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MANAGEMENT DISCUSSION SECTION

Operator: Good day, everyone, and welcome to the Verisk Third Quarter 2021 Earnings Results Conference Call. This call is being recorded. Currently, all participants are in a listen-only mode. After today's prepared remarks, we will conduct a question-and-answer session where we will limit participants to one question and one follow-up. 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 Investors Relation, Ms. Stacey Brodbar. Ms. Brodbar, you may go ahead.

Stacey Jill Brodbar

Head-Investor Relations, Verisk Analytics, Inc.

Thank you, Julia, and good day, everyone. We appreciate you joining us today for a discussion of our third quarter 2021 financial results. Today's call will be led by Scott Stephenson, Verisk's Chairman, President and Chief Executive Officer who will provide an overview of our business. Lee Shavel, Chief Financial Officer and Group President, will follow with the financial review. Mark Anquillare, Chief Operating Officer and Group President, will join the team for the Q&A session.

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

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

Now, I will turn the call over to Scott.

Scott G. Stephenson

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

Thanks, Stacey. Hello, everyone, and thank you for joining us for our third quarter 2021 earnings conference call. I'm pleased to share that Verisk delivered a solid third quarter result, building on our deep domain expertise, innovative offerings, and strong relationships with our customers. Specifically, Verisk delivered organic constant currency revenue growth of 5.1% and organic constant currency adjusted EBITDA growth of 2.1% for the third quarter. What I find encouraging is looking at the results on a two-year basis to adjust for the lumpiness related to the pandemic. In this view, Verisk delivered two-year cumulative organic constant currency revenue growth of 8.7% and organic constant currency adjusted EBITDA growth of 16.8%, demonstrating strong core operating leverage and a sequential improvement in the second quarter. Lee will provide more details in his comprehensive financial review.

Across insurance, we are seeing strong demand for our products as our customers are striving to become more digital and more automated and are turning to Verisk's solutions to help them. Engagement with our customers remains at very high levels as we continue our virtual work and our sales force and customer service teams are doing an excellent job staying connected. In fact, we recently hosted our signature underwriting conference called Verisk Velocity, again in a virtual format. This year's event was another success with over 600 attendees participating across 27 different thematic sessions. This year's focus was accelerating the digital transformation and developing new ways to increase efficiency and improve underwriting outcomes to better serve their customers.

Strong customer engagement within insurance is translating into strong sales, with growing ACVs, longer contract terms, and very robust sales pipelines. To that end, we've been very successful penetrating the new insurtech companies as they can take advantage of the full suite of Verisk's solutions across underwriting and claims. Additionally, with our more traditional P&C customer base, we are also having success leveraging our scale and our comprehensive insurance solution offering. These are two of our competitive advantages. By bundling our solutions together, we're driving increased adoption of new solutions across many different customer segments, and these bundles are proving to be quite sticky.

One area of growth we are particularly excited about is our international expansion within insurance, which is predominantly in the UK today, but we see a long runway as we expand our analytic capabilities within the UK and extend our global footprint into new developed markets. Within our Sequel business in the UK, we are building out a truly integrated and digital ecosystem across carriers, syndicates, brokers, and managing general agents throughout the specialty market, and we are bringing in new customers and expanding our suite of products across existing ones. Most recently, we made a tuck-in acquisition of Ignite Software Systems, a SaaS platform that includes policy administration, rating engine and digital engagement for brokers, managing general agents, and insurers. This acquisition expands Sequel's capabilities and enables Sequel to add a modular API-driven SaaS platform to the Sequel suite of products.

Within our core underwriting, we are using the time-tested playbook that has worked in the US for years, using proprietary data assets to help better price and understand risk, and extending it to the UK with our data

enrichment hub. Data Insight Hub is enabling the digitization of the personal and commercial lines insurance in the UK, deploying a data-forward strategy to pre-fill key data elements and provide predictive analytics that help customers with risk assessment and pricing. Our recent investment in HUG HUB extends these capacities upstream to support the ecosystem at point of sale and distribution. Our international travel business has experienced significant declines due to pandemic-related travel restrictions, but we believe we are well-positioned to take advantage of the rebound when cross-border travel returns.

On the claims front, and consistent with our focus on the Insurance business and international expansion, we recently announced the acquisition of ACTINEO, a market leader for personal injury claims digitalization and medical assessment in Germany. ACTINEO will be integrated into our broader Verisk Claims Europe business and should provide a strong platform to grow our footprint across Continental Europe and establish Verisk as the Pan-European leader in the personal injury and medical malpractice sectors. We are encouraged by the opportunity to create incremental value by helping deploy ACTINEO's technology and services across Europe and leveraging customer relationships. We also plan to introduce other claims solutions to these key European markets.

And lastly, we are excited about the growth opportunity within international markets for our extreme event business. In June, we released an on-time update to our Japan typhoon and earthquake models. These updates reflect the latest science and learnings from recent catastrophes in Japan. Our extreme event business has very strong share in the key Japanese market with both primary insurers and reinsurers as customers, both of whom rely on our models for the quality of the science and the local knowledge that we incorporate through our partnerships with local insurers.

Within the Energy segment, we're seeing a strong uptake of our new and innovative solutions, including our energy transition and chemicals research as well as our innovative Lens platform. We are realizing double-digit growth in ACV for contracts that include Lens as our customers recognize the value of this innovative solution. Importantly, Lens is being adopted by customers across industries, including upstream oil and gas, financial services, and power and renewables. Moreover, with roughly 10% of our customer base on Lens today, we see a long runway for growth as we expand its use cases to include additional commodities and geographies over the next few years.

