

24-Feb-2021

# Verisk Analytics, Inc. (VRSK)

Q4 2020 Earnings Call

## CORPORATE PARTICIPANTS

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

**Scott G. Stephenson**

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

**Lee M. Shavel**

*Chief Financial Officer and Group President, Verisk Analytics, Inc.*

**Mark V. Anquillare**

*Chief Operating Officer and Group President, Verisk Analytics, Inc.*

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## OTHER PARTICIPANTS

**Manav Patnaik**

*Analyst, Barclays Capital, Inc.*

**C. Gregory Peters**

*Analyst, Raymond James & Associates, Inc.*

**Andrew Jeffrey**

*Analyst, Truist Securities, Inc.*

**Andrew C. Steinerman**

*Analyst, JPMorgan Securities LLC*

**Andrew Nicholas**

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## MANAGEMENT DISCUSSION SECTION

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

For opening remarks and introduction, I would 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 of Investor Relations, Verisk Analytics, Inc.*

Thank you, Mary, and good morning, everyone. We appreciate you joining us today for a discussion of our fourth quarter and full-year 2020 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; and Ken Thompson, General Counsel will join the team for the Q&A session.

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

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

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

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## Scott G. Stephenson

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

Thanks, Stacey. Hello, everyone. Thanks for joining us for our Q4 2020 earnings conference call. While 2020 was a year like no other for everyone, at Verisk, it was a year that demonstrated the resilience and stability of our business model, the relevance and mission-critical nature of our solutions, and our relentless focus on our customers. And this was all powered by the strength and creativity of our over 9,000 Verisk teammates around the globe, who I want to thank for their dedication and commitment to deliver on our core mission, to serve, add value, and innovate during these challenging times.

The net results in 2020 was another strong year of financial performance, marked by organic constant currency revenue growth of 4.1% and organic constant currency adjusted EBITDA growth of 11.6% after normalizing for the impact of the injunction related to roof measurement solutions.

More importantly, in 2020, we delivered 6.9% organic constant currency revenue growth in the 85% of our revenues that we identified as non-COVID sensitive, essentially in line with our long-term growth target. Conversely, our COVID-sensitive revenues declined 11% on an OCC basis, yet, those revenue streams continue to show resilience as the underlying causal factors improve, and we have confidence in this relationship.

Throughout the year, we've been very deliberate in our cost actions and have protected profitability by matching head count growth with the trend in our revenue growth. As such, the pace of our hiring and our overall head count growth has increased sequentially, following the moves that we took at the onset of the pandemic in early spring 2020. As a result, Verisk delivered strong organic-adjusted EBITDA growth and solid margin expansion throughout the year. Lee will provide more details on our performance in his financial review.

2020 also exhibited the importance of our strong cash flow, the disciplined capital allocation mindset, and our emphasis on creating long-term durable shareholder value. Despite the challenges of the operating environment during 2020, we were deliberate about our continued investment in our innovation agenda by inventing new solutions and enhancing existing ones. We also partnered with our customers to bring them solutions to help them be more automated and digitally connected during the pandemic.

We funded the continued transformation of our technical infrastructure through cloud migration, tokenization of key data assets, and the development of cutting-edge data fabric to underlie our analytics solutions. This is a journey we embarked on in earnest two years ago, and we have made significant progress moving our data sets and solutions to the cloud, yet, we still returned over \$500 million in cash to shareholders through share repurchases and dividends. And I'm pleased to announce that our board of directors has approved a 7% increase in our cash dividend and a \$300 million increase in our share repurchase authorization to support ongoing capital returns.

On the innovation front, our Insurance business continued to advance our existing solutions and introduced new innovations. In our commercial property business, we substantially enhanced and updated our database of

commercial properties by building an advanced analytic model for over 8 million commercial properties that give insurers information for five key building attributes, including building use, construction class, building age, number of stories and area. This brings the database to a total of 12.2 million commercial properties, and this data can be delivered to our Insurance customers' workflows in an automated and easy-to-use format.

Additionally, during the quarter, we continued to advance our analytics and offerings in the fast-growing area of cyber risk with the addition of Nationwide to the Verisk Cyber Data Exchange. The Cyber Data Exchange is a contributory database of aggregated and anonymized insurance data from participating cyber insurers globally. The insights and analytics that Verisk derives from this data help our Insurance customers make intelligent strategic decisions about their portfolios and select risk and benchmark their performance against peers.

The Cyber Exchange is an important part of Verisk's Cyber Solutions Suite, which is an end-to-end ecosystem that helps insurers and reinsurers to more quickly deliver new cyber programs or enhance existing ones.

