margin. Our Insurance margins were also negatively affected by increased legacy pension expense related to year-end 2018 market performance.

Energy and Specialized Markets delivered revenue growth of 6.7% for the quarter, building on the trend of continuing sequential improvement. Strong growth in market and cost intelligence solutions and core research revenues drove the growth. We also had positive contributions from our environmental health and safety and global risk analysis business. As Neal mentioned earlier, we are continuing to drive growth opportunities by leveraging our strong customer relationships in the energy industry across all of our Energy businesses, as we

have the data and solutions that can help our customers be more efficient and effective driving revenue growth and delivering cost savings.

Adjusted EBITDA increased a healthy 14.1%, despite ongoing investments in breakout opportunities like Lens and our chemicals, sub surface, and power and renewables breakouts. Total adjusted EBITDA margin expanded to 29.6% from 26.8%, driven by strong leverage on revenue growth with margin expansion at WoodMac and the inclusion of PowerAdvocate in the organic results for Energy and Specialized Markets.

Financial Services revenue increased 0.7% in the quarter, led by solid growth in spend informed analytics and portfolio management, but offset by weakness in our developing enterprise data management solutions. We continue to experience some challenging year-over-year comparisons due to some nonrecurring implementation revenues in the prior-year quarter. Adjusted EBITDA decreased by 7.6% and total adjusted EBITDA margin declined to 30.8% from 33.5%, also a result of some nonrecurring high-margin implementation revenues in the prior-year period.

As we discussed previously, we have been transitioning Verisk Financial Services from a top-down orientation to a bottoms-up approach with an emphasis on steady growth, and this quarter represents both progress in that exercise and reflects the impact of a productivity and profitability review of individual business lines. We expect that investors will more clearly see the underlying growth and potential of the business over time, as we continue with this transition. Reported interest expense was \$32 million in the quarter, down 2.7% from the prior-year quarter due to the repayment of our \$250 million of 4.125% senior notes in January 2018, with borrowings from our revolving credit facility. Total reported debt was \$2.6 billion at March 31, 2019, down from \$2.7 billion at year-end 2018. Our leverage at the end of the first quarter was 2.2 times.

During the quarter, we successfully issued \$400 million of 4.125% ten-year senior notes. The transaction was oversubscribed, reflecting the strong demand for our credit and our ability to easily access the unsecured investment-grade debt capital markets. We used the proceeds to repay amounts outstanding under the revolving credit facility and for general corporate purposes.

Our consolidated cash and cash equivalents were \$180 million at March 31, 2019. Our reported effective tax rate was 21% for the quarter, compared to 18% in the prior-year quarter, primarily due to a lower level of option exercises. We maintain our estimate of our effective tax rate in the full year 2019 to be between 19% and 21%. Adjusted net income was \$171 million, and diluted adjusted EPS was \$1.03 for the first quarter, up approximately 10% from the prior year in both cases. This increase reflects organic growth in the business, contributions from acquisitions and lower share count.

The benefits were partially offset by an increase in depreciation and amortization expense and a higher effective tax rate. Net cash provided by operating activities was \$366 million for the quarter, up 12% from the prior year. Capital expenditures were \$45 million for the quarter, up 4.6% from the prior year, reflecting primarily increased software development to promote growth in organic businesses and recent acquisitions. CapEx represented 7.2% of total revenue, reflecting the expected decline in capital intensity as the result of reduced capital spending on the Geomni initiative following its initial ramp-up.

Free cash flow was \$321 million for the quarter, an increase of 13.1% from the prior year. During the first quarter, we returned \$116 million in capital to shareholders through share repurchases and dividends. We repurchased approximately 637,000 shares at a weighted average price of \$117.82 for a total cost of \$75 million. At March 31, 2019, we had \$353 million remaining under our share repurchase authorization.

In addition, we initiated a new \$50 million accelerated share repurchase to be executed in the second quarter. On March 29, 2019, we paid our first cash dividend of \$0.25 per share of common stock, and on April 29 of 2019 our Board of Directors approved a cash dividend of \$0.25 per share of common stock payable on June 28 for shareholders of record on June 14, 2019.

