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Verisk Analytics, Inc. (VRSK)

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, everyone, and welcome to the Verisk Fourth Quarter 2022 Earning 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 further have instructions for you at that time.

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

Ms. Brodbar, you may go ahead.

Stacey Jill Brodbar

Head-Investor Relations, Verisk Analytics, Inc.

Thank you, Devon, and good day, everyone. We appreciate you joining us today for a discussion of our fourth quarter 2022 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-K can be found in the Investor section of our website, verisk.com. Mornings release has also been attached to an 8-K that we've 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 guidelines. Actual performance could differ materially from what is subjected by our comments today. Information about the factors that could affect future performance is contained in our recent SEC filings.

Finally, I'd like to remind everyone that the financial results for recent dispositions are included in our consolidated and GAAP results but excluded from all organic constant currency growth figures. A reconciliation of reported and historic non-GAAP financial measures discussed on this call is provided in our 8-K and today's earnings presentation posted on the Investors section 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 estimates certain items that are excluded from projected non-GAAP adjusted EBITDA and adjusted EBITDA margin, including, for example, tech consequences, acquisition-related cost, gain or loss from dispositions and other non-recurring expenses the effect of which may be significant.

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

Lee M. Shavel

Chief Executive Officer & Director, Verisk Analytics, Inc.

Good morning, everyone, and thank you, Stacey, and thanks to you all for participating today.

We really have been looking forward to this call because it's our first opportunity to reintroduce Verisk in our new insurance focused configuration to discuss the momentum in the fourth quarter, and given all the structural changes, give you a forward view of our expected performance in 2023. We accomplished an extraordinary amount in 2022 so let me provide a brief summary.

First, there's been a lot of structural change. In March, we sold 3E, our environmental health and safety business, for net cash proceeds of \$575 million. In April, we sold Verisk Financial Services for net cash proceeds of approximately \$500 million, and most recently in February, we sold Wood Mackenzie for approximately \$3.1 billion. We've begun the process of returning a substantial majority of the after-tax proceeds of those transactions to shareholders through share repurchases as promised.

Despite a challenging economic, geopolitical and financing environment, we were able to complete these transactions at attractive valuations due to strong underlying businesses, capable management teams and a well-organized sale process.

Let's turn to governance change. Structural change wasn't the only transition at Verisk. We also made a number of governance changes that shareholders suggested. We are transitioning to a declassified board with annual elections. We added four new Directors with fresh perspectives and experiences, Jeff Dailey, Wendy Lane, Olumide Soroye and Kim Stevenson. We separated the Chairman and CEO role with the election of Bruce Hansen as our new Chair. I have to personally thank Bruce for his advice and leadership through my transition. As a former CEO, he's been a great coach to me as have been all of our directors.

Let's turn to organizational change. Finally, organizationally, we've had substantial change. In addition to Scott Stephenson's retirement last year, Mark Anquillare stepping down in January, and the addition of Elizabeth Mann as our CFO, we have made over a dozen changes in senior management. These have enabled the next generation of management to rise bringing new energy and fresh perspectives on how we can make Verisk better.

At the highest level, I have reconstituted our senior operating committee with 10 colleagues, 6 of whom are new to the committee, who represent a better balance of business unit leaders and corporate leaders for improved integration and coordination. I'm also proud that the committee represents 50% gender diversity and 40% ethnic diversity, a strong signal for our entire organization.

We all share the common mission of creating value for our clients, employees and shareholders. With all this change, we were, of course, carefully watching for disruption with our employees and clients. While there is some understandable anxiety with any organizational change, the feedback from employees at three town halls, anonymous surveys and informal feedback has been very positive with enthusiasm for our refocused strategy and insurance and new leadership.

In particular, our purpose of working together to build global resilience for individuals, communities and businesses, has resonated strongly with our employees, as has our new cultural values of learning, caring and results.

As I believe all of you can appreciate, what we accomplished in terms of structural and organizational change in 2022 was no foregone conclusion, and the delivery of a clear view of our insurance-only operations in our 10-K was a massively complex exercise. It required the effort, expertise and commitment of hundreds of our employees to accomplish, so I'd like to take this opportunity to personally thank all of our nearly 7,000 employees for their

professionalism, commitment and understanding as we have undergone so much change in 2022. They are absolutely talented and critical to our future success.

What we accomplished this year demonstrates what we're capable of ahead. On the client front, we've also received a positive response from many clients who appreciate our renewed insurance focus and desire to improve our relationships across their organizations. I experienced this firsthand at our Elevate Conference in Salt Lake City and dozens of client meetings and calls. Their feedback reinforces that while we have been a great product organization, we can be a much better client organization, and that's an area where I'm dedicating substantial time and leading from the front. I've spent most of my career as a client professional and I'm excited to be returning to this particular role.

Let's move to financial change. I won't steal Elizabeth's thunder on the financials, however, there are two elements that matter most to me in our 2022 performance and what we intend to achieve in 2023. First is our ability to continue to deliver strong revenue and adjusted EBITDA growth despite the changes and challenging environment in 2022 and the clear momentum in the fourth quarter results. We have clearly demonstrated what Verisk is capable of in the fourth quarter by delivering organic constant currency revenue growth of over 7% in the insurance-only business, even after eliminating the impact of storms.

