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Verisk Analytics, Inc. (VRSK)

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, everyone, and welcome to the Verisk Third Quarter 2024 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'll have further instructions for you at that time.

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

Stacey Jill Brodbar

Head of Investor Relations and FP&A, Verisk Analytics, Inc.

Thank you, operator, and good day, everyone. We appreciate you joining us today for a discussion of our third quarter 2024 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 Investors section of our website, verisk.com. The earnings release has also been attached to an 8-K that we have furnished to the SEC. A replay of this call will be available for 30 days on our website and by dial-in.

As set forth in more detail in today's earnings release, I will remind everyone today's call may include forward-looking statements about Verisk's future performance, 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.

A reconciliation of reported and historic non-GAAP financial measures discussed on this call is provided in our 8-K and today's earning presentation posted on the Investors section of our website, 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 projected non-GAAP adjusted EBITDA and adjusted EBITDA margin, including, for example, tax consequences, acquisition-related costs, gains and losses 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.

Lee M. Shavel

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

Thank you, Stacey. Good morning, and thank you for participating in today's call. I'm pleased to share that our operating momentum continued as Verisk delivered another quarter of strong financial results, led by our subscription revenue growth of 9.1%, with contributions from both Underwriting and Claims.

Transactional revenues were down slightly due to the strong double-digit growth from weather and shopping activity in the prior year, as well as the ongoing conversion of transactional revenues into committed subscription contracts.

Returning to overall revenue growth, unaffected by contract transitions from last year, organic constant currency revenue growth was 8% on a two-year compound annual growth basis at the high end of our longer-term targets established at Investor Day.

Elizabeth will provide much more detail in her financial review, but these results demonstrate the compounding power of our subscription-based business model, driven by the value we create for our clients. I'm confident that 2024 is on track to be another year delivering on the strategy and financial targets we established at Investor Day.

There are two fundamental drivers to the strong subscription growth we have been achieving. First is our enhanced go-to-market approach, which elevates and intensifies our strategic dialogue with clients. The second is the strength of our products and solutions built on proprietary data sets and continuously enhanced as we scale innovation and invest on behalf of the industry.

On the first lever, with our client engagement, as I engage across the property and casualty insurance industry, we are seeing improving industry-wide financial metrics, helped by continued strong premium growth. Swiss Re now forecasts that 2024 direct written premiums will grow 9.5%, though there will be variability by line. Profitability across the sector is also improving as net industry-wide combined ratios have improved by over 2 points to 99.4%, indicating Underwriting profits.

While catastrophe losses are expected to be elevated for the remainder of the year due to recent hurricanes, the expectation is that insurance and reinsurance industry participants are in a stronger financial position than in prior years and better able to absorb these cat-related losses.

Since our last call, I've had the opportunity to participate in several industry events, including the Rendez-Vous de Septembre in Monte Carlo, the CIAB Insurance Leadership conference and our own Verisk Insurance Conference in London.

At each of these, the opportunities to engage with the highest levels of leadership has enhanced our understanding of our clients' enterprise needs, broadened and strengthened our relationships and opened new doors to opportunities to work with them.

What I have heard consistently and we are acting on is a strong desire to see us connect more of our data sets and analytics for enterprise solutions directly and with our partners. We are pursuing several product initiatives between Underwriting, Claims, Extreme Events and Specialty Business Solutions to deliver on that very objective.

Another reflection of our broader engagement to find, develop and leverage solutions for the industry is the opportunity I'll have to engage with insurance constituencies as a member of the Federal Advisory Committee on Insurance. With heightened focus on the importance of the insurance industry in the midst of severe weather events, being at the table with industry partners to find ways to improve is an important responsibility for Verisk. I have already participated in discussions on improving community resilience and managing the impact of severe weather events.

In addition, we believe the opportunity to serve a broader range of agencies beyond our role in supporting the National Flood Insurance Program and Community Rating System for FEMA and the Terrorism Risk Insurance Act program for the Department of Treasury is an important opportunity to support communities and industry.

With all client engagements, the follow-up on these opportunities is focused, supported by the enhancements we've made in our client engagement structure and investments in our sales coverage. I believe the strength in our subscription growth reflects in part the progress we are making in elevating our dialogue and relationships and then capitalizing on the opportunities we create.

The second factor driving our subscription revenue growth is the strength of our data and solutions and our ability to innovate through data enhancement and responsibly combining data sets.

Let me give you some examples of our progress this quarter. Our most significant initiative to drive more value for our clients is Core Lines Reimagine, which we have discussed with you at length. We continue to advance our progress in delivering proprietary content to clients more digitally, integrating more seamlessly into their workflows and providing more analytics and insights.