I'd like to take a minute to observe on recent developments related to our ongoing patent dispute with EagleView Technologies. We continue to disagree with the current outcome of the case and are aggressively pursuing all our legal and operational options. In September 2019, we recorded a \$125 million legal reserve related to this matter. We filed our appeal of the original ruling at the end of the fourth quarter 2020.

On February 16, the trial court granted EVT's motion for trouble damages as well as some interest and fees. We intend to appeal this ruling as well. As discussed in more detail in our 10-K, because our appeal is pending, we're unable to predict the ultimate outcome of this matter. Still, we remain committed to providing our customers with superior aerial imagery solutions and remain very excited about our partnership with Vexcel, which has not been impacted by this ruling.

At Wood Mackenzie, we continued to expand our Lens energy analytic platform. In the fourth quarter, we released Lens subsurface discovery on time and on budget, rounding out our five upstream solutions within the Lens platform. This module enables faster, more accurate decision-making for exploration and resource development teams, as they have access to a comprehensive global data set and can run custom analyses and perform benchmark marketing studies right into the workflows.

Despite the softness in the energy end market driving industry consolidation, we continue to see demand for Lens, across our different customer segments, which is reflected in increased adoption, constructive pricing, and longer contract terms. Looking ahead, we are on track to launch a suite of modules related to the energy transition into the Lens platform, namely [ph] Lens Power (00:08:23), which will include global discovery and valuation as well as carbon emissions benchmarking solutions.

In Financial Services, we launched small business attributes, a new solution in partnership with Enigma Technologies that provides greater insights into the financial health of small businesses, which have been the hardest hit part of the economy during the pandemic. This solution offers our bank customers near real-time information about sales trends that can be used by a bank's risk underwriting and marketing teams, so they can better serve small business customers. This partnership is a great example of how VFS is leveraging our unique data assets to extend and serve new segments of the financial services end market.

On the acquisition front, in the fourth quarter, Verisk closed on the acquisition of Jornaya, a leading provider of consumer behavioral data and intelligence. The acquisition will add Jornaya's proprietary view of consumer buying journeys to Verisk's growing set of marketing solutions for the insurance and financial service markets, delivering better experiences and improving customer acquisition and retention for our customers.

In addition, we've made great strides throughout 2020 with recently acquired companies. We have now owned FAST and Genscape for a full year. And I'm happy to share that we are having great success extending and accelerating the adoption of their solutions across our customer set as well as improving profitability through cost synergies. We're very pleased with these results, as they are tracking ahead of our plans at the time of acquisition and are a great example of management's focus on delivering strong returns on the capital invested in acquisitions.

2020 also marked another high point for our company's culture and our commitment to investing in our people and their skills. Despite the remote work environment, the Verisk team increased productivity, boosted connection and collaboration through internal communication tools, and engaged in training and development courses through our many different platforms and across all levels in the organization.

This year alone, we trained more than 700 teammates in our leadership and management development programs and in our Lean Six Sigma programs. Verisk teammates earned 900 Yellow Belt certifications and 70 Green Belt certifications. Lean Six Sigma is an embedded mindset across Verisk, and we continue to leverage this established methodology and set of tools to serve our customers better every day.

Some examples of important accomplishments this year include. First, model developers worked to reduce the time spent collecting data and creating models, improving time to market from new models. Second, field representatives developed new time-saving procedures for completing and updating property surveys, increasing their productivity. And third, sales and support teams develop new processes to execute new contracts or amend current ones quicker with our customers.

The benefits are reflected in increased productivity, high customer satisfaction, and improved employee engagement. In fact, this year, our employee engagement score increased eight points to 78%. And for the fifth consecutive year, Verisk received US certification from the Great Place to Work Institute for Outstanding Workplace Culture. We also received first-time certification in the United Kingdom, India, and Spain.

Finally, I'd like to share my enthusiasm and my views on the recently announced leadership changes and expanded responsibilities for our executive management team. These changes reflect the thoughtful and strategic approach to our long-term growth and planning with the global organization and are a testament to the deep bench of talented leaders we have at Verisk. I'm pleased to share that both Mark Anquillare and Lee Shavel are taking on new leadership responsibilities within Verisk, and both have been elevated to the position of Group President.

Mark Anquillare, who currently serves as Verisk's Chief Operating Officer, is adding oversight of the company's enterprise risk management function to his current responsibilities of leading the company's Insurance business and government-facing businesses. Our risk management operations will continue to be led by our very talented and seasoned team that work diligently every day to make sure that our technical infrastructure remains secure and that we are always using the most advanced data protection techniques. This move also more closely ties our enterprise risk assessment and management with the core operations of our business.