You've heard me say before that at Verisk, we are moving ever closer to our customers and that we are on an exciting and successful journey to deliver best-in-class customer experiences. Our collaborations with management leaders along with a customer-first mindset helped power this journey. Customer experience is not just the responsibility of our dedicated customer service teams, but it runs throughout the entire organization. In the third quarter, colleagues from every part of Verisk participated in Verisk's Discover CX Summit. It was a moment in time when we came together to listen, learn and collaborate on how we can be better partners for our customers. Leaders across every area of the company assembled to focus on learning CX best practices, and we have emerged with a robust pipeline of ideas that I believe will lead to innovative solutions and outcomes that benefit our customers and Verisk.

On the personnel front, I'm pleased to publicly welcome Sunita Holzer as our new Chief Human Resources Officer and Dianne Greene as our new Head of Inclusion, Diversity and Belonging. Sunita brings with her three decades of enterprise-level human resources leadership across several industries, including technology and insurance. Dianne brings a business-centric mindset to ID&B from her decade-long experience as a business leader in the payroll and HR solutions industry. At a time when attracting and retaining diverse talent is top of mind for every business, I am really excited about partnering with Sunita and Dianne to develop a comprehensive and differentiated human capital strategy for Verisk and foster our diverse, inclusive and equitable culture.

Finally, we are committed to enhancing shareholder value and, as part of that commitment, to allocating capital to the highest growth and highest return opportunities. Accordingly, Verisk has been undertaking a bottoms-up review of our businesses and portfolio composition. Our review is ongoing with a focus on the most value-creating path for sustainable growth and success and doing what's in the best interest of our shareholders and all of Verisk's stakeholders. As we've said previously, we believe that portfolio changes are probable in the next two to three quarters, subject to market conditions.

With that, I will turn the call over to Lee to cover our financial results.

Lee M. Shavel

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

Thanks, Scott. First, I would like to bring to everyone's attention that we've posted a quarterly earnings presentation that's available on our website. Moving to the financial results for the quarter, on a consolidated and GAAP basis, revenue grew 8% to \$759 million. Net income attributable to Verisk increased 8.6% to \$202 million while diluted GAAP earnings per share attributable to Verisk increased 10.7% to \$1.24.

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 very pleased with our operating results, led by continued and consistent growth in our subscription revenues. In the third quarter, organic constant currency revenue grew 5.1% driven by continued strength in our Insurance segment and modest growth in Energy and Specialized Markets. This was offset in part by weakness in the Financial Services segment as we experienced the final quarter of impact from the contract restructurings as well as continued COVID-related impacts.

Our non-COVID-sensitive revenues, as we defined at the beginning of the pandemic, increased 5.6% in the third quarter, which was consistent with results reported in the second quarter of 2021 despite tougher year-over-year comparisons as our non-COVID-sensitive revenues included 7.8% in the third quarter of 2020. The stable growth in our non-COVID-sensitive revenues, representing approximately 85% of our total revenues, reflects the durability and resilience of our primarily subscription model and the mission-critical nature of our solutions.

Our COVID-sensitive revenues, which represent 15% of our consolidated revenues, increased 1.6% as compared to declines of 10% in the third quarter last year. Growth was primarily the result of improvements in consulting in our Energy segment and a return to pre-pandemic growth rates in many of our products and services within Insurance, particularly within the US. We did experience continued COVID-related weakness in our Financial Services segment as COVID forbearance programs are negatively impacting bankruptcy volumes.

To be specific, our COVID-sensitive revenues increased 8% and 12% within the Insurance and Energy segments respectively but registered declines of 28% within Financial Services. It's also important to note that that 28% decline also included the impact of the contract restructuring that we have described previously and which ended in the third quarter.

Given that Financial Services is the segment with the largest percentage of COVID-sensitive transactional revenues, this had a disproportionate impact on the overall result. Organic constant currency adjusted EBITDA growth was 2.1% in the third quarter. Organic constant currency adjusted EBITDA growth was impacted by tough comparisons as we took aggressive cost actions in the third quarter of 2020 in response to the pandemic across all our segments. Total adjusted EBITDA margin, which includes both organic and inorganic revenue and adjusted EBITDA, was 49.9% in the quarter, down 221 basis points on a year-over-year basis but still well above our pre-pandemic margin level of 47.4% recorded in the third quarter of 2019. Much of the decline is associated

with the normalization of our costs as we anniversary the COVID benefits from last year, including reduced head count and lower incentive compensation. This level of margin also includes approximately 100 basis points of headwind from our ongoing technological transformation, including our cloud transition costs which we absorb into our cost structure.

On that note, let's turn to our segment results on an organic constant currency basis. In the third quarter, Insurance segment revenues increased 7.4%, demonstrating strong resilience in recovery. We saw healthy growth in our industry-standard insurance programs, repair cost estimating solutions, claims analytics solutions, catastrophe modeling, life insurance solutions, and international insurance software solutions. We also experienced solid growth in transactional revenues, including 8% growth in our COVID-impacted revenues as we compare it against flattish results last year. We also experienced a modest benefit to growth from storm-related revenue resulting from Hurricane Ida.

Adjusted EBITDA grew 4.8% in the third quarter while margins declined 200 basis points to 55.9%, reflecting a return to a normalized rate of head count growth compared to the prior year and higher year-over-year short-term incentive compensation expense. Nevertheless, this quarter's margin is still 300 basis points above our pre-pandemic levels recorded in 2019 and continues to reflect accelerated investment in our breakout areas like life insurance and telematics as well as our technology modernization, including our cloud transition.

