

02-Nov-2022

Verisk Analytics, Inc. (VRSK)

Q3 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, everyone, and welcome to the Verisk Third Quarter 2022 Earnings Results Conference Call. This call is being recorded, and currently all participants are in a listen-only mode. After today's prepared remarks, we will conduct a question-and-answer session where we limit participants to one question so that we can allow everyone to ask a question. We will have further instructions for you at that time.

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

Ms. Brodbar, please go ahead.

Stacey Jill Brodbar

Head-Investor Relations, Verisk Analytics, Inc.

Thank you, Savannah. And good day, everyone. We appreciate you joining us today for a discussion of our third quarter 2022 financial results. On the call today are Lee Shavel, Verisk's Chief Executive Officer; Mark Anquillare, President and Chief Operating 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. 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.

Finally, I'd like to also remind everyone that the financial results for recent dispositions are included in our consolidated and GAAP results but are excluded from all organic constant current growth figures. A reconciliation is provided in our 8-K.

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

Lee M. Shavel

Chief Executive Officer & Director, Verisk Analytics, Inc.

Thanks, Stacey. And good day, everyone. Before I jump into the earnings results, I want to officially welcome Elizabeth Mann to Verisk. Elizabeth brings operational and corporate finance experience from her three years at S&P Global, capital markets and strategic sophistication from her 12 years of investment banking experience at Goldman Sachs, and finally, an impressive academic foundation and enthusiasm for mathematics that fits perfectly into our analytical culture. She is coming up the curve quickly, and has already established herself as a valued part of the team.

I am pleased to share that we delivered on our stated intention to become a global insurance-focused data analytics and technology company. As we announced on Monday, we have signed a definitive agreement to sell

Wood Mackenzie to Veritas Capital for \$3.1 billion in cash consideration payable at closing, plus future additional contingent consideration of up to \$200 million. Our ability to achieve this result in the midst of a deteriorating deal environment speaks to the quality of the asset and the momentum of the business.

Wood Mackenzie is the globally recognized leader in natural resources intelligence with in-depth proprietary datasets and subject matter experts that cover the full energy and natural resource value chain. Since we acquired Wood Mackenzie in 2015, the business has increased revenue and EBITDA, integrated acquisitions, developed new areas of growth in the energy transition, chemicals, and metals and mining, and most recently upgraded their client platform, Lens. This has transformed Wood Mackenzie from an advisory services business focused on transactional research and consulting to a data analytics business bolstered by long-term subscription contracts, a leading brand, and market position.

We have been honored to work with and support our friends and colleagues at Wood Mackenzie, and we wish them well and look forward to their continued growth and success under the proven leadership of Mark Brinin and Joe Levesque, and their respected future owners, Veritas Capital. The future for Wood Mackenzie is very bright and we look forward to having an ongoing productive relationship with them.

This transaction, which is expected to close in the first quarter of 2023, will best position Wood Mackenzie to fully capitalize on secular industry tailwinds, including the Energy transition and deliver on the growth opportunity that lies ahead. The closing of this transaction is subject to customary closing conditions, including regulatory approvals.

Going forward, the Wood Mackenzie business will be reported as discontinued operations beginning with Verisk's fourth quarter earnings report and 10-K filing. We plan to use the approximate \$3.1 billion in proceeds primarily for share repurchases and debt pay-down. After accounting for share repurchase and debt pay-down, we expect this transaction to be modestly dilutive to Verisk earnings in the range of 4% to 6%.

That said, over the longer-term, we believe the deal will bring Verisk the added benefit of increased focus on our core Insurance business, more consistent growth in lines with our long-term targets, and improved return on capital, which should drive shareholder value.

Now let me turn my attention to our third quarter earnings results. Verisk delivered solid third quarter results as we partner with our customers to help them navigate through environmental challenges in the marketplace, including inflation and elevated losses in certain lines of Insurance.

Adjusted for the impact of the suspension of commercial operations in Russia, Verisk delivered mid-single digit organic constant currency revenue growth and margin expansion resulting in organic constant currency adjusted EBITDA growth of 7%. This performance reflects our focus on cost discipline, operational efficiency, and the early benefits of initial steps taken in previously announced margin improvement initiatives. Elizabeth will provide more detail in her financial review.

On our EBITDA margin expansion objective, we continue to be confident in our ability to achieve our stated target to deliver 300 basis points to 500 basis points of margin expansion by 2024 off an Insurance-only baseline of 50% to 51% normalized adjusted EBITDA margins. We have taken actions to enhance operating efficiency, improve productivity, and streamline processes. During the quarter, we eliminated certain roles across the organization, sunset legacy products and reduced office square footage.

Additionally, we entered into an agreement to sublease our data center to a third party as we move more of our computing infrastructure to the cloud, delivering long-term savings for Verisk. We have also advanced on our Future of Data Collection project where we are improving the efficiency and productivity of our field force, which not only saves money but enhances our solutions. We expect that over the next two years, about half of our identified cost savings will come from head count actions, about 25% from reductions in spending from IT infrastructure, and about 25% from third-party spending, including real estate. To date, we have made decisions and taken actions to address more than half of the cost savings we are targeting.

Turning to our customers, our Insurance customers continue to be generally healthy but are dealing with the cross currents of inflation and increasing loss ratios which are negatively impacting profitability across the industry. This is having a disproportionate impact in personal lines, InsurTech companies, and certain geographic markets. While insurers are increasing rates to help cover inflation and repair costs, it takes time to get rates approved by the regulators and then implemented across the entire book of business.

To date, premium growth has not yet caught up to loss costs. Specifically, in personal auto, we continue to see pressure on underwriting activity across the industry as insurance providers are holding back on writing new business. In fact, combined ratios across the industry continue to trend lower, and as a result insurers are cutting back on marketing spend as a way to protect profitability. The net result is lower transactional revenues for Verisk across both our personal lines and auto underwriting solutions as well as certain of our marketing solutions. We believe this is a cyclical issue and will abate over time.