Lee Shavel, who currently serves as Verisk's Chief Financial Officer, will add oversight responsibility for the operations of our Energy and Specialized Markets segment and our Financial Services segment, bringing in an even more direct link between our capital allocation discipline and our business unit operations. Lee will continue to be supported by our deep and tenured finance organization, including our Chief Accounting Officer and Controller, David Grover; and our Treasurer, Brian Aird.

Finally, I'm pleased to publicly welcome Kathy Card Beckles to Verisk that's our new General Counsel and Corporate Secretary. Kathy joins us from Chase Consumer Bank, where she most recently served as General Counsel. Kathy brings with her extensive experience in intellectual property and technology and significant expertise partnering with an advising boards of directors and management teams. I look forward to having Kathy formally join the team on April 5th and working with her to advance our long-term strategy.

Kathy will replace Ken Thompson, who announced his retirement late last year. To ensure a smooth transition, Ken will continue with the company as Executive Counsel. Over the last 14 years, Ken has been an integral part of Verisk's success and a value partner and a friend to many across the organization. On behalf of the entire organization, I want to personally thank Ken for his dedication to Verisk and his counsel through this transition. We wish him much health and happiness in his retirement.

And now, I will turn the call over to Lee to cover our financial results.

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## Lee M. Shavel

*Chief Financial Officer and Group President, Verisk Analytics, Inc.*

Thanks, Scott. First, I would like to bring to everyone's attention that we have posted a quarterly earnings presentation that is available on our website.

Moving to the financial results for the fourth quarter. On a consolidated and GAAP basis, revenue grew 5.4% to \$713 million. Net income increased 33% to \$176 million, while diluted GAAP earnings per share grew 33.8% to \$1.07, reflecting a \$28 million acquisition-related earn-out expense in the prior year that did not reoccur.

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 considering the impact from COVID-19.

In the fourth quarter, organic constant currency revenue grew 3.5%, led by continued strength in our Insurance segment. Our non-COVID-sensitive revenues, as we defined at the start of the pandemic, grew approximately 6.5% on an organic constant currency basis. This sustained growth in our non-COVID-sensitive revenues, representing approximately 85% of our total revenues, reflects the durability and resilience of our primarily subscription-based business model.

We did continue to experience, as we have since the onset of the pandemic, a negative impact from COVID-19 on certain of our products and services, largely transactional in nature, which represents the balance or approximately 15% of our consolidated revenues. These COVID-sensitive revenues declined approximately 12.5% on an OCC basis during the fourth quarter, though the performance across our three segments differed.

In our Insurance segment, we continued to experience sequential improvement in these revenues as the underlying causal factors continued to abate, though the pace of recovery varies across the different solutions.

On the Energy side, our consulting business remained under pressure from lower CapEx budgets at our customers, but trends appear to have stabilized. And finally, within Financial Services, our COVID-sensitive revenues took a further step down as our bank customers reduced their spending levels in response to weakness across their lending portfolios.

Despite the impact on revenue in the fourth quarter, we are pleased to report that we delivered solid EBITDA growth and expanded margins as the result of effective expense management. OCC-adjusted EBITDA growth was 4.9% in the fourth quarter.

Total adjusted EBITDA margin for the quarter, which includes both organic and inorganic revenue and adjusted EBITDA, was 48.2% in the quarter, representing leverage across the business. This margin level includes roughly 220 basis points of benefit from lower travel expenses, but also reflects a return to more normal pace of head count growth and an increase in the pace of investment in our technological transformation, including our cloud transition costs.

On that note, let's turn to our segment results on an organic constant currency basis. In the fourth quarter, Insurance segment revenues increased 7.4%, reflecting healthy growth in our industry standard insurance programs, catastrophe modeling solutions, repair cost estimating solutions, and insurance software solutions. Similar to the third quarter, we experienced a modest benefit from storm-related revenues as a result of a more normal storm season in 2020 as compared to the very slow season in 2019. This was offset in part by a decline in certain transactional revenues that were negatively impacted by COVID-19.

Adjusted EBITDA grew 12.2% in the fourth quarter, demonstrating strong margin expansion despite certain revenue declines, investment in our breakout areas, and our cloud transition. Energy and Specialized Markets revenue decreased 3.9% in the fourth quarter due to declines in consulting and implementation projects and some modest headwinds related to consolidation in the end market. We were very pleased to see continued growth in our subscription-based core research and data analytic platforms and environmental health and safety service solutions, resulting in outperformance relative to the end market.

We believe our strong performance is a function of the criticality of our solutions, the diversification of our revenue streams into breakout areas like the energy transition and the strength of our relationships in the industry.

