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Verisk Analytics, Inc. (VRSK)

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, everyone, and welcome to the Verisk's First Quarter 2020 Earnings Results Conference Call. This call is being recorded. At this time, all participants are in a listen-only mode. After today's prepared remarks, we will conduct a question-and-answer session.

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

Stacey Jill Brodbar

Head-Investor Relations, Verisk Analytics, Inc.

Thank you, operator, and good morning, everyone. We appreciate you joining us today for a discussion of our first quarter 2020 financial results. Today's call will be led by Scott Stephenson, Verisk's Chairman, President and Chief Executive Officer, who will provide a brief overview of our business; Mark Anquillare, Chief Operating Officer, will then provide an update on our insurance segment. Lastly, Lee Shavel, Chief Financial Officer, will highlight some key points about our financial performance.

The earnings release referenced on this call as well as 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. Finally, as set forth in more detail in today's earnings release, I will remind everyone that today's call may include forward-looking statements about Verisk's future performance, including but not limited to the potential impacts of the COVID-19 pandemic. Actual performance could differ materially from what is suggested by our comments today. Information about the factors that could affect future performance is contained in our recent SEC filings.

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

Scott G. Stephenson

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

Thanks, Stacey, and good morning, everyone. I'm very glad to be together today. We are in the midst of a challenge that is impacting each one of us. The outbreak of the coronavirus is, above all, a health crisis and we hope that you and your families are doing what is necessary to stay safe. Our thoughts and prayers go out to those who have been directly affected by the virus and to the healthcare community and essential personnel working heroically to help us all overcome it. Today, I'm pleased to discuss how Verisk has responded to the COVID-19 event and give you a view of our plans and priorities for the company. I have really been looking forward to this meeting.

Along with Mark and Lee, we will describe for you three things: first, our actions and response to the COVID-19 outbreak with a focus on protecting our employees and serving our customers; second, an update on our current operations and the role we are playing to help our customers and communities navigate COVID-19; and third, our long-term priorities and plans for Verisk.

Given our presence in Beijing, Shanghai and Singapore, the COVID-19 event began for us in January. Our global crisis management team immediately began pandemic planning under our business continuity policy. Under the strong leadership of our Asia-Pacific team, we followed government guidance and moved into a remote work

mode with zero interruption in delivery for our customers. When local guidance modified, we moved to a hybrid mode with teams making use of our facilities on an every-other-day basis in order to keep density down. Again, movement into this work mode was seamless.

When the second wave of infection appeared in Singapore, we successfully returned to the remote mode. All of this experience was invaluable as January turned to February to March, and it became clear that the coronavirus was not a regional, but a global event.

Combining our experience in Asia Pacific with our longstanding plans for ensuring business continuity, we engaged in large-scale pressure testing of our remote work capabilities in North America, Europe and India, and we did this weeks in advance of any government restrictions on movement. I was pleased, but not surprised at the results. We moved our roughly 9,000 colleagues into a full remote mode with no interruption of operations or service to our customers. We remain in that mode today.

Our primary goal was and continues to be the safety of our colleagues. Because of the essentially digital nature of what we do and our strong movement toward enabling technologies such as cloud computing, we knew that we could protect the wellbeing of our team without sacrificing service to our customers. An interesting fact about Verisk is that only about 100 people or roughly 1% of the team have a specific and regular need to enter our facilities.

Despite the increased need to communicate digitally with one another and customers, our computing and network capacity have consistently and comfortably exceeded what we require. To highlight the relative ease of the transition, one of the more custom responses to the COVID events has involved our software developers and data scientists. In the office, they are accustomed to having two, sometimes three large monitors running simultaneously at their workstations. Lacking these at home, we arranged to have the equipment sent to their residences to help these valuable colleagues remain productive.

While we look forward to all being together again in our offices, our business continuity planning and the nature of our operations enable us to continue to serve our customers and drive our innovation agenda forward in a work-from-home mode, while also flexibly following the lead of government officials about when it is safe to return. We have also significantly increased communication with daily updates to our global workforce, which we call the daily dose. We have held frequent worldwide town halls and have provided the team access to our COVID-19 resource center, which updates teammates with our leading research on the pandemic as well as helpful personal advice on staying healthy and productive.

Finally, we began by holding daily meetings of our global executive team and have modified that rhythm as the stability of our operations has been clear. We are now holding regular update calls with our executive team as well as with our board of directors.

That's the journey we have been on up to this moment. So, where do we stand? First, our teams remain highly active and productive. Sales calls are up versus prior years. E-mail traffic is greater than it was prior to remote work. The use of collaborative digital platforms has increased substantially. And from a Pulse Survey of just a week ago, employee engagement is actually up at this moment relative to our customary high levels. And our customers continue to engage with our analytics and insights as visits to our portals across our three segments have increased as well.

Second, we have been active in bringing new value to our customers in the COVID-19 moment. In the insurance space, we have provided an innovative platform to claims departments, allowing them to settle claims in direct

collaboration with the insured without requiring physical presence. We made this platform free of charge as a form of support, and look for it to become another subscription offering with high acceptance across the industry over time. Our pandemic model, a part of the AIR suite, has drawn intense interest, and slices of the output from the model have been made available to customers, again, at no cost.

In Financial Services, we have created a COVID-19 dashboard for our banking customers to help them see precisely the real-time changes in spending across industry categories, thereby helping them anticipate movement in the creditworthiness of their commercial customers. And in the Energy vertical, through hurry-up six-week effort, our customers can now examine the vulnerability of their supply chains in light of a geographic analysis of where the virus has had its greatest impacts. I'm very proud of the work of all my teammates.