To that end, in the third quarter, we had the first release of an initiative we call the Future of Forms. Future of Forms addresses our clients' challenge of understanding and managing through the complexity of major policy updates. The Future of Forms introduces a data visualization for our forms filing with this first release focused on general liability. This new digital experience allows insurers to save time analyzing our content by interacting with our forms filings in an entirely new way. And the early response from our clients has been very positive, with specified feedback saying that this new solution is easy to navigate and a significant timesaver for their teams.

Additionally, as we have previously discussed, we continue to receive interest and inbound inquiries from our clients through the release of our Executive Insights Reports, which leverage our statistical data to provide key trends.

In the third quarter, we added to our library of reports by introducing Executive Insights for personal auto and general liability. We now have Executive Insights covering five of the six major lines of business with plans to introduce reports for commercial auto in the first half of 2025.

Executive Insights not only provides our clients with benchmarking analyses for their book of business but also provides a deeper look into the broader market. These reports reinforce Verisk's thought leadership position in the industry by providing this granular and unique view of the data in a timely manner. And the new product creates additional fuel for our client engagement teams, serving as a touch point for new C-level conversations and delivers on a consistent request for more insights.

As I mentioned earlier, we are also driving value by continuing to enhance our solutions by combining data sets across the Verisk family. To that end, we recently combined Verisk's claims data into Opta's enhanced Peril Score for the Canadian market. The Peril Score is powered by predictive analytics and location-specific data to predict severity and the likelihood of claims at a property.

The addition of the Verisk claims data has enhanced the model, driving more insightful signals for our clients and leading to reinvigorated sales growth of this solution. Our commitment to driving value and improving efficiency and automation is also a focus within the four walls of Verisk, as we innovate around our internal data collection and management processes.

We recently launched a new fully mobile application that allows our field representatives to complete engineering assessments and loss cost surveys directly from the field. We expect this initiative to speed up cycle times for surveys while also including more data validations and further automation of our quality control process.

As you might imagine, our continued engagement focuses on issues that are top of mind for our clients and often top of mind for our shareholders as well. Most recently, Hurricanes Beryl, Helene and Milton have brought renewed attention to climate risks, catastrophe losses and resilience. Our conversations are focused on the comprehensive suite of solutions we currently offer that help our clients plan for, react and respond to climate risks.

In our Extreme Events business, we help our clients evaluate and price catastrophe risks by modeling a view of probable outcomes and impacts on their book of business before the events make landfall.

Our catastrophe models calculate a view of loss outcomes, incorporating not only the most advanced weather science but also detailed understanding of local building codes and construction standards. Investing in mitigation efforts to manage and reduce losses is one of the keys to containing the industry losses from climate change. To that end, Verisk's work in conjunction with FEMA's National Flood Insurance Program helps assess community-level efforts to reduce and avoid flood damage to insurable properties.

Known as the Community Rating System, this program is based on technical data on flood plain mitigation that is collected and analyzed by Verisk. Through this program, communities can achieve discounts on flood insurance premiums for their property owners, making flood insurance more affordable for the end consumer. And finally, our property estimating solutions and anti-fraud solutions help insurance ecosystem participants respond after the impact of storms.

Our solutions power and network that allows carriers, independent adjusters and restoration contractors to estimate the cost to repair and rebuild storm impacted property in an automated and efficient way while also identifying fraud to make sure that only the valid claims get paid.

I'm energized by the opportunity that lies ahead. In my conversations with the leaders of our clients, there is strong appetite to invest in technologies that can drive value in the form of better risk selection, more automation and efficiency, and they are turning to Verisk as the trusted partner to help them.

Now let me turn the call over to Elizabeth to review our financial results for the third quarter and year-to-date basis.

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

Thanks, Lee, and good day to everyone on the call. On a consolidated and GAAP basis, third quarter revenue was \$725 million, up 7% versus the prior year, reflecting consistent levels of growth across both Underwriting and Claims. Income from continuing operations was \$220 million, up 17.4% versus the prior year, while diluted GAAP earnings per share from continuing operations were \$1.54, up 19.4% versus the prior year. The increase in diluted GAAP EPS was driven by strong operating performance, a litigation reserve expense in the prior year period and a lower effective tax rate.