Adjusted EBITDA declined 19.5% in the fourth quarter, reflecting a catch-up of certain compensation expenses associated with furloughed employees that are onetime in nature. As a key partner to our energy customers, we continue to closely monitor the operating environment with a focus on consolidation in the upstream space and the potential impact of a broader, more climate-focused political agenda in the United States. We have a track record of managing through volatile times effectively and believe we are well positioned with our energy transition practice to capitalize on the global growth in spending across zero carbon technologies like solar, wind, and energy storage.

Financial Services revenue declined 13% in the quarter, reflecting the impact of certain contract transitions, as well as lower levels of project spending from our bank customers, stemming from the COVID-19 pandemic and fewer bankruptcies versus 2019, as a result of government support and forbearance programs.

Adjusted EBITDA declined 28.1%, reflecting the negative impact of lower sales, while margins were impacted by certain portfolio transactions we took earlier in the year. We continue on the journey to transition VFS to a more sustainable subscription-based business and have taken actions that we believe benefit the business in the long run, but are likely to negatively impact our growth over the next few quarters.

Our reported effective tax rate was 18.4% for the quarter, compared to 23.2% in the prior-year quarter. The quarterly rate came in lower than our expectations, owing to increased levels of stock option exercise, which depend on personal employee decisions and the Verisk's stock price. Looking forward to 2021, we expect that our



full-year tax rate will be between 20% and 22%, though there will likely be some quarterly variability related to the pace of employee stock option exercise.

Adjusted net income was \$209 million and diluted adjusted EPS was \$1.27 for the fourth quarter 2020, up 10.8% and 12.4% from the prior year, respectively. These increases reflect solid topline growth, cost discipline in the business, a reduction in travel expenses as a result of COVID-19 and a lower average share count.

Net cash provided by operating activities was \$249 million for the quarter, up 41% from the prior year period, primarily due to increased customer collections, a reduction in income tax payments owing to higher levels of stock option exercise, the deferral of certain employer payroll taxes resulting from the CARES Act and a reduction in travel payments as a result of COVID-19.

Capital expenditures were \$72 million for the quarter and \$247 million for 2020, including some onetime expenses associated with our office consolidations in Boston and London. CapEx came in at the lower end of our initial range as certain expenditures were delayed, owned to the pandemic.

For the full-year 2020, CapEx represented 8.9% of our total revenues. As we look to 2021, we expect CapEx to be in the range of \$250 million to \$280 million, reflecting our continued investment in our innovation agenda, our technological transformation and our people as well as the carryover certain expenditures that were delayed in 2020 as a result of the pandemic.

Related to CapEx, we expect fixed asset depreciation and amortization to be within the range of \$200 million to \$215 million and intangible amortization to be approximately \$165 million in 2021. 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 fourth quarter, we returned \$94 million in capital to shareholders through share repurchases and dividends. As Scott mentioned, I'm pleased to report that our board of directors has approved a 7% increase in our cash dividend to \$0.29 per share this quarter and has authorized an additional \$300 million for share repurchases, bringing our total available authorization to more than \$500 million.

For the full year 2020, we generated \$1.1 billion in cash flow from operating activities, an increase of 11.7% over 2019, a strong result considering the challenging operating environment. We invested this cash flow back into our business through \$247 million in capital expenditures and funded \$285 million in acquisitions. We also returned \$176 million in capital to shareholders in dividends and an additional \$349 million through share repurchases.

As we look to 2021, our strategy to deliver long-term sustainable growth remains unchanged, and we believe the stability and predictability of our subscription revenues will persist. However, we do expect certain COVID-19-related pressures on topline growth to continue, though we expect the impact to be less than it was in 2020. We remain confident these COVID impacts do not represent a structural change in our fundamental growth drivers and believe that as the underlying causal factors abate, we will show strong resilience and recovery.

We also have confidence in our ability to manage the cost structure effectively to protect profitability, though we would remind you that cost comparisons will be more challenging as we begin to anniversary the onset of the pandemic in the second quarter. Taking this all together, we believe that as the COVID impacts abate, 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, although it's difficult to predict that timing.



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

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

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## QUESTION AND ANSWER SECTION

**Operator:** Thank you. [Operator Instructions] We have our first question comes from the line of Manav Patnaik from Barclays. Your line is open. Please go ahead.

**Manav Patnaik**

*Analyst, Barclays Capital, Inc.*

Q

Thank you. Good morning. I just had a broader question on how you guys are looking at the company portfolio today. Because Argus has over the last five years, I think, declined. And even the Energy business has been flat to slight growth. And I'm just curious like how long before major changes need to be made to transfer that growth – to match what's obviously a phenomenal insurance asset?

**Scott G. Stephenson**

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

A

Yeah. So we spend a lot of time thinking about the way that we're deploying capital around the company. And that thought process really occurs at a couple of levels. So we do think about the shape of our business overall, and it's very evident to everybody that we have a very strong insurance franchise. We believe that we know what are the elements of a great data analytics business. And our primary focus has been trying to bring those qualities to bear across everything that we do. And we have definitely given a lot of attention and energy to trying to make those investments and make them productive across all parts of the portfolio.

