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Verisk Analytics, Inc. (VRSK)

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, everyone, and welcome to the Verisk First Quarter 2022 Earnings Results Conference Call. This call is being recorded. Currently, all participants are in a listen-only mode. After today's prepared remarks, we'll conduct a question-and-answer session where we will limit participants to one question so that we can allow everyone to ask a question. We'll have further instructions for you at 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, Justin, and good day, everyone. We appreciate you joining us today for a discussion of our first quarter 2022 financial results. On the call today are Scott Stephenson, Verisk's Chairman, President and Chief Executive Officer; Lee Shavel, incoming CEO; Mark Anquillare, Chief Operating Officer and incoming President; and David Grover, Controller and Chief Accounting 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.

Finally, as set forth in more detail in today's earnings release, I will remind everyone that today's call may include forward-looking statements about Verisk's future performance. Actual performance could differ materially from what is suggested by our comments today. Information about the factors that could affect future performance is contained in our recent SEC filings. I would also like to note that the financial results for recent dispositions of 3E and Verisk Financial Services are included in our consolidated and GAAP results but are excluded from all organic constant currency growth figures. A reconciliation is provided in our 8-K.

And now, I'd like to turn the call over to Scott.

Scott G. Stephenson

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

Thanks, Stacey. Good day, everyone, and thank you for joining us for our first quarter 2022 earnings conference call. The past 21 years at Verisk have been an incredible and rewarding journey. It's been my absolute privilege to serve as Chairman and CEO during such a transformative time for our company. I'm incredibly proud of the growth that we delivered and the value that we created for customers, employees and shareholders, and we always deliver this value by acting with the highest level of integrity.

Our company's success has always been a team effort. To that end, I'm delighted we have such a deep bench of talent, including our incoming CEO, Lee Shavel, and incoming president, Mark Anquillare, who I know will drive continued growth for our company and lead Verisk towards becoming a global, insurance-focused data analytics solution provider. I look forward to seeing the work that all our Verisk teammates will do to drive innovation and growth for long-term success.

As this is my final earnings call, I also wanted to take a moment to thank all the shareholders and analysts that have covered Verisk for your effort and your support over the years.

And with that, I'll turn the call over to Lee.

Lee M. Shavel

Chief Financial Officer & Group President, Verisk Analytics, Inc.

Thanks, Scott, and good day, everyone. On behalf of the entire Verisk team, Scott, let me thank you for your dedication and service to Verisk. We wish you all the very best in your well-deserved retirement. It has been a privilege to work with you and learn from you over the past five years, and I'm fortunate to have your ongoing support and counsel.

I'm pleased to share that Verisk delivered solid first quarter results. First quarter organic constant currency revenue grew 5.3% and organic constant currency adjusted EBITDA grew 4.1%. Adjusted for the impact of the suspension of our commercial operations in Russia and higher discrete professional fees, organic constant currency revenue grew 5.7% and organic constant currency adjusted EBITDA grew 6.9%. We delivered solid growth across the Insurance segment, with the fastest growth reported in marketing solutions, international specialty business solutions, life insurance, extreme event solutions and claims analytics. We also had solid contributions from our industry standard solutions in underwriting.

Within Energy, we continue to see improving results across both subscriptions and consulting, with the strongest growth in the energy transition, chemicals and metals and mining. We did experience softness in certain of our transactional businesses, including workers' compensation, which is experiencing continued weakness, as carriers are adjusting to new regulation within the industry. In addition, our property estimating solutions had weaker transactional growth related to a slower storm season versus last year's ice storms in Texas.

Finally, the auto underwriting business continues to deal with a lower level of shopping activity. Our results also included headwinds from the suspension of commercial operations in Russia, increased cloud costs, higher discrete professional fees in the quarter and the partial normalization of travel and entertainment in the post-pandemic environment. We will provide more details in the financial review section of the call.

In preparation for officially stepping into the role as CEO, over the last 75 days, we have visited our offices in London, Boston, Lehi, Utah and of course, Jersey City, to meet with the employees and leadership teams of all our business units. Many of these individuals are long-time colleagues, and I'm excited to build on these relationships going forward. In addition, I've had the opportunity to meet with more than a dozen of our most significant customers. Some of whom I've interacted with throughout my tenure here. I've long known the valued role we play as a technology partner to our customers, and I'm more energized than ever about the extraordinary opportunity we have to expand the breadth and the depth of those relationships.

Our value proposition is very clear. Verisk strategically invests in data and technology at scale in order to deliver economic value to our customers through operational efficiencies and better decision-making across the industries we serve. In Insurance, our customers look to us to help them better select risks and facilitate the automation of legacy processes to improve efficiencies in underwriting and claims. They also turn to Verisk for support with the digitization of their customer experience, and to enable the use of new data sets and platforms for expanded product lines.

The development of our Touchstone platform, an extreme event solutions, the LightSpeed product suite and underwriting and the development of our life business are tangible examples of what we have delivered to clients.

And in Energy, understanding the complex impacts of the energy transition and the geopolitical events continuing to unfold in Ukraine on the global energy economy remain a primary customer focus.

There is strong demand for improved data delivery and analytics, and we continue to deliver on that demand for our customers through our Lens platform. In fact, the first quarter was our fourth consecutive quarter of mid- to high single-digit ACV growth, helped by new multiyear contracts, with material upsell for customers that are adopting Lens as they recognize the value this new platform delivers.

In both Insurance and Energy, we benefit from the growing demand for data analytics from our customers, along with their increased ability to ingest and utilize our rapidly growing data sets and technologies to make better decisions and drive operational efficiency. We create lift from these growth engines through the industry scale at which we can deliver greater value per dollar invested than our clients would be able to, individually.

Growth and returns on invested capital have been and will continue to be the primary driver of value creation for our shareholders over the long term. And my highest priority as CEO will be to continue to deliver on both. We are well-positioned in industries with massive opportunities that will require investment and focus in areas where we can maximize value for our customers. It also requires delivering value for our employees on whom we rely for their talent, commitment and effort. We operate in a highly competitive market for talent and must be sure that Verisk remains a very attractive destination for the best and brightest.