Moving to our organic constant currency results for the third quarter, adjusted for non-operating items, as defined in the non-GAAP financial measures section of our press release, our operating results demonstrated consistent growth across both Underwriting and Claims. OCC revenues grew 6.8% with growth of 6.5% in Underwriting and 7.4% in Claims. The solid revenue growth is compounding from the 9.4% OCC revenue growth from the prior year and reflects improvement from the second quarter in both the Underwriting and Claims businesses as well as in our total subscription and transactional revenues.

Our subscription revenues, which comprised 82% of our total revenue in the quarter, grew 9.1% on an OCC basis during the third quarter, building upon the 9.3% OCC growth we delivered last year. This quarter's growth was broad-based across most of our subscription-based solutions, especially in our largest businesses. In particular, our forms, rules and loss costs business led the contribution to subscription growth where our engagement efforts and the enthusiasm around Core Lines Reimagine continues to deliver strong outcomes during contract renewals as we are focusing on the value we are creating for our clients, supported by the tailwind of premium growth.

In anti-fraud, we experienced strong growth in our claims search and claims essential solutions, primarily driven by the continued success of our pricing and bundling strategy with a focus on third-party administrators. Growth was also augmented by a strong uptake of some of our newer solutions, including Claims Coverage Identifier and Claim Scoring.

In Extreme Event Solutions, we delivered another quarter of very strong growth. We are hearing from our insurers, reinsurers and broker clients that they value our continuous updates to our models, incorporating the most recent data and science, including in our next-generation models. This momentum has led to an additional 10 new clients signed in this quarter alone as our sales teams are capitalizing on the growth of certain client segments, including excess and surplus lines of insurance and managing general agents or MGAs.

Finally, this quarter subscription growth does also reflect the benefit of ongoing conversion to subscription from previously transactional contracts, including the one discrete government contract that we mentioned last quarter, which contributed approximately 60 basis points to the third quarter subscription revenue growth.

Our transactional revenues representing 18% of total revenue in the quarter, declined 2.5% on an OCC basis. This decline was a function of the strong results reported last year, which benefited from elevated levels of weather, auto shopping activity and the non-rate action deal. This decline also reflects the impact of the conversion to subscription from previously transactional revenue.

If you normalize for the one discrete contract conversion previously mentioned, transactional revenue growth would have been essentially flat. Partially offsetting the decline, we did experience double-digit growth in international underwriting, including life, health and travel business, a modest transactional benefit from the storms in our property estimating solutions business and strong transactional growth in our personal lines property solutions, as our carrier clients are turning to Verisk data to help them navigate rising premiums in that line of insurance.

Moving now to our adjusted EBITDA results. OCC adjusted EBITDA growth was 7.2% in the quarter while total adjusted EBITDA margin, which includes both organic and inorganic results, was 55.2%, up 120 basis points from the reported results in the prior year. As we have mentioned previously, the margin rate in any given quarter can be influenced by revenue mix and timing of expenditures. Therefore, we find it useful to examine our margin on a trailing 12-month basis, which stood at 54.6% at the end of the third quarter, up 130 basis points year-over-year.

This level of margin expansion highlights the effects of strong revenue growth, ongoing cost discipline and our global talent optimization initiatives, offset in part by continued investment in our finance transformation and higher medical benefit expenses. Additionally, our margins benefited from a foreign exchange translation impact, which helped margins by approximately 60 basis points in the quarter. This FX benefit was not contemplated in our guidance as we do not forecast or hedge foreign currency.

For the full year 2024, we continue to expect our margins to remain in the 54% to 55% range. We remain confident in our ability to achieve our margin expansion targets while strategically investing in future growth opportunities.

Continuing down the income statement, net interest expense was \$32 million, compared to \$29 million in the same period last year. This increase is primarily due to higher interest expenses from the issuance of senior notes in the second quarter at a higher interest rate, leading to an increased run rate expense going forward. Our current leverage remains at 2 times, which is at the lower end of our targeted range of 2 to 3 times adjusted EBITDA.

Our reported effective tax rate was 22.9% compared to 25% in the prior year quarter. The prior year quarter's rate was elevated due to one-time items that did not repeat. For the fourth quarter, we believe that our tax rate will be in the previously provided range of 23% to 25%. There could always be some quarterly variability related to employee stock option exercise activity.

Adjusted net income increased 7.8% to \$239 million, and diluted adjusted EPS increased 9.9% to \$1.67 for the quarter. The increase is primarily driven by solid revenue growth, strong margin expansion, a lower effective tax rate and a lower average share count. This was partially offset by higher depreciation and amortization expense.

From a cash flow perspective, on a reported basis, net cash from operating activities increased 18% to \$296 million, while free cash flow increased 23% to \$241 million demonstrating the strong cash flow generation characteristics of our subscription-based business model.