And so we're constantly reviewing what we're doing kind of at the segment level and at the individual solution level, and we won't stop doing that. And those who are familiar with the history of the company know that if we ever get to the point where we conclude that something that we are doing, is unlikely to be productive into the future, then we are not reluctant to respond to that kind of a conclusion. So this is an ongoing thought process. It's consistently a part of what we think about at the company.

**Stacey Jill Brodbar**

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

A

Operator, next question.

**Operator:** We have our next question comes from the line of Greg Peters from Raymond James. Your line is open. Please go ahead.

**C. Gregory Peters**

*Analyst, Raymond James & Associates, Inc.*

Q

Good morning. I was interested – there's been a lot of activity in the insurance industry around insurance tech IPOs and rhetoric around cyber. Let's just focus my question on your telematics business. Can you give us some detail how big that business is for you and what your key differentiation in terms of the products and services

you're offering relative to some of these recent IPOs that think that they have solved the matrix for telematics in auto insurance?

**Scott G. Stephenson**

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

A

Mark, would you take that, please?

**Mark V. Anquillare**

*Chief Operating Officer and Group President, Verisk Analytics, Inc.*

A

Sure. Thanks for the question. So first of all, let me kind of describe what we've done and what we think is rather unique. We have moved primarily to the OEM side of the equation. So think of GM, Honda, Hyundai, and Ford, and we have aggregated information from those vehicles. And remember, access to those vehicles, those data is being harvested off of newer cars, right, because the history doesn't go back to allow harvesting.

So every day, we have more cars, more miles and we are now tapped in to the largest insurers, many of the largest personal auto riders to which, they are using that data to do their own modeling, it's an opt in service, by the way or more likely, they're using our score to assess the driving behavior to offer discounts, market or actually price insurance.

So if you think about kind of the future of insurance, which I think is where you're going, the historic rating algorithm is driven by sex, driving behavior from the standpoint of moving violations and prior accidents, age, those types of things. Clearly, understanding the driving behavior from what's happening behind the wheel is probably more accurate and more relevant.

So we think we're very well positioned. We think it will nicely integrate and does integrate with all the underwriting work we do when we talk about moving the data forward in underwriting an insurance policy, picking, selecting a risk and pricing it.

To kind of answer your question generally, it is still a small part of our business, especially around the personal auto line of business, but we do believe it will grow. It will become the approach for rating going forward.

Now I think your second question was a little bit about competitive advantage. We have some very unique and exclusive [ph] rolling arrangements (00:30:59) with, a, the OEMs. But more importantly, we feel that our data hog, being at the center of those OEMs and all the insurers that we know so well and we are integrated with, creates a unique relationship where they come to us once as opposed to integrate many times.

We are trying to extend that out – that information out beyond what I'll refer to as just the car manufacturers. But I think that hopefully describes to you a little bit about what we do and how we do it, really more focused on insurance than some of these other telematic solutions that are extending beyond insurance and trying to provide to marketing and other verticals.

**C. Gregory Peters**

*Analyst, Raymond James & Associates, Inc.*

Q

Thank you for the answer.

**Operator:** Your next question is from Andrew Jeffrey from Truist Securities. Your line is open.

**Andrew Jeffrey**

*Analyst, Truist Securities, Inc.*



Hi. Good morning. Appreciate you taking the question. Scott or Mark, I wonder if I could ask for an update on a couple of newer lines of business that I didn't hear called out specifically. One would be life, and the other is LightSpeed. I know you touched on auto, both seemed like big TAMs with potential pricing leverage. So I wonder if you could just comment on sort of contribution to growth and any changes in that contribution prospectively?

**Scott G. Stephenson**

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



Yeah. So two topics about which we're very excited. Mark, those are both in your column, do you want to speak to those from?

**Mark V. Anquillare**

*Chief Operating Officer and Group President, Verisk Analytics, Inc.*



Yeah. You can't see me, but I have a smile on my face. So let me share a little bit about that. First of all, what we're doing in life is led by that acquisition of FAST, which is this, I'll call it, low-code, no-code solution for life insurers. What we've added is a bit of relationship and some analytics to the underwriting approach. So things like understanding from your voice, whether you're a smoker. Those are the type of things that we've added, and the life business in whole has done exceptionally well.

We probably are not talking about it quite as much is because we've typically focused a little bit on organic revenue growth. So I look forward to having some conversations [ph] probably in (00:33:19) first quarter next year when we become – or that it becomes an organic part of our math.