Moving from our long-term value creation strategy to our near-term focus on the activities we described to drive enhanced shareholder value, I wanted to provide an update on both our progress towards being an insurance-focused data analytics solutions provider, and our commitment to achieving margin expansion. We are making steady progress on the separation of the Energy business. We are actively engaged in a detailed planning and modeling exercise of the financial, legal, tax and operational costs associated with separating the business. This analysis will inform valuation and the transaction structure that we intend to pursue, subject to market conditions and shareholder value considerations.

Our timing expectations remain unchanged. On our EBITDA improvement objective, as Mark will describe in greater detail. Though still early, we have identified several areas of organic cost efficiencies at the operating and corporate level to drive margin expansion. These opportunities include the consolidation of certain real estate locations as leases come due or to the extent sublease opportunities are available, the increased usage of our global talent optimization locations for new hires and more efficient technology investment, including the closure of our on-premise data centers. We will also reduce corporate overhead after we complete the transition services agreements associated with the sale of 3E and Verisk Financial Services.

As we previously announced in mid-March, the company continues moving towards the goal of being a global insurance-focused data analytic solutions provider. We expect to deliver 300 to 500 basis points of EBITDA margin expansion in the consolidated remaining insurance-focused business by 2024 against a baseline of 50% to 51% normalized adjusted EBITDA margins. Not the 55% adjusted EBITDA margin that our Insurance segment delivered in 2021.

Indeed, 55% does not represent a normalized run rate for the Insurance business as it does not account for a number of offsets, including first, corporate overhead costs allocated to other businesses of approximately 200 basis points; second, the impact of three strategic insurance-related acquisitions made over the last two quarters, approximately 80 basis points; and finally, the normalization for incremental cloud transition and post-pandemic travel and entertainment expenses for a combined approximately 170 basis points.

In addition, investments in new financial and human capital systems will provide greater efficiency opportunities when fully implemented, but will pressure margins in the near term as will inflationary and competitive compensation pressures, but these effects are all embedded in the 300 to 500 basis point target. We should note that 2022 is likely to be quite noisy due to the impact of portfolio changes and implementation costs, as well as the impact of other environmental issues.

As such, we expect the margin expansion to be most visible beginning in 2023 as we move past the timing impacts of the portfolio changes and implementation. Based on our work to-date, we are very confident in our ability to achieve our stated target for EBITDA expansion by 2024, as we originally disclosed.

Before turning it over to Mark, let me provide a quick update on the CFO search. We continue to make progress and are prioritizing public company CFOs with operational efficiency experience. In the meantime, David Grover, Verisk's Controller and Chief Accounting Officer, has been acting as Interim Chief Financial Officer, and is well suited for this job.

I'll now turn it over to Mark for some more color on the Insurance business.

Mark V. Anquillare

Chief Operating Officer & Group President, Verisk Analytics, Inc.

Thanks, Lee. Before I begin, I also want to take a moment to thank Scott for all that he has contributed to Verisk. The legacy that you're leaving is rooted in the way our teams innovate and always deliver for our customers. I wish you the very best in your retirement. It has been a pleasure to partnering with you for all these years, and I'm excited to build on the strong foundation of success as we move to the next chapter of Verisk story.

I'm pleased to share that the insurance segment delivered another solid quarter. Across Insurance, we're seeing strong results from both commercial and personal lines and seeing contributions to growth from our newly acquired businesses like marketing and life insurance solutions. Within our core underwriting and claims solutions, growth is being driven by strong renewal cycles, with existing customers, as well as from the addition of new customers and expanded use cases for our claims solutions.

Within marketing, we're seeing strong growth driven by continued adoption from P&C carriers using our solutions to optimize lead acquisition programs, build more intelligent marketing segmentation and monitor portfolios from right-timed outreach and for improved customer retention. We're excited about the opportunity ahead as we combine Jornaya with our newly acquired Infutor business to further enhance these capabilities by synergizing products and offerings.

Our life insurance solutions continue to help our life and annuity to customers, along with their digital transformation, all the while delivering very strong growth for Verisk. With the addition of new customers, as well as expansion of relationships with existing customers. Life insurance recognized the benefits of our modular and flexible software solutions and are standardizing on FAST platform.

Within stream events, we're seeing strong growth in our core Touchtone platform, with the signing of new customers, as well as expansion of multiyear deals with existing customers. In addition, the catastrophe bond market continue to be strong, with Verisk participating in more than half of the deals placed in the quarter. Our sustainability business also had a very strong quarter as demand for our ESG and resilience, global risk indices in both the corporate and financial sector grew strong double digits.

During the quarter, we launched sovereign ESG ratings, targeting the financial sector and early interest is encouraging as our focus on the risk is an unmet need in the marketplace. During the quarter, we experienced recovery in many of our transactional businesses that were negatively impacted by the pandemic, including travel, international auto and claims. This was offset in part by continued weakness in our workers' compensation business, as carriers are adjusting to new regulation within the industry, as well as tougher compares on the storm-related revenue versus last year's ice storms in Texas.

In our many discussions with our customers, we continually hear the same message. The insurance industry is healthy and focused on becoming more digital, more efficient and more automated. While insurers are experiencing increasing costs related to inflation, rates are hardening, reflecting these inflationary factors. This should lead to faster premium growth. In addition, rising interest rates are helping the investment portfolios of our customers, driving better profitability. All that said, cost efficiency continues to be a big focus of our customers as they work to be quicker, more automated and drive savings.

The growing of our data sets has been a strategic focus as we work to further advance our mission to help our customers' better select risk. To that end, we've been expanding the data and currency of our commercial property database and now have over 15.4 million properties, up from 12.2 million just a year ago.

Growth will become a combination of on-site surveys, virtual technologies, third-party data sources and our ability to accurately model key characteristics using the data we have to expand and update our databases more frequently. Separately, we've added 10 new data contributors into our core statistical databases for rate making in the first quarter.

On the client engagement front, this quarter has been wonderful. We successfully hosted hybrid customer events with many in-person sessions. In February, we held our Signature Elevate Conference. And in March, we held our insurance fraud management conference, both of which successful. Across the two events, we had almost 600 attendees in person and another 900 plus through virtual sessions. It was great to be in person with customers again.

