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Verisk Analytics, Inc. (VRSK)

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CORPORATE PARTICIPANTS

Stacey Jill Brodbar

Head-Investor Relations, Verisk Analytics, Inc.

Lee M. Shavel

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

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

OTHER PARTICIPANTS

Andrew C. Steinerman

Analyst, JPMorgan Securities LLC

Jeffrey P. Meuler

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

Ashish Sabadra

Analyst, RBC Capital Markets LLC

Tom Roesch

Analyst, William Blair & Co. LLC

Toni Kaplan

Analyst, Morgan Stanley & Co. LLC

Faiza Alwy

Analyst, Deutsche Bank Securities, Inc.

Jeffrey M. Silber

Analyst, BMO Capital Markets Corp.

C. Gregory Peters

Analyst, Raymond James

Manav Patnaik

Analyst, Barclays Capital, Inc.

Surinder Thind

Analyst, Jefferies LLC

Russell Quelch

Analyst, Redburn Atlantic

Alex Kramm

Analyst, UBS Securities LLC

Heather Balsky

Analyst, BofA Securities, Inc.

George K. Tong

Analyst, Goldman Sachs & Co. LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good day, everyone, and welcome to the Verisk First Quarter 2024 Earnings Results Conference Call. This call is being recorded. Currently, all participants are in a listen-only mode. After today's prepared remarks, we'll 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'll have further instructions for you at this 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, please go ahead.

Stacey Jill Brodbar

Head-Investor Relations, Verisk Analytics, Inc.

Thank you, operator, and good day, everyone. We appreciate you joining us today for a discussion of our first quarter 2024 financial results. On the call today are Lee Shavel, Verisk's President and Chief Executive Officer; and Elizabeth Mann, Chief Financial Officer.

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

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

A reconciliation of reported and historic non-GAAP financial measures discussed on this call is provided in our 8-K and today's earnings presentation posted on the Investors section of our website, verisk.com. However, we are not able to provide a reconciliation of projected adjusted EBITDA and adjusted EBITDA margin to the most directly comparable expected GAAP results because of the unreasonable effort and high unpredictability of estimating certain items that are excluded from projected non-GAAP adjusted EBITDA and adjusted EBITDA margin, including for example, tax consequences, acquisition-related costs, gain/loss from dispositions and other nonrecurring expenses, the effect of which may be significant.

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

Lee M. Shavel

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

Thanks, Stacey. Good morning, and thank you for participating in this morning's call. 2024 is off to a solid start at Verisk as we are building upon the strong performance we delivered in 2023. Elizabeth will provide the detailed financials, but I am pleased to share that we delivered 6.9% organic constant currency revenue growth, with strong underlying subscription growth of 7.8% that was broad-based across most of our businesses. Our focus on cost discipline and operating efficiency produced strong double-digit organic constant currency adjusted EBITDA growth and healthy margin expansion, translating into 26% adjusted EPS growth.

This quarter's performance was in line with our 2024 guidance. We are driving predictable and consistent growth by harnessing the power of our more integrated insurance-focused company and executing against our strategy to partner with the insurance ecosystem to help all participants address their most pressing challenges.

Our execution priorities are unchanged from those that we communicated to you a year ago at Investor Day. We are building on the progress that we made in 2023 as we continue to focus on three key things: one, delivering consistent and predictable revenue growth; two, driving operating efficiency and profitability; and three, allocating our strong free cash flow with discipline and a focus on return on investment.

I've spoken on this call many times about our efforts to engage with our clients on a more strategic level. To that end, in April, we hosted the Verisk Insurance Conference, or VIC as it is affectionately known in the industry, which attracted a record number of attendees from across the global insurance ecosystem, including representatives from the carriers, reinsurers, regulators and our channel partners. VIC is our flagship event where we strategically engage with all our ecosystem clients and partners through joint discussions and presentations as an integrated one Verisk.

This year's event featured over 70 different educational sessions and panel discussions on some of the industry's top of mind issues, including fairness, generative AI, fraud, climate risk, rate adequacy and social inflation. One of the best attended sessions was a panel discussion about Florida property insurance and featured representatives from key market players, including the carriers, regulators, legislators and Verisk.

The discussion focused on lessons learned from the insurance crisis in this important and high-risk market and what other states can learn from this experience. The event also featured a solutions gallery that showcased many of our offerings, covering risk, natural perils, commercial property, home and auto, as well as several of our key technology ecosystem partners.

The event has generated strong collaboration ideas with our clients and partners, as well as leads for our sales teams. It also builds upon the goal that we set last year to elevate the strategic dialogue with our clients and continue our path to serve as a data and technology partner to the global insurance ecosystem.