Separately and distinctly, again, when we talk about the resurgence and the great growth that what I'll refer to as ISO or our underwriting business, we've had a very stable and strong business as it relates to our historic lost costs, rules, and forms. But the growth that you're seeing in large part is driven by just LightSpeed conscious set. It is taking a lot of data, not just our own proprietary data, but that, in combination with other third parties, scoring it so that we have a confidence level. So that as opposed to doing, first, a quote, providing that rate to a potential policyholder, they like it. And then you do all their underwriting to understand if there's any other accidents, moving violations traffic.

Typically, 33% of the time, that rate changes. That's very, very much – and it's a very [ph] interactive (00:34:20) to the policyholder, not the digital engagement people are looking for. So a bindable quote is really the heart of what has driven a lot of our underwriting and rating growth over the last year. And we are doing more, and we are extending kind of – I'll call it from an investment perspective, doubling down as we speak.

**Andrew Jeffrey**

*Analyst, Truist Securities, Inc.*



Thank you very much.

**Operator:** Your next question is from Andrew Steinerman with JPMorgan. Your line is open.

**Andrew C. Steinerman**

*Analyst, JPMorgan Securities LLC*



Hi. Lee, I remembered you talked about the normalization of T&E on the third quarter call. So I just thought I'd revisit the subject. Kind of given that 2021 does appear to be a year of rebounding organic revenue growth, that's just the assumption around the COVID drags abating. Do you still think that the normalization of T&E will be more of a drag to margin than core operating leverage? And could you just mention what T&E expense level was in the fourth quarter and how you envision normalization of T&E post-COVID?

**Lee M. Shavel**

*Chief Financial Officer and Group President, Verisk Analytics, Inc.*

A

Yeah. Thank you, Andrew. And it's certainly something that we're watching very carefully and expect to manage very actively in 2021. I think you characterized it accurately. In terms of the – we are expecting that as and if the pandemic impacts continue to abate over time, the revenue impact relative to our targeted growth rate should be more modest. So, we're certainly hoping for an improvement in that regard.

However, as you saw in our expense management in 2020, and not just including the T&E expense which as we mentioned, represented about a 220 basis point benefit to our margin, but also our management of head count levels, incentive compensation levels in the fourth quarter and over the course of 2020 reflected an ability to manage that expense impact.

Now naturally, as we move into, what is hopefully, a more constructive environment, we will want to normalize the earnings level – normalize the head count level for the business to pursue the very attractive opportunities that we have with our clients. We have control, both over the level of, certainly, head count that we are taking on and T&E. And our objective will be to manage that in a way where we hold on to as much of the benefit that we experienced in 2020 as we can, but we are expecting that on year-over-year, particularly as we anniversary the onset of the pandemic, that we'll see an uptick. But we – overall, we'll try to manage that in a way where we preserve our operating leverage, and that becomes clear as we talk about it through the course of the year.

**Andrew C. Steinerman**

*Analyst, JPMorgan Securities LLC*

Q

Okay. Thanks, Lee.

**Lee M. Shavel**

*Chief Financial Officer and Group President, Verisk Analytics, Inc.*

A

Thank you.

**Operator:** Your next question is from Andrew Nicholas with William Blair. Your line is open.

**Andrew Nicholas**

*Analyst, William Blair & Co. LLC*

Q

Hi, good morning. Lee, you added Group President of the Energy and Financial Services businesses to your list of responsibilities. Obviously, as CFO, you have plenty of involvement previously, but is there anything specific you'd call out for us that you're particularly focused on in that role? Any changes you'd like to make or strategic priorities you've identified that you're willing to share?

**Lee M. Shavel**

*Chief Financial Officer and Group President, Verisk Analytics, Inc.*

A

Well, thank you very much. I would say, look, at this stage, it's very early. I do know and respect those teams and what they've accomplished. I'm looking forward to working with them more closely. Our overall objective, as it has been at a corporate level, has been focusing on how we can invest in those businesses, generate good returns and support the strong position that they operate in and really extend the growth that they represent.

So, at this stage no clear determinations. I'm really just looking forward to spending more time with them on the operating side and determining how we can make them more effective, enhance the growth story and continue to find good opportunities to invest.

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**Andrew Nicholas**

*Analyst, William Blair & Co. LLC*



Understood. Thank you.

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**Operator:** Your next question is from David Togut with Evercore ISI. Your line is open.

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**David Mark Togut**

*Analyst, Evercore Group LLC*



Thank you. Good morning. Bridging to an earlier question on the Financial Services business, do you think you have the right mix of services for bank card issuers in that business? We've seen a big change in demand trends, at least what Visa and MasterCard have called out in their similar businesses. During COVID, a big shift towards cyber. Could you maybe comment on the services that you're offering in that business currently? And whether you're intending any, let's say, shift in services mix and offerings as a result of COVID?