During the quarter, we acquired Opta, Canada's leading provider of property intelligence and innovative technology solutions. The acquisition further expands Verisk's footprint in the Canadian market. It supports Opta in reshaping risk management with valuable business intelligence. As the only organization in Canada, that regularly gathers and validates data through ongoing research, Opta is widely considered the industry standard for valuations, property risk intelligence and loss control services. This transaction offers Verisk immediate expansion into Canada, with the leading provider of underwriting data and analytics to carriers and provides opportunity for product harmonization across the Opta and Verisk portfolio. We're excited to welcome the Opta team to the Verisk family.

Finally, I want to take a minute to add to the comments that we made around operational efficiency. Within the Insurance segment, we have engaged in a detailed study across all our costs throughout our businesses. We have identified areas of expenses to be eliminated without impacting future growth opportunities. Such opportunities exist in real estate, technology infrastructure, increased use of our lower-cost count locations for open positions, improved sourcing and procurement, product optimization, and we will work diligently to realize these cost savings in a timely and efficient manner.

Now, let me turn the call over to Interim CFO, David Grover, for the financial review.

David J. Grover

Vice President & Controller, Verisk Analytics, Inc.

Thanks, Mark. For the first quarter of 2022, on a consolidated and GAAP basis, revenues grew 6.8% to $776 million. Net income attributable to Verisk increased 200% to $506 million, while diluted GAAP earnings per share attributable to Verisk increased 204% to $3.13. Our GAAP results include the impact of a $380 million after-tax gain on the sale of our environmental health and safety business.

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 and consistent growth in our subscription revenues. In the first quarter, organic constant currency revenues grew 5.3% driven by continued strength in our Insurance segment and sequential improvement within our Energy segment.

Our subscription revenues increased 6.2%, while transactional revenues increased a more modest 1.3%. Adjusting for $3 million in prior year revenues associated with our Energy business in Russia, organic constant currency revenues would have grown 5.7%. Consolidated OCC adjusted EBITDA growth was 4.1% in the first quarter. Adjusting for expenses related to the suspension of commercial operations in Russia, as well as discrete higher professional fees, consolidated OCC adjusted EBITDA growth was 6.9%.

Total adjusted EBITDA margin, which includes both organic and inorganic revenues and adjusted EBITDA was 46.3%. This level of margin includes the impact of the suspension of Russian operations, approximately 70 basis points of headwind from strategic recent acquisitions, a higher level of professional fees and the return of certain COVID-related costs back into the business. It also includes approximately 90 basis points of headwind from our ongoing technological transformation, including our cloud transition costs, which we absorbed into our cost structure. Finally, this margin also reflected a beneficial timing difference related to executive compensation, which will reverse over the remainder of 2022.

On that note, let's turn to our segment results on an organic constant currency basis. In the first quarter, Insurance segment revenues increased 6.1%. We saw healthy growth in our industry standard insurance programs, claims analytics solutions, extreme event solutions, life insurance solutions and international specialty business solutions. Subscription revenues increased 7.2%, while transactional revenues were up 1.3%. Certain of our transactional businesses experienced recovery in the quarter, including international travel insurance solutions and international auto claim solutions, but this was offset by a slower storm season versus last year's Texas ice storms and continued softness in workers' compensation.

Adjusted EBITDA grew 5.5% in the first quarter, while margins declined 240 basis points to 51.5%. These margins reflect a heavier burden from our corporate costs that were previously allocated to businesses that have been disposed, the impact of recently acquired businesses, higher cloud expenses, and the return of travel expense back into the business. This level of margin also includes continued investment in our high-growth areas like life insurance and marketing solutions.

Energy and specialized markets revenues grew 1.9% in the first quarter. Normalizing for the impact of suspending operations in Russia, Energy revenue growth was 4.3%, a solid acceleration from the fourth quarter. The end market continues to be volatile, but has benefited from higher commodity prices. Our customers are in a much stronger financial position than they were just two years ago. Our subscription revenues increased 4.8% when adjusted for the Russian impact as we are capitalizing on the increased appetite for advanced analytics.

During the quarter, we delivered double-digit growth in energy transition in chemicals research coupled with modest growth in our core research subscriptions. We continue to benefit from strong adoption of our Lens platform through upsell of existing customers and the adoption of new logos as customers are seeing the value of our integrated cloud-based data analytic environment. This is evidenced by material increases in contract size for multiyear contracts that include Lens.

We also had another successful renewal cycle in the first quarter of 2022, resulting in our fourth consecutive quarter of mid- to high single-digit ACV growth. Transactional revenues increased 1.5%, but growth was constrained by resources as we actively are managing to take on only the highest value consulting work. Adjusted EBITDA decreased 4.9% in the first quarter and margins contracted to 130 basis points to 33.1%. This margin includes $1.4 million in incremental expense related to the suspension of operations in Russia. Normalizing for the Russian impact, adjusted EBITDA growth would have been 5.3%.

In addition to the Russia expense, this margin level reflects higher cloud expenses and the return of travel expenses back into the business. It also reflected continued investment in Lens as we further build out capabilities to garner maximum value for the platform, including Lens Power, energy transition, chemicals and metals and mining.

Looking to the remainder of 2022, the loss of Russian revenues and the adjusted EBITDA will impact each quarter by approximately $4 million per quarter. Financial services were included in our reported numbers, but not within our organic constant currency figures. We closed the sale of VFS to TransUnion on April 8. Our reported effective tax rate was 17.2% compared to 22.5% in the prior year quarter. The quarterly tax rate benefited by over 500 basis points from certain non-recurring adjustments related to the sale of 3E.

Looking ahead to the remainder of 2022, we still expect the tax rate to be between 20% and 22% in each of the next three quarters, though there will likely be some quarterly variability related to the [indiscernible] (00:25:27) employee stock option exercises. Adjusted net income increased 7% to $217 million and diluted adjusted EPS increased 9% to $1.34 for the first quarter of 2022. These increases reflected organic growth in the business, contributions from acquisitions, a lower effective tax rate and a lower average share count.

Net cash provided by operating activities was $400 million in the quarter, down 11% from the prior year period, reflecting timing differences for certain of our collections and the impact of the 3E disposition, which closed in the middle of March. Capital expenditures were $60 million for the quarter, up 1.4% 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 continue to expect our capital expenditures to be approximately $280 million to $310 million. This supports our plans to increase our software investment through the acceleration of our pace of development in Lens and extending software development into core underwriting where we believe there is a similar opportunity for platform enhancement.

