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# Verisk Analytics, Inc. (VRSK)

Q1 2023 Earnings Call

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good day, everyone, and welcome to the Verisk First Quarter 2023 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, so that we can allow everyone to ask a question. We will have further instructions for you at that time.

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

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### Stacey Jill Brodbar

*Head-Investor Relations, Verisk Analytics, Inc.*

Thank you, Mandeep, and good day, everyone. We appreciate you joining us today for a discussion of our first quarter 2023 financial results. On the call today are Lee Shavel, Verisk's President and Chief Executive Officer; and Elizabeth Mann, Chief Financial Officer.

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

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

Finally, I'd like to remind everyone that the financial results for recent dispositions are included in our consolidated and GAAP results, but are excluded from all organic constant currency growth figures. A reconciliation of reported and historic non-GAAP financial measures discussed on this call is provided in our 8-K and today's earnings presentation posted on the Investor section of our website, [verisk.com](http://verisk.com). However, we are not able to provide a reconciliation of projected adjusted EBITDA and adjusted EBITDA margin to the most directly comparable expected GAAP results because of the unreasonable effort and high unpredictability of estimating certain items that are excluded from suggested non-GAAP adjusted EBITDA and adjusted EBITDA margin including, for example, tax consequences, acquisition-related costs, gain, loss from dispositions, and other non-recurring expenses, the effect of which may be significant.

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

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### Lee M. Shavel

*President and Chief Executive Officer, Verisk Analytics, Inc.*

Thanks, Stacey. Good morning, and thank you for participating in today's call.

At our Investor Day in mid-March, we detailed the benefits of being an insurance-focused business and our comprehensive strategy to drive consistent, predictable growth at Verisk. Our first quarter results demonstrate the

sharpened focus and results-oriented operating discipline at Verisk. We are operating on a more integrated basis across the company and have been more engaged with our clients, as I'll describe in greater detail.

I will leave it to Elizabeth to walk through the details of the financials, but in summary, we delivered very strong organic revenue growth combined with solid margin expansion, yielding double digit profit growth. The growth was broad-based with most businesses contributing to the result, and we have strong business momentum. We delivered this performance despite a macroeconomic environment marked by high inflation, interest rate volatility, and market anxiety.

Specific to the insurance industry, our customers are coming off a year marked by elevated underwriting losses and pressure on profitability. In fact, the US property casualty insurers experienced a \$27 billion net underwriting loss in 2022, the largest loss since 2011, according to industry data collected by Verisk and the American Property Casualty Insurance Association.

Moreover, profitability was under pressure, as reflected in deteriorating combined ratios at 103% in 2022 versus almost 100% in 2021. One consequence of this tough loss and profitability environment in 2022 has been a hardening insurance market where rate increases are driving faster net written premium growth in the first quarter reports of many major insurers. Verisk is partnering with the industry to help them reduce costs, better select and price risk, root out fraud, and overall operate more efficiently given the macro environment.

One problem area has been the State of Florida. As we have discussed in prior calls, the insurance crisis in Florida is being driven by a litigious environment further complicated by extreme event vulnerability. The combined impact is pushing insurers into insolvency. The state legislature has passed reforms to address the crisis, and there are currently efforts being negotiated to bring increased oversight to the state's insurance market.

That said, the risk for more liquidations remains and we continue to monitor both the primary and reinsurance markets closely while leaning in with our customers to help them adapt to new legislation, to better select and price risk in the state, and to identify the systemic bad actors in the market.

A second area of challenge has been auto underwriting, as insurers pulled back on writing new policies as they awaited regulatory approval for rate increases. Rate actions have started to roll through, and in the first quarter we saw a rebound in policyholder shopping activity in response to higher rates, driving strong transactional revenue growth for Verisk this quarter.

That said, we have yet to see behavior change on the part of the underwriter as they are still cautious about spending on marketing and underwriting new policies. We continue to expect that improvement in the back half of the year.

One key pillar in our strategy that we discussed at Investor Day is being a more client-centric organization and the importance of strengthening the strategic dialogue with our clients and intensifying our industry engagement.

To that end, I've been leading the organization with direct client engagement through full relationship reviews at several of our largest clients where we've been able to identify how we can better serve them and integrate new solutions to meet their specific objectives.

I've also hosted our first CEO roundtable where we brought together the leaders of our clients to discuss the issues that are foremost in their minds and where we can leverage our centrality and expertise to help address these issues.

This has been followed by a client Chief Information Officer roundtable, where we brought our technology leadership headed by our CIO, Nick Daffan; and our Chief Data Officer, Eric Schneider, to discuss technology and analytics trends that are on the minds of insurance industry, CIOs. In particular, generative AI was a hot topic, and we discussed how we can help the industry develop safe, ethical and effective use cases and guide policy. Our clients are recognizing the early benefits of change and focus at Verisk and have provided great feedback.

A recent quote from an important client stated, I can't remember a meeting with this degree of transparent dialogue where I felt like Verisk was listening. Our recent NPS scores also reflect this change in perception. Verisk conducts customer relationship surveys twice a year, and our recent NPS scores in the first quarter of 2023 were 47, up 4 points versus this time last year.

Further, so far this year, we have hosted three in-person client events. At all our events, client can engage with our solutions and hear directly from those clients who use the products in the market and learn how effective they are in helping solve industry challenges. More specifically, in February, our claims business hosted two events including Elevate, our signature event for claims and restoration professionals which provided educational and networking sessions for over 600 industry professionals.

We also hosted almost 300 industry participants at IFM, an industry-wide event targeting the latest issues and advances in fraud management. In the US alone, insurance fraud is estimated to cost the industry \$300 billion annually, impacting industry profitability, and Verisk is uniquely positioned to help the industry. We host this event in partnership with the National Insurance Crime Bureau.