Third, we've analyzed all our solutions and services to assess the impact of COVID-19 on our revenue streams. We have not identified any material impact of COVID-19 on approximately 85% of our revenues at this point as much of these revenues are subscription in nature and subject to long-term contracts. We have also identified that COVID-19 is impacting about 5% of our people who have seen their work curtailed to some degree in the following categories.

Our survey teams, which diligence the engineering features of commercial buildings for the purpose of supporting commercial property underwriting have not been able to enter most commercial buildings during the lockdown, and even with repurposing their time, remain at the moment less than fully utilized. Our consulting teams across the company, and especially in the Energy vertical, have seen some reductions to their current and projected billable activities for the immediate term. And our team focused on supporting auto claims adjusting in the UK has seen claims volumes drop as fewer miles are driven in the lockdown period.

Across these few places in the company where the macro environment has reduced the workloads, we are working to reallocate these resources to other growing areas of the business. When necessary, we are using a combination of four-day workweeks, moderate trimming of team size, and a small amount of furloughing to keep the work and team in balance. And finally, we continue to make good sales progress as we have adjusted quickly to engaging digitally with our customers. The rate of sales closure has slowed modestly, though pipelines remain strong, implying that we could experience some timing effects measured in weeks to months for new sales.

Despite the distractions of COVID-19, I want to note our ongoing focus and progress with the integration of several recent acquisitions, including Genscape, FAST, BuildFax, and the 3E acquisitions, SAP's Content-as-a-Service business. We are very pleased with the integration momentum, synergy realization and early business results we have achieved at these entities, consistent with our expectations and supporting solid returns on the capital we've invested.

For the balance of today's call, we will focus on our long-term priorities and plans for Verisk. Mark and Lee will take you through our view in detail, but let me paint the general picture for you. Our priorities for investing in our business and our people are unchanged, evidenced by our reiteration of our CapEx budget for the year. We are continuing to drive our innovation agenda and invest in our business, while also advancing on our move to the cloud.

With respect to performance, we expect to realize the benefit of four key features of our resilient business model. First, continued growth in datasets and demand for analytics from our clients that remains unchanged in the long term and continues to drive our performance; second, a high proportion and broad diversification of subscription revenues that provide exceptional stability to our revenue; third, operations that provide significant flexibility in

managing our expenses; and fourth, strong free cash flow generation and access to capital, which enable us to continue to invest in our business and return capital to our shareholders.

On that topic, I'm pleased to report that our board of directors has approved the \$0.27 per share dividend for the second quarter to be paid in June. Our business model has proven its resiliency in the past, delivering stable performance through the financial crisis and the last oil price shock, we realize that no two events are the same, but we have confidence that we can deliver growth again through COVID-19. And while there may be some short-term headwinds to growth, we believe our performance will reflect our long-term goal of growing EBITDA faster than revenue.

Finally, on a personal note, I sympathize with the small businesses that are unable to operate during these challenging times. And every one of our customers in this situation can expect the full support of our company. I also feel extremely fortunate to be a part of Verisk's business model.

Now, I will turn the call over to Mark to walk you through developments in our insurance vertical.

Mark V. Anquillare

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

Thank you, Scott, I'm pleased to share with you that we had another strong quarter in insurance with all businesses contributing to growth. Despite some reduced volumes in March due to the pandemic, organic constant currency revenue growth was 5.9%. After normalizing for the continued impact of the injunction on our roof measurement solution, organic constant currency growth was 6.9%, fueled by market-leading innovations and enhanced customer engagement.

Across our insurance businesses, our retention rates remained very high and we have seen increased customer engagement during these unique times. Our customers have effectively transitioned to working from home and are more available and open to calls and product demos. Since March 15, we've seen customer call reports grow significantly from 2019 levels and realized a surge in participants at our virtual industry events focused on business interruption coverage, fraud during the pandemic, virtual claims handling, and virtual property underwriting.

The effectiveness of our team is essential in maintaining great service to our customers. Our knowledge-based solutions allow us to service customers remotely and with continuity. Our cloud-first approach has fostered a technical infrastructure that is available, scalable and resilient, allowing for uninterrupted service to customers as well as employees.

As an example of our preparedness, we had a major customer perform a review of Verisk's infrastructure to ensure that our ongoing technical support for their operations during these unique times. The feedback was extremely positive with the customer sharing that Verisk was well prepared ahead of their own internal infrastructure and followed several best practices that they plan to replicate.

Let me share an industry perspective and its impact on our business. Insurance coverage remains essential through this pandemic and insurance renewals continue. I doubt any participants joining this call have thought about canceling their homeowners or automobile insurance policies. However, driving is down significantly. Our telematics data exchange indicates that driving mileage is down almost 50% year-over-year in the US since the pandemic breakout, leading to reduced auto claims. But we've seen a rebound in mileage in recent weeks leading us to believe that bottom occurred in late March and early April.

Some insurers have committed to premium refunds, which have contributed to a reduction in shopping for lower premiums by policyholders. Other areas of weakness in the industry include a significant drop in travel insurance and more modest declines in commercial insurance. Over the immediate term, total exposure values in commercial insurance may be reduced.

Our insurance business benefits from subscriptions and long-term contracts with a small portion of the revenue [ph] transactional (00:15:48). Although modest, we expect to see some adverse impacts from the pandemic in certain of our transaction revenues.