Before I conclude and looking ahead to the next quarter, I want to inform you of an accounting impact that will affect our financial results beginning next quarter. Based upon the vesting provisions in our share-based compensation plan, GAAP accounting requires that we expense the full impact of share-based compensation in the period for all employees upon the attainment of age 62, instead of amortizing the expense over the vesting term. Scott Stevenson, our CEO will turn 62 during the second quarter of 2019, and as a result we will incur incremental noncash costs of approximately \$6 million related to the expensing of his share-based compensation in the second quarter. That said we will see a benefit in the remaining quarters of 2019 and into 2020. Also on an ongoing basis there will be a discernible concentration of compensation expense and impact on the margin in the second quarter as new stock awards are granted. But this will be consistent over time and simply reflect a timing impact.

We are excited about the opportunities to invest in our business and continue to manage capital prudently through internal investment, strategic acquisitions and the return of capital to shareholders through dividends and share repurchases. We remain confident that we have the financial strength and capital structure to support investment for the long-term. We continue to appreciate all the support and interest in Verisk.

In order to make time for questions from the large number of analysts covering our stock, we ask that you please limit yourself to one question, which is a change from our prior policy of allowing a follow-up question. And this is to facilitate full participation by all of the analysts. We will certainly allow folks to re-enter the queue if they have additional questions. I'll ask the operator to open the line now for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] . Your first question is from the line of Gary Bisbee with RBC Capital Markets.

Gary Bisbee

Analyst, Bank of America Merrill Lynch

Q

Hey, Good morning. Happy early birthday, Scott.

Scott G. Stephenson

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

A

Thank you.

Gary Bisbee

Analyst, Bank of America Merrill Lynch

Q

Now, the question on the Energy business, it's sort of a two-parter. Obviously, great margin as you're returning the business to growth. But it also looked like cost didn't grow, and that was a sharp slow-down relative to the pace throughout 2018. So is that – was there anything going on? Or is that sustainable and the sort of Part B of that is just, can you give us any sense how much you're investing in the newer areas? And why we wouldn't see cost growing more quickly as you expand those businesses? Thank you.

Scott G. Stephenson

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

A

Well, this is Scott. Let me just give you a general characterization, and Lee, maybe you want to – or excuse me, Neal, maybe you want to jump in with any particular comments. But the way that we are operating in that business, it's a very balanced agenda where we are actually investing a lot in the categories that we talked about before where you've got Lens, you've got subsurface, chemicals, power and renewables. But then where the rest of the business is concerned, there's been a lot of discipline. And so this is back into, say, the core of the research activities that we do. And you can just see that in the way that the operation is actually moving forward. So, no, it's an investment-minded agenda, but we're being selective about where we're spending. Neal, I wonder if you want to add anything to that.

Neal Anderson

President, Wood Mackenzie Ltd.

A

Certainly, Scott. Also on the Lens side, a big focus of Lens is also to drive internal efficiencies, and we're really pleased to see that margin expansion as we rollout Lens.

Gary Bisbee

Analyst, Bank of America Merrill Lynch

Q

Okay. Thank you.

Operator: Your next question is from the line of Manav Patnaik with Barclays.

Manav Patnaik

Analyst, Barclays Capital, Inc.

Q

Yeah. Thank you. Good morning. Maybe I'll move to another segment on the financial side, I was hoping you could give us a little bit more color and maybe help quantify a little bit what the growth of the underlying businesses are doing well is and when do you think the EDM piece stops becoming a headwind to the overall growth.

Scott G. Stephenson

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

A

So Lee, you want to just start with kind of at the results level, then I can provide a little color on the context.

Lee M. Shavel

Chief Financial Officer & Executive Vice President, Verisk Analytics, Inc.