Related to CapEx, we now expect fixed asset depreciation and amortization should be within the range of $210 million to $230 million and intangible amortization to be approximately $170 million. Both depreciation and amortization elements are subject to FX variability, the timing of purchases, the completion of projects and future M&A activity.

During the first quarter, we returned $621 million in capital to shareholders through share repurchases and dividends, as our strong cash flow allows us to invest behind our highest growth and highest return initiatives, while also returning capital to shareholders consistently. We continue to expect to deploy after-tax proceeds from the sale of our 3E and Verisk Financial businesses for share repurchases in addition to our normal pace of quarterly repurchases, which are generally executed through an ASR program.

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

Lee M. Shavel

Chief Financial Officer & Group President, Verisk Analytics, Inc.

Thanks, Dave. In summary, our businesses are strong, and we are making important progress executing on our strategic and operational initiatives, including the separation of the Energy business and our improvement in margins. As we evaluate options for the Energy business, we will continue to focus on pursuing the most value-creating path for our shareholders and all of Verisk stakeholders. We are confident that the transformation of our portfolio and active cost management, we can return to growth in line with our long-term objectives and deliver OCC-adjusted EBITDA growth ahead of revenue growth in 2022 and beyond. 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 to open the line for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first 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. So thanks for some of the clarification on the base for the margin upside. I think there's been some confusion. Maybe, just – and I think you raced through that a little bit, so maybe, I didn't catch this fully, but can you just talk – remind us of the cadence to get to that 300 to 500 – sorry, basis point improvement? I think you made some comments about 2023 that you may see some benefits. And then maybe, related to that, on 2024, when you talk about 300 to 500, is that really something you see realized in 2024 for the full year? Or is this something that you would achieve by the end of the year, and it's really a 2025 event? So maybe, a little bit more of the cadence would be helpful. Thank you.

Lee M. Shavel

Chief Financial Officer & Group President, Verisk Analytics, Inc.

A

Yeah. Thank you, Alex. So yes, I think you have the – you took the comments accurately in terms of the base rate. And as we indicated, 2022 is going to be noisy. There are a lot of effects. What we are working towards, and I think we remain confident in, is that going into 2023, we will have achieved run rate expenses that demonstrate progress in 2023 on a full year basis.

And as we then look to 2024, our expectation is that 2024, on a full year basis, will represent an achievement of that 300 to 500 basis point improvement. And so I think your question, Alex went to, all right, is that something that you're anticipating, exiting 2024 with? No, I think that we believe that achieving that our objective for 2024 as a whole is what we are targeting, and we remain confident with.

Operator: Your next question comes from the line of Toni Kaplan from Morgan Stanley. Your line is open. Please ask your question.

Greg Parrish
Analyst, Morgan Stanley & Co. LLC

Q

Hey. It's Greg Parrish on for Tony. Thanks for taking our question and all the best to Scott. Just want to stick with the margin, the 300 to 500 basis points of expansion. You talked today about doing a deep dive with a review of the cost structure to come up with that number. I mean does this incorporate all the opportunities you found? I think some of them like, closing down the data centers probably would have happened anyway. And I mean, the backdrop of why I'm asking the shareholder thinks there's potentially a lot more out there. So I don't know if there's a way you can frame the delta here. Thanks.

Lee M. Shavel
Chief Financial Officer & Group President, Verisk Analytics, Inc.

A

Yeah. Sure, Greg. Thank you. And let me start off. I will ask Mark to supplement my comments, but we have looked comprehensively at all of the suggestions that we have received from shareholders. We have examined those, we have drilled into them, and we've had conversations with the business. And there is – naturally supporting this, a substantial amount of opportunity that we are going to be pursuing over the next several years. And I think it's important to understand that, that 300 to 500 basis points reflects not just the quantum of the cost savings, but also, the opportunities for other investment within the business that we think drives stronger growth rates, good returns on those types of investments from an internal and from an external perspective.

And so I think to answer your question, we do see opportunities from a cost savings standpoint that go beyond that, but we are also making certain that we are utilizing, as I've described before, the opportunity for investments, near term, in projects that may have a lower margin, but represent good growth, good return and operating leverage over time. So hopefully, that gives you a sense of both the scope, the quantum that we are looking at and how it relates to our overall management of the business for growth and return objectives.

Mark, is there anything that you would want to add to that?

Mark V. Anquillare
Chief Operating Officer & Group President, Verisk Analytics, Inc.

A

No, Lee, I think it was well said. I just will highlight that we have gone across every account, every division, and we've gotten very deep into this. And I think the theme here is a combination of how could we be more effective, how could we be more efficient, and that's across a lot of different categories as well as what products may need to be rethought. But I will emphasize, what we want to make sure is that we continue to invest in the future, because we are looking to grow and continue to grow as we have and organic growth is key to all this. So it's a delicate balancing act, but I think we've been making very good progress here, and we're confident.

Operator: Your next question comes from the line of Ashish Sabadra from RBC Capital Markets. Your line is open. Please ask your question.

Ashish Sabadra
Analyst, RBC Capital Markets LLC

Q

Thanks for taking my question. I just wanted to focus on the insurance OCC growth of 6%. So the industry background is pretty robust. You talked about strength in several businesses. Obviously, there are some one-time headwinds as well. But I was just wondering, like, the organic growth of 6% continues to stay behind or underperform the longer-term expectation despite a pretty strong demand environment. So how should we think about this growth going forward as we – as some of these one-off items come off? Can we get back to 7% plus growth in 2022?

And then, just maybe, mid- to long-term as you streamline the business and as you highlighted, focusing on more efficient growth, can we see an improvement to that growth profile over the midterm? Thanks.

Lee M. Shavel
Chief Financial Officer & Group President, Verisk Analytics, Inc.

A

So Ashish, thank you for the question. I'm going to start off by making a high-level comment with regard to our subscription revenue versus non-subscription revenue in insurance, and then, turn it over to Mark to give some compositional color around that. But to your question and Dave's comments, we highlighted that for insurance in the first quarter, we achieved 7.2% organic constant currency revenue growth in our subscription revenue. And the weaker part of the business was in our non-subscription revenue. And that was a function of within our Medicare set aside, some caution with regard to regulatory changes, some hangover from the pandemic pressured some of that transactional revenue.