As I highlighted in my opening, customer engagement has been very strong. Let me share a few examples. We continue to see great success in market share gains and extreme event modeling as customers are moving towards AIR's suit of solutions. To support our customers, we have made our pandemic forecasting tool available for free to the insurance industry as well as the general public to assist in planning and resiliency. As Scott mentioned in his opening, we made our virtual claims adjudication and virtual inspection platforms available for free to customers to stay in business and to facilitate the timely payment of insurance claims.

Over 30,000 adjusters and inspectors now have access to the platform. Since rolling out the program in mid-March, more than 1,100 customers with many more users have enrolled. We have received very positive feedback from insurers thanking us for our contribution to the industry.

And last, but certainly not least, we have received strong interest in our life insurance analytic solutions. The FAST technology and strong leadership team, in combination with Verisk's advanced analytics and reputation in the insurance industry, has created significant opportunities. We have signed noteworthy contracts with Amica, Lincoln Heritage, Pacific Life, M Financial, and partnered with SCOR on our life analytics platform. I'm pleased with the strong early results as evidenced with synergies and strategic benefits.

In a period of heightened security, data analytics are more important than ever. And further, with substantially increased remote operations, the connectivity we provide our clients is critically valuable to our industry, supporting in turn the value of Verisk's business.

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

Lee M. Shavel

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

Thank you, Mark. First, I would like to bring to everyone's attention that we have posted a quarterly earnings presentation that is available on our website. Moving to the financial results for the quarter, on a consolidated and GAAP basis, revenue grew 10% to \$690 million, while net income increased 28% to \$172 million. Diluted GAAP earnings per share increased 28% to \$1.04 for the first quarter 2020.

The year-over-year increase in GAAP net income and EPS is primarily the result of organic growth in the business, gains from dispositions, and a decrease in acquisition-related costs. These increases were offset in part by the previously communicated timing shift of a \$10 million expense related to annual long-term equity incentive grants that was recognized in the first quarter of 2020 as compared to the second quarter in the prior year.

Moving to our organic constant currency results adjusted for non-operating items as defined in the non-GAAP financial measures section of our press release, we believe our operating performance remains solid. On an organic constant currency basis, Verisk delivered revenue growth of 5% for the first quarter of 2020. All three segments delivered growth with insurance posting the strongest growth rates.

We did experience a decline in certain of our transactional revenues during the last two weeks of March related to COVID-19, though the impact on the first quarter results overall was modest. Organic constant currency adjusted EBITDA growth was 7.4%, reflecting operating leverage despite a headwind from the timing shift of annual LTI grants.

Normalizing for the \$4 million revenue impact of the injunction, revenue grew 5.8% and adjusted EBITDA increased 9% on an organic constant currency basis. Total adjusted EBITDA margin for the quarter was 46.1%, down 59 basis points from the prior year. Normalizing for the impact of the timing shift of annual LTI grants, however, total adjusted EBITDA margin would have expanded to 47.5%, demonstrating solid adjusted EBITDA margin expansion inclusive of continued investment in our breakout opportunities. This total adjusted EBITDA margin includes both organic and inorganic revenues and adjusted EBITDA.

On that note, let's turn to our segment results on an organic constant currency basis. As you see in the press release, insurance reported 5.9% revenue growth, while adjusted EBITDA increased 8% for the quarter. We saw healthy growth in our industry standard insurance programs, catastrophe modeling solutions, claims analytics, and repair cost estimating solutions, offset by the impact of the injunction on roof measurement solutions. Normalizing for the impact of the injunction, insurance would have achieved 6.9% organic constant currency revenue growth and 9.9% organic constant currency adjusted EBITDA growth, demonstrating margin expansion while also investing for future growth.

Energy and Specialized Markets delivered revenue growth of 2.6% and adjusted EBITDA growth of 1.8% for the quarter, driven by increases in core research and the breakout areas like the energy transition practice and chemicals. We also saw increases in our environmental health and safety service revenues and weather analytics revenues. These increases were partially offset by declines in core consulting related to lower capital expenditures across the energy sector as well as the completion of implementation projects in market and cost intelligence solutions resulting from an exceptionally strong 2019 that reduced related transactional revenue.

Financial Services grew 3% and adjusted EBITDA increased 15.9% in the quarter, driven by growth in management information and regulatory reporting as well as fraud and credit risk, and offset in part by declines in portfolio management and spend-informed analytics revenues.

Our reported effective tax rate was 20.8% for the quarter compared to 21% in the prior-year quarter. We continue to believe that our tax rate for 2020 will be between 19% and 21%, though likely at the higher end of the range. There will likely be some quarterly variability related to the impact of employee stock option exercises, which depends in part on the Verisk stock price and employee personal decisions. In addition, we are closely monitoring potential tax legislation in the UK, which could impact our future tax rates.

Adjusted net income was \$194 million and diluted adjusted EPS was \$1.17 for the first quarter 2020, up 13.6% from the prior year. This increase reflects organic growth in the business, contributions from acquisitions, and lower average share count.

Net cash provided by operating activities was \$363 million for the quarter, down 1% from the prior period. Capital expenditures were \$53 million for the quarter, up 17% from the prior-year period. CapEx represented 7.7% of total revenues in the quarter. We continue to believe that CapEx will be in the range of \$250 million to \$270 million for 2020 as investing in our business and our people continues to be our highest priority. That said, certain expenditures related to real estate projects could be further delayed because of COVID-19 stay-at-home restrictions, but it is too early to quantify the impact, if any.

Free cash flow was \$310 million for the quarter, a decrease of 3.5% from the prior-year period, primarily due to an increase in interest payments and the timing of certain customer collections and operating expense payments. In light of the current environment, we are monitoring our cash flow closely. And in that regard, year-to-date through the end of April, we have seen year-over-year growth in both cash receipts and cash flow after operational expenditures, including CapEx.