A

Yeah, sure. So, Manav, thanks for the question. We saw solid growth in the spend-informed analytics and fraud and credit risk management so would describe that as north of 10% year-over-year growth in that – the portfolio management was in the mid-single-digits range that's obviously is kind of the core of the business and with regard to enterprise data management, that is where we had a year-over-year decline but recognizing that that reflects some of the implementation revenue in the first quarter, so that affect is concentrated within that sector and it also continues to reflect across that business the ongoing development and some of the greater choppiness associated with a new and developing business segment.

Scott G. Stephenson

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

A

Yeah, and all I would add to that is that, that's one of those parts of the business where we've given real attention to try to smooth out some of the cycle that can exist there, but it is inherently a little bit lumpier just because it's moment in time really helping our customers improve their data analytic environment.

Operator: Your next question is from the line of Hamzah Mazari with Macquarie.

Hamzah Mazari

Analyst, Macquarie Capital (USA), Inc.

Q

Good morning. Thank you. I was hoping if you could sort of just quantify or give us a sense of how much elevated investment spend do you have going through your P&L and CapEx so you talked about cloud migration, we talked about Geomni, just trying to gauge longer term how should we think about a step change in your free cash when this elevated investment spend sort of comes down to a more normalized level, is there a way to think about that at a high level? Thank you.

Lee M. Shavel

Chief Financial Officer & Executive Vice President, Verisk Analytics, Inc.

A

Yeah. So Hamzah, thanks for the question. I think there is a way to think about it and it revolves around CapEx and so a lot of our investment takes the form of internally-developed software and so that's captured in CapEx. And as we had discussed previously a lot of the acceleration was associated with the ramp-up of Geomni and the purchase of planes and sensors to build scale in that business. And while we continue to invest in that business, it is at a lower level on a proportionally relative to revenues than it had been in the past. And hopefully as you saw in this quarter, the capital intensity, in other words, the CapEx as a percentage of revenue showed a decline relative to that level and you saw in terms of the absolute growth rate, a slower level of growth.

And so I think that is one way to think about the level of capital intensity within the business. Beyond that we have OpEx expenses associated with a number of our breakout initiatives and we expect that to continue to grow as we fund these new breakout initiatives across the business. Some of them are profitable, some of them are at an earlier stage where they may be lower margin or not profitable yet, but across the board we would expect that investment to continue to expand at a reasonable pace and scaled against our overall operating margin expansion that we seek to achieve.

Operator: Your next question is from the line of Toni Kaplan with Morgan Stanley.

Scott G. Stephenson

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

A

Toni, are you there?

Toni Kaplan

Analyst, Morgan Stanley & Co. LLC

Q

Can you hear me?

Scott G. Stephenson

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

A

Yes.

Toni Kaplan

Analyst, Morgan Stanley & Co. LLC

Q

Okay. Sorry. Energy and Specialized saw the highest organic growth rate in three years and Neal you talked about how you see stronger growth in the coming five years. The data source that I use for industry CapEx trends has been revising down sort of growth rates in the next couple of years, so I wanted to sort of get a sense of if you have any color on how you're thinking about are you outperforming the market because of the products that you're providing, is your pipeline strong because of your sales process or products, just, I guess, just what's the disparity between maybe some of the data sources and what you're seeing? Thank you.

Scott G. Stephenson

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

A

Neal, you want to take that?

Neal Anderson

President, Wood Mackenzie Ltd.

A

Yeah, no. Absolutely, Scott, I think first of all we see modest growth around investment of our key customers over the next five years, Toni, as I mentioned in the introduction, [ph] folks and I are (31:21) starting to look more at investment rather than being prudent on the cost side, which is a great operating environment for Wood Mackenzie. And as you know, the traditional strength of Wood Mackenzie, the credibility of the market, our unique datasets and then we're adding to that in terms of our really intuitive data analytic platform in Lens and as I mentioned in the introduction, launch of that, fall of last year we already have 29 paying customers and we continue to see that growth going over the medium term.

Scott G. Stephenson

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

A

Hey, Neal, just a thought or really a question for you at the contextual level. Is there also some effect in the Lower 48, maybe it's not so much about CapEx intensity as it is about kind of operating agility and the ability to rebalance your operations very quickly in the unconventional. I wonder if there's just a little bit of a mix shift there also. Toni's looking at macro data sources, maybe a little bit of the rebalance towards Lower 48, maybe that's in the CapEx number a little bit also.