I'd also note that fiscal year 2022 insurance OCC revenue growth of 6.5% and adjusted EBITDA growth of 8% is a solid result for a year of substantial change and macroeconomic challenges and is a strong reflection of the stability of our business and a good foundation to build on to in 2023 and beyond.

Second is our delivery of clear margin improvement consistent with the clear goals we set for the insurance-focused business of 300 to 500 basis points improvement from a normalized base of 50% to 51% in 2021. At 52.7% for the fourth quarter, we are on the cusp of delivering at the low end of our targeted range of 53% to 56% for 2024 and our guidance for 2023 is for adjusted EBITDA margin to be between 53% and 54%.

Finally, we are providing expanded financial guidance for 2023 as a reflection of the complex structural changes in 2022, as well as an expectation of more predictable growth with our refocused business. This decision also reflects input from many of our shareholders who ask for improved financial guidance. Naturally, it will come with the necessary caveats that we can't predict all contingencies, but represents our best assessment of 2023 financial performance.

So where does that leave us after all of these changes? We are, as of this moment, a new Verisk. New structurally, organizationally and with a reenergized and refocused purpose and values. There's a lot that you'll be familiar with including our insurance focus, industry centrality, strong market position, stable growth and strong margins. And some new elements that are expanding our growth opportunities in areas such as life insurance, marketing solutions, and in our European businesses, including specialty business solutions, where we are improving workflows and efficiency in the Lloyds non-standard market. You will also see changes in our expense discipline to drive margin expansion and a new approach to providing financial guidance for the year ahead.

Let's step back and take a moment to reframe our opportunity. The insurance industry is massive, complex and growing globally. Our clients face substantial technology, regulatory and macroeconomic challenges in a rapidly evolving environment. This is less an assertion than an often repeated sentiment that I hear from the leaders of our clients. One of my favorite client quotes was, we need Verisk's help to address this, but more importantly, the industry needs Verisk's help. That crystallizes our opportunity and position.

You'll hear at Investor Day from several clients that Verisk is considered a true business partner rather than a vendor, and that we work together to collectively solve problems for the insurance industry. We create value for our clients through a simple economic mechanism. We invest in data, analytics and software at scale to address industry needs much more efficiently than individual companies can. We are addressing hundreds of billions of dollars of premiums and expense across the industry to improve revenue growth, risk outcomes, [ph] client (00:11:25) experience, productivity and margins. These investments deliver real value to the industry and in turn drive our growth, operating leverage and high incremental returns on capital.

Much of this opportunity is realized by facilitating connectivity across the insurance ecosystem, hence the theme of our Annual Report for 2022, Connecting What Matters. To connect you must be central; you must be trusted; and you must understand the needs of the ecosystem. No company is better positioned than Verisk with our scale, relationships and expertise to create this value for the insurance industry.

We're very proud of what we accomplished in 2022, but it was all to put us in this position where we can demonstrate our full potential focused on serving the substantial and expanding needs of the insurance industry. With a reconfigured and energized organization, bound together by a common purpose and values, we are very excited about the path ahead and can already feel the benefits of this better integrated and focused approach. This is the way.

As our 2023 financial guidance implies, and as you'll hear at our upcoming Investor Day, we believe this path will see continued growth, improving margins and strong returns on capital.

I'll end with thanks to our shareholders, who encouraged us to consider new approaches and offered their perspectives directly or indirectly through surveys and our analyst community. We and our board have listened carefully, and our actions and path ahead clearly reflect your input. We are here to expand the opportunity, execute on the plan and deliver value on our behalf. I can't imagine us being in a better position to do so and we're off to a solid start.

With that, I'll hand it over to Elizabeth to review our financial results for the quarter, the year and our financial guidance for 2023.

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

Thanks, Lee, and good day to everyone on the call. Before I start with the fourth quarter results, I have a few reminders for everyone. First, all consolidated and GAAP numbers are negatively impacted by the dispositions of 3E and Verisk Financial Services. This effect will continue through the first quarter of 2023 when we will anniversary those transactions.

Second, as we described previously, due to its materiality, Wood Mackenzie is accounted for as discontinued operations beginning this quarter and its results are not included in our revenue or adjusted EBITDA results in either the current period or the prior period.

Third, in the earnings presentation now posted on the Investors section of our website, we have included certain pro forma quarterly financial metrics, removing the operational results of all our divestitures, as well as a reconciliation to our historical reported results, which we hope you will find helpful.

Turning now to the financial results. I'm pleased to share that we had a strong finish to 2022. For the fourth quarter, on a consolidated and GAAP basis revenue was \$630 million, up slightly versus the prior year, reflecting

growth in insurance, offset by the impact of the VFS and 3E dispositions. Income from continuing operations was \$216 million, while diluted GAAP earnings per share attributable to Verisk was \$1.37.

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, we're very pleased with our operating results which demonstrated strong sequential improvement relative to the third quarter, as a broad-based recovery across our business contributed to the strongest quarter of the year.