During the quarter, we returned \$218 million in capital to shareholders through share repurchases and dividends, and the Verisk's board of directors has approved a cash dividend of \$0.27 per share payable on June 30, 2020.

Moving from the results of the quarter to our broader exposure to COVID-19, I wanted to address a few key elements related to our financial performance. With regard to revenues, as Scott described, we have completed a careful review of our solutions and services to evaluate their potential exposure to COVID-19 impacts.

Through that exercise, we have identified specific products and services, largely transactional in nature, that are being impacted by COVID-19. Collectively, these solutions represent approximately 15% of our consolidated revenues. And at the segment level, the 15% consists of approximately 8% in Insurance, 4% in Energy and Specialized Markets, and 3% in Financial Services.

On the 15%, we have identified specific solutions and services that are being impacted to various degrees by primary causal factors, including lower auto and travel insurance activity, the inability to enter commercial buildings to perform engineering analysis, decreased capital expenditures in the energy sector, and reduced levels of advertising by financial institutions and marketers.

A portion of the revenue attributable to these solutions could be negatively impacted by COVID-19. The impact on many of these solutions is expected to be modest with the deepest impact felt in the categories of travel insurance analytics, auto underwriting and claims analytics, consulting services to the energy industry, and spend-informed analytics solutions in Financial Services.

Although we experienced the decline in revenue attributable to these specific solutions in the last two weeks of March 2020, the impact on the first quarter was modest. We do not anticipate lasting impacts of a material nature to our long-term growth profile. And as the global outbreak of COVID-19 is still rapidly evolving, we will continue to monitor its impact on our business.

It's important to understand that the aggregate 15% is not what we expect the impact on our revenues to be, but rather it is the portion of revenue that we believe could be affected by the causal factors generated by COVID-19. Two observations: this should not be surprising as it is primarily a subset of our total transactional revenues, which represent about 20% of our total revenues. Of the transactional revenues included in the identified 15%, it should be noted that they are diverse in the nature of their exposure and generally are expected to show strong resilience in recovery.

In addition, it reinforces the stability of our subscription revenues that make up the bulk of the 85% of revenues for which we were unable to identify an exposure at this time. Of course, depending upon the duration of COVID-19, we may see new contract signing or renewal delays, but we view these as primarily timing issues.

With regard to Energy and Specialized Markets, while it's natural to draw comparisons to Wood Mackenzie's experience during the significant oil price declines in 2016, it is important to understand both that; one, Wood Mackenzie has reduced its exposure to the more oil price-sensitive upstream oil companies through the growth of

its energy transition practice, chemicals and other sub-segments, and its limited revenue contribution from the Lower 48 US operators.

Secondly, Wood Mackenzie represents a smaller percentage of our Energy and Specialized Markets segment, primarily as the result of our acquisition of PowerAdvocate, which primarily serves the utility sub-segment, and our environmental health and safety business, which has limited commodity exposure. The collective causal factors from COVID-19 represent pressure on achieving our 7% long-term growth objectives in 2020, but we don't believe they represent any structural changes in our fundamental growth drivers or operating leverage that would limit our ability to return to delivering on the long-term growth expectations for the business.

Moving to expenses, I want to emphasize our ability to manage the cost structure. First, our short-term incentive compensation is directly tied to revenue and adjusted EBITDA growth and will automatically reduce our expenses at lower growth rates. Second, we have already slowed our rate of head count growth and will continue to manage head count growth carefully through the COVID-19 event. With compensation representing approximately 70% of our cost base and head count growth representing a meaningful component of expense growth, this discipline provides significant flexibility. Finally, we are reducing non-compensation expenses, including travel and entertainment, event and other nonessential expenses.

What we are not cutting is investment in the business. We will continue our target of \$250 million to \$270 million for capital expenditure in 2020 and we will continue to invest in our breakout solutions as they are fundamental to our growth and value-creation opportunity. We also remain pleased, as Scott has described, with our integration progress on recent acquisitions where our focus on realizing synergies and generating attractive returns remains undiminished.

Factoring all of the above on revenues and expenses, we recognize the challenges this environment presents, but we believe the stability of our subscription revenues, our core operating leverage and expense actions we are taking will continue to support our revenue and EBITDA growth in 2020. While the impact of COVID-19 on first quarter results was modest, the second quarter will bear a larger impact from the causal factors reflecting the more significant duration and effect of COVID-19 for the period. As and when the causal factors diminish, we expect the impact to abate.

From a capital and liquidity perspective, we continue to anticipate solid operating cash flow and capital generation from our business. We maintain access to our committed revolving credit line with approximately \$595 million in currently available capacity as well as access to the investment-grade debt markets. And we have staggered maturities with no debt maturing until May 2021. We expect to continue to manage our leverage within our typical 2 times to 3 times range.

We hope this provides some useful context for you, and we look forward to addressing your questions. We continue to appreciate all 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 Toni Kaplan from Morgan Stanley. Your line is open. Please ask your question.

Toni M. Kaplan

Analyst, Morgan Stanley & Co. LLC

Q

Thanks very much. Glad you guys are safe and well. Wanted to ask about the energy business. I know in the past, I guess, when the price of oil gets below a certain level and now it's in the \$20s, I guess how much of an impact should we be expecting on the business? I know you mentioned you have less exposure to upstream now versus in 2015, 2016. I think it was about 80% then. If you could give us the updated percent upstream now. But just, I guess, how can – like, where can you see the impacts from this lower oil price? Can customers change their contracts during the subscription term or need to wait for renewal? Just any sort of color on the energy business would be helpful. Thank you.