In addition, we continue to see lower auto purchasing activity. And then finally, we had a tougher compare due to the Texas ice storms in the prior year period. So I think – not stepping away from the fact that the 6% was below that overall target, and the most important component and the largest component, the subscription revenue growth, we think, was very solid, and we have some near-term transactional revenue that was really the primary driver of that lower growth rate. But Mark, perhaps within the businesses, you can give some context around the strength on the subscription side and any of the other transactional elements.

Mark V. Anquillare
Chief Operating Officer & Group President, Verisk Analytics, Inc.

A

Yeah, please. I go back to – we were just under 7% in 2021 from an insurance perspective. As we look forward, I think the 7.2% is a good indication of the strength of the business. I can provide a little color on the ups and downs of some of the non-subs type of revenue. One, storms last year, Texas storms provided a little bit of a headwind in 2021, obviously, working against that comp in 2022. Two, there still seems to be a quietness, at least, in volumes as a result of the pandemic. And we see that in two places. One, just people aren't shopping for auto insurance, car insurance quite as frequently as they once did. I think they're probably content with at least the rates they have now.

As inflation hits and rates start to rise, people will again begin to shop. And the world of workers' comp claims is just generally down. In your home, there's just not as many workers' comp claims. We've seen probably a drop of maybe around 20%, and there's been some regulatory changes that have paused some of the activity, with insurers to how they're going to approach those claims.

So those are the specifics with regard to non-subs or non-subscriptions, but what I'd like to emphasize is the subscription side of things, whether it's from our underwriting in core line services, the claims analytics business, which is the flood [indiscernible] (00:37:50) and again, with extreme events, very strong. So I was pleased with the first quarter. And as is the norm, we typically have growth and we have strength as the year progresses with Insurance. So thank you.

Lee M. Shavel
Chief Financial Officer & Group President, Verisk Analytics, Inc.

A

And Ashish – thanks for that, Mark. And Ashish, I want to also come back and address your question on the longer-term growth trajectory. Certainly, within our existing businesses, we see a constructive environment and good demand. But one area that I'll be focused on – and this comes out of, I think some of my past experience, as well as conversations with customers, is that the insurance industry, as a whole, continues to look for opportunities to improve their efficiency to take substantial costs out of their operations, to improve the digital experience with their customers. And I think our ability, from where we sit to act as their technology partner, in more of a utility role where we can find solutions for the industry, is a tremendous opportunity for us to think more broadly about what we can do. Because if we are creating value for the industry, we're creating value for our clients, and I think that will naturally drive value for our shareholders.

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

Andrew C. Steinerman
Analyst, JPMorgan Securities LLC

Q

Hi. I just wanted to talk about that margin expansion. So you're saying the base now is 50% to 51%, going up 300 to 500 basis points to 53% to 56% by 2024. Does that include Energy? Or does that kind of 53% to 56% margin assume Energy is not part of the business? And then, if you can make a comment on if the tax rate for the Verisk business, meaning ex-Energy will be much different than the business is today?

Lee M. Shavel
Chief Financial Officer & Group President, Verisk Analytics, Inc.

A

Yes. Thank you, Andrew. And so – let me first confirm that that 300 to 500 basis points off of the 50% to 51% assumes that we have separated Energy. And so what we are trying to do is provide and reference as we did in the original statement what the consolidated insurance-focused business looks like from a margin standpoint. So it explicitly assumes that we have separated Energy within that context.

And with regard to tax rate, I think we are still sorting through that as we look at the complexity of the legal entities that we utilize on a global basis, and we have tried to utilize some of the legal efficiencies within those tax jurisdictions. I don't think at this point, we're anticipating a dramatic change in the tax, but I just want to maintain the fact that we are – as part of our exercise trying to get a more precise read on what the tax implications are.

Operator: Your next question comes from the line of Greg Peters from Raymond James. Your line is open. Please ask your question.

C. Gregory Peters
Analyst, Raymond James & Associates, Inc.

Q

Good morning. So I'm going to focus on slide 16 of your investor presentation, which is the capital expenditure slide. And I noted the comments regarding guidance around CapEx. So just trying to understand the pieces here and what you're showing us on slide 16. And specifically, how much of the CapEx expense, over this history, relates to non-insurance-related businesses? And when you set this target of getting to mid single-digit level over time, I'm trying to foot that with the guidance that you have in CapEx for this year, because that certainly doesn't seem to match. So any additional perspective on CapEx would be helpful. Thank you.

Lee M. Shavel
Chief Financial Officer & Group President, Verisk Analytics, Inc.

A

Yes. Thank you, Greg. I appreciate the question and I know this has been a focus for investors. So the way I would describe it – and on page 16, it's important to understand for 2021 that, that does include VFS, 3E and Wood Mackenzie. And I would note that if we were looking at this on a segment basis, the Verisk Financial Services and Wood Mackenzie, particularly as a function of the Lens investment that we have made, as well as product enhancements that we were making at Verisk Financial Services, were operating at a higher CapEx as a percentage of revenue relative to our average.

And so if we are looking at an insurance focused entity, while there will continue to be investment opportunities probably most notably, with what we were describing as our core lines reimagined that we believe will deliver similar types of benefits to the Lens platform that we did at Wood Mackenzie that those areas of investment will continue to be important. But overall, across the insurance, that would have been, and we expect would be below the average rate that we have been operating at over the past three to five years.

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.

Q

I guess, I just want to revisit the structural revenue growth answer. And then – I'll present it this way. You've invested a lot in several new areas, non-US marketing, life, there's been more CapEx. You're talking about the underwriting software platform and tech opportunities in general, not sure to what extent as you do the deep dive on the business, there's incremental pricing or go-to-market opportunities. That sounds like a lot of growth drivers to me. I guess, are those backfilling for maturing growth drivers? Are they incremental? I don't know if you're just not wanting to commit to a new target or if you want to show us the growth first. But if you could just help me understand if there's offsets to what sounds like a lot of growth drivers? Thank you.

Lee M. Shavel
Chief Financial Officer & Group President, Verisk Analytics, Inc.