As we noted last quarter, Florida is a trouble spot for the insurance industry, and the losses from Hurricane Ian add complication. We are experiencing an increasing level of insolvencies across the market with four companies liquidating just this quarter, while other carriers are electing to exit the market entirely. This has had a negative impact on both our subscription and transactional revenues. To address these issues and drive future growth, our sales teams are engaged with the new entrants into the market as well as expanding our relationship with a state-backed insurer to help price and select risk. We are also working with our existing customers to help them understand the impact of inflation across their book of business and to help them price the risks accordingly as policies come up for renewal.

Apart from the near-term challenges, we continue to believe that the opportunity for Verisk to address the long-term strategic and operating needs of the insurance industry remains substantial. In my many conversations with insurance CEOs, they have consistently encouraged us to develop a more strategic dialogue and how we can help the industry address technology, regulatory, and operating issues, leveraging our unique and legacy position as an effective utility for the industry.

To that objective, we have been coordinating a series of CEO and CIO roundtables to develop solutions that can improve industry operating efficiency and capital efficiency as well as productivity. While these initiatives will take time to develop and implement, they represent a substantial incremental opportunity for Verisk. We are very excited about the opportunity to engage with the industry at the strategic level and broaden our technology partnership with them.

In recognition of our commitment to innovate on behalf of clients, Verisk was recognized by Celent as a luminary for developing innovative solutions that help property, casualty, and life insurers detect claims fraud. Our solutions were recognized for highly advanced functionality and ability to integrate with third-party data, driving faster outcomes and a more accurate claims experience.

Similarly, we are committed to creating value for our employees which includes providing an exceptional workplace, and we were awarded the Great Place to Work designation this year in the US, UK, India, Spain, and New York. We were also recognized as a Great Place to Work for Women in the UK. In today's rapidly-evolving workplace, we are focused on talent attraction, development, and retention by supporting our teammates' passion and having a purpose-driven culture that allows unlimited success.

Finally, as a demonstration of our commitment to ESG priorities, Verisk has been ranked third out of 100 Best ESG Companies in 2022 by Investor's Business Daily. The list recognized companies with superior environmental, social, and governance ratings in addition to fundamental and technical stock performance. We are honored to receive this recognition for our commitment to sustainability and the ability of our strong and growing business to meet customer and investor expectations.

As we move forward, I am more confident than ever that with our proprietary datasets, talented and dedicated people, deep industry knowledge and technical expertise, Verisk is best positioned to create value for our customers by helping them evolve in a new digital environment, integrate rapidly growing datasets, and achieve new levels of efficiency. This in turn will create value for employees and shareholders.

I will now turn the call over Mark for some more color on the Insurance business performance.

Mark V. Anquillare

President & Chief Operating Officer, Verisk Analytics, Inc.

Thanks, Lee. I'm pleased to share that the Insurance segment delivered another solid quarter. In Insurance, we are experiencing strong growth in subscription revenues across both underwriting and claims, resulting in OCC subscription growth of 6.1% for the segment overall.

Within underwriting, we had strong results from core underwriting, extreme event solutions, and our international businesses. We also had healthy contribution with double-digit growth achieved in certain of our newer acquired businesses, including life insurance and Specialty Business Software Solutions.

Extreme event solutions had a strong quarter driven by the addition of new customers to our core Touchstone platform as well as the expansion of multiyear deals with existing customers. In an environment of rising inflation, insurers and reinsurers are challenged to keep up with the growth in their exposures. To help our customers understand [ph] the risk of inflation and assess their exposures (00:13:14), we recently released our [ph] 2022 Global Model Catastrophe Losses (00:13:20) report, detailing key global financial loss metrics based on our latest suite of catastrophe models.

Additionally, we are supporting insurers with a broad array of property data solutions, so that they can ensure they're keeping up with the impacts of inflation and have a more informed view of risk exposures. Our sustainability and country risk business also had a very strong quarter as demand for our risk indices in both the corporate and investor segments continue to drive strong double-digit growth. We're also beginning to get traction with the expansion of our sustainability offerings into the Insurance segment.

Within life insurance, we're delivering strong double-digit growth through the addition of new customers as well as the expansion of our relationships with existing customers. Our low code, no code technology is leading the industry's modernization by helping carriers gain efficiencies and improve profitability at scale with a simpler technology ecosystem and a faster time for implementation.

We continue to be excited about the growth potential for our life business and our success here serves as a great blueprint for our ability to drive growth and value creation with the expansion into large addressable and adjacent insurance markets.

Insurance transactional revenues grew a more modest 1.8%. This quarter's transactional revenues were negatively impacted by a lower level of storm activity versus the prior year when Hurricane Ida made landfall in Louisiana as well as the environmental impact of softer results in our personal auto underwriting and marketing businesses.

We do expect to see some benefit in the fourth quarter from Hurricane Ian claims, but we caution that some of this could be offset by more liquidations or insolvencies within the Florida insurance market. Additionally, we expect the environmental headwinds in personal auto and marketing to persist.

In our effort to advance the dialogue in our work on [ph] ethical AI and algorithm fairness (00:15:23), we recently coordinated and sponsored the Insurance Fairness Forum, where we presented on social fairness in pricing and underwriting for Insurance. This is a preliminary study focused on personal auto ratemaking. During the conference, we engaged with consumer advocates, the insurance regulators because as we want to ensure we're at the forefront with conversation on this very important topic. The insurance industry has inherently tried to differentiate selecting and pricing risks, but our goal is to ensure that there is no fair, unfair discrimination.

In our customer conversations we hear that they need help to become more automated, more digitally engaged, and more connected. The insurance industry is directing their spending towards these projects, and in turn to Verisk as a key ecosystem partner to drive these initiatives forward, which has been a key driver of growth for us. The industry continues to look to us to innovate and respond to recent industry events with leading edge solutions.