Energy and Specialized Markets revenue decreased 2.5% in the third quarter due to recovery in our consulting and project-based revenues across energy and power, strong growth in environmental health and safety solutions and in our breakout solutions, including energy transition and chemicals. We continue to benefit from strong adoption of our Lens platform as customers are seeing the value of our integrated cloud-based data analytical environment, and we are very pleased with their contributions to our annualized contract value progression over the course of the last two quarters.

Adjusted EBITDA declined 2.6% in the third quarter while margins contracted 300 basis points, reflecting tough comparisons from last year when we enacted head count reductions, furloughs, and compensation adjustments in reaction to the challenging operating environment in 2020. This was still well above the 33.3% margin we reported in the third quarter of 2019, before the pandemic. We remind you that some of the costs taken in the third quarter were reversed in the fourth quarter of 2020, making for easier comparisons in fourth quarter 2021.

Within our Energy segment, we are working to combine the proprietary data assets, skillsets, infrastructure, expertise and deep capabilities of our Wood Mackenzie, Genscape, and PowerAdvocate businesses. Specifically, we are taking the best-of-breed from each business and combining it with a common data architecture as the backbone. This modern and flexible data architecture will enable more efficient and effective sharing of data, thus accelerating the innovation process for new solutions in key areas like supply chain, cost management, power and renewables, chemicals, hydrogen, carbon, and metals and mining. This will also empower stronger cross-sell of solutions across the various customer bases, particularly in the global power and renewables sector as we help our global customers navigate this broader energy transition.

Financial Services revenue declined 13.5% in the quarter, reflecting the final quarter of impact from the contract transitions that we undertook in 2020 as well as a lower level of bankruptcy revenue because of government support and forbearance program. Spend-informed analytics demonstrated strong growth as spending and advertising levels continue to improve as the economy emerges from COVID. Adjusted EBITDA declined 42% in the quarter, reflecting the negative impact of lower sales and a larger impact of corporate expense allocations on the segment's smaller base.

Total adjusted EBITDA margins were 19%, still down from the prior year but an improvement from the first half of 2021 as a result of expense discipline and lower bad debt expense. Our reported effective tax rate was 20.8% compared to 22.6% in the prior year quarter, in line with our expectations. Looking ahead, we expect our tax rate to approximate 18% to 20% for the fourth quarter of 2021.

Adjusted net income increased 7.4% to \$234 million and diluted adjusted EPS increased 9% to \$1.44 for the third quarter of 2021. These increases reflect organic growth in the business, contributions from acquisitions, a lower tax rate, and a lower average share account. Net cash provided by operating activities was \$285 million for the quarter, up 38% from the prior year period. The prior year period's cash flow was negatively impacted by the timing of certain Federal income tax payments and certain employer payroll taxes because of the CARES Act. Year-to-date, net cash provided by operating activities was \$967 million, reflecting growth of 18% versus the prior year period.

Capital expenditures were \$61.4 million for the quarter, down 5% versus last year, reflecting cost savings on third party hardware and software as we move to the cloud. We continue to believe that CapEx for 2021 should be in the range of \$250 million to \$280 million, reflecting our continued investment in our innovation agenda, our technological transformation as well as the carryover of certain expenditures that were delayed in 2020 as a result of the pandemic. Related to CapEx, we expect fixed asset depreciation and amortization should be within the range of \$200 million to \$215 million and intangible amortization to be approximately \$175 million. Both depreciation and amortization elements are subject to FX variability, the timing of purchases, and the completion of projects and future M&A activity.

During the third quarter, we returned \$197 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 capital initiatives but also return capital to shareholders consistently. In summary, we are not sitting still at Verisk as demonstrated by our third quarter performance and Scott's earlier comments regarding our portfolio review.

Looking ahead, we have confidence in our ability to manage the cost structure to protect profitability. We continue to believe that we have tough cost comparisons relative to the COVID impact in quarters last year. We should retain much of the margin expansion we experienced in 2020, delivering margins ahead of our 2019 pre-pandemic level of 47%. Further, we believe that as the COVID impacts continue to abate and global economies further open up, we can return to our long-term growth model of 7% organic constant currency revenue growth with core operating leverage, allowing EBITDA to grow faster than revenue.

We hope this provides some useful context for you, and we look forward to addressing your questions. We continue to appreciate all the support and interest in Verisk. Given the large number of analysts we have covering us, we ask that you limit yourself to one question and one follow-up. 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 Manav Patnaik.

Manav Patnaik

Analyst, Barclays Capital, Inc.

Q

Thank you. Good morning, guys. Just the portfolio review, I think this is the first time you've put it in writing in the press release, I suppose. So I was just hoping you could give us a little context. Is this a look at all the non-insurance businesses? Or just any color there would be appreciated.

Scott G. Stephenson

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

A

Our focus is on the – and hi, Manav – our focus is on the non-P&C parts of our business. That said, we're always asking questions about the utility of capital we have invested everywhere, but the depth of our analysis is non-P&C. You'll remember that at the beginning of the year, we asked Lee to take responsibility for those businesses, and his review has been everything from operational to organizational to the strategic questions that are in the portfolio review.

Manav Patnaik

Analyst, Barclays Capital, Inc.

Q

Got it. Appreciate that. And then just on the international expansion, obviously it's something you guys have been trying to go after for a while. Is it still fair to say that the opportunities are more of these [ph] staffing (00:23:13) deals that you have to build upon, or are there any decent-size assets out there?

Scott G. Stephenson

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

A

Well, we're going to – where we're always starting from is strategy, so what is it that is logical relative to what we're doing that will be meaningful for our customers. And of course, we'll filter that through questions like the size of assets that we might add. You've seen our record recently. We've been focused on mostly tuck-in. I don't want to constrain, kind of artificially constrain kind of what size range we might be in, but what we're driven by is the logic of 1 + 1 becoming 3.