In the fourth quarter, OCC revenues grew 8.1% with growth of 6.5% in Underwriting & Rating and 11.9% in Claims. This quarter's results included \$5.6 million in storm-related revenue associated with Hurricane Ian. Excluding the storm-related revenues, OCC revenue would have grown 7.1%.

Our subscription revenues, which comprised 80% of our total revenue in the quarter, grew 7.2% on an OCC basis. We saw broad-based growth across most of our businesses with strength in core underwriting, property estimating solutions, extreme events, anti-fraud and life insurance solutions. We did experience a modest negative impact from the liquidations in Florida. As we noted in previous calls, Florida has been a trouble spot for the insurance industry and the losses from Hurricane Ian add complications.

In 2022, the market saw six liquidations and so far in 2023 we have seen one company placed into receivership after higher-than-expected losses from Hurricane Ian pushed the carrier into insolvency. We continue to work to offset this headwind through engagement with our customers by helping them adapt to Florida's new roof coverage rules and by better segmenting risk using both new and existing sources such as our roof age data and aerial imagery. Our analytics have been integrated into our light speed platform and can help customers leverage data earlier in their quoting process, ensuring they underwrite risk appropriately, as well as help drive non-rate action for enforced policy.

Transactional OCC revenue growth of 12.1% representing 20% of total revenue in the fourth quarter also improved from the third quarter reflecting revenues associated with Hurricane Ian. Adjusting for the storm impact, transactional growth was a healthy 8.2% comprised of continued strong recovery in international travel, strong sales of life insurance solutions and a modest contribution from our workers compensation business, which is improving though continues to be below pre-pandemic levels.

This was offset in part by continued weakness across auto underwriting and marketing solutions. On the auto underwriting side, we continue to see cyclical softness across our auto underwriting and marketing solutions, as carriers are dealing with the impact of rising inflation and increasing loss ratios. To that end, carriers have pulled back on underwriting new auto policies, as well as on marketing spending to drive new policy volume and customer acquisitions.

Carriers are working to reset pricing, which we think could take another 6 to 12 months to truly take effect. To help our customer's bridge this uncertain time, and drive growth for Verisk, we are working with them to help identify ways to improve profitability with targeted non-rate actions that minimize premium leakage. We are actively engaging with customers about our RISK:check Renewal product, which allows insurers to analyze an entire book of business with minimal IT resources and pinpoint policies that require attention.

Moving now to our adjusted EBITDA results. OCC adjusted EBITDA growth grew 12.9% in the fourth quarter reflecting core operating leverage and the impact of certain cost reduction actions we have taken in connection with our margin expansion objectives. Total adjusted EBITDA margin, which includes both organic and inorganic results was 52.7%, up 210 basis points from the reported results in the prior year, reflecting the benefit from

recent dispositions, strong cost and operational discipline, the impact of certain cost reduction actions and the high incremental margins associated with storm-related revenue.

This level of margin also includes a number of margin headwinds, including approximately 110 basis points from recent acquisitions as well as 80 basis points from the headwinds from our ongoing technological transformation and higher T&E expenses. In addition, this quarter included certain one-time or non-operating expenses including severance, FX impact and a decrease in our pension credit, which collectively negatively impacted margins by 190 basis points.

Finally, if you compare the fourth quarter margins on a pro forma basis for all divestitures, the 4Q 2022 margins of 52.7%, represent an 80 basis point margin expansion from 51.9% in the fourth quarter of 2021 pro forma.

Reflecting on our objective to deliver 300 basis points to 500 basis points of margin improvement in 2024 from a normalized base of 50% to 51% in 2021, we took great strides in 2022 with full year adjusted EBITDA margin of 52% on a pro forma basis, reflecting approximately 140 basis points of margin expansion associated with our operational excellence focus.

To-date, we have made decisions and taken actions to address more than 60% of the run rate cost savings we are targeting. The impact of those actions will be realized through 2024 with about 30% of the accumulated expected cost savings already achieved in the reported results in 2022. Our business continues to demonstrate the operating leverage embedded in our data analytics business model and we have confidence in our ability to deliver on the objective in 2024.

Interest expense. Interest expense totaled \$41 million for the fourth quarter, compared to \$30.2 million in the prior year. For the full year, interest expense totaled \$139 million versus \$127 million in 2021. This increase in interest expense is related to higher balances on our revolving credit facility as well as higher interest rates. We have paid off all borrowings under our credit facility as of February 2023 and in the near-term, will look to establish the go-forward balance sheet for the business, staying within our targeted leverage range of two to three times adjusted EBITDA.

Taxes. Our reported effective tax rate was 9.9%, compared to 16.8% in the prior year quarter. This lower tax rate included a one-time benefit of approximately \$30 million, which was primarily the result of transaction benefits related to our Wood Mackenzie divestitures, offset in part by lower stock compensation benefits versus the prior year period.

For the full year 2022, our effective tax rate was 17.5%, as compared to 22.8% in the prior year, including approximately \$67.7 million in benefits related to all our dispositions throughout the year. The net effect of these transaction-related tax benefits was a reduction in our full-year effective tax rate of 5.4%.

Adjusted net income and diluted-adjusted EPS. Adjusted net income increased 14% to \$225 million and diluted-adjusted EPS increased 18% to \$143 for the fourth quarter 2022. These changes reflect organic growth in the business, contribution from acquisitions, a lower effective tax rate and a lower average share count.