For example, our Verisk team responded to Hurricane Ian by helping clients track damage, dispatch adjustors and staff, estimate the cost to repair the damage, and speed the claims process to get properties repaired and safely return families to their homes. Our catastrophe loss estimate of \$42 billion to \$57 billion was an early and accurate estimate of insured losses related to Hurricane Ian, allowing insurers and reinsurers to understand the impact on their portfolios. In California, insurers faced new regulatory measures to address rating property coverage, wildfire-prone areas. Verisk is helping our customers comply with these new regulations.

We continue to help our customers select and price risk and root out fraud with our advanced data analytics and believe that we are well-positioned to continue to grow as we advance our initiative to become the trusted technology partner for the industry.

Now, let me turn the call over to our new CFO, Elizabeth Mann, for a financial review.

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

Thanks, Mark. And good morning to all of you here on the call. I'm so happy to be here at Verisk and speaking to you today. I have admired the company and its phenomenal insurance business for over a decade as I worked in the information services sector, and now is a particularly exciting time to join as we have an opportunity to redefine our strategy as a global insurance-focused data analytics and technology company. We can now focus our capital and all of our industry knowledge to support the needs of our customers, as Lee and Mark have already highlighted.

As I've joined Verisk over the last six weeks, and I've been getting to know the people and digging into the business, I've been focused on a few priorities. The first is a focus on cost discipline and execution against the margin targets we've committed. Second, Lee has established a framework for capital allocation and ROIC metrics, which I intend to continue. The resulting transparency and accountability on our deployment of capital will support our ability to invest with confidence to drive top line growth and strong return. Third, I will prioritize investor engagement, gathering feedback and providing transparency into the business. So I look forward to getting out on the road and meeting all of you.

Let me now turn to our third quarter results. Before I begin, I want to remind everyone that all consolidated and GAAP numbers are negatively impacted by the recent disposition of 3E and Verisk Financial Services. This effect will continue through the first quarter of 2023 when we will anniversary those transactions. As noted, due to its materiality, Wood Mackenzie will be accounted for as discontinued operations beginning in the fourth quarter of 2022.

For the third quarter of 2022, on a consolidated and GAAP basis, revenue was \$745 million, a modest decline from the prior year, reflecting the impact of recent dispositions and foreign currency exchange rate headwinds, which are most pronounced in our Energy segment, offset in part by acquisitions.

Net income attributable to Verisk decreased 6% to \$189 million while diluted GAAP earnings per share attributable to Verisk decreased 3% to \$1.20. The decline was primarily due to the disposition within the former Energy and Specialized Markets and Verisk Financial Services segments, including the loss incurred as part of the true-up of the closing adjustment.

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 are pleased with our operating results, led by continued growth in our subscription revenues. In the third quarter, OCC revenues grew 4.8% driven by continued strength in our Insurance segment and continued sequential improvement in our Energy segment. Our subscription revenues increased 5.6%, while our transactional revenues increased a more modest 1.2%. Adjusting for \$3.3 million in prior year revenue associated with our Energy business in Russia, OCC revenue would have grown 5.3% and subscription revenues would have grown 6.2%.

Consolidated OCC adjusted EBITDA growth was 6% in the third quarter. Normalizing for the prior year revenue associated with our Energy in Russia and the incremental expenses associated with exiting that business, OCC adjusted EBITDA growth was 7%.

Total adjusted EBITDA margin, which includes both organic and inorganic results was 51.5%, up 160 basis points from the year prior, reflecting strong cost and operational discipline as well as the benefit from recent disposition. This level of margin includes approximately 60 basis points of headwind from recent acquisitions, 50 basis points of headwind from our ongoing technological transformation including cloud expenses, which we absorbed into our cost structure, and 40 basis points from higher year-over-year T&E expenses.

Despite the environment and cyclical headwinds to margin, this quarter's margin expansion is further demonstration of our commitment to efficiency. On that note, let's turn to our segment results on an OCC basis. For Insurance, in the third quarter, the Insurance segment revenues increased 5.3%. We saw healthy growth in our industry standard insurance programs, claims analytics, extreme events, life insurance, and Specialty Business Solutions. Subscription revenues increased 6.1%, reflecting tougher comparisons versus last year's 7.9% growth as well as the impact of some of the environmental factors Lee and Mark spoke about earlier.

Transactional revenues increased 1.8% in the quarter, reflecting a lower level of storm activity in the quarter as well as continued softness from personal auto underwriting and marketing. This was offset in part by strong recovery growth in international travel insurance solution. Within workers' compensation, we have seen a return to modest growth, though the business is not yet back to pre-pandemic levels.

Adjusted EBITDA grew 6.9% in the third quarter, while margins declined 70 basis points to 55.2%. These margins reflect a heavier burden from the corporate costs that were previously allocated to businesses that have been disposed as well as the impact of recently acquired businesses, higher cloud expenses, and the partial normalization of travel expenses back into the business. This level of margin also includes continued investment in our high-growth areas like life insurance and Specialty Business Solutions and the impact of recently acquired businesses.

Energy and Specialized Markets, revenue increased 2.5% in the third quarter. Normalizing for the impact of our exit from Russia, Energy revenue growth was 5.2%. Our subscription revenues increased 3.5% or 6.8% normalizing for the Russian exit led by double-digit growth in Energy transitions, chemicals, and metals and mining research coupled with modest growth in our core research subscription. Additionally, we continue to experience strong adoption and contract expansion from our Lens renewals. Transactional revenues decreased 1.8% as growth was constrained by consulting resources.

Adjusted EBITDA decreased 12.2% in the third quarter and margins contracted 210 basis points to 34.4%. These adjusted EBITDA and adjusted EBITDA margin figures include \$0.2 million in incremental expense related to the suspension of operations in Russia. Normalizing for that impact, adjusted EBITDA growth would have been 7.8%.