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**Scott G. Stephenson**

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



Yeah. We feel good about the range of solutions that we're able to issue – we're able to offer to a credit card issuer. In fact, that has been explicitly apart of the way that we have built the portfolio of solutions that we offer. And to the point you just made, David, that we do believe that working on issues of risk and fraud are really important issues, and we feel that we have some unique intellectual property to help our customers work on that so.

And there are a variety of other things that any one customer can also look to us for. In fact, we have a fairly broad portfolio of solutions and so we feel as if we are positioned well in terms of being able to be a partner that a customer could look to for health and support across a variety of dimensions. We're not – even though it would be very easy for folks to kind of look at us and say, Okay, well, that phenomenal data set, which is transactional in nature and so kind of building around that. Well, we have built around that, but we've extended around that as well. Lee, I don't know if there's anything you want to add to that.

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**Lee M. Shavel**

*Chief Financial Officer and Group President, Verisk Analytics, Inc.*



The only thing I would add is that as with all of the businesses within Financial Services, we are leveraging an exceptional data set in that core business that allows us to triangulate in on issues like fraud in ways that other players in the industry can't. So we're looking for angles where we can utilize that insight to create a differentiated product.

**David Mark Togut**

*Analyst, Evercore Group LLC*

Q

Understood. Thank you very much.

**Scott G. Stephenson**

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

A

Thanks, David.

**Operator:** Your next question is from Jeff Meuler with Baird. Your line is open.

**Jeffrey P. Meuler**

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

Q

Yeah. Thank you. So my question is on Energy and Specialized. And I understand what's up and what's down, but it's less clear to me, I guess, what's stable, what's better, what's worse from a trending perspective from one quarter into the next. I think you said consulting fairly stable, but if I look at the overall worsening year-over-year trend, is it that the core subs revenue is still growing but decelerating? Was the issue the tougher PowerAdvocate implementation comp or the consolidation that you called out? Just any help on the Q4 year-over-year trend relative to what it was the last quarter or two? Thanks.

**Lee M. Shavel**

*Chief Financial Officer and Group President, Verisk Analytics, Inc.*

A

Yeah. Thank you, Jeff. This is Lee. So I would break it down into a couple of influences. Within Wood Mackenzie, the things that we would point out is that we saw modest but positive growth in the subscription side of the business. And so that, I think, is a reflection of the durability and the value of those products even in this more challenging environment.

And so it also, I think, is reflective of the value of the investment that we've made in Lens because that subscription component, and particularly the pricing on renewals, has benefited from our clients' receptivity to what Lens provides them. So I think that's the core positive and a particular note in a challenging environment for the industry, where the end market, I think, has had a different experience.

On the consulting side, that's where on a year-over-year basis in reported revenues, we are still seeing that 30% year-over-year decline within that business. However, our sense is that our clients are engaging more actively on the consulting dialogue, and we feel better about where the pipeline is headed in that area. So that has not been demonstrated the financial impact yet, but we feel a little bit better about the level of engagement with clients.

And then within PowerAdvocate, we are experiencing some pressure, particularly on the implementation side of the equation for our clients. We've had some of our clients that, experiencing the pressure of this environment, have pulled back or reduced, but we still see strong demand over the near term for the cost management, supply chain dimensions of that product set as a whole.

And I don't want to overlook also our health and safety business, which continues to contribute strong revenue growth within this segment as a whole as well as strong EBITDA growth and operating leverage within that business. So that gives you, I think, the three primary areas within that segment and some of the elements of the growth for that.



**Jeffrey P. Meuler**

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

Okay. Thank you, Lee.



**Operator:** Your next question is from Gary Bisbee with Bank of America. Your line is open.

**David Chu**

*Analyst, Bank of America Merrill Lynch*

Hi. This is David Chu for Gary. So on margins, costs rose \$33 million sequentially or about 10% versus the revenue up \$11 million or 1.5%. This is despite like lower T&E. So how much is cost that were deferred earlier end of the year building back versus like other investments or other factors?



**Lee M. Shavel**

*Chief Financial Officer and Group President, Verisk Analytics, Inc.*

And I guess the way I will address it, and happy to spend time later in talking through your build-back analysis. But when we think about the expenses, we want to kind of remove the inorganic component so that we understand the trends. And I think simplistically, while our overall revenue growth rate was in kind of the 3.5% level, we were able to reduce overall expenses on a year-over-year basis as a function of head count control and T&E.



And so our frame of mind is as we're looking at the organic growth of the business, that we were able to make that adjustment in expenses downward, which allowed us to deliver the strong EBITDA growth performance, even despite that decline in the revenue growth. As we look ahead to 2020, we are expecting a higher level of growth if these trends continue with regard to the pandemic.