Capital return. During the fourth quarter we returned \$514 million in capital to shareholders through share repurchases and dividends, as our strong cash flow allows us to consistently return capital to shareholders while also investing in our business. In particular, included in that amount, is 366 million of share repurchases we have completed since the announcement of the Wood Mackenzie transaction back in November.

In the coming days, we intend to enter into an additional \$2.5 billion accelerated share repurchase agreement for a total capital return of \$2.87 billion associated with the transaction proceeds. This is consistent with our plan to return the majority of the proceeds from the Wood Mackenzie divestiture to shareholders via share repurchases. We continue to expect the dilution from the transaction to be within the 4% to 6% range.

Looking ahead to 2023, as we mentioned, we have listened to shareholder feedback and will now be providing annual financial guidance. We have posted a summary of all guidance measures in the earnings deck on the Investors section of our website Verisk.com. Specifically, for 2023, we expect consolidated revenue to be in the range of \$2.59 billion to \$2.63 billion versus \$2.437 billion in 2022 pro forma.

We expect adjusted EBITDA to be in the range of \$1.37 billion to \$1.42 billion versus \$1.266 billion in 2022 pro forma, and adjusted EBITDA margins to be in the range of 53% to 54%.

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

We also expect capital expenditures to be between \$200 million and \$230 million, as we continue to invest organically behind our highest return on investment opportunities. These include a modernization of our core line of services to digitize our industry-standard offering and enable expansion into new workflows and improved productivity for the industry. We are also investing in an upgrade of our financial and human capital systems that will enable future efficiencies once implemented.

As previously communicated, we expect the tax rate to be in the range of 23% to 25%, bringing adjusted earnings per share to a range of \$5.20 to \$5.50. This range represents strong double-digit growth rates on EPS, after normalizing for the impact of transaction tax benefits in 2022.

Before I turn the call over to Lee, I just want to remind everyone that we will be hosting an Investor Day on March 14 here in Jersey City where we will provide more transparency and clarity on our strategic profile, growth drivers and long-term financial targets.

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

Lee M. Shavel

Chief Executive Officer & Director, Verisk Analytics, Inc.

Thanks, Elizabeth. In summary, we are excited to focus all our attention, talent and resources on the global insurance industry where we can deliver substantial value to our clients, through improved decision-making and operational efficiency. We will be engaged more intensively as a strategic technology partner to our clients, and the broader insurance industry, to identify and develop ways for Verisk to support their objectives. With our scale, relationships and expertise, we are well positioned to help make those connections in this period of accelerated change for the industry and by extension, to the people and communities they serve.

Our motivating purpose is to work together with our clients in building resilience for individuals, communities and businesses globally, combined with our focused business model and unique market position this is a formula that will deliver value to our shareholders and growth in returns. We continue to appreciate the support and interest in Verisk, given the large number of analysts we have covering us, we ask that you limit yourself to one question.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from Toni Kaplan with Morgan Stanley.

Toni Kaplan

Analyst, Morgan Stanley & Co. LLC

Q

Thank you so much and congrats on the results today, and particularly, I think your progress on the margin front. You talked about hitting 53% to 54% margin in 2023 and as you mentioned that'll essentially be at the low-end of the 2024 target range. Does this change your strategy around investment, meaning does this allow you to go more aggressively after growth opportunities just given that your margin is in a really solid place? Thanks.

Lee M. Shavel

Chief Executive Officer & Director, Verisk Analytics, Inc.

A

Thanks, Toni. I'm going to hand it over to Elizabeth to respond.

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

A

Thanks, Toni. I don't think it changes our overall strategy. We are committed to the targets delivering in 2024. We're happy to be in the low-end of that range already ahead of schedule, but we'll maintain that level of focus on margin while still maintaining investment in the business, as we've [ph] been balancing (00:29:41) so far.

Lee M. Shavel

Chief Executive Officer & Director, Verisk Analytics, Inc.

A

Yeah, and, Toni, I'll just add, I think we're very comfortable in our ability to meet those targets, to build on that while still continuing to support the growth objectives that we have for the business.

Toni Kaplan

Analyst, Morgan Stanley & Co. LLC

Q

Thanks a lot.

Operator: Our next question comes from George Tong with Goldman Sachs.

George K. Tong

Analyst, Goldman Sachs & Co. LLC

Q

Hi. Thanks. Good morning. You've reaffirmed your commitment to deliver 300 to 500 bps of EBITDA margin improvement from a normalized base of 50% to 51% in 2021. Recently you restated historical financials suggesting an insurance-only Verisk has normalized EBITDA margins of approximately 52%. Can you discuss upside potential to your 53% to 56% 2024 target for EBITDA margins?

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

A

Yeah, thanks. We remain committed to that range. Right now, I'm here talking about 2023. I think there's been some headwinds in 2022 that we've talked about previously, as well as some benefits to the business, so on balance we're committed to the range.

Operator: Our next question comes from Heather Balsky with Bank of America.

Heather Balsky

Analyst, BofA Securities, Inc.