On taxes, our reported effective tax rate was 22.7% compared to 20.9% in the prior year quarter. This higher year-over-year tax rate was the result of lower level of stock option activity versus the prior year. Looking ahead to the remainder of 2022, we expect the tax rate in the fourth quarter to be approximately 24% to 26%, reflecting the impact of discontinued operations as well as a lower than originally expected level of stock option activity.

On adjusted net income and diluted adjusted EPS, adjusted net income decreased 1.9% to \$230 million and diluted adjusted EPS increased 1.4% to \$1.46 for the third quarter of 2022. These changes reflect organic growth in the business, contribution from acquisition, and a lower average share count offset in part by the impact of divestitures and the higher interest expense and tax rates.

For free cash flow, net cash provided by operating activities was \$280 million for the quarter, down 1.8% from the prior year period due to the loss of operating cash flows related to the disposition. Normalizing for the impact of the 3E and Verisk Financial Services dispositions, free cash flow would have been up 7.5%.

Capital expenditures were \$66 million for the quarter, up 7% versus last year, reflecting increases in capitalized software development offset in part by savings on third-party hardware and software as we move to the cloud. We now expect capital expenditures for the full year to be within the range of \$270 million to \$280 million. This range supports our plans to increase our software investment into core underwriting where we believe there is a significant opportunity for platform enhancement.

In addition, we now expect fixed asset depreciation and amortization to be within the range of \$195 million to \$205 million and intangible amortization should be approximately \$145 million for the full year 2022. Both depreciation and amortization elements are subject to foreign currency variability, the timing of purchases, the completion of projects, and future M&A activity.

On capital returns, during the third quarter, we returned \$349 million in capital to shareholders through share repurchases and dividends as our strong cash flow allows us to consistently return capital to shareholders while also investing in the business. Additionally, in October of 2022, we entered into a new \$100 million accelerated share repurchase agreement to be completed in the fourth quarter, as is our normal practice.

Looking ahead, we plan to optimize the use of proceeds from the sale of Wood Mackenzie while also maintaining our leverage range. We will achieve this through a combination of debt pay-down and share repurchases and may act opportunistically from a timing standpoint.

Before I turn the call back over to Lee, I just want to remind everyone that we will be hosting an Investor Day in March where we will provide more transparency and clarity on our strategic and financial profile and growth drivers as a global insurance-focused data analytics and technology company.

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

Lee M. Shavel

Chief Executive Officer & Director, Verisk Analytics, Inc.

Thanks, Elizabeth. In summary, our business is strong as evidenced by our organic constant currency EBITDA, adjusted EBITDA growth of 7% and strong margin performance in the quarter. We are confident that we have the team in place to execute on our operational efficiency plans over the next two years and deliver on our margin expansion targets. Longer-term, we continue to believe as well that the opportunity to create value for our customers and employees will drive value for our 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. And with that, I'll ask the operator open the line for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And with that, we will take our first question from Ashish Sabadra from RBC Capital Markets. Please go ahead.

Ashish Sabadra

Analyst, RBC Capital Markets LLC

Q

Congratulations, Elizabeth. I look forward to working with you. Lee, thanks for providing the details on the impact of the divestiture. I was just wondering if you could provide some underlying assumptions, any color on tax, if there is any tax leakage, how does the tax increase for the remaining company, stranded cost? Any color on those trends would be helpful. Thank you.

Lee M. Shavel

Chief Executive Officer & Director, Verisk Analytics, Inc.

A

Thank you. Thank you, Ashish. First, let me say on the question on tax leakage, the \$3.1 billion in proceeds I think if your question is directed towards that, we are not expecting any significant tax leakage. There may be some upside for us on that modestly, but we think that we will be able to deploy the full amount of that in share repurchases and debt pay-downs.

As it relates to the future tax rate, we have provided some guidance for the fourth quarter, but it's obviously a complex issue that we are working through in terms of the longer-term impact. It depends upon the composition of the business overall, and we would intend to provide more clarity for that as we look ahead. I think it's fair to assume, of course kind of as implicated in the fourth quarter, that our effective tax rate will be higher, but we'll try to provide more specific guidance as we sort that out and in the timeframe that we typically do with our fourth quarter earnings results.

Ashish Sabadra

Analyst, RBC Capital Markets LLC

Q

That's very helpful.

Operator: Your next question will come from Jeff Meuler with Baird. Go ahead.

Jeffrey P. Meuler

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

Q

Yeah. Thank you. Thank you. Lee or Mark, maybe if you could just give a more holistic perspective on what the adjacent market opportunity is for you as you focus your efforts and capital on insurance. You talked about life being a blueprint for extension into adjacent markets and you talked about developing solutions, that's an incremental opportunity for you coming out of the CEO and CIO roundtables, but maybe if you could just more holistically address just how you see addressable market or adjacent opportunities.

Lee M. Shavel

Chief Executive Officer & Director, Verisk Analytics, Inc.

A

Sure. Thank you, Jeff. I'm going to take a first crack at it, and then hand it over to Mark for his perspective. But the one way that we're looking at this is we're looking at the totality of the insurance industry spend in aggregate, and that's a very substantial number in kind of the [indiscernible] (00:32:56).

And Jeff, I think you may be rattling at paper there. But we're looking at that aggregate amount and I think as we talked to investors previously, when we look at the amount of revenue that Verisk generates from the insurance industry relative to their operating costs, it is a 40 basis point to 45 basis point amount, and we think that there's a broader opportunity for us to address their marketing spend and finding efficiencies and finding solutions to drive productivity gains, to find efficiencies on technology spend, which are substantially larger opportunities for us relative to the scale of what we're doing.

So that will give you a sense of why we think that's a substantial opportunity, and we've been engaged in addressing a lot of those with current initiatives that we look to expand on. And I know Mark can certainly speak to some of the things that we've been doing on that front.