Both events included expert panel discussions, featuring our clients and partners, leading academics, and thought leaders in the industry covering top-of-mind issues.

In April, we hosted the inaugural Verisk Insurance Conference and hosted almost 600 clients for a four-day, multi-track conference designed to deliver a combination of product and thought leadership-focused content to key extreme events, life, and underwriting decision-makers in insurance and reinsurance

This comprehensive event, which combined three previously separate events, enabled us to educate our clients and prospects about Verisk's end-to-end capabilities, while continuing to provide them with valuable content applicable to their specific role in organization.

It raised the awareness of the breadth and depth of solutions we offer to solve the industry's biggest challenges and really highlighted the benefits of the integrated Verisk approach. We saw a great response to this event with almost half of the extreme events professionals attending underwriting sessions and 40% of the underwriting attendees joining an extreme event session.

A recent notable competitive contract win in our extreme events business is a great example of the benefits of being more focused and more integrated across Verisk. We recently signed a large multiyear contract expansion with a global insurer for extreme events platform, Touchstone. This client, who is already a subscriber to our property underwriting data solutions will partner with Verisk on a workflow that will directly integrate those data solutions into the Touchstone platform.

This partnership not only allows the client to obtain an enhanced view of their catastrophe loss potential based on Verisk data with minimal operational friction, but it also gives Verisk the opportunity to market the feasibility of the same solution to a broader range of market participants.

What struck me at both our claims and underwriting events after dozens of client conversations was the genuine enthusiasm our clients have for our ability to help them address industry issues with our scale and centrality. A commonly expressed sentiment is Verisk has a unique perspective, and we know you can help us. This is a tremendous privilege for us, and we are more mindful of our responsibility to create value for our clients and stakeholders. We are particularly excited about the opportunity it represents to find new channels for growth.

On the technological transformation front, we recently achieved a major milestone as we have successfully sunset our mainframe. The scope and complexity of this project was massive, and our technology teams worked tirelessly to shut down a 40-year-old mainframe in just five years.

I want to thank my colleagues for their hard work and dedication to modernizing our legacy technology footprint. This move allowed us to modernize our operations and provide a better experience for our customers. Equally importantly, it enables Verisk to allocate more of our technology resources towards innovation to drive future growth.

Finally, I wanted to share that we recently published our 2022 Corporate Social Responsibility report. This year's report offers a view of our ESG journey and our work to help build global resilience for individuals, communities, and businesses. We continue to pursue sustainability and growth through the lens of a responsible ESG framework.

On the environmental front, this year we established a climate advisory council to glean strategic guidance on climate change and receive climate-related feedback on our forthcoming solutions.

Moreover, Verisk's sustainability team is currently working with an independent consultant to help the company complete a report meeting the expectations set forth by the task force on climate-related financial disclosures.

As part of the exercise, we are conducting analyses assessing the impact of climate change, both on Verisk's direct operations and across key elements of its value chain and developing a realistic pathway to support science-based targets and a commitment to net zero targets.

The team is also engaging with internal stakeholders regarding Verisk's current risk assessment activities and framework for identifying climate-related opportunities. We expect to publish the report in late 2023.

Regarding governance, over the last 12 months Verisk took steps to enhance our governance at the board level, including making changes to provide for the annual election of directors and separating the role of Chair and CEO. We also took steps to refresh our board, welcoming four new independent directors who bring fresh perspectives and valuable skill and experience sets.

As of the 2023 Annual Meeting of Shareholders, four directors, namely Anell Bay, Chris Foskett, Dinos Iordanou, and David Wright will be retiring from the board. I would like to express my gratitude to each of these directors for their leadership and guidance which have been invaluable to Verisk's journey and transformation. These changes will bring our board to a total of 10 members, 90% of whom are independent and 60% are gender or racially diverse.

With that, I'll hand it over to Elizabeth to review our financial results.

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## Elizabeth Mann

*Chief Financial Officer, Verisk Analytics, Inc.*

Thanks, Lee, and good day to everyone on the call. Before I start with the first quarter results, I have a few reminders for everyone.

First, all consolidated and GAAP numbers are negatively impacted by the dispositions of 3E and Verisk Financial Services. This will be the final quarter of this year-over-year comparison.

Second, as it was in the prior quarter, Wood Mackenzie is accounted for as discontinued operations on our income statement, and results are not included in continuing operations for either period.

Third, all cash flow metrics include the results of all three disposed businesses in the prior year figures.

Turning to the financial results, I am pleased to share that we delivered a strong first quarter. On a consolidated and GAAP basis, revenue was \$652 million, up 1% versus the prior year, reflecting growth in insurance offset by the impact of the VFS and 3E disposition. Income from continuing operations was \$194 million, while diluted GAAP earnings per share attributable to Verisk was \$127 million.

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, which demonstrated strong core underlying performance across most of our businesses, aided by some in-period one-time benefit.

In the first quarter, OCC revenues grew 9.8% with growth of 9.1% in underwriting and rating, and 11.4% in claims. This quarter's results was boosted by certain transactional revenues that we do not expect to repeat for the remainder of 2023.

Our subscription revenues, which comprised 80% of total revenue in the quarter, grew 8.7% on an OCC basis. We saw broad-based growth across most of our businesses with strength in core underwriting, property estimating solutions, extreme events, anti-fraud, life insurance solutions, and many of our international businesses.