Q

Hi. Thank you for taking my question. I'll continue the streak of margin questions on the Q&A and just ask if you could help us just bridge a little bit more what gets you to 53% to 54%, what's coming from the savings? What's sort of the impact from the stranded cost, and some of the other chunkier lines that kind of get you from 2022 to 2023?

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

A

Yeah, let me talk a little bit about that. If you start with the baseline 2022 of 52% that pro forma, that already includes the headwinds from stranded costs and it includes most of the headwinds from recent M&A.

As we move forward on that, there is still a little bit more headwind from those previously-identified items in our baseline. Call it about 30 basis points collectively from ongoing impact of the T&E normalization, the cloud and technology investments including some of the financial and human capital systems that we talked about, so call those investments 30 basis points.

There's probably still 30 basis points of headwind also from the pension credit which we know today is based on current assumptions will be – will continue to be a drag in 2023. Offsetting that you'll see, so that's about 60 basis points collectively. That's offsetting about 150 to 250 basis points of sort of core operating leverage. I haven't broken that down between operating leverage growth impact and the cost savings target, but those are all included in that 150 basis points to 250 basis points, bringing us to the net of 100 to 200 basis points margin expansion.

Heather Balsky

Analyst, BofA Securities, Inc.

Q

Thank you so much.

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

A

Thanks, Heather.

Operator: Our next question comes from Ashish Sabadra with RBC Capital Markets.

Ashish Sabadra

Analyst, RBC Capital Markets LLC

Q

Thanks for taking my question. Changing gears and moving to the top-line, really strong OCC growth in the quarter. I was wondering for your 2023 guidance, what is the organic constant currency assumption for that guidance range.

And then as we think about a quarterly cadence, I was wondering if you could provide any color on that and any color on the puts and takes as we think about auto underwriting coming back, worker comp improving as well as any color on pricing trends and comping some of the Florida insurance headwinds, so any...

[indiscernible] (00:33:38)

Lee M. Shavel

Chief Executive Officer & Director, Verisk Analytics, Inc.

...like a four-part question.

A

Ashish Sabadra

Analyst, RBC Capital Markets LLC

Sorry.

Q

Lee M. Shavel

Chief Executive Officer & Director, Verisk Analytics, Inc.

I'd love to choose [indiscernible] (00:33:46) that multiple choice, so.

A

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

I'll try to hit the main points there. So, on the OCC revenue growth, we haven't given that on a forecasted basis. We will report that out as the quarters develop. The one piece I'll flag for you, for 2023 the acquisitions that roll in from inorganic to organic are not – don't create a major swing in the growth rates and obviously, FX we're not predicting.

A

In terms of – you asked about the quarterly cadence of how that plays out. There's nothing that we see here today that would imply a meaningful swing in the quarters from a financial perspective. If you look at the OCC comparability results to 2022, those could have some swings just based on the swings in 2022.

Ashish Sabadra

Analyst, RBC Capital Markets LLC

That's very helpful.

Q

Operator: Our next question comes from Stephanie Moore with Jefferies.

Hans Hoffman

Analyst, Jefferies LLC

Hi. This is Hans Hoffman on for Stephanie. Congrats on the strong quarter and thanks for taking my question. Just wanted to talk a bit about your strategy within insurance, specifically internationally and just how organic growth is trending there and then just kind of maybe as part of that, are there any acquisitions in the international pipeline that could help you gain further critical mass that are going forward? Thanks.

Q

Lee M. Shavel

Chief Executive Officer & Director, Verisk Analytics, Inc.

Thank you for the question. Let me try to address the components of that. So, I think I outlined in my comments the general strategy where we are looking to make investments in data or technology that solve industry problems, that we can monetize across that industry, and that strategy really holds across the business.

A

Internationally, where we've had a very solid success of finding businesses that have established products in international context and I'll use our acquisition of Sequel as an example, we have taken that business. We have found ways to support that with the addition of other components such as a rate making component, or a binding component in that business that add value to the total offering for our business, thereby integrating components for the market participants in that ecosystem.

We will continue to look for opportunities to leverage those types of additions as well as datasets and functionality that we have within the US business. We recently made an acquisition in Sweden and you may be familiar with both our acquisitions of ACTINEO in Germany and Opta, where we're deploying similar strategies. And generally across our international businesses, we have been able to deliver growth faster than our overall rate and generally in the double-digit range because of the penetration opportunities that we have within those marketplaces. So, hopefully that ties together both our general strategy and how it applies internationally and the contributions to growth from each of those elements.

Hans Hoffman

Analyst, Jefferies LLC

Q

Yes. Very helpful. Thanks.

Operator: Our next question comes from Jeff Meuler with Baird.

Jeffrey P. Meuler

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

Q

Yeah, thank you. Want to ask about the pickup in claims underlying growth normalized for the discrete storm revenue. I mean, it's a pretty big step-up. So I'm just trying to understand, were there any other like one-time benefits in the quarter? Is this mostly about COVID recovery because the factors you cited were things like recovery in international travel and workers' comp. Or what I'm really looking for, was there like a pickup in like cross-selling and upselling trends in the business and the stepped-up growth rate could be sustainable? Thank you.

Lee M. Shavel

Chief Executive Officer & Director, Verisk Analytics, Inc.