And as a consequence, from an expense standpoint, we are expecting a higher growth rate. We're not expecting expenses to decline. And so the year-over-year comparisons are higher. But we're going to try to manage those in a way where we preserve that operating leverage and hold on to as much of that benefit as we practically can, while still pursuing our client events. I know that doesn't put that in the context that you're asking, but it's kind of, I think, the best way to think about the overall performance of trends absent naturally, the impact from an M&A standpoint. But we'll be happy to spend more time with you later on the way you're thinking about it.

**David Chu**

*Analyst, Bank of America Merrill Lynch*

Okay. Thank you.



**Operator:** Your next question is from Hamzah Mazari with Jefferies. Your line is open.

**Hamzah Mazari**

*Analyst, Jefferies LLC*

Yes, hi, good morning. My question is just on the transactional side of the business. I guess, it was down 12.5%. Q3, it was down 10%. Could you maybe talk about what has to happen for that business to come back? Is it a vaccine? Is there anything structural going on in that side of the business that it may just take a lot longer to recover? Maybe just if you could parse the transactional side out of the business?



**Lee M. Shavel**

*Chief Financial Officer and Group President, Verisk Analytics, Inc.*

A

Yes. Hamzah, this is Lee. So it is a – and while you were referring to it kind of in aggregate as a transactional business, we're really talking about probably a dozen to 20 individual products that have various transactional elements, everything from the consulting business with Mackenzie, some of the consulting and the analytics projects in Financial Services, the claims business with auto claims that are driven by it. So you have a lot of different factors.

And so if you can think about it over time, and if I describe it in 2020, we had some businesses that demonstrated, as the year progressed, a pickup in driving activity. And so when we talked about the improved performance within Insurance on our COVID-sensitive revenues, it was reflecting an earlier impact and benefit from the uptick in driving activity and those – that portion of that transactional business.

While the consulting revenue on the energy side, which is not going to be tied as directly to a causal impact, is going to improve over a longer period. And in Financial Services, we were seeing a dynamic where the weakness in the fourth quarter reflected an increasing – what we interpreted as increasing concern over potential credit losses, which caused them to pull back on some of their project analytics in the fourth quarter, where we typically see stronger elements.

So to try to get to your – to give you an answer is that as we look across all of these products, as we proceed through 2021, as things improve, we'll see – we should see gradual improvements, but at different rates within each of those businesses. So there's no simple answer because it involves multiple products with differing levels of impact across that. So hopefully, that gives you some context, but I can't kind of define it more precisely for you.

**Hamzah Mazari**

*Analyst, Jefferies LLC*

Q

Right. No, that's very clear. Thank you, so much.

**Operator:** [Operator Instructions] Your next question is from George Tong with Goldman Sachs. Your line is open.

**George K. Tong**

*Analyst, Goldman Sachs & Co. LLC*

Q

Hi, thanks, good morning. Your Financial Services segment had revenue declines of about 13% organic constant currency in the quarter. That reflected some contract transitions, as you noted, as well as some COVID impact from lower project spend. Is it possible to perhaps break out the two impact to determine how much of the decline is structural in nature? And how much of the decline you expect to recover as COVID becomes more in the rearview mirror?

**Lee M. Shavel**

*Chief Financial Officer and Group President, Verisk Analytics, Inc.*

A

Yeah. George, thanks for the question. It's Lee. So it's a great question. And when we look at that in the fourth quarter and recognizing that it is fourth quarter, I would say that there was more of an impact on the contract transitions, and some of that involved kind of restructuring our contracts to better reflect the annuity nature of our

business. And we also had some contract transitions that were a result of some strategic exits from a portion of our businesses.

But that probably had a more significant impact in the fourth quarter relative to some of the environmental impacts. And which were, as I described in another question recently, was that we saw some weakness in the banks pulling back on some of their project analytics, which had an overall impact, negative impact. So that gives you kind of a rough proportion, probably a little bit more on that contract transition, but there was also a meaningful impact from what we were seeing in the project analytics front.

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**George K. Tong**

*Analyst, Goldman Sachs & Co. LLC*



Got it. Very helpful. Thank you.

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**Operator:** There are no further questions at this time. I turn the call back over to Ms. Brodbar.

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**Scott G. Stephenson**

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

Okay. Well, thanks, everybody, for joining us. Appreciate your interest as always. And as always, we will be following up with you on some of these more specific points. And so we'll be in touch with many of you in the near future. Until then, thanks.

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**Operator:** Ladies and gentlemen, that concludes today's conference call. Thank you, everyone, for joining. You may now disconnect.

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