Scott G. Stephenson

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

A

Yeah, Toni, thanks for the question and thanks for your well wishes, and the same to you to everybody who's with us on this call today. I hope everybody is safe and well. So, first of all, to your factual question, the percentage of WoodMac business that was upstream was roughly in the neighborhood of the number you just cited, and now it's below 50%. The other thing that I would say is that, as Lee mentioned, we have really diversified the revenues associated with the energy vertical. We do much more now with utilities, which are proving to be relatively stable and definitely relatively more stable than oil and gas companies are at the moment.

The whole wing of our business, which is aimed at helping with the transition to the renewables, is in very good shape. One part of the world that benefits from a low petroleum price is the petrochemicals business, and that is also a material part of what we do. So, as you started, our business is actually different than it was the last time we went through an oil price shock.

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

Alex Kramm

Analyst, UBS Securities LLC

Q

Yeah. Hey. Good morning, everyone. You mentioned the very modest impact in the last two weeks of March. Can you be a little bit more specific what you've seen so far in April? I think Mark mentioned something about the lower auto claims, which is pretty obvious, but I think that may have bottomed, as you said. But any other things you can highlight maybe a little bit more specifically. How big the impact was in April so far? Thank you.

Scott G. Stephenson

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

A

So, let me characterize generally, and then Lee, let me come to you. So, everything that we've said in our call today is a product of having examined very carefully what happened in April. So, all of the statements that we've made here about our view of 2020 and what it is that we've done by way of preparation, April is fully in mind when we've made every one of those statements.

Lee, anything you want to add to that?

Lee M. Shavel

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

A

Yeah. Alex, thanks for the question. It certainly is something that we're watching carefully. And I think a couple of comments. One, I think it's important to understand that in the 15% of the impacted products, there's a lot of diversity in that. And so, you have different products that are having different effects across that, and that provides some stability within that. The second is that while we're looking at April, we also have to take into account kind of the temporal dynamic of the duration of COVID-19 and its impact over time. And so, we want to be – certainly, our expectation is that that impact is going to moderate over some period of time.

So, with all that being said, on the 15% that we identified, we did see the expected decline, a partial decline in those revenues on a year-over-year basis in April and with fairly good degree of predictability. But in the non-COVID-19 revenues, we saw our more typical growth rates. And overall, as we indicated, we still saw growth in revenues across the business as a whole factoring those two elements in. So, beyond that, we're not in a position to predict given the complexity, given the impact of the duration. But I think within April with that full impact, we saw that partial decline, but overall we still maintained growth in the revenue so far.

Operator: Your next question comes from the line of Hamzah Mazari from Jefferies. Your line is open. Please ask your question.

Hamzah Mazari

Analyst, Jefferies LLC

Q

Good morning. Hope you guys are safe and healthy as well. My question is on the international side of the Insurance segment. It feels like you've been doing some M&A there and essentially been utilizing software platforms to target customers. Could you maybe talk a little bit more about that strategy and how much of your business today is purely software, and any margin implications with regard to that?

Scott G. Stephenson

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

A

Mark, would you take that question, please?

Mark V. Anquillare

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

A

Yeah. Thank you very much. So, what we've been able to do in the United States is over time aggregate a huge amount of data to build out some unique and proprietary analytic objects, analytic solutions. Inside of our international strategy, obviously, we have this ambition, as we always do, to aggregate some unique data. But to do that, we had to kind of look towards solutions that can help us aggregate the data.

So in some cases, we have some, I'll call it, natural catastrophe or hazard-type information that we can use and pull across that we've done and kind of replicated from what we've been successful at in the United States. At the same time, we found the best way to aggregate an information is really from a software angle. So with a goal towards driving towards an analytic outcome and providing solutions that are analytic at the foundation, we have done two things.

We started to aggregate data where we can and we've also kind of taken a software approach to things that help us, for the most part, aggregate that same data. I think what we have found, to be honest, is inside the UK, there is more of a thirst for a solution set that is an ecosystem interconnected across a lot of solutions. I think that drives automation, that drives digital engagement.

So, our focus has been to try to take some software componentry, [ph] kind of take (00:38:33) this ecosystem to help customers, and along the way aggregate some data, and with that data, build out an analytic outcome. It's kind of where you start and that's how we've gotten to the markets. And I think we've been very happy with the success and progress we've made, particularly in the UK as you referenced.

We have a little bit more of a beachhead there. We have certainly some more assets, and those assets have been working very closely together to integrate things that are related to data, underwriting work flow, and cat modeling or what I call [ph] the both (00:39:08) reinsurers and insurers. So, thanks for the question, and I think your observation was accurate. Hopefully, that gave a little color.

Operator: Your next question comes from the line of Andrew Steiner from JPMorgan. Your line is open. Please ask your question.

Andrew C. Steiner

Analyst, JPMorgan Securities LLC



Hi. Scott, in your prepared remarks, you indicated Verisk is confident they will continue to deliver revenue growth during this COVID period. And then your next sentence highlighted that the company's targeting EBITDA growth faster than revenue. And I wondered – my question is I wondered if we're supposed to link those two comments together? Or specifically, is the company targeting EBITDA growth faster than revenue growth during this COVID period and if that dynamic is on a reported basis or just an organic EBITDA basis?

Scott G. Stephenson

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



Yeah. So, thank you, Andrew. Good to hear your voice. So, first of all, you are correct that those two statements are intended to stand together. They are part of a full thought in terms of our bottom line performance. And we have been addressing ourselves in this call to COVID-19 effects, which more or less also correlates with statements about 2020. But the ambition in terms of the long term also remains the same. And that is that we would have very healthy rates of organic revenue growth and we would have rates of organic EBITDA growth that exceed rates of organic revenue growth. So, we're stating once again what our long-term plan is.