A

Thanks, Jeff. So I would say the general dimension has been that it has been the normalization of activity across the business in a couple fronts, driving activity being one of that I think that has had a positive improvement in some of our anti-fraud categories. Elizabeth made reference to some of the return to growth in our workers' comp businesses, and I think on the property estimating side, I think we've seen higher and more normalized levels of activity.

Some of that, excluding the actual storm revenue, I just think we have seen more activity. I'd ask my colleague Maroun Mourad who leads our Claims business if there's anything that he would like to add to the general pickup that we've seen in the Claims business.

Maroun S. Mourad

President-Claims Solutions, Verisk Analytics, Inc.

A

Thank you, Lee. Thank you, Jeff, for the question. We've been experiencing overall healthy growth across the different claims businesses that we've got, so in addition to the comments made by Elizabeth and Lee around property estimating solutions as well as the casualty workers' comp business, we continue to see deep customer engagements that is resulting in very healthy growth activity across our anti-fraud suite of solutions. Thank you.

Jeffrey P. Meuler

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

Thank you, both.

Q

Operator: Our next question comes from Andrew Steinerman with JPMorgan.

Alexander E.M. Hess

Analyst, JPMorgan Securities LLC

Hi. This is Alex Hess on for Andrew Steinerman. Want to ask maybe a bit about retention rate. In the press release you saw from Florida and then as a sort of a second part to that question, any sort of operational or balance sheet efficiency statistics you can provide for the standalone insurance Verisk. So to that Florida question, maybe what was your retention rate in 2022 and what was it sort of ex-Florida.

Q

Lee M. Shavel

Chief Executive Officer & Director, Verisk Analytics, Inc.

So, Alex, thanks. I would say we are experiencing continued high client retention rates, and I think what we talked about there's been one liquidation in Florida and so that's something that we have called out, but I don't think – and I'll look to my colleague, Neil Spector, here to see if there are other than that situation whether we have seen any changes in our overall retention on the underwriting side of the business, so I think those remain very solid. We're watching it carefully, because of the risks in Florida, but to-date, I think we've only had one liquidation.

A

Neil, anything you'd like to add?

Neil Edward Spector

President, Underwriting Solutions, Verisk Analytics Ltd.

Thanks, Lee. No, I think you summarized it well. I would just say that while there are potential for liquidations down there, there's also new formations of companies that come into the market because there's need for coverage which gives us opportunities, so just – it isn't a one way flow of businesses exiting. There's businesses entering as well, which helps offset some of that.

A

Lee M. Shavel

Chief Executive Officer & Director, Verisk Analytics, Inc.

Thank you, and the question I don't know on the operational and the balance sheet, Elizabeth, I think can respond.

A

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

Yeah, thanks for that, Alex. We haven't – I don't have any specific stats pulled out on that right now, but I think in general, the insurance business is the most cash flow generative and sort of the most capital efficient of our former businesses. It generates strong free cash flow, negative working capital characteristics and high kind of yield on EBITDA.

A

Lee M. Shavel

Chief Executive Officer & Director, Verisk Analytics, Inc.

A

And when I think about balance sheet efficiency, Alex, I think the most striking thing is that with these dispositions we have released a lot of capital that was not generating as high a return as in our core insurance businesses, and so I think you will see that in the return on invested capital, particularly as we utilize the proceeds to sort of repurchase shares. That's probably the most significant balance sheet efficiency in my mind.

Alexander E.M. Hess

Analyst, JPMorgan Securities LLC

Q

Thank you.

Operator: Our next question comes from Greg Peters with Raymond James.

C. Gregory Peters

Analyst, Raymond James & Associates, Inc.

Q

Well, good morning, team Verisk. Lee, in your comments, you acknowledged all the changes that the company has gone through over the last year. Now that you're laser-focused on the insurance piece, can you talk about how you're tracking customer satisfaction? Specifically, is there something like the comprehensive customer survey that you're using where you can collect unfiltered feedback rather than just looking at retention numbers and feedback you get at conferences?

Lee M. Shavel

Chief Executive Officer & Director, Verisk Analytics, Inc.

A

Yeah, Greg, thank you very much, and you really – you touched on something that we – I think we have a good system, and we undertake a survey and an NPS scoring twice a year in 2022. That is in the mid-40s which is consistent with where we've been before the pandemic and through the pandemic. And I think we saw an increase in that during the pandemic as a function of kind of a general lift from – working from home from our clients. Some of the features that we offered through client experience that were well-received but still a very solid number, so we undertake that.

But we also have a customer experience unit that is always looking to gauge the feedback that we receive from our clients on product experience, so at that level, we're trying to provide a number of means for them to communicate anonymously, their level of satisfaction. I would also say anecdotally, we have intensified our efforts to engage at a senior-level particularly at the C-suite with how we are providing value and solving problems for them.

The feedback of knowing – their feedback to our renewed focus on just the insurance industry has been very positive. The outreach from some clients where we haven't had a strong relationship has been very positive and we've actually seen a higher-level of engagement from them as a result, so we're looking at that across at different layers, and so far, I think the response has been positive and we'll continue to build on that.