A

Yeah. Thanks, Jeff. Look, I appreciate the perspective. And I think that we would agree there are a lot of growth opportunities within the business as we are sorting out the separation of the two businesses. Part of that exercise is looking at on the overall insurance business and evaluating where there is growth, where there are opportunities to invest, where there are opportunities to de-invest. At this point, given that I think its early stage in making that assessment and we are not prepared to change the guidance that we have. I think we've demonstrated on the subscription revenue that we have been able to achieve within insurance, that 7% growth. There are transactional revenues that we still are expecting to show recovery. But as we proceed through the separation, my objective would be to give a more thoughtful and fulsome description of how we think about growth going forward as we are thinking about this as an insurance-focused entity.

I take the point, there are a lot of growth opportunities, we're going to be making investments. But at this stage, we haven't reached the point where we're ready to make a change in that long-term guidance. We believe 7% organic constant currency or higher growth for the insurance business is a very solid, respectable target with operating leverage that should drive EBITDA ahead of that. We've made our point in terms of our EBITDA expectations. And hopefully, we'll continue to refine that as we think about where we want to focus, where we want to invest and what we think the growth opportunities are.

Operator: Your next question comes from the line of Heather Balsky from Bank of America. Your line is open. Please ask your question.

Heather Balsky
Analyst, BofA Securities, Inc.

Q

Hi. Thank you for taking my question. Just two things on the margin outlook. I'd love additional color. The first is in terms of the 300 to 500 basis points, I guess, what gets you to the low-end versus the high-end of the range? I'd love to better understand that. And second part is, are there any, I guess, onetime cost? Or how should we think about onetime costs as you execute on this plan? Thank you.

Lee M. Shavel
Chief Financial Officer & Group President, Verisk Analytics, Inc.

A

Yeah. Thank you, Heather. So I appreciate the question on the low-end versus the high-end. I think there are two primary dimensions that will influence that. One, it is simply the quantum of opportunity that we identify, and we want to identify as much opportunity as we can that doesn't impact the overall growth level of the business. And so that's – we are certainly pushing to achieve as much of that margin improvement as we have laid out as possible.

The other side of that is what is the level of investment that we think is necessary to support, expand the overall growth and achieve good returns on that. Now, that is the tension point as I've described before to many of you to many of the investors. Margin is a dynamic element that you have to understand in terms of what is – what margin expansion is being generated on a pre-investment basis, and then, what do you consume in order to support and expand growth and returns beyond that?

And so particularly, as we are going through an environment with higher inflationary costs, with high competition for our talent, we are evaluating those impacts, which I would describe as environmental that we have to take into account. That may influence where we end up in terms of that range. But the primary business tension will be the quantum of cost savings that are not growth impacting as well as our deliberate decision on what we are going to – where we are going to invest and what the OpEx impact of that will be on our overall margins. But the primary objective, as I mentioned in my comments, that growth and returns are the fundamental foundation for our valuation and – for value creation for shareholders.

Operator: Your next question comes from 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. I just wanted to focus on all the recent tuck-in acquisitions that you made. It looks like you spent over $600 million or so on acquiring a bunch of these assets. I was just hoping you could help us identify some of the key areas and perhaps, what the total M&A contribution for the year should be? You gave us some help on kind of the margin impact, but just from a revenue perspective, what does that add?

Lee M. Shavel
Chief Financial Officer & Group President, Verisk Analytics, Inc.

A

Manav, thank you for the question. And since – as you've observed, those have been predominantly, if not exclusively, in the insurance sector. I'm going to ask Mark to talk about the nature of those tuck-in acquisitions, what we expect to achieve from a business standpoint and then Stacey will either now, or in our follow-up calls, provide context around the acquisition impact. Mark, can I turn it over to you to talk through some of the recent insurance acquisitions.

Mark V. Anquillare
Chief Operating Officer & Group President, Verisk Analytics, Inc.

A

Sure. So let me – two themes that I think you'll spot is, one, we continue to focus on trying to globally grow. So we have this wonderful franchise in the United States, and we've tried to take and extend that into other areas. So, A, Opta provides us with an underwriting base and foundation in Canada, doing many of the same things that Verisk does in the United States around the ability to understand the value of a property, how much it should be insured, the property characteristics. So very nice synergies, very much aligned with what we do, and it takes us into Canada. We have a strong claims presence from a repair cost estimating perspective, but limited underwriting. So I hope that's kind of very strategic in that regard.

The other international element to this is we bought a business called ACTINEO, which represents a claims business around auto in Germany. So as we try to extend and expand, we've had some wonderful growth and some great synergies in the UK market. And this takes us into Germany, but also, provides us an opportunity and a solution set that along with an earlier acquisition called Validus that helps us also potentially get into Spain and back into the UK in this product area.

So again, international expansion is the focus. Other theme is really around marketing and we've experienced a lot of customers very interested in trying to understand and penetrate the customers that they are trying to segment, the customers they are trying to identify and bring on board. We have some wonderful tools to help them quote that business and identify and select that risk. So think about someone's shopping for homeowners insurance or auto insurance.

What Jornaya and Infutor do is give us visibility as to who's literally out there shopping for insurance. It is an ID, a lead ID that kind of shares this industry standard that, yes, I'm out there, I've been on these websites and to the extent that now, I have information about that person. We are taking a lot of our underwriting where we have been focused on the asset, meaning the house or the car and trying to extend it into the people and the person and the individual gaining insurance. And we feel that personal side of underwriting and marketing is a very large market opportunity, and we're naturally there already. So hopefully, that provides a little bit of the strategic context, Lee.

Lee M. Shavel
Chief Financial Officer & Group President, Verisk Analytics, Inc.

A

Thank you, Mark. And one thing I want to add before Stacey will address the contribution elements, Manav is, I think one thing that we have been pleased with is the shift that we have made from more of a portfolio orientation from an acquisition standpoint, to a focus on business unit-driven acquisitions is that we have been able to identify where we can have an impact on the business. We have focused on an improved and more intensive integration process. And so with acquisitions like FAST, Jornaya and Sequel, for instance, we have been able to demonstrate improved performance against our expectations and really, help accelerate a lot of good technologies that the insurance industry values, but we can really help accelerate their adoption by the industry.

Stacey Jill Brodbar
Head-Investor Relations, Verisk Analytics, Inc.