Specific to our core line services, we are experiencing a benefit on certain of our revenues from the stronger net premium growth in 2021, which is currently reflecting in our contract pricing. Working against this is a modest negative impact from the seven liquidations in Florida that occurred over the last 12 months and which Lee discussed earlier. We do expect the impact from liquidations overall to become more pronounced as we move throughout the year.

Our transactional revenues, representing 20% of total revenue in the first quarter, grew 14.4% on an OCC basis. The largest contributor to growth was from a strong rebound in our auto businesses, driven by increased rate shopping and the signing of a large non-rate action deal with a national insurer. Additionally, we experienced double-digit growth from life insurance solutions as we are seeing strong customer demand for incremental services.

Our travel solutions are benefiting from a post-COVID rebound, particularly in markets like Australia and New Zealand, and our property estimating solutions experienced continued storm benefit the quarter. These transactional results did include some one-time benefits, including overage charges on specific large underwriting contracts that renewed in the quarter and catch-up billing for certain claims customers.

Finally, the casualty workers' compensation business delivered growth in the quarter, but continues to remain below pre-COVID level and is recovering at a pace slower than we had originally expected.

On the auto underwriting side, we did see solid growth in transaction volume this quarter versus declines last year, as rate increases are now driving shopping behavior by policyholders. However, as Lee mentioned earlier, carriers continued to be cautious and have pulled back on marketing spend to attract new customers as they measure the impact of rate increases on profitability. To that end, and given the transactional nature of this business, we are cautiously optimistic about the outlook for auto as we move throughout the year.

Moving now to our adjusted EBITDA results, OCC adjusted EBITDA growth was 15.7% in the first quarter, reflecting core operating leverage on the strong revenue growth and the impact of certain cost reduction actions we have taken in connection with our margin expansion objective.

Total adjusted EBITDA margin, which includes both organic and inorganic results was 52.2%, up 480 basis points from the reported results in the prior year. On a pro forma basis for all divestitures, the first quarter margin expanded 320 basis points from margins of 49% in Q1 of 2022.

This reflects the impact of certain one-time expenses in the prior-year quarter as well as strong cost and operational discipline and the impact of our cost reduction program. This level of margin also does include several headwinds, which in total represent about 150 basis points and include a decrease in our pension credit, pressures from recent acquisitions, and higher T&E expenses, offset in part by foreign currency realized gains in the quarter.

Reflecting on our ongoing cost reduction plans, we continue to have confidence in our ability to deliver on the margin targets that we articulated in our 2023 guidance and at Investor Day in mid-March.

During the quarter, we also took actions to put in place a permanent capital structure for the new Verisk as well as actively manage the balance sheet to take advantage of the \$3.1 billion in proceeds we received from the closing of the Wood Mackenzie transaction.

To that end, in February 2023, we paid down \$1.4 billion in debt that was outstanding on our revolver. On March 3, we issued \$500 million of 10-year senior notes at a rate of 5.75%, bringing our total debt outstanding at the end of the quarter to \$2.85 billion.

We then entered a \$2.5 billion accelerated share repurchase plan and received an initial delivery of 10.7 million shares in the quarter. We expect to receive the final shares when the program is completed in the fourth quarter.

The net result of these actions in the quarter was net interest expense of \$26.4 million for the first quarter, compared to \$31.3 million in the prior year. Included in this number was \$7.4 million in interest income that we earned on the proceeds of the Wood Mackenzie transaction, which we do not expect to continue as the proceeds are now fully deployed.

Having now completed all these transactions, we now expect net interest expense for 2023 to be slightly below the full year 2022 level.

On taxes, our reported effective tax rate was 27.1% compared to 17.4% in the prior-year quarter. This higher tax rate included a one-time tax charge of \$15.2 million associated with the structuring of the Energy sale, which



closed in the quarter, offset in part by higher stock compensation benefit versus the prior-year period. Going forward, we expect the tax rate for the remainder of the year to be in the originally guided range of 23% to 25%.

Adjusted net income increased 9.4% to \$196.4 million, and diluted adjusted EPS increased 16.2% to \$1.29 for the first quarter of 2023. These changes reflect organic growth in the business, contributions from acquisitions, and a lower average share count, offset in part by a higher tax rate.

We are very pleased with the robust performance in the first quarter, but given that it is still early in the year and transactional revenues are inherently less predictable, at this time we are maintaining our outlook for 2023. While the first quarter showed strong operating momentum, based on what we see today, we have not changed our expectations for the balance of the year. To that end, our full year 2023 guidance is unchanged.

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

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## Lee M. Shavel

*President and Chief Executive Officer, Verisk Analytics, Inc.*

In summary, we're excited about the opportunity ahead and our ability to focus all our attention, talent, and resources on the global insurance industry. Verisk is best positioned to capitalize on the opportunity because of our scale, centrality, and expertise.

Our motivating purpose is to work together with our clients in building resilience for individuals, communities, and businesses globally. The combination of our focused business model, unique market position, and strategy to deliver value for clients through improved decision-making and operational efficiency is the formula that will also deliver value to our shareholders through predictable growth and returns.

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

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

## QUESTION AND ANSWER SECTION

**Operator:** The floor is now open for your questions. [Operator Instructions] We'll now take a moment to compile our roster. Our first question comes from the line of Faiza Alwy from Deutsche Bank. Please proceed.

**Faiza Alwy**

*Analyst, Deutsche Bank Securities, Inc.*

Q

Yes. Hi. Good morning. Thank you. I wanted to ask about – I understand that the transactional revenues you cited, there may be certain one-time items. But on the subscription revenues, you cited increased growth in premium pricing, and it sounds like that should continue, so maybe talk about some of the offsets. I know you mentioned Florida, but if you can further dimensionalize that for us, that would be really helpful.