C. Gregory Peters

Analyst, Raymond James & Associates, Inc.

Q

Got it. Thank you.

Operator: Our next question comes from Andrew Jeffrey with Truist Securities.

Andrew W. Jeffrey

Analyst, Truist Securities, Inc.

Q

Hi. Good morning. Appreciate all the sort of succinct summation of the changes you made in your business and the guidance, I agree that's really helpful.

Lee, also appreciate all the call-outs of the business drivers. Now that you're a pure-play, are there some areas where you think Verisk has particular ability to focus and accelerate growth? I'm thinking about life or extreme event modeling as we think more about climate change. I just wonder if there's more of a laser focus on areas we think Verisk has the ability to really leverage assets and potentially accelerate top-line?

Lee M. Shavel

Chief Executive Officer & Director, Verisk Analytics, Inc.

A

Yeah, Andrew, thank you very much for the question, and I'll do my best to address it here, but I think we're really excited about drilling into that at Investor Day, so forgive me...

Andrew W. Jeffrey

Analyst, Truist Securities, Inc.

Q

Okay.

Lee M. Shavel

Chief Executive Officer & Director, Verisk Analytics, Inc.

A

...for another advertisement for Investor Day, but I really think that it'll be a great opportunity for you to hear not only what I have to say strategically, but also hear directly from the business and the investments that we're making, so I'm going to try to limit it to three.

The first is, as you referenced in new areas for us like life insurance and in marketing that are current needs for those businesses that we have the opportunity to penetrate the existing insurance industry or segments of the insurance industry that we have not served before are already delivering significant growth that enhances our overall growth rate, so we will continue to look for those opportunities.

The second level is internationally as we've described also a penetration opportunity where our international businesses are growing faster. They represent an opportunity for us to deliver some of the data, the analytics, and technology into those markets as well as developing new solutions, and so the success that we've had in UK, we hope to follow up with success in Canada and in Continental Europe with some of our work there, and that's not just acquisition-driven. It's also integrating some of the features and products that we have in the US.

And the third element that I would just point to is, I think that we have a broader opportunity based upon the conversations that I've had with other CEOs and other C-suite clients around the opportunity to improve the efficiency of the broader insurance industry. To my earlier point, I think we've been great on the products that are focused on specific underwriting or specific claims applications, but our ability to tie those solutions together or potentially find shared services or more automated solutions to address the hundreds of billions of dollars of expenditure by the industry is an area that has a very strong reception from the clients we've dealt with.

One element that I'll tease that has gotten a lot of interest is our ability to digitize more of the forms elements and the standard policy language which as you can imagine can sometimes expand exponentially with tweaks to that language, being able to manage and track that on a digitized basis is part of the investment that we're making in our core lines we imagine.

Those are the types of solutions where we can given our centrality, given the datasets that we have, really revolutionize the way that that process is being handled, creating efficiencies across the industry as a whole. So that hopefully gives you a little bit of a start in terms of where we think we can find new areas to potentially expand that growth rate.

Andrew W. Jeffrey

Analyst, Truist Securities, Inc.

Q

Great. Look forward to Investor Day.

Operator: Our next question comes from Jeff Silber with BMO Capital Markets.

Jeffrey M. Silber

Analyst, BMO Capital Markets Corp. (Broker)

Q

Thanks so much. Wanted to focus on your auto underwriting and marketing that you talked about, actually a two-part question. Can you just remind us what your exposure is there, what was the percentage of revenues pre-pandemic, what it is now, and what gives you the confidence that these companies can really reset premiums within the next 6 to 12 months? Thanks.

Lee M. Shavel

Chief Executive Officer & Director, Verisk Analytics, Inc.

A

Yeah. So, one, I'm going to address the second part first, and then just also ask Elizabeth or Stacey to kind of refresh me on the overall exposure element, but I think we're confident because we are already seeing in a number of regulatory areas that those rate increases are being approved. There was a previously a bit of a delay I think because of elections that probably created some delay from a regulatory standpoint.

We're now seeing those begin to emerge. I think a recognition that the inflationary costs, that the auto insurers have borne is something that is legitimate and needs to be factored into overall pricing. There are some areas that I think we're concerned about, particularly in California, and approvals on that front, but I think we're getting a sense of momentum in those rate increases. And from an overall exposure standpoint...

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

A

Yeah. We've said that the auto – exposure to the auto industry is about 10% of our total insurance revenue.

Jeffrey M. Silber

Analyst, BMO Capital Markets Corp. (Broker)

Q

And that's what it was or that's what it is now?

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

A

In general.

Lee M. Shavel

Chief Executive Officer & Director, Verisk Analytics, Inc.

A

It has been at that level consistently. It hasn't changed materially.

Jeffrey M. Silber

Analyst, BMO Capital Markets Corp. (Broker)

Okay. Appreciate the color. Thanks.



Operator: Our next question comes from Manav Patnaik with Barclays.

Manav Patnaik

Analyst, Barclays Capital, Inc.

Thank you. Good morning. And first, thank you so much for the guidance details and providing that. I just had a question around the pricing environment, if you could just talk about what pricing – how pricing fit, I guess, this year and then looking out into 2023 if we should expect any incremental improvement versus that?