Manav Patnaik

Analyst, Barclays Capital, Inc.

Q

Got it. Thank you very much.

Operator: Your next question comes from the line of Greg Peters.

C. Gregory Peters

Analyst, Raymond James & Associates, Inc.

Q

Good morning, everyone. I was looking over your Xactware report because the insurance industry is really struggling with inflationary pressures. I guess it's both there's a frequency issue but also a severity issue, and I'm curious if you could provide some more color about how your services are helping the industry during this time. I know the auto market, the auto insurance market is probably in a period of the most distressed it's been in in the

last 10 or 15 years, and they're having, they're struggling to get their rate increases approved with regulators. So, some color on how your services are helping them would be helpful.

Scott G. Stephenson

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

A

Well, maybe a couple comments here – and Mark leads our insurance vertical, so please dive in, Mark. But first of all, I think, I hope folks are familiar with the range of things that we do on behalf of insurers. So it's everything from how to select risk to how to price risk and then when loss occurs, how to think about the value of the loss, whether the claims amount of loss is accurate. So, we're really across the entire insurance value chain. And one of the things that helps us to be so relevant for our customers is the speed with which we ingest data, signals, which tell us what's going on in the market and then translate them into a forward view and provide that to our customers. So, one of the things we do is to move as rapidly as the environment is moving.

So, you referenced Xactware. So, just to pick that one in particular, so we have a very dynamic way of assessing the underlying factor costs associated with repairing a structure, and the speed with which we update the data helps our customers stay ahead of where the likely next claim is going to be with respect to cost. So, the depth of the data and the speed of the data both help us to give really reliable signals to our customers. And yeah, I mean, the insurance companies are looking to respond to a marketplace that has been moving around a fair amount, but that's really kind of always the case. There are unique conditions associated with the pandemic, but that's just kind of a particular inside of the general case. So it's speed, it's automation, it's depth of data. Those are all the things that allow us to add a lot of value for our customers.

C. Gregory Peters

Analyst, Raymond James & Associates, Inc.

Q

Thank you for that answer. I guess my follow-up question, again, something I hear a lot of your customers talking about would be just the pressure around recruiting new employees and employee retention. And Lee, I heard your comments about the margin expectations going forward relative to what you did pre-pandemic. But I'm curious if – well, I was hoping maybe you could spend a minute and talk to us about what you're doing from an employee retention standpoint, what you're doing from a recruiting standpoint, and how this might – how rising compensation costs might affect your margins.

Scott G. Stephenson

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

A

So we add a lot of people to our organization on a consistent basis, so we have very well-established pathways for recruiting talent into the company that can be from industry, that can be at the entry level. A lot of our focus is on hiring technical talent. Something that we've been doing for years now actually is to go right to the head end of the data analytics and data science educational pipelines and basically sort of build our own programs where we bring people in really as their first encounter with industry and then lead them through a series of development activities and deploy them into the business.

We have found doing things like that to actually be more cost-constructive than simply going out and sort of hand-to-hand combat with other tech companies. We do hire people from name brand technology companies, but we have found that our own efforts to cultivate our own team have been highly reported. And that's not just data science, that is cloud architecture, that is software development; that applies everywhere basically.

And, yeah, we, like I think most companies, have experienced a degree of the need to be extra alert to retaining talent coming out of the disrupted or moving through the disruptive moment that we've been in. But actually, our

experience has been pretty good, on-trend relative to where we've been prior to the pandemic; it's not that different for us. So yeah, we're paying attention. Yeah, it's important. We have a diverse set of talent sources, and I would mention here that we operate not only in the United States but also in other economies around the world, including we have a very large footprint in India which gives us additional options for staffing our team.

Lee M. Shavel

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

A

And Greg, one thing I would add to Scott's comments is of course, I appreciate you raising that. I think a lot of businesses are struggling on that front from a [indiscernible] (00:30:09) retention standpoint. That's one dimension of it. I think we would recognize that there probably are some – we're anticipating some higher costs as most companies are, but we're also experiencing some savings as we adapt to this new environment. We are working through our real estate portfolio, finding efficiencies as we are adopting more remote work. I think our belief is that the level of travel expense is going to be lower than it was previously. And so, while we are experiencing some of those pandemic-induced inflationary pressures from a recruiting standpoint, that I think all companies are, we also are generating probably more net benefits from that.

And then finally, I would say on the retention standpoint, there – one thing that we often have to take into account is what is the cost of attrition. You have to bring somebody else in, you have to bring them up the curve. Sometimes, that creates opportunities. But often, we find that you can realize some attractive efficiencies by retaining the talent upfront as opposed to allowing that talent to attrit. So, all of those are factors as we think about that cost [indiscernible] (00:31:21).

C. Gregory Peters

Analyst, Raymond James & Associates, Inc.

Q

Great color. Thanks for your answers.

Operator: Your next question comes from the line of Alex Kramm.

Alex Kramm

Analyst, UBS Securities LLC

Q

Yes. Hey. Good morning, everyone. Just coming back quickly to the, I guess, portfolio review is what you call it, it sounds – you've been talking about this a little bit more or less, I think, three quarters now, and now you're putting a timeline out there of two to three quarters where we should be expecting something or something is probable. But I guess the timeline is a little bit out of context without really knowing what's on the docket, so can you maybe help us a little bit how you think about those two to three quarters? Maybe what's on – what we could expect and how the timelines relate to that? I guess what I'm saying is are there some little things that you can identify that may be coming very soon, or what are the big things that you're considering that maybe take a little bit longer and that's why you're talking about this two to three quarter timeline here? Thank you.