Mark V. Anquillare

President & Chief Operating Officer, Verisk Analytics, Inc.

A

Super. So maybe I'll try to give you three examples. We talked about life but even within life, we have the ability to continue to extend into group life. We are focused today from a life insurance perspective primarily on the United States. We can go international.

To the extent you think about other lines of insurance or other lines of business related to life, you have disability. That's an opportunity for us. We see opportunities to extend into pet insurance, travel insurance, those are some examples of like customer sets that we don't operate in. I'll make the obvious example, but I just want to remind everybody that from a marketing perspective, that is a huge customer set. The marketing department [indiscernible] (00:34:45) that we just never really dealt with before and now we have access to through some recent acquisitions, and it really is forming the foundation of how we kind of go to market with some of our customers really helping them understand the best target markets and where and how to price.

Last but not least, you've heard it throughout the themes here, we think we can do more from a software and technology platform perspective with our customers. We don't deal with the CIOs being the Chief Information Officers inside of our major customers and we see ourselves as a technology player, and a strong partner to them. So hopefully that helps.

Lee M. Shavel

Chief Executive Officer & Director, Verisk Analytics, Inc.

A

Yeah. And Jeff, I think you see there are three dimensions there that we're talking about. One is a functional orientation, and so that's Mark speaking to the marketing opportunity. We see similar opportunities on the technology side and then operationally there is the business line opportunity or dimension that we're looking at with travel and other areas. And then of course there is the international where we feel as though the opportunity to bring some of that expertise. All of those create I think a broad envelope for us to look to expand on what we're doing.

Jeffrey P. Meuler

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

Q

Thank you both.

Operator: Our next question will come from Alex Kramm with UBS Financial. Please go ahead.

Alex Kramm

Analyst, UBS Securities LLC

Q

Yes. Good morning, everyone. Maybe as a quick follow-up to Ashish's question. But since you didn't report this quarter as discontinued operations but will next, maybe you can give us the apples-to-apples EBITDA margin, how it would have been if it would have been a discontinued operation already? And if you can't answer that specifically, maybe outline what the stranded or servicing costs related to Wood Mac will be and how they will fade away over time? Thanks.

Lee M. Shavel

Chief Executive Officer & Director, Verisk Analytics, Inc.

A

Yeah. Alex, thanks for the question. We're not at the point where we have broken through both the culmination of the adjustments that we're making in the overhead costs or the overhead allocation. So I think that is something that we'll look to provide more input on as we move ahead probably with the fourth quarter earnings where we'll have that discontinued operations.

Our focus has been on getting the transaction done. As you can imagine, that has been I think a pretty solid accomplishment in a difficult market. It will take time for us to sort through the accounting consequences, now that we understand that and there are a lot of transitional elements that we need to take into account. So it's not a simple exercise.

Alex Kramm

Analyst, UBS Securities LLC

Q

Understood. Thanks.

Operator: And your next question will come from Toni Kaplan with Morgan Stanley. Please go ahead.

Toni Kaplan

Analyst, Morgan Stanley & Co. LLC

Q

Thank you. Thanks very much. I wanted to ask about your pricing, how that's looking for 2023. I know you mentioned the insurers currently trying to put through sizable rate increases to cover inflation. I guess will you be able to benefit from that by being able to increase your subscription prices? How should we think about the magnitude of price increases next year versus 2022 or versus a normal year, however you want to break that out? Thanks.

Mark V. Anquillare

President & Chief Operating Officer, Verisk Analytics, Inc.

A

Yes. Thank you, Toni. I appreciate it. This is Mark. Let me first remind everybody, we do have some connectivity of pricing to premium volumes. The utility of our products are seen and demonstrated through the premiums they write. So to the extent that it's a harder market or meaning prices going up and there's more premium, we will see that on a little bit of a lag effect.

To your more direct and short-term, I think what we're trying to do is really balance the opportunity to hopefully take a little bit more price only because like everybody, we're incurring some more costs around labor and other inflationary type of expense. But at the same time, we're in it for the long-term and what we're trying to do is make

sure that we are able to sell new products and new solutions to customers and not cause any short-term angst or grief with regard to pricing today.

Toni Kaplan

Analyst, Morgan Stanley & Co. LLC

Thanks a lot.

Q

Operator: Our next question will come from Manav Patnaik from Barclays. Please go ahead.

Manav Patnaik

Analyst, Barclays Capital, Inc.

Thank you. You just called out kind of broader insurance inflation pressures I guess, and then more specific to [indiscernible] (00:39:19). Is there any way to quantify how much each of that impacted the growth and how long should this headwind continue?

Q

Lee M. Shavel

Chief Executive Officer & Director, Verisk Analytics, Inc.

Thank you, Manav. So there are a variety of factors, some of which are difficult to kind of fully separate. I'm going to ask Mark to kind of give his perspective on both impact and sustainability of these effects that you're asking about.

A

Mark V. Anquillare

President & Chief Operating Officer, Verisk Analytics, Inc.

So, quantifying it is difficult. So I'm going to maybe qualify – quantify, I apologize. So inside the auto market what we're seeing is just a general theme of people trying to write less business or quote less new business. They are waiting for their rate filings to be implemented and in turn wait for higher prices or higher premiums before they write. So that seems like a depression that will occur and be soft I would guess probably for another six months or so into 2023. That's our take. But at the same time, it is something that cyclically will come and will go, so we expect it to rebound.

A

Two, Florida is clearly a challenge. There has been [ph] an insurer of last resort (00:40:40). Basically rates there have been subsidized. When people try to get into the market, they've been hurt by large cat and inside of those new customers and those existing customers that are going out of business, that does affect us and will be, let me say it this way, that will be a little bit longer-term. Ultimately, new emerging insurers will rise. We will hopefully serve them. We are working with them now, but that will take time. So that rebound would probably be over the course of a year or more I would say in that regard.