Neal Anderson

President, Wood Mackenzie Ltd.

A

Yeah, no, absolutely, Scott. Toni, I was referring to global CapEx. Scott's absolutely right. What we're starting to see is a little bit more discipline coming into the [ph] operators playing (32:43) in the Lower 48.

Operator: Your next question is from the line of Tim McHugh with William Blair.

Timothy McHugh

Analyst, William Blair & Co. LLC

Q

Hi. Thanks. Just wanted to ask on the Insurance side maybe. Can you elaborate a little bit more on the claims side of the business, I noticed I guess given the tough comp, it seems like Xactware still grew even despite the comparison. So can you talk a little bit about what's driving the growth there? And I think this is one of the first times you've at least in the presentation you've highlighted remote aerial or kind of remote imagery solutions. So have you seen any noticeable kind of pick-up in the adoption of that, amongst the client base? Thanks.

Scott G. Stephenson

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

A

Mark, do you want to take that one?

Mark V. Anquillare

Chief Operating Officer & Executive Vice President, Verisk Analytics, Inc.

A

Sure so I think you've captured many of the themes. So, first of all, I will let you know that across all the businesses that would be the Xactware business' repair cost estimate continues to be very robust and strong. There was a little bit of storm-related revenue back in 1Q of 2018, so we kind of grew over that. Our claims search or claims analytics business continues to be very well-penetrated but very nicely growing. We continue to add new customers outside of Insurance, as well as some of the analytic solutions. We signed a lot of very large contracts last year, which spurred growth. So those are on board this year, and we continue to do well with those customers. And thirdly, inside that category, Geomni is clearly a contributory to growth from an organic perspective, and we continue to do well in taking customers and expanding the breadth of Geomni and the aerial imagery, so, it's drawing strength across the board.

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

Jeffrey P. Meuler

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

Q

Yeah. Thank you. Good morning. So as I think about Lens, or I guess previously WoodMac 2.0 and what was talked about at the time of the acquisition, originally I think part of it and I think you were referencing this, Neal,

was related to the way that data is aggregated and automating that process. So I guess where are you in that journey? Have you largely automated the data aggregation process from the large energy companies that are supplying you with data? And then related to that, are there new fields of data, additional data that you're getting now that the process is automated? Thank you.

Scott G. Stephenson

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

Neal, your favorite topic. Have a go.

A

Neal Anderson

President, Wood Mackenzie Ltd.

Thank you, Scott. And absolutely, a big win this year in terms of margin expansion was that automation that you referred to. We began the rollout of Lens, which is a true [indiscernible] (35:37) reimagining which datasets we want to secure, how we automate the [ph] capture (35:43) and the transformation of that data and then for our analysts in turn to add their interpretation and produce the products for clients. We started in onshore U.S. Lower 48 exploration and production, and we're currently in the process of rolling that out to global upstream this year. And your second part of the question, we're always looking for new datasets. The wonderful thing about this automation and bringing on a new Chief Data Officer, Nabeel Azar, is he is tirelessly looking for new datasets, be them in the public domain, be them through partnerships or indeed other routes.

A

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

Andrew Charles Steinerman

Analyst, JPMorgan Securities LLC

Hi, it's Andrew. Lee, Verisk reported margin expansion in the first quarter. And obviously, you're still investing in key growth initiatives. Higher levels of investment spending was accomplished in 2018. Lee, with that in mind, is Verisk poised to have reported margins to be up directionally this year?

Q

Lee M. Shavel

Chief Financial Officer & Executive Vice President, Verisk Analytics, Inc.

So Andrew, I appreciate the question, again looking for guidance on margin. We are striving every quarter to increase our revenues at a higher rate than EBITDA. We've achieved that this quarter despite investments, and we'll continue to work to deliver on that. I think that certainly, as we said, the growth in this quarter was impacted by some tougher year-over-year comparisons, which I think diminished over time. And so that certainly creates an opportunity for us to show some improvement ahead if we're successful there.