Lee M. Shavel

Chief Executive Officer & Director, Verisk Analytics, Inc.

Yeah. Thanks, Manav. So as you can appreciate, we have hundreds of products and so each has a different pricing dynamic reflecting what we view as the demand elements for that, the value that we provide, and first and foremost, our primary pricing philosophy is driven by the value of the product and what it's delivering. And so we are often trying to calibrate pricing to be a fraction of the value that the client received, and when we think about our growth from pricing, it is primarily a reflection of our ability to deliver value to clients.



Now, we also recognize that there is an element in our pricing that is tied to net premium growth. That is a factor. It has been a decreasing factor over time as other products not tied to that have grown faster, but that is an element where we are expecting some lift given generally stronger premium growth as we've seen in different part of the businesses.

And then finally, I would say going into 2023, reflecting on somewhat of the higher inflationary environment, and the imposed costs on us from a compensation standpoint, we have included somewhat in certain instances a higher inflationary component to reflect that reality as we think most of our clients have done in similar situations. So all of those factor into the guidance from a revenue standpoint as it relates to pricing.

I would say, however, that while pricing and particularly the value-added element is the most important component, we do also expect contributions from new customers, from upsell of existing products, from growth from our new initiatives and our higher growth to contribute a like amount to our overall growth rate.

Manav Patnaik

Analyst, Barclays Capital, Inc.

Got it. Thank you. See you guys at IR day.



Operator: Our next question comes from Andrew Nicholas with William Blair.

Andrew Nicholas

Analyst, William Blair & Co. LLC

Hi. Good morning. Thank you for taking my question. I wanted to ask just in terms of kind of the top and bottom-end of revenue guidance. Is it fair to say that the recovery of some of the headwinds you've called out in the past couple of quarters on auto underwriting, marketing solutions and the sort are the primary drivers to the top and



bottom-end or are there other kind of puts and takes to call out that underlie the 2023 guidance range? Thank you.

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

A

Yeah, good question. Yes, as you flagged kind of one of the swing factors between the top and bottom-end would be the recovery of some of the more sensitive – micro sensitive parts of our business like auto. In general, it would be 80% subscription revenue.

There's a lot of stability in the overall one or two other environmental-related factors that I would point out that could contribute to the difference in that – the top and bottom-end of that range as you say, the amount of storm-related revenue is inherently unpredictable, obviously. We have included some assumptions for that in the budget, but sort of moderate assumption in that, and then there's one or two other sort of macro-related factors like the level of [ph] cap on (00:55:31) activity and other things that could contribute to that range.

Andrew Nicholas

Analyst, William Blair & Co. LLC

Q

Makes sense. Thank you.

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

A

Thank you.

Operator: Our next question comes from Alex Kramm with UBS.

Alex Kramm

Analyst, UBS Securities LLC

Q

Yeah, hey. Quick clean-up question and sorry if I missed it, I dropped earlier, but I don't think you guided on interest expense and you gave us a couple of pieces here in terms of paying off some of the debt already in February, so can you just be a little bit more specific on what we should be expecting there, because I think some people are struggling getting from your EBITDA guides to EPS.

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

A

Yeah, great question. We're not giving a specific number on interest guidance but I can give you some dimensionality to it. I think if you look at our fourth quarter interest expense, that was obviously higher than it was kind of on a run rate basis for the full-year. I think for 2023 we would assume that the interest expense is slightly less than it was in the fourth quarter annualized, but higher than it was for kind of the full year of 2022, sort of between those two vectors.

Alex Kramm

Analyst, UBS Securities LLC

Q

All right. Fair enough. Thank you.

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

A

Yeah.

Operator: Our final question comes from Faiza Alwy with Deutsche Bank.

Faiza Alwy

Analyst, Deutsche Bank Securities, Inc.

Q

Yes. Hi. Thanks, and good morning. I just wanted to say congratulations on executing all the changes in 2022 and thank you from me also on providing guidance. For today, I wanted to just go back on margins and specifically about the 2024 goals. The range is still pretty wide and wanted to get a sense of what are some of the factors that would take you to the low-end of the range versus the high-end of the range?

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

A

Yeah, thanks, Faiza, for the question. Really, we're here today to talk about the quarter and the 2023 view, so sort of longer-term discussions we'll talk about at Investor Day.

Lee M. Shavel

Chief Executive Officer & Director, Verisk Analytics, Inc.

A

Yes. And, Faiza, I would just say look, we – clearly, an objective of delivering on that, and we want to demonstrate our ability to improve that margin. The longer term I think what we will talk about are the trade-offs between investment and margin and the value that the investment can deliver in terms of growth and returns.

I think that's not a new dynamic. That's something that we have always – I've always worked to try to find a balance to demonstrate margin strength, but also not at the cost of delivering where we think value is created most significantly, which is through growth and returns, but we are fully committed to delivering on the guidance that we set initially of that 53% to 56% range, and we're working to deliver a strong result as we possibly can.

Faiza Alwy

Analyst, Deutsche Bank Securities, Inc.

Q

Got it. Thank you.

Operator: There are no further questions at this time, which concludes today's conference. Thank you for attending today's presentation. You may now disconnect.

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