A

And Manav, just so you're aware, we break out the contribution from acquisition-related revenue versus disposition in the footnote tables or the non-GAAP reconciliations in our press release. During the quarter, it was about $20 million. On an annualized basis, I think the best way to think about the recent tuck-in acquisitions you're referring to are roughly $100 million in incremental annualized revenue, but you'll just have to phase in the timing for when we close those acquisitions. Next question?

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

Jeffrey M. Silber
Analyst, BMO Capital Markets Corp.

Q

Thanks so much. I'm apologizing for going back to a margin question. And I just want to focus on the Insurance segment. I know you said this year is going to be noisy, I completely understand it. But if we look at the first quarter, your Insurance segment, margins went down by about 240 basis points. I know there were a number of items in there. Is that the kind of run rate we should use for the rest of the year in terms of the year-over-year decline that we should be expecting in this segment?

Lee M. Shavel
Chief Financial Officer & Group President, Verisk Analytics, Inc.

A

Yes. So Jeff, thanks for that. A couple of things. One, I think that what's important to understand on that decline is that the primary contributor to that is the reallocation of expenses to the Insurance and the Energy sector. And so – and if we achieve that separation with Energy, that will be a further allocation. That's what gets you to that 50% to 51% level.

Now, there are going to be effects within that quarter that influence it, for instance, we have the discrete professional costs. We've mentioned in that quarter, there was a benefit from some compensation elements that we'll reverse, but I think that, that primary impact of the reallocation of the expenses, is a good starting point for understanding kind of what our normal run rate expenses will be over the course of the year.

Operator: Your next question comes from the line of George Tong from Goldman Sachs. Your line is open. Please ask your question.

George K. Tong
Analyst, Goldman Sachs & Co. LLC

Q

Hi. Thanks. Good morning. Going back to your margin expansion target, can you elaborate on your strategies for balancing cost takeout with growth investment so as not to starve the business of growth capital? And related to that, what are your targets for the amount of growth investment spend over this time horizon through 2024 and which areas will future growth investments focus on?

Lee M. Shavel
Chief Financial Officer & Group President, Verisk Analytics, Inc.

A

Yes. Thank you, George. I appreciate the question, and I'll start by saying first, from a process standpoint, obviously, we are in – the business is operating on a real-time basis. We are making investments. And so on those, we are maintaining what we believe was the right investment approach going into 2022 and so within our budget. And so those are the types of investments that you want to maintain. We will look, as we go into 2023, where the trade-offs are from a growth standpoint relative to the expense savings. And this is actually kind of the typical year-end discussion that Scott and Mark and I would have to evaluate what is the level of investment that we believe is advisable in the business to sustain, to expand the growth opportunity, what is the margin impact, what are the returns for all of those.

And we look at those options across all of the businesses and then determine what we think is the best and the most supportive. And so as we – we're near term focused on achieving the cost savings, identifying, implementing those over the course of 2022. And then as we proceed and think about where we want to focus our investment on an ongoing basis within that business, we will look at those trade-offs.

There is not a monolithic across the business perspective on this is what we are going to invest in growth, because almost by necessity, it needs to be a project-by-project and business-by-business determination that we evaluate through our budget and our long-range planning. So that's probably the best answer that I can give you, but we are always trying to, one, prioritize growth and returns while achieving the margin expansion objectives that we've outlined.

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

Andrew W. Jeffrey
Analyst, Truist Securities, Inc.

Q

Hi. Good morning. I appreciate you squeezing me in here. I wanted to ask a question about the cloud investment and the cloud transition. Lee, it seems like there will be some longer-term expenses associated with that that you contemplate in your sort of steady state insurance margins. I assume there are some go-to-market product development [ph] NPI (00:59:51) benefits, though, too. Can you just talk about the specific ROI that you expect from your cloud transition efforts?

Lee M. Shavel
Chief Financial Officer & Group President, Verisk Analytics, Inc.

A

Sure. Thank you, Andrew. So the first point that I want to make is that as we, I think, detailed in our last call, from an economic standpoint, we are achieving a benefit from our transition to cloud, meaning that our investments in that cloud migration have generated OpEx savings and CapEx savings across the portfolio that we have made.

And it's important to understand that you have to look at both dimensions of that to see the economic value, but it does entail, naturally, an effective transition of what were formally CapEx expenses into OpEx expenses in terms of our cloud-based expenses. And so firstly, that investment is generating an economic value and is generating a high double-digit plus return on the capital that we invested within that. And I say that on the basis of having looked at the projects of where we've made those investments and then, what we've achieved from an OpEx and a CapEx savings standpoint. So we do believe that it is contributing both economic value and returns.

Your broader question, as I understand it, is to understand the benefits from a business standpoint. And we do believe that the migration of those data sets into the cloud – of the applications into the cloud, facilitate more coordination and integration of the analytics that are able to draw from that consolidated data set. And in a way, the Lens experience that we've had is a demonstration of that. First and probably, most immediately in terms of the ease with which our customers can access data, utilize data, integrate it into their processes, improve their efficiency because we aren't sourcing from multiple systems or from legacy systems. And much of what we want to accomplish in our core lines reimagined moves in that direction as well.

Process efficiency first, but we're also improving the environment where we can associate data sets more effectively. But that is, I think, more of a second-stage achievement. We're focused first on the economic value that we can achieve, the process improvements for our clients and then ultimately, the improved analytical opportunity.

There certainly may be overlap, but generally, that's the process. And to date, I would say on that data benefit, that is still largely unrealized. In certain areas, I think we've achieved it, but in terms of the broader opportunity, I think there is still much more for us to do. And it ties into, I think, this broader infrastructure or utility opportunity that we see for the industry as a whole. As that data becomes consolidated in a more consistent architecture, it facilitates broader industry process improvements.

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

Faiza Alwy
Analyst, Deutsche Bank Securities, Inc.

Q

Yes. Hi. Thank you and good morning. Lee, I wanted to ask a few follow-ups. Maybe, a follow-up to George's question. Are you able to delineate and talk about the specific cost savings? So maybe, how much of your cost savings are related to real estate? How much is related to cost? How much is related to sort of employees in other locations? And maybe, if you could talk about the operating leverage that you expect in the business?