A

Andrew Charles Steinerman

Analyst, JPMorgan Securities LLC

Thank you.

Q

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

George Tong

Analyst, Goldman Sachs & Co. LLC

Hi. Thanks, good morning. The underwriting and ratings revenue piece of the Insurance business grew 6.8% in the quarter, which was slightly slower than claims revenue growth and this is pretty typical. Underwriting typically

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grows at a slower rate than claims. Can you discuss internal initiatives that maybe accelerate the pace of growth for underwriting to the point where it could potentially surpass claims growth?

Scott G. Stephenson

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

Mark, do you want to take that one?

A

Mark V. Anquillare

Chief Operating Officer & Executive Vice President, Verisk Analytics, Inc.

Sure. So I first need to highlight what we refer to as our business focused on the pricing and underwriting, and it's the forms and coverage. That's a business that is kind of the foundation of Verisk for many, many years. It provides a very, very solid base, but at the same time we're well-penetrated and it's difficult for that business to grow all that dramatically. So what we've been trying to do is grow around that, and we have added many new products and tried to go international to accelerate that growth.

A

And in those areas, we have seen very high double-digit growth to accelerate the overall growth of underwriting and rating. So we're pleased with the investment that's being made. We're very pleased with the progress that's happening. But to answer your question, international is kind of one way we're going to try to extend and expand. Analytics beyond those core solutions, very important. And as I described, inside this category in the quarter, CAT bonds and the CAT bond market was a little slow. But nonetheless, our catastrophe modeling continues to, on a baseline, grow nicely with some of those efforts. So I hope I provide you with a little bit of the portfolio and how we think about it, to answer your question.

Operator: Your next question is from the line of Joseph Foresi with Cantor Fitzgerald.

Drew Kootman

Analyst, Cantor Fitzgerald Securities

Hi. This is Drew Kootman on for Joe. You guys mentioned that the integration, you guys have been having a lot of success on recent acquisitions. I was hoping you could highlight just a couple of those and discuss the pipeline you're seeing moving forward.

Q

Scott G. Stephenson

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

So Neal talked about some of the ways that we've been able to get the cost intelligence side of the business and the supply side and demand side of the business all synchronized in the marketplace. So that's kind of the view on the Energy front. And we also talked about how we pulled together LTI and Argus datasets in order to work on some of the more fraud and bankruptcy-related topics that you got in Financial Services. Mark, anything you want to – do you want to talk a little bit more some of the trifecta, Sequel, AIR and Analyze Re?

A

Mark V. Anquillare

Chief Operating Officer & Executive Vice President, Verisk Analytics, Inc.

Yeah, I mean I referenced in, kind of at a high level. From an international perspective, I think we found some very nice opportunities in UK specifically in the London market. We are seeing customers who kind of see the vision, like the ability to consume our analytic and data in a way they see most comfortable. But know that we are behind the scenes seamlessly integrating it, which has created an opportunity to walk into a customer, talk about a suite of solutions and them coming to us and saying, geez, don't you also have this product? Wouldn't that fit

A

in? And in a surprisingly and very good way, contracts and opportunities are growing. And I give a lot of credit to the team in the UK and how all of our businesses have really thought about a way to satisfy our customers. That has been reassuring, and it continues to show a lot of promise.

Scott G. Stephenson

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

A

And, Mark, we said it but just adding on to the Sequel tools, which relate to understanding exposures and their accumulations, that has sold almost exclusively in Europe today. Yet the integration that you're talking about ties it in with AIR, where a very strong part of our AIR franchise is in the United States. So there's a real pull-together there.

Mark V. Anquillare

Chief Operating Officer & Executive Vice President, Verisk Analytics, Inc.

A

The opportunity is not just the UK. Absolutely. Thank you.

Drew Kootman

Analyst, Cantor Fitzgerald Securities

Q

Thank you.

Operator: Your next question is from the line of Oscar Turner with SunTrust.

Oscar Turner

Analyst, SunTrust Robinson Humphrey, Inc.

Q

Hi, guys. Good morning.