Scott G. Stephenson

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

A

Well, I would just say in the most general sense, Alex, that it's a comprehensive review that we're doing. As I mentioned upfront, our focus is everything which is outside of the P&C segment. I don't think it would be productive to call out specific parts of our portfolio. I just don't think it's constructive inside of the process that we're on here right now. But we're looking deeply and broadly essentially at everything, and we're certainly aware of where we stand in the process of consideration. But I just don't think it's constructive to sort of name individual piece parts at this moment.

Alex Kramm

Analyst, UBS Securities LLC



I figured I'd try. Thank you. And then maybe just shifting gears to the Energy business for a second here. I think in your prepared remarks, you mentioned I think Lens with specific numbers. You also talked about the energy transition as an area of upside again. Maybe can you just put some more numbers around that in terms of how big that business is today, what the growth rates are you experiencing, and where are you having the most success actually selling some of these new products into the marketplace as everybody is clearly thinking about energy transition these days. Thanks.

Lee M. Shavel

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



Yeah. So thank you, Alex. Let me try to give you some context. And I think the most important thing, the most important element that I would draw your attention to, because I think it represents where we are seeing the most significant impact from our investment in Lens, and I want to differentiate it from the fact that within energy transition and within chemicals, those are businesses that we had invested in 12, 18 months or so ago and have already been generating double-digit growth; they're becoming a more significant component of that. But what we are experiencing more recently, which isn't reflected in the revenue numbers yet, is our ability to increase the pricing for Lens-delivered products.

The Lens platform has enabled us to demonstrate to clients improved ability to access and interact with the datasets with the analytics. And as I've described before, we have been able to translate that into double-digit price increases for those products where Lens is now a component of what we do. That is contributing directly to the reference that I made to the increase in our subscription growth or our annualized contract values where we have seen mid-single digits and, more recently, high single digit increases in the overall level of that. Those of you that follow other companies with kind of an ACV dynamic, that immediately hits ACV but it will be realized over time.

The other point that I would emphasize that we mentioned is that we currently are only approximately 10% penetrated into our customer base. And so, as we further penetrate that customer base and add more products onto the Lens platform over time, it has a multiplicative effect on the revenue opportunity. And so, that's where I would specifically draw your attention in terms of representing the growth opportunity. And for me, certainly the return opportunity on the investment that we've made in Lens encourages further investment and acceleration of many of those products. All of that is supported by the ongoing growth. Certainly, anyone I expect on this call has seen the level of focus in the energy transition from all the press around COP26 is driving nearly incessant demand for our expertise and our perspectives on the energy transition.

And then finally, as we pointed out, the consulting element of the business is also experiencing that cyclical uplift of strength in the sector. So hopefully, that gives you some context around what we are experiencing and how we expect that will continue to translate into improved growth performance as we look ahead.

Alex Kramm

Analyst, UBS Securities LLC



Very good. Thank you.

Operator: Your next question comes from the line of Ashish Sabadra.

Ashish Sabadra

Analyst, RBC Capital Markets LLC

Q

Thanks for taking my question. I just wanted to follow-up on the margin front. The margins in this quarter were pretty robust when you look at it on a sequential basis. There was that discussion around compensation cost, but I was just wondering how should we think about the margins going forward as some of the T&E comes back. And as you ramp up your investment, is there enough that you can bring in through cost savings that can continue to maintain these margin levels? Thanks.

Lee M. Shavel

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

A

Yeah. Thanks, Ashish. One of the challenges is that there are a lot of elements that factor into margin, and I appreciate you raising kind of the shorter-term dimension. There were in the third quarter some impacts on margin. Part of that, which we described, were some – an exceptionally difficult comparison to the third quarter, particularly in Energy and Specialized Markets because of some of the furlough, compensation reductions that we took in that period that normalized in this period. And some of that will be – you will see a corresponding kind of rebound in the fourth quarter when we reverse those based upon the performance of the business. So, that's an element that is more acute in the third quarter. In addition, we had some higher level of legal expenses in the third quarter across some of our businesses that, again, was an acute short-term effect.

There will be – so, all of that just to kind of say that in the third quarter, there was probably a higher level of expense than we would normally expect impacting margins, that they were still above where we were pre-pandemic. But going forward, I don't think we expect that same acute impact. There will be ongoing normalization potentially on travel, potentially on compensation as things normalize. But I think that we will still be able to hold on to some meaningful portion of that structural benefit that we had through the pandemic. Hopefully, that helps you dissect a little bit some of the short-term elements that impacted us a little heavily in the third quarter and our expectations ahead.

Ashish Sabadra

Analyst, RBC Capital Markets LLC

Q

That's great color, Lee. And maybe if I can ask a quick follow-up question. Would it be possible to quantify the benefit from storm-related revenue? I understand it was very small. And should we see a similar benefit going into the next quarter as well? Thanks.

Lee M. Shavel

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

A

Thank you, Ashish. It isn't material enough where we feel that it's necessary to call that out. I think that when it becomes a market impact or a material impact, we do it. But we don't think it rises to that level at this point.

Ashish Sabadra

Analyst, RBC Capital Markets LLC

Q

That's very helpful, and congrats on good results. Thanks, Lee.

Lee M. Shavel

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

A

Thanks, Ashish.

Operator: Your next question comes from the line of Hamzah Mazari.

Mario Cortellacci

Analyst, Jefferies LLC

Q

Hi. This is Mario Cortellacci filling in for Hamzah. I know you've touched on this in the past, and maybe you just mentioned it again on the call around your ability to help insurers through automating various tasks, and whether that be underwriting or in the claims process. But maybe you could just talk about how much of an opportunity that may be still going forward. And then, can you also just touch on your new product growth and your vitality index and how that looks within insurance today?