During the Verisk Insurance Conference, our Extreme Events division unveiled its latest innovation, Next-Generation Models, or NGM, for insurers, brokers and reinsurers. Verisk is the first firm to release its full suite of over 100 models across all perils and geographies to a next-generation financial modeling framework. And these models are all now accessible via our Touchstone platform.

As the rising cost of catastrophes and an increase in losses from frequency-driven perils such as severe convective storms has challenged the industry, Next-Generation Models provide a better quantification of uncertainty and enhanced capabilities to assess insured losses across the insurance industry more accurately.

With Next-Generation Models, our clients can make better financial assessments of loss potential and more accurately represent the risk to their policyholders, their businesses and their partners. NGM also offers new advantages to support complex insurance policy structures and deal with new terms and conditions that previously went unmodeled. Clients can effectively manage risk, both at the portfolio and individual levels, using the NGM suite of models.

NGM represents the next step in our journey towards a fully SaaS-native platform, underscoring our commitment to continuous investment in advanced data and technologies and capabilities on behalf of the industry.

Next, I'd like to provide you with an update on our Core Lines Reimagine program. As previously mentioned, we are on a journey to digitize and enhance our essential suite of industry standard solutions to make our forms, rules and loss cost content easier to access, use and customize, and provide much needed updates and insights. We have made good progress in modernizing our internal systems and processes for digital-first content creation, enabling us to deliver new client-facing modules.

We recently introduced Filing Intelligence, which is accessible on our new platform. This tool simplifies our filings delivery process by consolidating all necessary documents, forms, rules and loss costs, into one accessible interface, eliminating the need for manual review and piecing together multiple documents. Filing Intelligence, digitally connects all documents related to each filing, streamlining the process for users and ensuring seamless access to essential information.

On the actuarial front, we recently added actuarial hub to the new platform. Within the hub, clients can access new insights such as the ISO Experience Index, loss costs activity dashboard and a new series of actuarial prospective articles. These resources offer deeper insights into our filings and data, empowering our clients to make quicker, well-informed decisions.

Looking ahead, we plan to launch additional customer-facing modules that will provide even more value to our clients by introducing new proprietary analytics, workflow tools, and insights to further streamline processes and enhance underwriting accuracy for our clients. Overall, we're excited about the progress of the Reimagine program. This initiative is already driving returns for Verisk as we are receiving positive client feedback and experiencing better price realization in contract renewals.

Lastly, today is an important day as May 1 is officially Verisk Generative AI Day. Our technology teams from across our global offices and business units are gathered at our Jersey City headquarters to collaborate and share best practices and learnings on their work with gen AI for both customer-facing initiatives and internal efficiencies. More specifically, all of our divisions have active gen AI pilots running with many other areas in active development. And within our claims business, we have three solutions in production and available today for clients.

Generative AI continues to be top of mind for our clients and is a topic of much discussion in my conversations with industry executives. One very promising application that I'm seeing is the use of generative AI to gather and pre-digest massive amounts of information to organize and distill it for the insurance professional, improving and focusing their expertise, not replacing it. This is a natural fit and opportunity for the work we do in curating and managing the needs of the global insurance industry to facilitate more effective and efficient workflows.

As we have done with other forms of advanced technology, gen AI is an area where we can invest for the benefit of the industry at a lower cost of investment and ownership than any single client can do on their own.

With that, I will turn it over to Elizabeth to cover the detailed financial review.

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

Thanks, Lee, and good day to everyone on the call. I am pleased to share that Verisk delivered a solid first quarter of 2024. On a consolidated and GAAP basis, first quarter revenue was \$704 million, up 8% versus the prior year, reflecting solid growth in underwriting and more modest growth in claims.

Income from continuing operations was \$219 million, up 12.9% versus the prior year, while diluted GAAP earnings per share from continuing operations were \$1.52, up 19.7% versus the prior year. This level of EPS growth reflects strong revenue and profit growth, combined with a lower effective tax rate and a lower average share count due to the large accelerated share repurchase program in 2023.

Moving to our organic constant currency results for the first quarter, adjusted for nonoperating items as defined in the non-GAAP Financial Measures section of our press release, our operating results demonstrated solid growth from most of our businesses. OCC revenues grew 6.9%, with growth of 7.8% in underwriting and 4.7% in claims. This was an acceleration from the fourth quarter in both subsegments and was in line with our expectations and 2024 financial guidance.

Our subscription revenues, which comprised 80% of our total revenue in the quarter, grew 7.8% on an OCC basis during the first quarter. We experienced broad-based growth across most of our subscription-based solutions, with strong renewal and expanded relationships with existing customers and solid sales of new solutions.

The largest contributor to subscription growth was forms, rules and loss costs. We are benefiting from a stronger renewal cycle and improved price realization, as we continue to modernize our platform and deliver more value and insights to our clients through our Core Lines Reimagine program that Lee spoke about earlier.