I think the last comment that you were referring to or at least we were referring to is the workers' comp space. We did see some growth this quarter. At the same time, the market is still depressed. Some of that is regulation, I think I've highlighted in the past. Some of it I do believe it's just the fact the work-from-home environment leads to fewer claims in the future. So I think we've started to anniversary the challenge. I think it will [ph] start to (00:41:43) rebound a bit. I don't want to be optimistic, but I would assume that should occur in 2023 at some point. I hope those are the three trends or themes that you were talking about.

The other thing that affected us a little timing was storms, obviously Ida last year, Ian this year, both pretty big storms affecting different quarters.

Lee M. Shavel

Chief Executive Officer & Director, Verisk Analytics, Inc.

A

Yeah. And I would add one other dimension, Manav, which is I think that what we've seen is fairly solid subscription growth. I think that what you saw in 2022 was some weakness on the transactional revenue growth, and I think it will probably manifest itself, some of these trends in some sustaining of that weaker growth into 2023 if these dynamics have the impact that we've described. But again, also subject to variability on storm levels. But hopefully that's helpful.

Manav Patnaik

Analyst, Barclays Capital, Inc.

Q

Yeah. Thank you very much.

Operator: Our next question will come from Andrew Steinerman with JPMorgan.

Andrew C. Steinerman

Analyst, JPMorgan Securities LLC

Q

Hi. It's Andrew. I was going to ask you about Verisk's ongoing organic revenue growth goal of 7%. And my question is, how long will it take Verisk Insurance to get there and what needs to happen, and your comments about Florida, workers' comp, going to hold us back from getting there.

Lee M. Shavel

Chief Executive Officer & Director, Verisk Analytics, Inc.

A

Thank you, Andrew. So we certainly understand that. What I will first say and reiterate that our confidence in that long-term target remains in place, given what we see as the opportunities in front of us. I think when you look at what we have even achieved in 2021 in a more challenging environment where we had two quarters of organic revenue growth above 7% clearly demonstrates the ability of our Insurance business to achieve that.

We had some weakness related to pandemic effects such as lower driving activity, impact on workers' comp, and I think to Mark's comments, we are seeing some weakness as a result of the economic environment but we're also seeing recovery in some of the pandemic-related effects. And I think that biases us towards stronger performance ahead from a growth perspective as we come out of some of those stronger elements. Some of the macroeconomics may persist, but I think we're seeing kind of more momentum towards that target ahead. That would be the way I think about it both from a longer-term perspective, which we are still confident that we can deliver on that.

We have to work our way through I think the conflicting impacts of some recovery from pandemic impacts and then some of the more sustained macroeconomic, which I think are of a lower magnitude than what we experienced through the pandemic.

Andrew C. Steinerman

Analyst, JPMorgan Securities LLC

Q

Got it. Thanks, Lee.

Operator: Our next question will come from Greg Peters with Raymond James. Please go ahead.

C. Gregory Peters

Analyst, Raymond James & Associates, Inc.

Q

Yeah. Good morning, everyone. I guess I'll step back and ask a bigger-picture question. I heard in your comments Lee, about talking with all your customers and trying to partner with them to help innovate, et cetera, and that's going to require investment in your business. And so I guess what I'm getting at here is just to go back and sort of reset or recast the die in how you're going to balance the desire to improve margins and your setting out some margin targets versus the need really to invest in your business in order to help your customers get the innovation they're looking for.

Lee M. Shavel

Chief Executive Officer & Director, Verisk Analytics, Inc.

A

Greg, thanks for the question. And we particularly value your perspective and knowledge around the insurance industry, and so you probably understand better than most the challenges that the insurance industry is facing. And so let me kind of break that apart. I think the opportunity to invest in these new opportunities have generated both growth and very strong returns for the internal investments that we have made in a variety of areas, and I would probably cite our LightSpeed product where we've been able to accelerate the delivery of [indiscernible] (00:46:21) to the point of sale has generated a very strong economic growth for us and a very good return on capital. And so we're looking for similar elements to that.

We've been talking about our investment in the core lines reimagined initiative to migrate a lot of our data to data and services into that new technology platform which delivers substantially greater value for our clients on that front, opening up I think new opportunities for growth and certainly a high return that we can generate on that.

And so those – and the third point that I would make is that on the margin efficiency target, that has been focused on looking at not at cutting investment within the business but looking for areas of opportunity from an operational efficiency perspective within the business that I think has been a very healthy exercise for us that we've demonstrated progress against, but it hasn't come at the cost of us pursuing these overall opportunities.

So I think the fundamental concern is, look, we're hearing that there are a lot of opportunities to invest. How does that – does that conflict with the margin objective? I don't believe so. I think that we can continue to make these investments. We can deliver on the operational efficiencies within the business to drive that margin improvement and continue to generate very solid growth and strong returns on capital.

C. Gregory Peters

Analyst, Raymond James & Associates, Inc.

Q

I appreciate the additional color.

Lee M. Shavel

Chief Executive Officer & Director, Verisk Analytics, Inc.

A

Thanks, Greg.

Operator: Our next question will come from George Tong with Goldman Sachs. Please go ahead.

George K. Tong

Analyst, Goldman Sachs & Co. LLC

Q

Hi. Thanks. Good morning. With respect to the Wood Mackenzie sale proceeds, how are you thinking about splitting the \$3.1 billion between debt pay-down and share repurchases? Do you have a target leverage multiple in mind for the standalone insurance company?

Lee M. Shavel

Chief Executive Officer & Director, Verisk Analytics, Inc.

Thank you, George. I'm going to hand that over to Elizabeth to address.

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

Yeah. Hey, George. Thanks for asking. Like we said, we're going to balance it between debt pay-down and share repurchases. We haven't established a precise number for debt pay-down other than to say there's no change to our target leverage range of 2 times to 3 times in order to maintain our investment grade rating.