Mark V. Anquillare

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

A

Thanks for the question. This is Mark. So, let me just describe it. I think I've always highlighted that the world of insurance is really focused on three things right now. Data and analytics, I think we've kind of rode that wave for a while. Clearly, the other two things are kind of intersecting, but it's this digital engagement as well as this push towards automation, which we kind of refer to as this interconnected ecosystem. What insurers are trying to do, and you'll probably experience if you want to go online to get an auto quote, you can get a very quick and efficient auto quote in a very automated way because all the information about you is available. It's all publicly available; you would clearly provide for a yes, the privacy.

And what we're trying to do is make that experience available to not just personal auto, homeowners, small commercial, and you have the ability to now get a quote very efficiently, very effectively using what I refer to as both data and analytics to make it cheaper, more efficient and more accurate. And it's all interconnected in a way, the digital experience, that a small business owner or you as a homeowner have the ability to get that quote live. And that's where the push is both on the insurtech side as well as the traditional insurers, and I'm proud to say that we were kind of at the forefront of helping people do that. And I think there's a lot of runway there because it's both reducing the cost for insurers as well as creating a better experience for those policyholders. So, we'll look forward to that continuing in the coming couple years.

I think the next question was a little bit about the vitality index. I think that we feel like the solutions we have are as robust and as numerous as we've ever had. There's a lot going on at Verisk. I'm excited about it. That's both on the claims side, I think that's on the underwriting side. And I know that we always talk about verticals. I think there's opportunities to take some of the things that we do today focusing on insurance, but also see if there's a way to horizontally get into other verticals, and I think that's an exciting dimension as well. As an example, a lot of things we do with climate and climate change corporates need to know as we think about ESG and resiliency. Those are the types of things that get us excited, but we're still on the – certainly early days. So, thanks for the question.

Mario Cortellacci

Analyst, Jefferies LLC

Q

Absolutely. And then just on my follow-up, could you just talk about how the competitive dynamic within the financial services segment has changed, if at all? You have the credit bureaus, you have the fintech and payments all getting more aggressive on M&A and doing more internal investment around datasets. Just wondering if you've seen any real shift there. And how is that being considered while you're doing your business review of that segment?

Scott G. Stephenson

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

A

Yeah. Mario, thank you. We do look at that competitive dynamic, and I would start by saying that our Financial Services business is, at the core, a benchmarking service for the large credit card-issuing banks. And that's a very unique position where the large banks trust us to provide their data so that they can understand their performance against others. There is no one that collects as broad or provides as comprehensive a benchmarking service in that context. And so to a degree, that is a less competitive space for us.

Where we do see more competition is around some of the consulting aspects of the business outside of that benchmarking. And in some of our businesses such as in fraud detection, naturally, there are a lot of small companies and businesses that are offering similar deflection, fraud avoidance types of solutions, and so that becomes a consideration. So yes, overall, we look at the level of competition. We look at some of the other scaled players in the industry, what they're doing in the space, and then evaluate our competitive strengths and merits that factor into our assessment of our ability to both create value and optimize value for those businesses.

Mario Cortellacci

Analyst, Jefferies LLC

Q

Great. Thank you very much.

Operator: Your next question is from the line of Kevin McVeigh.

Kevin McVeigh

Analyst, Credit Suisse Securities (USA) LLC

Q

Great. Thanks so much and thanks for all the information. Hey, could you give us a sense in terms of where you are in the cloud transition, I guess, overall across the enterprise? And then maybe a little bit of detail in terms of Insurance versus Financial Services versus Energy.

Scott G. Stephenson

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

A

Yeah. So, there are multiple elements to our migration. So first of all, every new application is being authored in the cloud at this point. So – and we author a lot of new applications, so we're 100% with respect to that, which is current and new. With respect to legacy, we're substantially along the way but, kind of implicit in some things that we said earlier, not completely done. So, we are at the point of essentially turning off our operation of the mainframe that we used to make use of. We are close to the moment when we will shut down our powered data centers, but not quite there yet. And a large, by count, the larger fraction of all of our applications have migrated, our legacy applications have migrated into the cloud.

So we're still in process. We're making lots of good progress. And as Lee was referencing before, we've already seen the cash flow benefits associated with this transition. And there is more to come because we will shut down data centers that aren't yet shut down. And then, the corresponding point on all of that is because computing in the cloud is so productive, one of the things that's happening is we're doing more development in the cloud. So, we've got lots of new things that we're doing that will consume cycles in the cloud in the future that we just literally didn't use to do. So, there's kind of a put and a take volume growth in this really productive environment. The legacy stuff gets shut off; the net effect of it is it is beneficial to cash flow and does interact with both the CapEx and the OpEx lines.

Kevin McVeigh

Analyst, Credit Suisse Securities (USA) LLC

Q

Very helpful. And then, just wanted to clarify when you folks talked about the 7% to 9%, returning to that, Lee, is that as the portfolio is currently constructed? Or would – I guess, point being if you were to monetize certain parts of the business, there would be upside to that number or is that assuming any type of strategic outcome in that 7% to 9%?

Lee M. Shavel

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

A

I would describe it as our expectations for the business as a whole and doesn't implicitly assume anything in terms of the portfolio restructuring. As we said before, we expect each of our businesses in a normalized environment to be able to achieve 7% organic growth. Obviously, there's been differentiated performance against that, but that's the expectation for the business as currently configured.

Kevin McVeigh

Analyst, Credit Suisse Securities (USA) LLC

Q

Thank you.

Operator: Your next question comes from the line of Toni Kaplan.