So, my comments were specific to 2020. The general point remains for our business over the long term. And then, lastly, to your question, we are talking about both organic and reported.

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

Andrew Nicholas

Analyst, William Blair & Co. LLC



Hi. Good morning. In hearing from some of the insurtech players over the past couple of months, it certainly seems like they've seen increased demand in the new environment. I'm just wondering if your conversations with those partners have evolved at all of late, and whether your view of the group's long-term trajectory has changed as a consequence of recent activity. Thanks.

Scott G. Stephenson

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

Mark, would you please take that question?

A

Mark V. Anquillare

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

Absolutely. So, once again, I think we differentiate two types of insurtechs. There is an insurtech, and that definition really relates to those that want to be insurers or managing general agents, it's about distribution. And I think what we've seen there is, those continue to prosper. At the same time, many of those early startups, who have decided to actually be underwriters or actually carry risk, sometimes those, I'll call it, loss ratios have been a little higher, the combined ratio, it has not been as profitable.

So, we think they will continue, but we have seen some pressure because, all of a sudden, it becomes a focus on liquidity and maybe a turning to profitability a little bit sooner. So, we are watching our insurtech customers and we are trying to help them out with everything we can. And I think it's a little bit of a mixed answer dependent upon where they are on their own lifecycle as they evolve to a more profitable kind of entity.

The other type of insurtech is really the service provider. In some cases, those service providers are partners with us. Sometimes, they compete in part with us. And again, I think it really relates to what they are doing. There is a definite need in the industry to help bridge the gap between the insurer and the policyholder, because I can't be necessarily face to face, I can't be at the home, I can't be at the property. So, like we referenced in some of the work that we're doing with our virtual property adjudication process and our underwriting platforms, those have been in widespread use and need. So, I think those players have reacted and certainly have done well during this pandemic.

In other cases, I think, probably, there's a little bit of a hesitancy around what can I actually implement during these times, what do I want to buy. And then like any insurtech, the smaller ones, it becomes a little bit of a liquidity issue as to how much cash I have and what state I am along the evolution towards profitability. So, kind of a mixed message there, and obviously we've grown nicely through a lot of those insurtech insurers or MGAs, and we're trying to support them during these difficult times.

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

Jeffrey P. Meuler

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

Yes. Thank you. Good morning. Just underpinning – trying to better understand what underpins the response to Andrew's question about the expected organic margin expansion this year and trying to understand the trend that you go into COVID with. The margin expansion in Q1 looked quite good, especially in the Insurance segment, but really across the business. Can you just give us a bit more detail on what drove that and so we can understand the baseline you go into COVID with? Thanks.

Q

Scott G. Stephenson

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

Sure. So, let me start, and Lee, perhaps you'd like to add some detail. But fundamentally, Jeff – and Jeff, good to hear your voice and hope you're doing well.

A

Jeffrey P. Meuler

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

Likewise.

Q

Scott G. Stephenson

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

Thank you. So, a very substantial fraction of our cost structure is the cost of our people, our team. It runs at about 70% of our total. As Lee mentioned, one dimension of our compensation stack is our incentive compensation. And those of you who have observed what we have in the proxy, we have set sort of the baseline expectation for performance in that at the level of our long-term targets for organic revenue and EBITDA growth.

A

In other words, I would say that we have set the bar at a pretty high level. And to the extent that this moment, for the reasons that we talked about, puts some pressure, I would say, particularly on the top line at this moment, one of the natural adjustments which occurs inside of our compensation is that the amount of annual incentive that will get paid out logically would come down somewhat, and that's automatic. That's just in the design of what we do.

The other thing that matters greatly here is our total head count, and there's two ideas that are paired one with the other. So, one is, as Lee mentioned, our rate of investment in innovation for the future is unabated. Our expectations are that we will spend as much writing and capitalizing software in 2020 as we originally intended, and Lee spoke to that.

But the other part of it is what is happening with respect to the rate of head count growth. And let me put that alongside of the comment that I made earlier. It is an extremely small fraction of our team where, in this moment, their ability to get their work done is limited. I mentioned roughly 5%. And even in those cases, I would describe what we've done as a very modest amount of sort of trimming and realigning. So, these are relatively small effects.

The larger effect is that, as you've seen our company do, over time, entering into 2020, we were also planning on pretty substantial increase in head count in order to provide even more acceleration of our developments into the future. And as we got the sense that the COVID-19 effect was going to be global, not just regional, we basically moved very aggressively not to let people go, but simply to slow down, in this moment, the rate of hiring. And it actually has a material effect on the rate at which our expenses move.

And so, essentially, we have already done what I think of as the most substantially important thing that we need to do in order to be in position to see our rate of EBITDA growth exceed our rate of revenue growth. Lee, anything you'd like to add to that?

Lee M. Shavel

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

Very little, Scott, because I think you described the mechanics in terms of the steps that we're taking in this environment and how that's affecting our ability to manage EBITDA. And maybe just to kind of give some context, as I have in the past, around the components and their impact. So, in this quarter, Jeff, as I think you identified and I kind of presume in your analysis you're eliminating that impact of the LTI shift, but within that, we're seeing before the impact of M&A and even before the impact of the Geomni-Vexcel transaction, solid EBITDA margin expansion within each of the three verticals individually. And so, that's generating a strong base of margin expansion. The Geomni impact, the reduction of expenses from that transaction is very helpful.