And lastly, you've made a few acquisitions that have impacted margins. And I'm curious, as you think about your longer-term growth rate, do you need to make more acquisitions and whether the potential margin impact of those future acquisitions is included in your long-term margin target. Thank you.

Lee M. Shavel
Chief Financial Officer & Group President, Verisk Analytics, Inc.

A

Yes. So Faiza, thanks. It's a lot of questions to throw at me, but we'll try to knock them down one by one. So at this point, the dollar detail, as we are developing this, as we are anticipating what we can achieve over the course of 2022, we aren't at the stage where we are ready to provide a dollar breakdown on the expense.

And with regard to your question on operating leverage, operating leverage is really the key element that I focus on, and I am – we do embrace the fact that this opportunity to rethink our cost base fundamentally improves our operating leverage. We've always been focused on businesses that have solid operating leverage and that as we drive strong organic growth into the business that, that magnifies the EBITDA growth and that naturally produces margin expansion offset by our level of investment.

The last question or element of the question related to the impact of M&A. And there, our focus is on generating growth and returns. I think, embedded in your question is, do we rely on acquisitions to maintain our growth rate? I think the short answer is no. We do look for businesses that we can create value from, that are higher growth and represent opportunities for us to accelerate and to generate returns. But we believe that our internal opportunities to grow, and as we demonstrated in a variety of areas, including with our LightSpeed products and within our claims business with a number of the products that we've added there, within our extreme event solutions businesses, those have all been strongly performing growth businesses for us.

Looking ahead, we obviously can't anticipate the acquisitions that may become available to us. Our acquisitions are typically for smaller, higher growth businesses that do have lower margins. And if we do see acquisitions that we think are value creating, we will pursue those, and they may have a negative margin impact. In fact, they're probably likely to have a negative margin impact that would be outside of our overall objectives here. But they're fundamentally focused on value creation through our ability to accelerate and drive both growth and returns.

So our analysis is based on the business as it is right now, that we can achieve that against that insurance-focused consolidated business, but we aren't making any assumptions in terms of what our future acquisitions are. Those have to be opportunistic and based upon our discipline.

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

Hans Hoffman
Analyst, Jefferies LLC

Q

Hi. This is Hans Hoffman filling in for Hamzah. Can you just walk us through your pricing model and how much is price running today? And maybe, any changes relative to history on how you price? I know you guys have talked about value-based pricing in the past.

Lee M. Shavel
Chief Financial Officer & Group President, Verisk Analytics, Inc.

A

Yeah. Hans, let me ask Mark to provide a high-level view. We obviously have hundreds of products with different pricing dimensions. So again, it's not a monolithic business. But Mark, perhaps, you can offer some perspectives on how we think about our value-based pricing model.

Mark V. Anquillare
Chief Operating Officer & Group President, Verisk Analytics, Inc.

A

Yeah, super. So first of all, naturally, the way we kind of align our value add to our customers' needs is typically tied to some element of how big they are, which is usually, in the form of premium. So it doesn't necessarily tie year-after-year to premium, but we try to sync it up to how they're using basically our core products or our claims analytics products to the extent you think about some of the solutions on the repair cost estimating side, some of the times it's the number of claims. So I think what we've typically tried to do is set up a process by which we kind of size the overall relationship based upon premium or claims or. And then inside of that we are trying to create a holistic solution. So we are trying to bundle solutions together, so we provide a holistic solution set to them.

And the – I think the opportunity there is that, one, they have the ability to bundle the products. They get kind of a value price. And we try to include some increase or inflation in years two and three. Usually, these are three year contracts, and they kind of come renew in year four. Sometimes, they're five year contracts. But I hope that gives you a little bit of color. 85% of the revenue is subscription based. Typically, it's these three year contracts. And I think the relationship is strong. So we're always able to add new solutions or maybe, they want to add a different subsidiary to the mix, and that gives us continued upsell and opportunities inside what is a very existing, a very big existing customer base.

Operator: Your next question comes from the line of Kevin McVeigh from Credit Suisse. Your line is open. Please ask your question.

Kevin McVeigh
Analyst, Credit Suisse Securities (USA) LLC

Q

Great. Thanks so much. Hey, I want to go back to the CapEx slide on 2016. Lee, is there any way to desegregate kind of how much it sits within Energy versus Insurance? And to the extent something happens with the Energy business, should we expect that to go down? And then as you further transition in the cloud journey, does the internally developed software start to scale down as well or is that going to be a structural part? I know the CapEx over time kind of declines, but how should we think about kind of cloud versus internally-developed software?

Lee M. Shavel
Chief Financial Officer & Group President, Verisk Analytics, Inc.

A

Yeah. Thank you, Kevin. So the first comment is as we are kind of looking at this separation, I would just kind of leave it at right now, the investment on the Energy side relative to revenue would be above that average driven by that level of Lens investment in 2021 and 2022. And so we would expect that there would be an improvement on that, but we want to look at that separation before we evaluate changing that guidance, which we still adhere to.

The second part of your question is, one, yes, we are seeing that CapEx savings, as you can see on that slide, but that internally-developed software will continue to be an important component of the way that we invest to deliver value to our clients. It is creating platforms for the data, it is creating software automation solutions for our clients and that will continue to be an important component for the way that we either improve efficiency or make better decisions within our business as a whole.

Our business is becoming more software intensive, and we think that's a good thing because of the value that we can create for them, one, from a process standpoint, but also, recognize that in a lot of the software businesses that we have and have acquired are essentially networks of participants in the insurance ecosystem. Our Sequel business, our specialty business solutions is probably the best example of that. And that creates opportunities for us to utilize that data to create analytics and to provide new functionality that supports the ecosystem. And so that's why it's so important.

In a way, with that software, we are able to recreate in other markets of the network effect that we have enjoyed, historically, within our domestic business. And I would also note, when you look at our acquisitions, FAST, Sequel, Jornaya, they are more software-intensive and are associated with that higher growth rate. So that will be an ongoing and important component for us.

Lee M. Shavel
Chief Financial Officer & Group President, Verisk Analytics, Inc.

So with that, I think that is our final question. Thank you for your time today. Thanks again to Scott for all of his contributions, and we look forward to the ongoing dialogue with all of you as we proceed. Have a good day.

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