Toni M. Kaplan

Analyst, Morgan Stanley & Co. LLC

Q

Thanks so much. Wanted to ask another question to clarify the margin expectation for next year. You mentioned that margin should be higher than 47%, but that seems like it doesn't really bake in any of the efficiencies that you talked about. And so maybe, I was thinking about it as if you look at this year, you don't have the T&E in it this year and so hopefully, that'll normalize next year. So, is it fair to think of it as margins in 2022 will essentially be 2021 levels minus, say, 100 basis points for T&E? And if 100 basis points isn't right, like, feel free to correct me on that.

Lee M. Shavel

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

A

So Toni, I appreciate the question. I think it's hard to anticipate what the impact on travel is going to be in 2022, and it will fundamentally be driven by what we think is best from a client interaction/business development dimension for the business, and I think that's inherently unknowable at this stage. If we feel that it's in our best interest as we have new products and want to be in front of clients to develop those ideas to be out there, then that will influence our T&E spend. And then obviously, the environment in terms of safety and regulatory aspects is unknown as well.

So, I'm very reluctant to make any forecast of what that is going to be because I think it will depend upon the business circumstances and the environment at the time. I do think that we have been able to realize savings, some of which are structural and which we think we will be able to retain over time in terms of real estate costs, probably a lower level of travel. But in the short-term of looking at year-over-year comparisons, I'm just – I don't think we're in a position to be able to make an estimate of what T&E as a percent of total revenue is likely to look – is going to be.

Toni M. Kaplan

Analyst, Morgan Stanley & Co. LLC

Q

Yeah, understood. That is the only real delta, though, between this year and next year? Is that the main one?

Lee M. Shavel

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

A

I think the other element, Toni, is our level of head count growth within this. And here again, you have a tension between the retention element and the retention pressures that we are experiencing, our ability to fill those positions. That was clearly an impact in terms of where – that influenced our compensation expense in 2021. We would like to be able to certainly recover to where we were and to support the growth of these new initiatives. So that dimension, I think, is also difficult to predict and is our most significant expense from at about 70% of our overall operating expenses. So, that would be just the other area that I think is an uncertain variable. Naturally, we have more control on that. But in this regard, we do want to continue to be able to grow head count to support the development of these businesses, but the environment is making that more challenging from an actual hiring and also from a compensation expense standpoint.

Toni M. Kaplan

Analyst, Morgan Stanley & Co. LLC

Q

Got it. And then, just wanted to ask a follow-up on energy transition. I guess, who are your main competitors that you're facing up against there? Is it IHS Markit or are you competing in different product areas? And then, I guess also separately, is there any cannibalization from energy transition services from those customers that are buying upstream or is it completely additive? Those are just my two questions on that. Thanks.

Lee M. Shavel

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

A

Thank you, Toni. So on the first question, I think there are a range of other players. At one level, I think you have the high-level consultants that are like a McKinsey or a Boston Consulting that are doing a lot of work in the energy transition space. That is high-end. We have consultants that also do that work, so there's competition on that front. In kind of thought pieces around what's happening, I think with Bloomberg New Energy, they are providing competition. And I think most other large energy data players are certainly looking to take advantage of the demand for analytics and data in the new energy space.

We do think that our competitive advantage in that area is one that we have been applying and developing our specific datasets on the upstream space in our PowerAdvocate area in terms of what companies are spending on infrastructure for facilities, new generation capabilities, as well as our familiarity with the real-time data that we acquired from our Genscape which is part of the rationale for why we think that's additive. So we have, I think, a very valuable dataset and we have a great brand and reputation in the energy sector. So there is other competition, but we feel as though we're very competitively differentiated.

Toni M. Kaplan

Analyst, Morgan Stanley & Co. LLC

Q

Thank you.

Operator: Your next question comes from Andrew Nicholas.

Andrew Nicholas

Analyst, William Blair & Co. LLC

Q

Thanks for taking my questions and good morning. The first question I had was for you, Scott. You mentioned in your prepared remarks about some of the success you've had with the international playbook, at least as it relates to Sequel, and now you've made an acquisition of ACTINEO in Germany, it sounds like. So I'm just wondering if you could maybe spend a little bit more time on that deal, how it fits into your existing product line up and maybe what the playbook looks like for that asset in particular?

Scott G. Stephenson

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

A

Yeah. So ACTINEO participates in the claims process in the German market. The claims process is a very central part of what we do on behalf of all insurers. And one of the things that applies when you're the kind of data analytic company that we are is that methodologies can travel across national boundaries, but you still need data at the local level in order to be able to do analysis that is relevant for the local level. And fundamentally, that's what ACTINEO provides. So they're in a particular part of the P&C world in Germany where they face auto and then sort of the medical issues that arise from automobile access. That's the part of the marketplace they're in.

So, the growth that is going to occur relative to ACTINEO will be along a couple of dimensions. One is being [indiscernible] (00:56:36) in Central Europe, we will seek opportunities to push the method out into other national economies. But secondly, we've got a whole set of claims solutions where the methodologies are perfectly applicable to the German market. Now, we will have a beachhead in which to go in behind the relationships with the German companies that come along with ACTINEO and now present our other solutions basically. And then, we'll do what we always do which is aggregate, ideally, contributory data which is specific and which is even unique inside these customer relationships and then just have the cumulative benefit of a deeper connection with customers, more forms of value because we have more kinds of data but within general categories like claims; underwriting is another general category.