A

And then, we have the impact of LTI, that LTI shift in M&A. But within the business, we do have that ongoing core operating leverage. And everything that Scott is describing is describing our ability to continue to manage and deliver that core operating leverage, which serves to achieve and support both that organic and all-in margin objective that Andrew asked about originally.

Operator: Your next question comes from the line of Manav Patnaik from Barclays. Your line is open. Please ask your question.

Manav Patnaik

Analyst, Barclays Capital, Inc.

Q

Thank you. Good morning. Scott, maybe just to follow-up on your comments you just made on plans to accelerate in 2020. I was just wondering if – maybe it's early, but in terms of conversations with your clients, there's pieces that maybe everyone realizes they need to be – accelerate their digital plans and so forth. So in the context of opportunity, once the dust settles, how do you think about whether that's lens or insurance and telematics or whatever, like where could things really pick up after this because of what's happened?

Scott G. Stephenson

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

A

Yeah. Thank you, Manav. Nice to hear your voice and I hope you're doing well. Yeah, you've really put your finger on one of the most fundamental things about the context in which Verisk does its business. And that is, fundamentally, as our customers become what I refer to as the better digital version of themselves, that's good for us. That means that they are more able to consume the data and the analytics that we put out and they are able to actually realize and acknowledge the value that they get, not that there's any lack of acknowledgment today. But as their own processes become more data-aware and data-sensitive and fast, the precision that our analytics bring and the speed with which we do what we do just becomes that much more active inside of their own environment.

And I believe that one of the most fundamental consequences of the COVID-19 moment is that it is going to accelerate companies becoming the better digital version of themselves.

Now, there's still a long distance to go. I mean, for all the discussion that is out there in terms of digital business, digital migration, et cetera, I would say that many companies are still at relatively early stages. But I do believe that there's going to be an acceleration effect based upon what's going on here.

What does that mean specifically? I think what that means specifically is that customers will, across a variety of different attachment points, find even more interest in what it is we do. So, analytic objects that we put out will be more consumable. And therefore, when our customers write their own business cases for making use of the next thing from Verisk that they haven't made use of yet, one of the factors that will be at work there is when we think about their own returns, they will be able to generate returns faster because they will actually get to implementation of what we do more quickly.

Same relates to if they want to attach to an API that we've put out there in order to access some of our content. The more that they do business that way, the more they will be able to go from the concept to the actual use of our solutions more quickly. And I would not localize these effects to any one part of our business. All three of the verticals, virtually everything that we do will respond to this trend.

Operator: Your next question comes from the line of Bill Warmington from Wells Fargo. Your line is open. Please ask your question.

William A. Warmington

Analyst, Wells Fargo Securities LLC

Q

Good morning, everyone. So, a question for you on WoodMac. Maybe you could talk a little bit about with whether there's seasonality of renewals for [ph] GEM (00:53:36) and maybe you could give us some sense for what you're seeing on renewals, an early read? Thanks.

Scott G. Stephenson

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

A

Bill, good to hear your voice. Hope you're doing well.

William A. Warmington

Analyst, Wells Fargo Securities LLC

Q

Thank you.

Scott G. Stephenson

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

A

There is a degree of seasonality, and most of the – or in many cases, the heaviest season for renewals is Q4 and Q1. So, obviously, we just had our Q1. And the team is in the marketplace – I mean, one of the wonderful things about what we do, not only there, but actually across the whole company, is the degree of intimacy we have with our customers. So, a sales call is not only a sales call. A sales call is a relationship moment. And particularly, at this time, the exchange with our customers is, obviously, at a very fundamental level. We're very interested in how they're doing. We're very interested in what can we do to be of support to them. And I believe that our customers really get that about Verisk right now. They really get that.

And I believe that that, in addition to the acceleration of business becoming more digital, I believe both of those will be resonant for long periods of time into the future that customers will remember this moment and they will remember what Verisk did. We recited several things where not only did we develop things in a very hurry-up fashion in order to respond to their interests, but we also, in some cases, made things available to them for free. And I believe that all of that is going to be remembered and will, hopefully, be yet more foundation inside of the relationships we have with our customers.

That's true at WoodMac also. One of the things about WoodMac being out in the marketplace at this moment seeking renewals is that we are equipped in a way that we weren't in the past. Certainly, it's very different than when the oil price shock of 2015 and 2016 occurred, because we now have the [ph] Lens (00:56:02) platform, which is a very nice platform [ph] to (00:56:06) analytic environment that customers – the value of it is obvious to customers. And so, it's an amplification of the value that they've always gotten out of our content. And so, we're able to lean into the discussion – even while we're listening very carefully, to where the customers are, we're able to lean into the discussion with respect to affirming the value of what we bring and affirming the increase in the value of what we bring relative to, say, the past renewal if it was three years ago or two years ago or wherever it happened to be.

And so, there's a – I would describe it as kind of a quiet confidence when our team goes out into the market now. They know that they've got the goods and they're determined to represent that value even at the same time that we're trying to be very sensitive to where the customers are.

Operator: Your next question comes from the line of Jeff Silber from BMO Capital. Your line is open. Please ask your question.

Jeffrey M. Silber

Analyst, BMO Capital Markets (United States)

Q

Thanks so much. Wanted to go back to your insurance vertical, I know it's about 85% subscription. I think that's what you said, and you've got long-term contracts. But I'm just curious if you think you might be seeing any pressure on any of those clients, whether it's lower returns from their own investment portfolios, higher business interruption insurance claims? And then also, can you talk about the percentage of contracts that come up for renewal each year and roughly what the seasonality there is as well? Thanks.