**Elizabeth Mann**

*Chief Financial Officer, Verisk Analytics, Inc.*

A

Yes. Thanks. Happy to. I'll highlight a couple of the drivers of the subscription growth, which was broad-based and some of the potential later in the year.

So the largest driver of the subscription growth was in our Forms, Rules, and Loss Costs business. This was the biggest contributor to the growth just given the size of the business within overall Verisk.

And the growth was driven across the contract. Probably about 20% to 25% of our contracts in the business overall are tied to premium growth. We are seeing an environment with strong premium growth with over 9% – nearly 10% net written premium growth in 2021, which is driving some of those contracts.

In addition, we're delivering additional value to our customers and new products, as we highlighted at the Investor Day. So we are partnering with them in this environment.

Finally, in that business, in this quarter, in particular, there were lower levels of attrition, liquidation or consolidation in the industry than we might typically see, something that we're monitoring in the balance of the year.

In addition to that business, other contributors to subscription growth, our property estimating solutions business had a strong quarter, somewhat helped by easier comparisons in the last year and some continued storm benefits there.

And our anti-fraud business in the claims business is also driving strong growth. That is fueled significantly by conversion to claims essentials, which is a subscription product for third-party administrators and self-insured.

That transition from transactional to subscription product started in the back half of last year, so we're still in kind of that overlapping growth period.

And finally, extreme events and life. Our life solutions business also had strong subscriptions growth. So collectively, strong contributions across the portfolio.

**Lee M. Shavel**

*President and Chief Executive Officer, Verisk Analytics, Inc.*

A

And Faiza, if I would add, I think the other dimension that you were looking for is what might not be sustained given that strong growth in the first quarter, and so there are a couple of things that I would point to.

One is that we – in subscription growth, we have some property estimating solutions subscriptions that come on associated with the storms in the fourth quarter, and sometimes those persist. It's hard to predict how long that those will persist. So that's a factor.

In addition, as we indicated, the Florida situation and potential further insolvencies would impact that.

And then, as Elizabeth described, part of the conversion in the anti-fraud to our claims essentials package, it generated some growth in 2022 and in the early part of 2023. I think we will lap some of that exceptional growth, and that will probably serve as a bit of an offset in the later part of 2023.

**Faiza Alwy**

*Analyst, Deutsche Bank Securities, Inc.*

Q

Thank you.

**Operator:** Our next question comes from the line of Andrew Steinerman from JPMorgan. Please proceed.

**Andrew C. Steinerman**

*Analyst, JPMorgan Securities LLC*

Q

Hi. I would just like a little more detail about those certain transactional revenues that were elevated in the first quarter, like which product lines? And what are you assuming for the balance of the year for those same transactional pieces?

**Elizabeth Mann**

*Chief Financial Officer, Verisk Analytics, Inc.*

A

Yes. Happy to cover that. Maybe like the subscription, I'll go through sort of in order of magnitude of the impact to the transactional growth.

So the biggest single driver in the underwriting and ratings portion of the business was the recovery in the auto space. There were really two elements to this.

First was we referenced the non-rate actions deal with a major insurer, and that's a unique opportunity for auto insurers to look across their portfolio and see actions that they can take beyond rate increases.

The second element, though, is the overall rebound in shopping behavior, which picked up quite suddenly in the quarter. We've seen industry data that supports it. The J.D. Power data shows a strong increase in auto insurance shopping this quarter. So those two factors contributed to our transactional growth.

In addition, our life business, which is both a subscription business but has a services implementation component, which contributed on the transaction side. In the property estimating solutions, there continued to be carryover as well as some localized storm activities, the windstorms and tornadoes and some ice storms that you've seen that had a component of an impact.

And then there were a couple one-time elements, including some overage charges on contracts in underwriting and rating, billing catch-up in the claims business. There also – there happened to be an extra business day in the quarter, which will come out in the third quarter. So those were the main elements across the transaction growth.

**Andrew C. Steinerman**

*Analyst, JPMorgan Securities LLC*

Q

Right. And Elizabeth, I also said, how are you assuming these transactional pieces are guided for the balance of the year?

**Elizabeth Mann**

*Chief Financial Officer, Verisk Analytics, Inc.*

A

Yeah. So that's encapsulated in our 2023 guidance, which is unchanged.

**Andrew C. Steinerman**

*Analyst, JPMorgan Securities LLC*

Q

Okay. Thank you.

**Elizabeth Mann**

*Chief Financial Officer, Verisk Analytics, Inc.*

A

Thanks.

**Operator:** Our next question comes from the line of Greg Peters from Raymond James. Please proceed.

**C. Gregory Peters**

*Analyst, Raymond James & Associates, Inc.*

Q

Good morning, everyone. Lee, in your comments, you spoke about the client outreach initiatives, and I think you highlighted Net Promoter Score of 47, which as far as insurance industry standards is nothing to sneeze at. Can you maybe give us an idea of how you're thinking about improving that score? Is that part of your approach and strategy as you convene all of these panels and meetings with your clients? And provide us some perspective on how you're thinking about that, please?

**Lee M. Shavel**

*President and Chief Executive Officer, Verisk Analytics, Inc.*

A

Thanks for the question, Greg. So certainly, we view the Net Promoter Score as one gauge of our client satisfaction and enthusiasm for what we do. I wouldn't say that we are targeting our client outreach primarily to drive an increase in NPS. We're hopeful that, that will be a consequence.

But our primary purpose is to elevate our dialogue strategically with our clients, which, as I indicated, I think there's a very strong appetite for, because they recognize that with the data sets that we have and our centrality, we have the ability to solve problems for the industry. And the only way that we can identify those as industry issues is by moving and strengthening that dialogue at the top.