Andrew Nicholas

Analyst, William Blair & Co. LLC

Q

Great. Thank you. That's helpful. And then for my follow-up, wanted to switch gears a little bit. You talked, I think, for some time about the opportunity on the cybersecurity front and the cyber risk front. And it seems, at least from our vantage point, that there's a growing number of providers targeting that space, some of which have some positive momentum. So, I'm wondering if you could just refresh us on Verisk's positioning in that market and maybe where you feel the biggest opportunities are for both organic or even inorganic growth there in terms of helping clients underwrite cybersecurity risk specifically. Thank you.

Scott G. Stephenson

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

A

A couple comments on cyber. One is it's an important line, but you have to have it in context as well. It actually is not that big a line when you talk about direct written premiums. So, sort of the emergence of cyber cover is, in many ways, actually still waiting to happen. But we take a very broad – our positioning is that we have the broadest set of offerings of all with respect to cyber if you're asking about us versus other providers because we sort of – we're sort of soup to nuts in the cyberspace. So, we model way upfront so that you can have a high-level portfolio view of the amount of cyber risk you might be holding as an insurer in your portfolio. We actually can diligence individual companies for the cyber risk that they represent, and that can be used in the risk selection and underwriting process.

And then on the back end, we've actually got a completely unique activity which is through our PCS unit where in the same way that insurers tell us after a natural disaster exactly what their – progressively with time, they tell us what their actual claims experience was denominated. We now have a variety of insurers who are doing that with us in the cyber realm. So, there isn't any other company that does those three things that I just mentioned, so our positioning is tied strongly to breadth. And we're very happy to be in this place and happy with what we're doing against the line that gets a lot of attention, but it's not – there isn't really that much premium in the cyber line just yet.

Andrew Nicholas

Analyst, William Blair & Co. LLC

Thanks. That's helpful.

Q

Operator: Your next question comes from the line of Andrew Steinerman.

Andrew C. Steinerman

Analyst, JPMorgan Securities LLC

Hi. It's Andrew. Two questions. First one is as your team probably sells one or more of your industry-specific data and tech businesses, will Verisk likely become an infoservices provider that's just more focused in terms of number of end markets? Or is it likely that Verisk will expand into a new industry after exiting an end market or end markets? I also have a second question.

Q

Scott G. Stephenson

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

So it is not inside our pattern of thought, Andrew, as you say. We need to be in end vertical markets. We don't have that thought at all, actually. And so, it simply would not be in our analysis or pattern to say, well, okay, we may have stepped out of this vertical market or that vertical market. Here's some proceeds and let's invest them in the next new vertical market. That is not the way that we think, not at all. So I think that's the primary answer to your question, but I will go back to what Mark said before. One of the really nice opportunities for our company is a function of the fact that you get to observe so much of the economy through the mechanism of insurance because almost everything is insured, maybe it's not as completely insured as it should be. But more or less, every category of asset is insured, so you get to see kind of what's going on economy-wide.

A

And my point here is that we really like solutions where, I'll call it, the killer app grows up in the insurance vertical. But then, if it's extensible to other customer groups, well, great, particularly if it doesn't need to be modified very much in order for it to be relevant to that next customer group. So, I'm really sending you two messages here, and I think they're clear and I hope we have them distinct, which is we don't need to platform ourselves in other verticals. We are interested in following from the powerful plays of the insurance industry and the killer apps inside of the insurance industry. If they have applicability in other places, that's good business and we'll pursue that all day. But we want it yoked to the power play is where we start.

Andrew C. Steinerman

Analyst, JPMorgan Securities LLC

That makes a lot of sense, so here's my second question. Could you also talk about the cyclical rebound ahead for Verisk Energy organic revenue growth, just noting that the end market now has some tailwind?

Q

Lee M. Shavel

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

A

Sure, Andrew. So thanks for the question. There is certainly a sense of the cyclical trends that we're experiencing on the consulting side that are driving some of the strength and the performance or the revenue growth within that sector. And while that's a positive, it is not as much of a focus for us as the broader, what I would describe as secular trend to understanding the datasets for the energy transition and our structural ability to tie those datasets together through the Lens platform, which I was describing earlier in response to Alex's question. And so that, we believe, is the more material secular trend within the business that, as opposed to existing within those discrete upstream, midstream, downstream, chemicals elements, we're now looking at data across that and building an architecture that allows us to meet those growing needs.

I do think that some of the cyclical short-term uplift is encouraging more adoption of those broader applications that we've described. So, there is a bit of a tailwind effect that we're beginning to experience, certainly on the subscription side. And then, as we realize the revenue from that subscriptions, it should become more apparent in the overall revenue results

Scott G. Stephenson

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

A

And Lee, if I could just add to what you were saying there just very briefly, and maybe this was a little bit implicit in your question, Andrew. Over the course of the last seven years, there have been two remarkable price shocks in the underlying commodity, particularly oil and gas, petroleum. There has been a Brexit and there's been a pandemic. Hopefully, the next pandemic is decades away from now, the UK can only Brexit once, and the first of the two price shocks was totally supply-led; it was basically Saudi Arabia sort of flexing muscle with Russia. And I think it's interesting to consider the fact that on a go-forward basis, Saudi Aramco now answers to market forces in a way that it didn't seven years ago where it was kind of like the piggy bank for the Royal family.

So, I think the environment is different than it has been over the last seven years. And we're structurally different in that our exposure to that as a result of the development of our data businesses, the growth of other elements has substantially muted the impact of that. There will still be some impact that we described, but it is much less acute than it would've been certainly three years ago.

Andrew C. Steinerman

Analyst, JPMorgan Securities LLC

Q

That's well said. Thank you.

Operator: At this time, I would like to thank everyone for joining today. This will be our last question. This concludes today's conference. You may now disconnect.

Scott G. Stephenson

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

Thanks, everybody, for joining.

Lee M. Shavel

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

Thank you.

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