Within that, we'll look to optimize over time the best balance of interest savings versus share repurchases, and either way the majority of it, the significant majority will be on share repurchase. But either way...

George K. Tong

Analyst, Goldman Sachs & Co. LLC

Got it.

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

...sort of regardless of where we end up within that fairly small range, we'll still be within the accretion, dilution range that we quoted.

George K. Tong

Analyst, Goldman Sachs & Co. LLC

Very helpful. Thank you.

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

Sure.

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

Andrew W. Jeffrey

Analyst, Truist Securities, Inc.

Hi. Good morning. I appreciate you taking the question. Mark, I'm intrigued when I hear you talk about some of these new markets, which really would be true extensions for Verisk, pet being one I think that you mentioned. I'm wondering if you have – you think you have the data and the kind of digital customer-facing solutions that you might need to expand into those markets or if you think you're going to need to add capabilities to be able to penetrate those new markets and drive new revenue streams.

Mark V. Anquillare

President & Chief Operating Officer, Verisk Analytics, Inc.

A

So, Andrew, great question. I appreciate that. I think when we attack new markets, we typically go at it with a theory that we can build some great models. And then as data information starts to flow, we can improve those models. So pet as an example, what we do with travel is not the travel you would think like, boy, I missed my flight, it's going to be insured. This is the type of travel that focuses on somebody who has a preexisting medical condition and to the extent that they're traveling, how do they get the right medical?

So that is a modeled outcome and that has kind of the data we have around it. We can apply these type of models to pets. Dogs, cats, the more traditional pets in a way that we can understand how health of the pet and existing conditions cause and will affect payouts. So I hope that's just an example of ways we can kind of adjust our models. I think the digital investment and the way we've gone at those things are very best-in-class and very digitally engaged.

So I think we're well-positioned there. We do not hold the same data advantage that we do with some of the United States [indiscernible] (00:51:18) lines, but that doesn't cause us to shy away from, and actually provides us with an opportunity to find a way to gather some information. I hope that's responsive.

Andrew W. Jeffrey

Analyst, Truist Securities, Inc.

Q

Yeah. Look forward to seeing your progress there.

Operator: And our next question will come from Jeff Silber with BMO Capital Markets. Please go ahead.

Jeffrey M. Silber

Analyst, BMO Capital Markets Corp.

Q

Thanks so much. That's close enough. I want to go back to Manav's question where you parsed out some of the environmental impacts affecting the business. I understand the impacts on the non-subscription revenue, but I was just curious on the subscription side in terms of the slowdown. I know that you've got customers that go bankrupt, obviously that's an impact, but why are we seeing the slowdown in subscription revenue? And is that something we should expect to continue? Thanks.

Mark V. Anquillare

President & Chief Operating Officer, Verisk Analytics, Inc.

A

Yeah. So one of the things I think we tried to do is to share that. Even though you would think of subscriptions as being this wonderfully flat ride from quarter-to-quarter, even inside of our subscription businesses, when we bring on new customers or where we have some anniversary of dates, there is a little bit of an up and down inside that. So to the extent that you look at this year's subscriptions to last year's, I think that's a good rule of thumb. If you look at it quarter by quarter, there's some up and downs. I would not read anything into the subscription level growth in the quarter. Everything is very solid and everything is running as we would expect. So I will kind of reinforce Lee's earlier comments about the subscription growth being strong and we're optimistic.

Jeffrey M. Silber

Analyst, BMO Capital Markets Corp.

Q

Okay. Thank you.

Operator: And our next question will come from Faiza Alwy with Deutsche Bank. Please go ahead.

Faiza Alwy

Analyst, Deutsche Bank Securities, Inc.

Q

Hi. Good morning. Thank you. I wanted to focus a little bit more on the Insurance-specific margins. I think those came in a lot better than what we had talked about. Because I think previously you had talked about those margins declining in line with year-to-date that you had seen in the second quarter.

So I'm curious what drove the upside? I think it sounds like you've made some progress around your cost savings initiatives that you had talked about, so maybe just address how much that contributed to margins and how we should think about it in the fourth quarter. And maybe Lee, if you can talk about if your confidence in those targets have improved as you've done some work around them?

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

A

Yeah. Thanks, Faiza. Thanks for the question. Let me comment a bit on the Insurance-only margin for Q3. While it was a slight year-over-year decline, I think we reminded you that that was offsetting some of the headwinds in the baseline that included the reallocation of corporate expenses from the divestitures. It included the impact of recent acquisitions, which are themselves lower margin businesses and it affects our investment in cloud and the return of T&E expenses.

Offsetting those, there is the natural kind of operating leverage in the business and business growth, so those thinks kind of offset each other. So another thing I might call out in the quarter there, it's also offsetting a slight decrease in the pension credit, which happened at the corporate level and so the Insurance business had its allocation of that component and that is expected to continue in the fourth quarter. More generally, as we look ahead to the fourth quarter for Insurance, these headwinds will continue. The impact may not be exactly linear quarter-to-quarter, so that could move around.

Lee M. Shavel

Chief Executive Officer & Director, Verisk Analytics, Inc.

A

And what Elizabeth is describing, Faiza, is that underneath the overall margin performance when you kind of strip away the reallocations, there is still a very strong operating leverage that is expressing itself in terms of looking at it before we look at kind of the nonoperational elements. And so that's the core of the business and that's how we will drive EBITDA growth ahead of revenue growth.

On the second part of your question, the confidence that we have on achieving our targets is driven by a very methodical process that we've gone through to identify all areas of potential savings that as we indicated on the call, that we have identified and taken actions that address over half of that target at this point and we have line of sight on additional opportunities that we'll be pursuing over time.

Part of these will be influenced by the transitional demands of the separation of our businesses. And so, we have Transition Service obligations for those until those businesses are separated. That's a factor. And we wanted to see how those sorted out before we worked towards the further or the additional decisions that we need to make to achieve that. But we feel very confident in our ability to meet those expectations.