And I think it does put us in a position where we are beyond addressing their tactical needs in underwriting, claims, extreme events modeling. We have the ability to solve bigger problems by tying some of those data sets

together. And we talked about the integration of our property data into the Touchstone platform, which is an example of how as part of that higher level dialogue, we were able to find solutions.

So we are looking for ways to integrate more data sets and bring new datasets in to satisfy and delight our clients. And I certainly hope that we'll be able to see an increase in our NPS over time. But where the rubber will meet the road is going to be in sustained revenue growth and the development of new products that we can then monetize across the industry.

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**C. Gregory Peters**

*Analyst, Raymond James & Associates, Inc.*



Makes sense. Thanks for the answer.

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**Operator:** Our next question comes from the line of Ashish Sabadra from RBC. Please proceed.

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**Ashish Sabadra**

*Analyst, RBC Capital Markets LLC*



Thanks for taking my question. I just wanted to drill down further, Lee, on your comments around some of the macro challenges, insurance-specific challenges, but also better client interaction and some of the things that you mentioned in response to the prior question around new datasets.

So my question here was, how is that helping build the sales pipeline? Have you seen any elongations in the sales pipeline? Can you talk about the bookings and the traction you're seeing? And how should we think about the contribution from these upsell, cross-sell into the existing customer base accelerate as we go throughout the year? Thanks.

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**Lee M. Shavel**

*President and Chief Executive Officer, Verisk Analytics, Inc.*



Thank you, Ashish. It's a great question. And I would start by saying through a lot of this client interaction, you have a very clear sense of what is on the minds of senior leaderships at underwriters and reinsurers.

And I would start off by saying probably inflation and the impact of inflation on the insurance industry as they evaluate potential losses, insurance to value, replacement costs, pricing is first and foremost.

And so to give you an example of how that manifested itself in our world, at our Verisk Insurance Conference, which we were tying a lot of these topics together, our session on tracking inflation costs across a variety of aspects of insurance was a standing room-only event in a pretty large room with people spilling out into the hallways outside.

So anything that we can do to provide more insight on the impact of inflation and how that's going to influence replacement costs and insurance to value is an important element of that.

Similarly, social inflation and the impact of rising legal costs, time involved in resolving those is very much on the front of their minds, associated with regulatory changes.

We've seen some regulatory changes in Florida to try to limit some of that exposure. So our engagement on both helping understand that dynamic, how to manage that effectively in settlement discussions and also working towards some regulatory solutions and legislative solutions that address that is important.

Topics of climate change and broader global risks that is factoring into our extreme events business is critical. That has helped drive pipeline for some of our longer term climate-oriented models as well as understanding how social, political, and environmental risk through our Verisk Maplecroft subsidiary interacts with those risks is also an important topic as insurers are confronting a broader sense of the risk.

So those are a few examples of what I would describe as the issues that are top-of-mind and that we have seen drive, I think, very solid activity on the sales front. I'd also mention that, in light of that and in light of kind of the questions around the sales cycle that we have seen in other places, we have always dealt with a relatively long sales cycle.

And I think the insurance industry has generally been less volatile. We have not seen any changes in our sales cycle and the impact. So we recognize that, that has been a greater challenge for some of our peers in this market environment. But to date, we've polled our sales teams, we have not seen that be an impact as of yet.

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**Ashish Sabadra**

*Analyst, RBC Capital Markets LLC*

Q

That's great. And congrats on such a strong momentum in the business. Thank you.

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**Operator:** Our next question comes from the line of Toni Kaplan from Morgan Stanley. Please proceed.

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**Toni Kaplan**

*Analyst, Morgan Stanley & Co. LLC*

Q

Thanks so much. Lee, thanks for your comments on generative AI. I was hoping you could talk a little bit more about it in terms of your broader strategy and how you view the opportunities and risks. And then, Elizabeth, thanks for sharing the pieces on the subscription and transactional non-recurring items, but I'm not sure I caught the quantification of how much the quarter benefited from the one-time items. Thanks, guys.

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**Lee M. Shavel**

*President and Chief Executive Officer, Verisk Analytics, Inc.*

A

So, Toni, on generative AI, I'll say at the start, our first approach is understanding it, understanding it in the context of the potential use cases within insurance, listening to how our clients are perceiving it and understanding, on one hand, how this can be an effective tool to be utilized to potentially automate functions of insurance to potentially integrate other datasets into their decision-making, but because I think of the breadth of this technology, there are clearly a lot of applications, and we're working to identify those and the opportunity.

On the other hand, and I think the driving factor, is there are clearly profound risks associated with generative AI in terms of its ability to understand and contextualize the conclusions or the outputs that it's creating. And so our primary focus has been in identifying a policy for us internally and as we think about the industry as a whole to provide scope for protected use cases that allow us to test and evaluate and understand the risks and deal with this on a very disciplined basis where the industry is able to develop this in a safe and non-disruptive manner.

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**Toni Kaplan**

*Analyst, Morgan Stanley & Co. LLC*

Q

Thanks very much.

**Elizabeth Mann**

*Chief Financial Officer, Verisk Analytics, Inc.*

A

And, Toni, yeah, to your question on the one-time items, we haven't quantified them. They're not of a magnitude that we would call out in specific. We just wanted to mention as a tailwind.

**Toni Kaplan**

*Analyst, Morgan Stanley & Co. LLC*

Q

Thank you. Congrats again.

**Operator:** Our next question comes from the line of Heather Balsky from Bank of America. Please proceed.

**Heather Balsky**

*Analyst, BofA Securities, Inc.*

Q

Hi. Thank you. I was hoping you could touch on the Florida market and what you mentioned in terms of the potential risk as we move through the year. I think in last quarter, you had, had one additional bankruptcy. Is there anything in particular that you're seeing? Or is it just a cautiousness, given the uncertainty? Thanks.