In anti-fraud, we experienced underlying strength in the business with growth augmented by the continued benefit from the conversion to subscription from previously transactional customers that we mentioned throughout 2023. Most of our clients have successfully completed this transition. Therefore, the benefit will continue to taper throughout 2024.

And within underwriting data solutions, we are seeing a positive client response to our enhanced commercial lines property solution, which has benefited from our expanded coverage as our database of commercial property records has grown by over 200% since 2020 and now has over 15.9 million records.

Our transactional revenue, representing 20% of total revenue in the first quarter, increased 3.1% on an OCC basis, reflecting a tough comparison versus the prior year, which benefited from the strong auto shopping activity and non-rate action activity.

During the quarter, we saw continued growth across our auto suite of solutions, though growth rates have moderated as we expected. Regarding auto, due to recent changes in our data stores, we have decided to discontinue our existing telematics offering. The impact of this is immaterial in 2024 with less than \$1 million of revenue impact. We do not expect this to have any impact on the remainder of our auto solutions.

Our transactional revenue growth also benefited from double-digit growth within Life Insurance Solutions, as we saw strong customer demand for incremental services. And within our Extreme Events business, we saw better-than-expected transactional growth driven by securitization. This was offset in part by lower weather-related transaction volumes in Property Estimating Solutions and the impact of the conversion to subscription within our anti-fraud business.

Moving now to our adjusted EBITDA results, OCC adjusted EBITDA growth was 10.6% in the quarter, while total adjusted EBITDA margin, which includes both organic and inorganic results, was 54%, up 180 basis points from the reported results in the prior year. As we've said in the past, the margin rate in any given quarter can be influenced by revenue mix and timing of spending. So we think it's useful to look at our margin on a trailing 12-

month basis, which as of March 31, 2024 was 53.9%, up 120 basis points over last year's level. This level of margin expansion reflects the positive impact of sales leverage and cost discipline.

We also experienced a modest margin benefit from nonoperating items, including foreign currency changes, but this was largely offset by margin impact from recent acquisitions. Our current margin rate also reflects continued organic investment for future growth, including our Reimagine program, the re-platforming of key solutions in Extreme Events and Property Estimating Solutions, our new financial and human capital system, as well as exploration of advanced technologies like gen AI. We remain confident in our ability to meet our margin expansion targets, while strategically investing in future growth opportunities.

Continuing down the income statement, net interest expense was \$29 million for the first quarter compared to \$26 million in the prior year. The current level of net interest expense reflects interest income on lower cash balances than one year previously.

Our reported effective tax rate was 20.3%, compared to 27.1% in the prior-year quarter. The year-over-year decrease in the tax rate is primarily due to tax charges incurred in structuring the sale of our Energy business last year, as well as certain discrete items that we do not expect to repeat in the remaining quarters of the year. We continue to believe that our tax rate for the full year 2024 will be in the 23% to 25% range. So there could be some quarterly variability related to employee stock option exercise activity.

Adjusted net income increased 19% to \$234 million and diluted adjusted EPS increased 26% to \$1.63 for the quarter. The increase is primarily driven by solid revenue growth, strong margin expansion, a lower effective tax rate, and a lower average share count. Our lower average share count reflects the impact of the large accelerated share repurchase program we completed in 2023 using the proceeds from the divestitures. This was partially offset by higher depreciation and amortization and higher net interest expense.

From a cash flow perspective, on a reported basis, net cash from operating activities increased 1.9% to \$372 million, while free cash flow increased 4.2% to \$317 million. Both cash flow metrics reflect the impact of our indemnification obligation related to our former Financial Services business which we accrued for in 2023. It is also important to note that the prior-year cash flow figures still include the results of our previously divested Energy business. So these growth figures understate the cash flow growth of our insurance-only business.

We are committed to returning capital to shareholders. During the first quarter, we initiated a \$200 million accelerated share repurchase program, which was completed in April. Our \$0.39 per share dividend was up 15% from the prior year. We continue to have \$1.4 billion in capacity remaining under our share repurchase authorization.

We are pleased with our results for the first quarter and reiterate our outlook for 2024. More specifically, we continue to expect consolidated revenue for 2024 to be in the range of \$2.84 billion to \$2.9 billion. We expect adjusted EBITDA to be in the range of \$1.54 billion to \$1.6 billion and adjusted EBITDA margin in the 54% to 55% range. We expect our tax rate to be in the range of 23% to 25% and adjusted earnings in the range of \$6.30 to \$6.60 per share. A complete listing of all guidance measures can be found in the earnings slide deck, which has been posted to the Investors section of our website, verisk.com.