Scott G. Stephenson

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

A

Yeah. So, I'll start with that, and Mark, and then I'll turn it over to you. Just a couple of your points, I mean, insurers are not unaffected by what is happening at the moment, for sure. And Mark described some of the dynamics, particularly the fact that probably the single most observable in the moment effects are related to reduced use of automobiles and, therefore, reduced damage to automobiles lower claims. And Mark pointed out earlier that a good number of our customers have chosen to reflect this in premium rebates to some of their customers.

That doesn't mean that they're necessarily – that our customers, the insurers, are going to make less money on the line. I mean, their claims experience is half of the combined ratio has just gone down quite a bit in the moment. So, I think they're being very realistic in reflecting that and how they deal with their own customers. But that aside, there will definitely be a discussion about what does business interruption insurance cover and not cover, and specifically, are pandemic effects excluded.

Our reading of the policy language is that it's relatively clear that pandemic effects are excluded. That doesn't mean that there will be less than maybe a spirited dialogue in front of judges and juries with folks wanting to claim, well, yeah, but no, the policy really should cover that. And of course, we also have to sort of wait and see where public policymaking comes out on all of this. But the industry will certainly make its case in terms of what is included and what is excluded in the policy language.

Mark also talked about some of the smaller companies. And I would just add to what Mark said earlier that one of the things that that is a hallmark actually of how we work with our customers is we try to be very flexible to meet them where they are. And so, we're open, for example, to – if they're feeling extreme – and this is not most cases. In fact, this is very few cases. But if they're under a relatively greater level of pressure at the moment, we might offer sort of a little relief in the moment for an extended contract with better terms in the out years.

But we don't find ourselves needing to do that very much, but we're trying to be flexible in those few cases where that makes sense. A lot of our business is on multiyear subscription. Some of it is one year, but actually automatically renewing. And so, Lee mentioned multiple times the extreme stability of our subscription-based revenues, and that's where it is basically found. It's either multiyear or it is automatically renewing. And all of it is so basic to what our customers are doing that it really does fall under the category of must-have.

So, Mark, anything you want to add to that?

Mark V. Anquillare

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

A

I think you covered it well, Scott. The contracts we have are typically like three years in nature, so there's no necessarily a concentration. Maybe there's a little bit more fourth quarter [ph] windows (01:01:26) are signed, but that's over three years. Thanks.

Operator: Your next question comes from the line of Ashish Sabadra from Deutsche Bank. Your line is open. Please ask your question.

Ashish Sabadra

Analyst, Deutsche Bank Securities, Inc.

Q

Thanks for taking my question. Just a question on M&A. You've done several tuck-in acquisitions and some divestitures over the last year [ph] – two (01:01:48) years, given your solid balance sheet, how do you think about taking advantage of some of the market dislocation and doing more of these tuck-ins going forward? Any color on that, [ph] sir (01:02:03). Thanks.

Scott G. Stephenson

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

A

Yeah. So as I mentioned way back at the start of the call, we are talking within our leadership team on a extremely frequent basis, we always do, but even more so in this moment. There are two messages that I have for our leaders above all, and I'm almost a broken record on these points, as we speak with one another, counsel with one another. One is that we need to be extraordinarily alert to cyber risk in this moment. This is a great moment for bad guys, because companies potentially could be distracted as they're dealing with the effects of this moment.

We always look very strongly to our defenses at Verisk, but I am just asking for extraordinary alertness to that particular dimension of doing work. And by the way, all the monitoring that we do of our network definitely, definitely shows us that we remain secure. But we just to lean into it. That's one of my messages for our leadership team.

And the other one is you work for a company that is very strong, very stable, has a very substantial and solid balance sheet and that is not true of all companies in the world today. So, please keep your radars on maximum frequency and reach in terms of observing companies that are around us that maybe are logical relative to something that we're doing inside of Verisk and that perhaps are or, even more specifically, were making a difference for our customers, because it is possible that some of them may find themselves in a situation where they need to think about a different way of proceeding into the future. And therefore if, both there is strategic logic and there are terms which might be available, we should really be leaning into it at this moment.

The message, again, is to our leadership, this is me to our leaders, you work for a company that is unlike a lot of our companies and this can be a moment. So, all of that said, if a company happens to be, let's say, in private equity hands, private equity has, in quite a few cases, become the reference bidder inside of our world, so I'm not – it remains to be seen just how much valuation expectations may modify downward. We'll see.

Stacey Jill Brodbar

Head-Investor Relations, Verisk Analytics, Inc.

A

Operator, next question?

Scott G. Stephenson

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

Stacey, maybe we'll give it one more moment to see if the operator comes back online.

A

Stacey Jill Brodbar

Head-Investor Relations, Verisk Analytics, Inc.

Operator, next question? Did we lose our operator?

A

Scott G. Stephenson

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

I think we may have. Well, why don't we tie it off there then?

A

Scott G. Stephenson

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

Thank you all very much for joining us today. And my apologies if there are any of you that were looking to ask a question, but you didn't get a chance to get the question in due to this technical glitch. We don't have the ability to open and close the lines. That's only the operator. So, apologies if you had a question and you didn't get a chance to ask it. But in any event, as always, we will be following up with many, many of you and I hope that you will take your additional questions and review them with Lee and Stacey.

So otherwise, thank you very much for having been with us today. I want to wish you great health and strength in this moment to you and your loved ones and your firms. And we really, really appreciate your interest in Verisk and we have really been looking forward to having this conversation with you. So, thanks very much for being with us today.

Talk to you soon. Goodbye.

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