**Lee M. Shavel**

*President and Chief Executive Officer, Verisk Analytics, Inc.*

A

Thank you, Heather. It's a great opportunity for me to bring Neil Spector, President of our Underwriting businesses into the conversation. And through his engagement with clients, particularly on the underwriting side has probably the best insight on what's happening within Florida. Neil?

**Neil Edward Spector**

*President, Underwriting Solutions, Verisk Analytics Ltd.*

A

Thank you. Great question. I would say it's going to take a while for the reforms that were passed there to have the positive impact on the market. There's still a lot of lawsuits that are pending from prior to that legislation that will flow through. There's also a concern with reinsurance, the renewals will be coming up for the next storm season, and the expectation is that reinsurance costs are going to go up.

So just the overall market is still not favorable for insurers down there and so we need to continue to watch and make sure that we don't have additional liquidations or additional challenges out there. As I've mentioned in the past, it also creates opportunities for new players to enter the market, and so we do see that as well. But it's just a dynamic market that we'll probably see the results of the situation for at least another 12 to 18 months.

**Heather Balsky**

*Analyst, BofA Securities, Inc.*

Q

Thank you for that incremental color. Thanks.

**Operator:** Our next question comes from the line of Manav Patnaik from Barclays. Please proceed.

**Manav Patnaik**

*Analyst, Barclays Capital, Inc.*

Q

Thank you. Lee, maybe if I can follow up on the technology question and specific to, I guess, the sunseting of the mainframes, which obviously is a great step, but I think it's one of the first steps, I guess. I just wanted to

understand what's left in the tech modernization? What your plans are? And what benefits that might reap over, I guess, the next multi-years?

**Lee M. Shavel**

*President and Chief Executive Officer, Verisk Analytics, Inc.*

A

Yes. Thank you, Manav. So and I appreciate you asked the context in kind of a sequential way. So first, as I indicated, the accomplishment of moving off of that mainframe was a really substantial challenge, particularly for an organization that has developed over decades. And that technology had been in place for a long time. And so the immediate benefit, as we've talked about in the past, is that we are clearly realizing an economic benefit in terms of our ability to manage data and process data in the cloud.

And there were costs necessary for us to achieve that outcome, but most of those costs had hit us. We're now experiencing the benefit of that from an economic perspective. But I'll remind everyone that, of course, that this also involves a geographic change in our balance sheet, meaning that what previously would have been depreciation of those hardware and software assets is now moving to an operating expense in terms of cloud expense. So, may not be apparent from an EBITDA perspective, but there is real economic benefit from that.

Now we will also continue to expect to see our cloud expenses grow as we integrate new datasets, as we develop new solutions, so that will be part of our expense base that grows with the revenue opportunities that we see.

But the strategic benefit for us that I believe, we're really at the early stages of realizing is that through associating datasets that are now in a cloud format, our ability to tie those datasets together, to develop workflow software that is able to integrate that, to deliver that in a micro services context or an EPA context to our clients and integrated into those features expands the scope by which we can create value from those datasets.

And to tie it to my earlier comments, as we better understand our clients' needs, it gives us an ability to potentially customize the way that we integrate and deliver those datasets to our clients to meet their specific value objectives. And that's, I think, what we're very excited about.

From a technology standpoint, one other modernization step that we are taking on is an upgrade of our ERP system, that will deliver also efficiencies for us on the accounting, on the HR side. That also improves our ability to understand and accelerate the amount of internal information that we have. So having completed the cloud migration, we're now embarking under Elizabeth's leadership our ERP transformation.

**Operator:** Our next question comes from the line of Alex Kramm from UBS. Please proceed.

**Alex Kramm**

*Analyst, UBS Securities LLC*

Q

Yes. Hi. Good morning, everyone. Just wanted to come back to the guidance, which was obviously unchanged. Just trying to understand, since you're new to this, first year of giving guidance, what's your philosophy really is here going forward. So I know it's the first quarter in, but how should we be thinking about you updating the guidance throughout the year if you're running significantly ahead or below?

And then as we think about this year, I know there was a lot said already on this call. But as you talk about the non-changed guidance, was it really, hey, it's too early in the year? Was it anything as – maybe a little bit more uncertain, some of the transactional side you mentioned? Or was the first quarter really just in line with what you were expecting all along? Thank you very much.



**Elizabeth Mann**

*Chief Financial Officer, Verisk Analytics, Inc.*

A

Thanks, Alex. Yeah. We are excited to be giving this new transparency to the market. Our overall philosophy is going to be to give you clarity on what we can expect. We do not intend to sort of update for minor changes or for every kind of mark-to-market on a frequent basis. It's the first quarter of the year, and so it's still early in the year. We will update for material changes as we see things unfold.

**Alex Kramm**

*Analyst, UBS Securities LLC*

Q

Okay. Fair enough. Thanks.

**Elizabeth Mann**

*Chief Financial Officer, Verisk Analytics, Inc.*

A

And maybe actually, to your question on our views for the balance of the year, I'll repeat what I said in the comments, which is from what we see today, as we think about the balance of the year, we don't see significant changes in trends versus what we talked to you about when we gave the guidance.

**Operator:** Our next question comes from the line of Andrew Nicholas from William Blair. Please proceed.

**Andrew Nicholas**

*Analyst, William Blair & Co. LLC*

Q

Hi. Good morning. Second quarter in a row where you've called out anti-fraud analytics as a growth contributor, and I appreciate some of the insight on your capabilities there at Investor Day.