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

Lee M. Shavel

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

Thanks, Elizabeth. In summary, our execution priorities remain consistent with those communicated at Investor Day, continued focus on revenue growth, operating efficiency and disciplined cash flow allocation. Following a strong 2023, we are pleased to see 2024 off to a strong start with implied growth of 7% in consolidated revenue and 9.5% in adjusted EBITDA at the midpoint of our 2024 financial guidance.

Our focus on heightened strategic engagement with clients has strengthened relationships and fostered new product and business opportunities for the industry, where we can invest at scale to drive value for our clients, employees, and shareholders.

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

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of Andrew Steinerman with JPMorgan. Please go ahead.

Andrew C. Steinerman

Analyst, JPMorgan Securities LLC

Q

Hi. Hi, Lee. How would you assess the health of your clients, meaning the P&C insurance industry now versus three or really kind of six months ago? And how might that impact Verisk this year?

Lee M. Shavel

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

A

Thank you, Andrew. Good morning. I've assessed the strength of our client as being very solid. And I would say, in contrast to, I think, where we were two or three years ago, you are clearly seeing across the industry, and if you follow the quarterly releases of the property and casualty insurers, you are seeing very strong premium growth, which is a reflection of that hard market and the improving profitability as reflected in stronger combined ratios for the business.

And so I think the combination of that growth, the improved profitability, some reserve strengthening now beginning to offset some of the heightened cat losses that they've experienced has generally put them in a position where they are feeling positive about the outlook, their ability to achieve better pricing and price adequacy from their standpoint on rate.

There clearly are risks that they continue to face in terms of tightened catastrophic losses or cyber exposure or exposure to increasing casualty losses. But generally, their financial position is stronger and that has, one, both a benefit for us because we do participate to some extent in their overall premium growth, but also I think importantly is that that financial strength is making them more constructive and engaged in where they can be making investments to improve their business, whether it's on the underwriting side or it's on the efficiency and processing front.

Operator: Your next question comes from the line of Jeff Mueller with Baird. Please go ahead.

Jeffrey P. Meuler

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

Q

Yeah. Thank you. So, Lee, that all sounds like the industry is going to start to lean in more on marketing, and it seems like we've seen some signs that marketing spend is positively inflecting following a challenging period. But you continue to call out headwinds in your marketing solution revenue. So maybe talk through that and if it's just a lagged effect and if pipe is building. Thank you.

Lee M. Shavel

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

A

Yeah. Thank you, Jeff. I think that's an accurate observation. I think we are beginning to see some early signs that marketing is picking up. Within the industry, there is a lag impact. And so we will continue to look forward to hopefully seeing some of that translate into our business. That is a small business. So it may not be discernible overall within our business. But we do think that's a positive trend.

I would also note that within that business, it is not entirely insurance for us that we're providing insights to some other legacy industries. And so that may cause a differentiated output. But I think your general observation is true.

Operator: Your next question comes from the line of Ashish Sabadra with RBC Capital Markets. Please go ahead.

Ashish Sabadra

Analyst, RBC Capital Markets LLC

Q

Thanks for taking my question. I wanted to focus on the solid sales of new solution. The question there was – Lee, thanks for providing some good details on the gen AI, but I was wondering if you could provide examples of new solutions that are gaining traction?

And then at the Investor Day, the new initiative was expected to generate 150 to 200 basis point of incremental revenue growth going into 2025. And I was just wondering if you could comment on how that's tracking. Thanks.

Lee M. Shavel

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

A

Thank you. Thank you, Ashish. Let me take the first question since you're kind of referencing Investor Day, and I'll let Elizabeth add to this if she feels necessary. But what we outlined at Investor Day was incorporated into our guidance in terms of where we felt we could achieve incremental revenue growth.

Naturally, we saw the performance in 2023, which was representative of achieving those higher growth rates. We're really pleased in the first quarter to be able to similarly deliver strong growth on top of that. And so we have kind of a compounding effect. And I think that reflects in large part the achievement of some of that revenue growth upside.

So I would look to the fact that we are meeting and exceeding the guidance that we set at Investor Day.

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

A

Yeah, I agree with Lee there. And I think in terms of examples of new products gaining traction, you've heard us talk about them on some of the recent calls, the Discovery Navigator product in claims, which is one that does –

now uses gen AI as well. We talked about Image Forensics in the anti-fraud space, and as well as a variety of innovations that we talked about in this call on our core products, including Core Lines Reimagine and the Next-Generation Models and Extreme Events.

Lee M. Shavel

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

A

Yeah. And if I – thanks, Elizabeth, for kicking off the first part of the question. We talked with Jeff's question on some of the headwinds we're facing on marketing, but I would also say, in terms of new product adoption in our life insurance offering, we are seeing very strong uptake in that category with the applicability of the low/no-code solutions to the life business within our Specialty Business Solutions area where we have seen very strong adoption from some major industry players onto the white space platform, which is a new product that we are growing. And so in – as well as internationally, as we have been bringing our products into that market, we're seeing the uptake and very strong double-digit growth across those businesses internationally.