Scott G. Stephenson

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

A

Good morning.

Mark V. Anquillare

Chief Operating Officer & Executive Vice President, Verisk Analytics, Inc.

A

Good morning.

Oscar Turner

Analyst, SunTrust Robinson Humphrey, Inc.

Q

So my question is on Lens. I was wondering what's the go-to-market for that product. Has the focus been on cross-selling to existing customers? And then can you give some color into what aspects of the product customers have been most excited about?

Scott G. Stephenson

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

A

Neal, you want to take that one?

Neal Anderson

President, Wood Mackenzie Ltd.

A

Yeah, no, absolutely. And it's a dual track. We're really excited about Lens both in terms of cross-selling and to our existing customer base. And also we've had huge interest from new clients, new logos toward Mackenzie. So it's certainly been both. The feedback that we've got from Lens and it ranges very much customer by customer, some really love the user experience, how intuitive it is; that they can use it on their laptop, iPhone, iPad. Other folks love the dynamic nature of it, so we have put in various assumptions with our unique datasets, and if they want to change them they can change that on the fly and recalculate valuations, which would have take minutes before in a matter of seconds. And then other folks really value that true integrated approach along the value chain, which we will continue to build and build and build over time.

Scott G. Stephenson

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

A

Neal, maybe you'd comment also on just kind of the – it's the same sales force that is taking Lens out to the same customers that is already taking all of our other solutions out to market.

Neal Anderson

President, Wood Mackenzie Ltd.

A

Yeah, no, absolutely. This is just one other avenue for our sales force in terms of how they can support and service our customers.

Scott G. Stephenson

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

A

The point being that there's leverage here.

Oscar Turner

Analyst, SunTrust Robinson Humphrey, Inc.

Q

Got that. Thank you.

Operator: [Operator instructions] Your next question is from the line of Will Warmington with Wells Fargo.

William A. Warmington

Analyst, Wells Fargo Securities LLC

Q

So, I want to ask about the true motion partnership – basic partnership – basically how does having a cell phone, telematics platform impact your product capability. And does it let you expand your addressable market? Can you go after segments that you couldn't go after before?

Scott G. Stephenson

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

A

Mark, that's a good one for you.

Mark V. Anquillare

Chief Operating Officer & Executive Vice President, Verisk Analytics, Inc.

A

Sure, so let me try to – so reminding you, what we have done is we partnered with a lot of the OEMs, Honda, Hyundai and GM, and from the vehicle, we harvest the data. We're up to 5 million cars, 90 billion miles, and that is helping our insurers do other modeling themselves or use our programs to understand behavior of those drivers so they can get a better price with regard to insurance.

There's also some insurance claims-use cases where we can help get assistance and actually initiate a claim. What we're trying to do is provide this consortium of all data available around the vehicle to help our customers understand the risk and price it better. So what the mobile devices do is they can provide that same type of information with, by the way, consent from users, so that we have information about distance traveled, information about the quality of the driving, all of that about both the vehicle connected to the driver.

In some cases, we identified ways. In other cases, we know the vehicle. So it is a part of a broader strategy to aggregate as much information about a vehicle and about a driver to help the assessment of that risk. So hopefully, you can understand the expansive nature of what can be involved with telematics from the standpoint of the mobile phone as well as telematics from the vehicle itself harvesting from OnStar as an example.

William A. Warmington

Analyst, Wells Fargo Securities LLC



Thank you very much.

Operator: There are no further questions.

Scott G. Stephenson

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

Okay. Well, thanks, everybody for joining us. We appreciate the continued interest and support. And we'll be following up with a number of you. So have a great rest of the day.

Lee M. Shavel

Chief Financial Officer & Executive Vice President, Verisk Analytics, Inc.

Thank you.

Mark V. Anquillare

Chief Operating Officer & Executive Vice President, Verisk Analytics, Inc.

Thank you, all.

Neal Anderson

President, Wood Mackenzie Ltd.

Thank you.

Operator: This concludes today's earnings conference call. Thank you for your participation. You may now disconnect.

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