Elizabeth, I think you called out some changes in contract structure in that business. Would you mind unpacking that a bit further? Is that something that's impacting growth in the near term? And then broadly speaking, are there other dynamics to call out within anti-fraud that are contributing to the stronger growth [indiscernible] (00:48:43)? Thank you.

**Elizabeth Mann**

*Chief Financial Officer, Verisk Analytics, Inc.*

A

Yeah. Thanks. So in that product, we had – it is for insurers, but it is also used by third-party administrators and by self-insured. Previously, those customers, the TPAs and the self-insured had been on a more of a transactional business model. They would use the data when something would occur.

We have developed a subscription product that is specifically targeted to that customer base and have been moving them to that subscription product. We started that in the middle of last year. So as they move from a transactional to a subscription model, you're seeing that shift in that business where transaction revenue may even be declining, but it is being replaced by subscription revenue, which is higher quality and more sustainable.

**Andrew Nicholas**

*Analyst, William Blair & Co. LLC*

Q

Great. Thank you.

**Operator:** Our next question comes from the line of Jeff Silber from Bank of Montreal. Please proceed.

**Jeffrey M. Silber**

*Analyst, BMO Capital Markets Corp.*

Q

Thanks so much. You called out your life insurance business a couple times. I know it's relatively small, but we've been reading about some of the pressure that the life insurance industry is in because of the returns on commercial real estate, maybe some mismatches of assets and liabilities. Are you seeing that with any of your clients, either in the life insurance industry or more broadly overall? Thanks.

**Lee M. Shavel**

*President and Chief Executive Officer, Verisk Analytics, Inc.*

A

Yes. Jeff, thank you for the question. I would say, first, recognize that pressure, but that pressure is, in fact, I think, creating the opportunity that we are pursuing, in that we are providing through our life solution a completely renovated and fresh platform for our clients to deliver that product, to develop new products on a faster basis and to substantially reduce the costs that they have in originating and managing that product.

So at least what we see and part of what is driving the very strong growth, and I heard this directly from clients at our Verisk Insurance Conference, many of whom are large players in the insurance industry, given that pressure, they are using this as an opportunity to rethink. Some of them have exited the business, and they are reestablishing it on this new platform that we are providing to them.

**Jeffrey M. Silber**

*Analyst, BMO Capital Markets Corp.*

Q

All right. That's really helpful. Thanks so much.

**Operator:** Our next question comes from the line of Andrew Jeffrey from Truist Securities. Please proceed.

Q

Hey. This is [ph] Julian (00:51:36) on for Andrew. Thanks for taking the questions. Just wanted to touch on the recent acquisition in German market. Is it fair to say it's an indicative of a little focus on auto? And maybe what other kind of vertical opportunities exist there in that market? Thank you.

**Lee M. Shavel**

*President and Chief Executive Officer, Verisk Analytics, Inc.*

A

Thank you, Andrew (sic) [Julian] (00:51:55). And I think this is a good opportunity for me to bring in Maroun Mourad, who is the President of our Claims business. And given kind of the claims dimension of that, he can speak specifically to Krug and also how it fits into our broader German strategy, given our prior acquisition of ACTINEO.

**Maroun S. Mourad**

*President-Claims Solutions, Verisk Analytics, Inc.*

A

Yes. Thank you, Andrew (sic) [Julian] (00:52:16). Good morning. So the Krug is an auto on-site and remote adjusting firm that uses automation and digitization as well as invoice and bill review check to enhance the customer experience, provide more speed, and drive down growth for our customers. As you know, about 1.5 year ago, we acquired a firm in the bodily injury space called ACTINEO, that as was an extension of our line of

business specific suite of solutions outside of the US starting in the UK and now expanding into Germany, France, and a couple of other markets.

So there are synergies with the Krug acquisitions to leverage our existing operational base as well as customer base to provide an additional product or two to the German customers. And this will also help us use the Krug and the German platform as a launching pad to explore growth into other markets in Europe. So it's both a product line expansion as well as the geographical diversification of our suite of solutions offering in the claims space.

Q

Got it. Thank you. That makes sense.

**Operator:** Our next question comes from the line of Jeff Meuler from Baird. Please proceed.

**Jeffrey P. Meuler**

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

Q

Yeah. Thank you. Good morning. And apologies for the multi-parter, but all on the same topic. So on underwriting and marketing, I guess, just – to what extent is there still like a lagged impact from some states that didn't get the requested rate actions? Or just how much better is the performance in the states that did?

And then what specifically needs to happen for the marketing to really turn on? I know you're saying the second half, but is it a customer success channel capacity constraint as they respond to the consumer shopping after they see the higher premiums? And that needs to be alleviated? Or what needs to happen? And the last is just, what exactly is the revenue model like as marketing demand improves, to what extent does it flow through the sub-space? Or to what extent is there meaningful incremental transaction revenue? Thank you.

**Lee M. Shavel**

*President and Chief Executive Officer, Verisk Analytics, Inc.*

A

So, Jeff, I think you won the award for the most complex multipart question, which we do appreciate because it is a complicated topic. Let me start off, and then I'm going to ask Neil to jump in and he provide more context.

So the dynamic of what we are seeing is that, right now, in general, is that we are seeing higher rates, and consumers are responding to that. So some of the strength that we're seeing in auto is they are beginning to shop more frequently because of the initial impact of rates. We expect that, that will continue. Some insurers through non-rate actions that they're entitled to have been able to increase prices, so we're beginning to see the consumer respond to that, and that's driving volume.