And then finally, I would say, I think in terms of new product growth, we should never overlook the benefit or the uptake and receptivity that we are seeing to our existing product investments, as with Core Lines Reimagine and other areas that we have been investing in, similar to LightSpeed where we have improved those products, we have increased the value to the customer, we're integrating generative AI into a number of those products. And in a way, that is new product adoption in terms of being able to realize incremental value in our revenues for those products. And I think that is reflected in our overall revenue growth as well here.

Operator: Your next question comes from the line of Andrew Nicholas with William Blair. Please go ahead.

Tom Roesch

Analyst, William Blair & Co. LLC

Q

Hi. Good morning. This is Tom Roesch on for Andrew. I wanted to ask about the pricing environment. It sounds like insurers are starting off the year on good footing. So, I was wondering just kind of how the pricing environment – how you think about it this year relative to last year. And then also as it relates to those contracts that are tied to prior-year net written premium, just kind of how you think about those two this year? Thank you.

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

A

Thanks [ph] Ross (00:30:47) for the question. Yeah, it's good context. You heard Lee talk about the industry and the relative strength in the industry as well as the hard market that we are in. So, as we highlighted for our contracts that have a tie to net written premium growth, we're seeing generally positive tailwinds, I would say, in line overall with last year.

I think what's most important for us from a pricing standpoint is the increased engagement that we are having with our clients, and you're seeing the benefit of the investments that we're putting in our products. And those are driving for us strong renewals, strong outcomes on the pricing conversations.

Lee M. Shavel

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

A

Yeah. And Tom, I'd say that on that, we are – we see a receptive environment because I think the industry is doing well. We're seeing recognition of the value of the products. But I would also mention that I think with some of our efforts to improve our go-to-market strategy, we're seeing a more effective sales organization that is

contributing to good outcomes on the pricing side as well. So I think we feel very positive about some of the changes that we put in place in 2024 as a function of a close examination of what we could be doing better there.

Operator: Your next question comes from the line of Toni Kaplan with Morgan Stanley. Please go ahead.

Toni Kaplan

Analyst, Morgan Stanley & Co. LLC

Q

Thank you. During the prepared remarks, you mentioned you're discontinuing the auto telematic offering. I was wondering, clearly, it's not generating much revenue for you, but like what prompted deciding to discontinue it. Was the data not valuable? Was it costly to maintain? Just any color there.

Lee M. Shavel

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

A

Certainly. Thank you, Toni. And the short answer is, and first, it was a small financial impact for us. The simple answer is that the entities that were providing that data to us decided to discontinue collecting that data. And so there was really not sufficient analytical value in that without the data that was being provided. And I think it's fair to assume that it's a function of some of the media attention to collect connected car data. So, that really was the simple reason.

It had been an area where we felt it was worth investing. We do believe in looking at broad data sets that are useful in evaluating driver risk. But I would emphasize that while we have discontinued that operation and it was immaterial from a financial standpoint, we do continue to serve auto insurers in a significant way with a wide variety of products, including our LightSpeed Auto, our Coverage Verifier, damage assessment from a claims perspective. So this is a very substantial business for us and the discontinuation of the Verisk Data Exchange will not have any impact in our legacy auto businesses.

Operator: Your next question comes from the line of Faiza Alwy with Deutsche Bank. Please go ahead.

Faiza Alwy

Analyst, Deutsche Bank Securities, Inc.

Q

Yes, hi. Thank you. I wanted to talk about subscription growth. You mentioned the stronger renewal cycle and the price realization, but I'm curious if you think this level of subscription growth is normal for this year? And help us better understand some of the factors that can impact us. I ask because there has been some quarterly variation here last year. So I'm curious if there's anything that you would highlight as we look ahead.

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

A

Yeah, Faiza, thanks for the question. In terms of quarterly variations, there can always be minor puts and takes as things move from quarter to quarter, but nothing that we see at this point that would indicate significant quarterly changes.

The drivers of strength for us this quarter have been really broad-based across the business. Forms, rules and loss cost has been the largest driver as the largest business, and we talked about some of the trends benefiting it there. We've had strong strength in the anti-fraud business. I would call that both absolute strength as well as benefiting from the conversion from transaction to subscription. And the Extreme Events business actually had strong subscription growth as well, given the demonstrated value there.

Lee M. Shavel

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

A

Yes. And Faiza, maybe to add a little additional color. And I would use this as an opportunity to say we've talked about the environment. We've talked about the benefit of engaging as partners with our leading clients, which I think has helped us on that front, probably most primarily at a senior level to help our clients understand the value that we are providing to them across the enterprise.