Faiza Alwy

Analyst, Deutsche Bank Securities, Inc.

Q

Great. Very helpful. Thank you both.

Operator: Our next question will come from Stephanie Moore with Jefferies. Please go ahead.

Stephanie Moore

Analyst, Jefferies LLC

Q

Hi, good morning. I was hoping to get a bit more color on just the International business, maybe some update on how it performed during the quarter and kind of your expectations going forward? Thank you.

Lee M. Shavel

Chief Executive Officer & Director, Verisk Analytics, Inc.

A

Sure. Thank you, Stephanie. So I would start off by saying that our International businesses, and obviously I'm going to presume that the question is directed to our Insurance international businesses, Wood Mackenzie of course is an International business but we've kind of covered that in the call.

But on the Insurance side, we have a variety of businesses on the claims and on the underwriting side, probably most significantly our Specialty Business Services or what was formerly known as Sequel that addresses the Lloyds non-standard market with a workflow platform and management system for that market that continues to have great success in delivering a very compelling solution both on the frontend of business origination, pricing and rating. And then ultimately kind of the policy management side that has continued to drive double-digit growth and we've seen similar performance from a lot of the other International businesses that we've had.

I'll turn it over to Mark for some additional color perhaps on the businesses other than Specialty business.

Mark V. Anquillare

President & Chief Operating Officer, Verisk Analytics, Inc.

A

Well, I think you had it right. I think you're seeing growth there, which is excess of our US business. Where I also like to highlight although not organic at this point, the acquisition of Opta, which is a business intelligence solution up in Canada, is a wonderful business, very much aligned with what we do and the synergies that we anticipated are greater than we anticipated. So I think we're making great progress there, and it's a really nice addition to the Verisk family.

Stephanie Moore

Analyst, Jefferies LLC

Q

Great. Thank you so much.

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

Andrew Nicholas

Analyst, William Blair & Co. LLC

Q

Hi. Good morning. Thanks for taking my question. I wanted to follow up on kind of the end market health and the Insurance profitability pressures. I understand that there's some environmental factors here that seem a bit more temporary, auto market, Florida, workers' comp and the like, but are you seeing that lead into kind of the more core traditional conversations? Has there been any impact on the sales cycle in your P&C business or the pipeline? Just trying to understand if some of these issues are truly concentrated in the items that you called out or if there is the risk of this being a bit more pervasive. Thank you.

Mark V. Anquillare

President & Chief Operating Officer, Verisk Analytics, Inc.

A

Yeah. Good question, I mean, I think you read it. You've seen it. I mean, the Insurance industry is like many under a little bit of pressure. Inflationary costs and inflation in general is causing pain to their bottom line. The cat along with some other cats, I mean another big year, probably \$100 billion of losses. So that creates stress and pressure on them to look at costs, look at ways they can be more focused on underwriting and underwriting discipline.

So I would tell you that we have this wonderful business that continues to have a wonderful spot inside of their key decisions, and we have not seen anybody trying to move away but there is definitely pressure there. There is definitely people scrutinizing every purchase and scrutinizing when and how they buy. So we are seeing some of that, and we've highlighted some of the areas where it's been most full, more on the transactional side.

Lee M. Shavel

Chief Executive Officer & Director, Verisk Analytics, Inc.

A

And Andrew, I want to extend on Mark's comment because that near-term pressure that you're asking to specifically, is part of what we're experiencing but it also creates that broader opportunity because that focus on how do we address the impact of those inflationary costs, not just on our loss and loss adjustment expenses but also on our operational efficiency and the inflation that we're experiencing that is driving a more robust dialogue around automation, how we can utilize data to better select risk, how we can improve the processes by creating more connections through the ecosystem to handle a lot of the steps that are probably not as efficient as we could be.

So I think that while it is creating some of that near-term pressure, it is also bringing a greater urgency and focus as I described in the strategic reorientation of our client CEOs around, how do we solve industry problems that can create a lot of value and savings for them?

Andrew Nicholas

Analyst, William Blair & Co. LLC

Q

Makes sense. Thanks for the color.

Operator: And our final question will come from Heather Balsky with Bank of America.

Heather Balsky

Analyst, BofA Securities, Inc.

Q

Thank you for taking my question. I'd love to get an update from you guys on your cloud transformation and how it's progressing. And then just any color you can give on the implementation costs and then when you kind of expect to see some savings and what type of savings? And then just with regards to your margin expansion goals, does that incorporate the cost of implementation rolling off and those savings going through or is that incremental to that target? Thanks.

Mark V. Anquillare

President & Chief Operating Officer, Verisk Analytics, Inc.

A

Thanks, Heather. So with regard to cloud transformation, in prior calls we identified the fact that we're in kind of the final year of that implementation. And we have achieved – this is a very important distinction, we have achieved operating cash savings when you look at our incremental cloud expenses netted against what would

previously have been CapEx expenditure in the business. And so that's – we believe that it has delivered real cash savings to us.

However, it's important to understand that from an accounting standpoint, from an EBITDA perspective, means that we have added EBITDA expense to our P&L. And so that has come on. We've been able to adjust that but we're effectively converting depreciation and amortization to EBITDA expense. That's why you'll hear us talk about the headwinds from the cloud and the cloud implementation.

We do think that that incremental cost is one that we are substantially through. And in addition, we have been able to take out the OpEx expense through some of the outsourcing to that third-party that we described earlier in the call. All of that is included in our overall margin improvement targets. So as we have realized those savings, that is factored into the margin element, particularly the outsourcing of our legacy data centers. I think that addresses the two parts of your question.

Heather Balsky

Analyst, BofA Securities, Inc.

Q

Thank you very much.

Operator: And that will conclude today's earnings conference call. Thank you very much for participating, and you may now disconnect.

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