Now from the insurers' perspective, however, there still are these concerns about inflation and underwriting in certain geographies that puts them in a position where they are not willing to market as aggressively. And so that's why we have not seen the level of marketing activity on the insurer side.

So those are the dynamic that we are seeing right now. We do expect to see more rate increases. That will probably encourage more competition and demand for new products, but the insurers will have to evaluate where they want to write business and what they want to do to attract more. So that's kind of a rough approximation and I'll let Neil fine-tune that a bit.

**Neil Edward Spector**

*President, Underwriting Solutions, Verisk Analytics Ltd.*

A

Yeah. So I'll just add. So I think part of your question was the rate increases by various states. And the states approved those rate increases at various times and various levels. And I think what we've seen is that by now, most of the states, the increases are flowing through, but not all states happen at the same time.

And then, of course, insurers are raising rates because their costs have significantly gone up. There's a number of drivers to that, which Lee mentioned some of them, severity, the cost to repair is up dramatically, there was a huge spike in used car prices, and there's a huge increase in medical costs, et cetera.

So they're unprofitable. These rate increases will help. And so their desire to write more business is really muted. And so when you think about the marketing function, that is really the growth engine, which insurers go out to grow their business and that has been paused in a large part due to the unprofitability of the line.

So we expect over the next 12 months that the lines will become more and more profitable as these rate increases go through and that marketing spend will return, although, it's questionable as to when. We don't know exactly when. And I think it will return for certain players sooner than others because each insurer handles the situation differently.

We do have a subscription model with our overall marketing products, so they are subscription revenues, but the subscriptions are tied overall to usage. And so as the market grows and marketing spend comes back, we expect that to recover, but it is not purely a transactional model.

**Lee M. Shavel**

*President and Chief Executive Officer, Verisk Analytics, Inc.*

A

Yeah. And specific to this, embedded in our comments was part of the transactional strength were some non-rate action programs that were insurers looking to address some of their higher risks within that. As these rate increases begin to flow through, that should diminish, but then it potentially drives other growth within the business. So, again, a complex situation, but hopefully, that gives you a little bit more insight.

**Jeffrey P. Meuler**

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

Q

It does. I think you addressed all 19 parts. Thank you.

**Operator:** Our next question comes from the line of Harold Antor from Jefferies. Please proceed.

**Harold Antor**

*Analyst, Jefferies LLC*

Q

Good morning. This is Harold Antor on for Stephanie Moore. Just wanted to ask about the percentage of price increases that the company plans to implement within the health and insurance industry like you just talked about, potentially given an uncertain macro backdrop as inflation was at historical levels last year.

**Lee M. Shavel**

*President and Chief Executive Officer, Verisk Analytics, Inc.*

A

So, Harold, we lost you there for a little bit. I think that you were just asking the general question around price increases in the context of the environment. Do I have that correct?

**Harold Antor**

*Analyst, Jefferies LLC*

Q

Correct.

**Elizabeth Mann**

*Chief Financial Officer, Verisk Analytics, Inc.*

A

Yeah. Happy to comment on it. I mean, first, I want to remind you, we don't have a single pricing approach. It's a targeted approach across all of our businesses and we've been pricing items to value. I think I quoted before the net written premium growth in the industry was 9.6% in 2021. That's the year that drives the growth for many of our customers. About 20% of our revenue is tied to that premium growth in the year prior. So that has been an element.

**Lee M. Shavel**

*President and Chief Executive Officer, Verisk Analytics, Inc.*

A

And I would say, in this environment, where the business is growing, there are a lot of new issues that we're working to respond on. With that growth and naturally some of the inflationary costs within the environment, the investments that we have made to improve the value of the product, we believe that it has been a supportive environment for us to capture the value that we are creating in the product through some of the pricing increases across our entire product set.

**Harold Antor**

*Analyst, Jefferies LLC*

Q

Thank you.

**Operator:** Our final question comes from the line of George Tong from Golden (sic) [Goldman Sachs] (01:00:49). Please proceed.

**George K. Tong**

*Analyst, Goldman Sachs & Co. LLC*

Q

Hi. Thanks. Good morning. Wanted to return to the non-subscription revenue trends. So non-subscription revenue grew 14% in the quarter, driven to a large extent by auto underwriting. How sustainable is the strength in auto underwriting non-subscription revenues with the trends that you're seeing with rate shopping? What are some of the puts and takes that could cause underwriting in autos to accelerate or decelerate in the coming quarters?

**Elizabeth Mann**

*Chief Financial Officer, Verisk Analytics, Inc.*

A

Yeah. Good question, George. Thanks for that. Some of it ties back to the discussion we were just having on the industry and the impact of the rate increases that we're starting to see.

So the strong auto insurance shopping behavior that we saw in this quarter was a function of some of the rate increases that have started to push through. To some extent that is a recovery that we had expected to come later in the year, and so it may just be a pull forward of that recovery. We're waiting to see kind of the interplay of the dynamics that Lee and Neil were talking about in there.

The second driver of the auto business, the non-rate actions and our – enabling our customers to do that. That may taper off as they start to get rate increases, and that may turn into some of that shopping activity. So that's the interplay of those elements we see going forward.

**Lee M. Shavel**

*President and Chief Executive Officer, Verisk Analytics, Inc.*

A

Great. Well, thank you, George.

**George K. Tong**

*Analyst, Goldman Sachs & Co. LLC*

Q

Got it.

**Lee M. Shavel**

*President and Chief Executive Officer, Verisk Analytics, Inc.*

I think that was the final question. So I want to thank everyone for participating, and we look forward to continuing the dialogue with all of you. Have a great day.

**Operator:** Thank you, ladies and gentlemen. This does conclude today's call. Thank you for your participation. You may now disconnect.

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