But something – to your question of kind of sustainability and growth, we clearly want to grow the subscription revenues at a higher rate where possible. And coming out of a lot of intense engagement at a senior level in 2023, we have had three clients in different areas, one's an international insurer, one's a large US insurer, one is outside of the insurer but in a variety of areas, that have come to us with ideas of products that we might jointly develop or distribute with them.

And I think it's a reflection of how we can potentially develop new incremental revenue sources. This was certainly part of our plan originally, but we've been delighted to see that that engagement has enabled real commercial opportunities that we are in the process of exploring and structuring at this stage. That is certainly a primary path for us to find ways to continue to sustain and grow that subscription growth.

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Operator: Your next question comes from the line of Jeff Silber with BMO Capital Markets. Please go ahead.

Jeffrey M. Silber

Analyst, BMO Capital Markets Corp.

Q

Thanks so much. I know you've talked in the past about three, I guess, buckets of investment. You talked about the Core Lines Reimagine, investing in your sales force and investing in AI. Can we just get a refresh in terms of how much you're thinking of spending in those areas and where we are in that process? Thanks.

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

A

Yeah. Thanks for that, Jeff. We don't break out sort of specific areas of investment by element. I think on the last quarter call, I mentioned those as some of the top areas for investment this year. And I think our investment in those areas is pretty much in line with our expectation of the year and embedded in the margin that you're seeing and the guidance for the full year.

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Operator: Your next question comes from the line of Gregory Peters with Raymond James. Please go ahead.

C. Gregory Peters

Analyst, Raymond James

Q

Good morning, everyone. So I'm going to focus on the transactional revenue piece because if I look at the quarterly numbers last year, you had some pretty strong results for second and third quarter. Given the conversion of the anti-fraud business, is it your expectation that the transactional piece of OCC will be having some headwinds for the next couple of quarters? Or any sort of visibility there would be helpful.

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

A

Yeah. Happy to cover that, Greg. Thanks. You are right that we do see headwinds on the transactional revenue side, largely because the comps from last year have been so strong. You saw double-digit transactional growth for about a one-year period last year.

I think some of the main areas of tough comps have been and will be on the auto transactional shopping activity, which was a real area of strength last year, in addition to the non-rate action activity. And we – that really picked up in the first quarter of last year. So we're starting to anniversary it now. The shopping activity did actually continue strong in the first quarter. But starting next quarter, we really anniversary strong growth there.

The other area where it could be tough comps has been on the weather activity. We called out through 2023 the elevated weather patterns that we were seeing. And so that could be a headwind this year. Securitization activity was very strong last year in Extreme Events. So, that's one that we are also waiting to see.

So, between those different areas, that's something we're looking at. I think this quarter is a demonstration of the power of the business model and the bulk of our revenue coming in that subscription revenue, which continues to show very healthy signs of strength – shows the strength that we can deliver, even compounding those tough comps.

Operator: Your next question comes from the line of Manav Patnaik with Barclays. Please go ahead.

Manav Patnaik

Analyst, Barclays Capital, Inc.

Q

Thank you. Good morning. I guess, I'll just ask on capital allocation. It sounds like you guys [ph] are starting (00:40:31) on the ASR. So that seems to be the priority. But maybe what does the small- to medium-size kind of M&A pipeline look like, some of the stuff that you've been doing over the last couple of years?

Lee M. Shavel

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

A

Thank you, Manav. I think I heard that I think the focus is on capital allocation and how does the outlook for small- and medium-size M&A opportunities. I would describe them as they are out there that I think that valuations remain high for those entities. Our focus is always on how can we add value with our distribution, our data, our relationships. That has been a good equation for us. And valuations kind of continue to make that challenging for us to generate attractive returns, but we are very engaged in that market and always looking for products that have achieved traction with the industry where we think we can accelerate the adoption and deliver value, both to our clients and to our shareholders.

Operator: Your next question comes from the line of Surinder Thind with Jefferies. Please go ahead.

Surinder Thind

Analyst, Jefferies LLC

Q

Thank you. Just a question around the internal investments. So, when we think about the Core Lines Reimagine or re-platforming or AI, how should we think about the absolute level of investment from the perspective of how much of this is part of the normal spend cycle and then maybe how much is maybe a little bit elevated? And perhaps how we might expect CapEx to evolve for whether it's this year or the next couple of years?

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

A

Yeah. Thanks, Surinder. I can't break it out numerically. I would say that there are – we've talked about the various projects that we are investing in now. Those are finite projects, which we will finish, and we've talked about the time lines for each.

There are some elements of those projects that is fixing or reinvesting in technology that has maybe been overdue. And so I would talk about our internal ERP systems as an area of that. Some of the places where we are doing tech re-platforming would be those areas. And so that level of investment may be elevated and we may not need to continue going forward.

I would say there we will always be investing in our products to maintain sort of their cutting-edge status. So after we finish Core Lines Reimagine, we will continue to invest and evolve in new projects that we may not know exactly what they are today.

Lee M. Shavel

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

A

And I think what I would add to that, Surinder, is I think the short answer is that the ability for us to integrate generative AI technology as an expansion of a new form of artificial intelligence within the existing products is something that our businesses are effectively absorbing into their current financial models and thinking about where they're deploying capital within their own businesses.

There have been, and there may be in the future, areas where we have decided that – or we have determined that there is a really interesting application in a new product side that we want to invest heavily in or we want to accelerate, and that will be an opportunity for us to provide a focused amount of capital or investment.

At this stage, I think there were a couple of opportunities that we evaluated and we determined kind of just maintaining our natural organic level of investment is the right path at this point. That may change in the future. But I think Elizabeth's comments I would just reinforce by saying, right now, we're finding a way to integrate this investment into the businesses and also recognizing that we are making a heightened investment on an ERP upgrade that we think will drive operating efficiencies and informational advantages for us over time. And that will be one that as we're going to finish that level of investment, may free up space if there are good opportunities for us to invest. Otherwise, we'll return that capital as we always do with our discipline.

Operator: Your next question comes from the line of Russell Quelch with Redburn. Please go ahead.

Russell Quelch

Analyst, Redburn Atlantic

Q

Yeah. Good morning, both. You mentioned in the opening remarks, Lee, that you'd rolled out the next-generation nat peril model. I wondered if you could articulate what the additional upside opportunity for Verisk is there, given you're already seeing strong subscription revenue growth in the Extreme Events business?

And I just wanted to check as well, you mentioned on pricing that you had been able to realize more pricing on renewals due to the product upgrades. Is that already – is that as expected and therefore already factored into your guidance for 2024? Or does it present a potential upside opportunity on the guidance? Thanks.

Lee M. Shavel

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

A

Yeah. Thank you, Russell. So, first on the Next-Generation Models, I think that this is a major upgrade in terms of the sophistication of the models, allowing our clients to better estimate and quantify the uncertainty of their losses across the industry. And given – you think about the Next-Generation Models, it is taking a variety of the environmental physical weather risk related and then translating into what are the real costs associated with damage, restructuring, and the rest. And so we can take this and apply it to all of our perils and all of our geographies.

So it is a major enhancement to our portfolio of products and it's also increased the sophistication of the ability to support complex insurance policy structures and deal with the new terms and conditions that weren't previously effectively capturing the model. It also is an important step for us to the SaaS model. Getting the next-generation financial model in place was critical in what we heard from our clients as what they wanted to be addressed first. And now we can improve the functionality and the efficiency of that.

So we do think that this is a substantial opportunity for us to deliver more value to our risk modeling clients, and certainly, our expectations are reflected within our guidance in that regard. But it does, I think, open us up to continue to expand what we do for clients on that front.

With regard to your question on, is the pricing upside, that is reflected within our guidance. We're pleased with the progress that we're making in the reaction from our clients to the investments that we've made in a variety of our products. And that's reflected in the guidance that we have put forward.

Operator: Your next question comes from the line of Alex Kramm with UBS. Please go ahead.

Alex Kramm

Analyst, UBS Securities LLC

Q

Yes. Hello, everyone. Just maybe quickly on the international side, I think, 23% growth year-over-year. I know that's not organic, but still pretty impressive. Can you just maybe give us an update where you're seeing the most growth in those businesses?

And then maybe related to that, as historically viewed, those businesses are a disparate collection of different businesses in different regions. So, curious if there's any efforts to maybe bring those businesses closer together, or if you're already seeing any synergies between those businesses or if it's still just a lot of different disparate things? Thanks.

Lee M. Shavel

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

A

Yeah. Thank you, Alex. It's a great question. So I think the first question relates to the overall growth. And I think when we look at the businesses on an organic basis, I think we are – generally view, and we've spoken before, and we continue to believe that they have and will continue to drive double-digit growth within our business. And so I think that's kind of the baseline. We continue to see opportunity on that front.

Your question on the coordination I think is an important one. And I would say that each of those businesses are serving distinct insurance industry constituencies. And the opportunity, I think, has been less to tie all of those products together from a single client perspective, but to partner more effectively with the US team and the international team to make certain that we are integrating our expertise, our data, some of the investments that

we've made in the US to enhance and strengthen those product sets. And so I think we're seeing a heightened level of partnership in that regard, but not so much tying together, for instance, the claims and the underwriting businesses as well.

Another dimension, which I referenced earlier, is that I think that we are seeing an opportunity to partner with institutions within Europe that see that value and, through their existing distribution networks, have an ability for us to deliver some of that value in partnership with other players within that market. And so that, I think, becomes an enhancement opportunity for those products as well as some of even our US-based products and technology that can be applied there.

Operator: Your next question comes from the line of Heather Balsky with Bank of America. Please go ahead.

Heather Balsky

Analyst, BofA Securities, Inc.

Q

Hi. Thank you for taking my question. I was really curious about the catastrophe bond piece of your business. There's been some really strong data out there, and it seems like there's some outlook for continuation of that. What's driving that? And can you also remind us just how you benefit from strength in that market? Thank you.

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

A

Yeah. Thanks, Heather. Yes, it is a strong market. I think it's – what's driving it is both the need – the increased catastrophe risk and the need for diversifying the set of investors in that space of risk. And for new investors, it's their own desire to diversify and find uncorrelated areas of investment. So, that's been driving strength in that cap-on market.

How we benefit from it is our Extreme Event business is one of the primary providers of models and assessment of that risk, so that the investors and the issuers of those cap-ons can agree to transact on the pricing by assessing the risk.

Lee M. Shavel

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

A

And Heather, I think what we are seeing that is driving that is both demand from investors for non-correlated returns and interest particularly in this hard market from an insurance standpoint what are perceived to be more attractive returns. We're also seeing that in terms of more capital being attracted into excess and surplus lines and reinsurance generally.

And it speaks to, I think, the ongoing development and the increasing sophistication of the active portfolio management of the insurance industry that is an opportunity for us given our modeling capabilities, given the loss costs, and the rate modeling activities that we have. And that has been something that we have been engaged in thinking about at an enterprise level in terms of how we can support the development of that market.

One example would be there's a category of insurers that are ILS managers, insurance-linked securities managers. And those have been modeling clients of ours and also represent opportunities for us to build broader relationships and how our suite of products can serve their needs as they manage external sources of capital.

Operator: [Operator Instructions] Your next question comes from the line of George Tong with Goldman Sachs. Please go ahead.

George K. Tong

Analyst, Goldman Sachs & Co. LLC

Q

Hi. Thanks. Good morning. In the early part of last year, subscription revenue growth was in the 9% range. And over the past two quarters, growth was in the 7% to 8% range. What's a reasonable and sustainable rate of growth for subscription revenue? And what are the top one or two factors that you believe will drive either acceleration or deceleration from current levels?

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

A

Yeah. Thanks, George. We don't forecast subscription growth for you. We do – we obviously give our medium-term target range for total revenue growth, that's 6% to 8% organic constant currency, and subscription has historically been 80% of that. So, that's kind of what we can say numerally.

In terms of drivers for acceleration and deceleration, I think all of the things that we've been talking about are investment in our products, our customer engagement and our industry expertise, drive strength in the subscription revenue, both from a renewal, from a new customer base, and from a pricing perspective. Headwinds can come with – we've talked about this before, with potential attrition or industry consolidation or [indiscernible] (00:55:43)

Operator: Your next question comes from the line of Gregory Peters with Raymond James. Please go ahead.

C. Gregory Peters

Analyst, Raymond James

Q

Great. I get to sneak in a follow-up. I appreciate the opportunity. So, Lee, in your comments, you talked about the hard market in non-life insurance. And one of the things that's becoming apparent is that the pricing trends are going to begin to moderate. So, building on Elizabeth's last answer, how does a market that's more normal affect subscription and transactional revenue growth as we look ahead?

Lee M. Shavel

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

A

Thanks, Greg, and thanks for coming back for seconds. We appreciate it. So I think that we are seeing – I would first challenge that we are seeing kind of continued pressures on the industry, both in terms of ongoing inflation as well as increased risk that they are experiencing that seemingly is continuing to support premium growth as well as kind of natural expansion in coverage for the industry.

So, at this point, based upon the financial reports and our engagement with clients, we have not seen early signs of that market. In fact, a lot of the reading that I have seen has been to a sustained hard market. But we do have to anticipate at some point that there may be some pressure from a margin standpoint. And in that context, our products and services remain critical in achieving a higher level of operational efficiency within the business in order to maintain or improve that combined ratio as well as the efficiency of making good underwriting decisions.

And I would use this as an opportunity to say, I think one of the most promising dimensions of generative AI is in gathering and predigesting a lot of the information flow that the insurance industry relies upon to evaluate policy submissions, evaluating adequacy, going into the risk, not replacing the human, but enabling them to focus their expertise on the underwriting decision, the risk and the return decision.

We think that that is a secular trend as technology improves, as data sets expand, that will continue to provide ample opportunity for us to deliver value to the industry. It's nice to have some premium growth because I think it puts people in a constructive frame of mind. But these issues and challenges that the industry face are going to exist regardless of whether it's a hard market or a soft market. And I think that's our fundamental opportunity.

Operator: Ladies and gentlemen, there are no further questions at this time. Thank you for your participation. This concludes today's call. You may now disconnect.

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