We are committed to returning capital to shareholders. And during the quarter, we returned \$455 million through repurchases and dividends. This includes our new \$400 million accelerated share repurchase program, which was completed in October and our cash dividend of \$0.39 per share, an increase of 15% from 2023.

We are pleased with the third quarter and year-to-date performance. Our outlook for 2024 remains unchanged. More specifically, we continue to expect consolidated revenue for 2024 to be in the range of \$2.84 billion to \$2.9 billion. We expect adjusted EBITDA to be in the range of \$1.54 billion to \$1.6 billion; and adjusted EBITDA margin in the 54% to 55% range. Below the line, we expect fixed asset depreciation to be at the high end of the range as we continue to put new projects into service.

Combined with the slightly higher net interest expense due to our refinancing, the net result is that we still expect adjusted earnings in the range of \$6.30 to \$6.60 per share. A complete listing of all guidance measures can be found in the earnings slide deck, which has been posted to the Investors section of our website, verisk.com.

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

Lee M. Shavel

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

Thanks, Elizabeth. In summary, our strategic priorities are unchanged as we remain focused on delivering consistent and predictable growth while allocating capital to our highest return on investment opportunities and returning excess capital to shareholders. Our focus on heightened strategic engagement with clients has strengthened relationships and fostered new product and business opportunities for the industry, where we can invest at scale to drive value for our clients, employees and shareholders.

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

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And your first question comes from the line of Toni Kaplan with Morgan Stanley. Please go ahead.

Toni Kaplan

Analyst, Morgan Stanley & Co. LLC

Q

Thanks so much. Just given where we are in the year, I'm trying to think of through the dynamics for 2025, so I think there was 10% net written premium growth in the industry in 2023. So, the part that's tied to your premiums should be pretty strong and transactional has pretty easy comps over the next four quarters. And then it seems like extreme events and life and international are going really well. So, I guess, my question is, is 2025 setting up for an outsized year of growth? Or are there any headwinds that we should be thinking about? Thanks, guys.

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

A

Hi, Toni, thanks for the question. Yes, as we think about 2025, I think you've articulated well the tailwinds that we see in the business, the subscription momentum that we feel and the continued strong premium environment. As we think about potential headwinds that could offset it, we are going into the third year of elevated premium growth. And so that is a longer cycle that the pricing momentum can feel those challenges.

I think another element we are in an environment where the carriers are very focused on their profitability. They're evaluating lines of business and which ones that they are in as well as kind of evaluating their overall spend. So that is one element of headwind.

And then finally, you could start to see a normalization of attrition, which has been a boost for us over the last couple of years. So those are some of the headwinds. Then as an unknown there is the weather factor. But in general, as we think about it, we do see strong momentum in the business.

Toni Kaplan

Analyst, Morgan Stanley & Co. LLC

Q

Thank you.

Operator: Your next question comes from the line of Ashish Sabadra with RBC Capital Markets. Please go ahead.

Ashish Sabadra

Analyst, RBC Capital Markets LLC

Q

Thanks for taking the question. Is there a way for us to estimate the tailwinds from the hurricanes Helene and Milton in 4Q, but also the tailwinds for the property estimating solutions going forward? Thanks.

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

A

Yes. Thanks, Ashish. So, as we think about the fourth quarter, and both Helene and Milton hit in the fourth quarter, Helene was the very end of September, Milton, obviously, in early October. It is early to tell and quantify the impact to us. You can look at the estimates of insured losses that have been published, Verisk estimates, which our Extreme Events business published, had insured losses estimated at \$6 billion to \$11 billion for Helene and \$30 billion to \$50 billion for Hurricane Milton. As you look at those combined, you could say, on average, they're similar to Hurricane Ian.

But the flow through to us can vary based on the number of assignments, the type of peril, whether it's wind or flood, the overall area covered by the storms. And from what we're seeing, it does take time for the claim to actually be filed as everyone there is focused on getting those communities back on their feet.

The other thing I do want to put in context as you think about the impact of those storms in the fourth quarter, you've heard us talk in general across the business about converting contracts from transactional to subscriptions and from customers increasing their usage and committing to higher tiers and that's happening in this property estimating solutions business as well. We've seen customers increasing their usages and then adapting their subscription contracts to reflect that higher usage.

So how that could play out over time could mean less transactional swings on the impact of one single storm proportionally because the customers may be less likely to be in overage. So that transition to subscription has in general been a win-win for our business and you've seen it play out in our subscription growth.

Ashish Sabadra

Analyst, RBC Capital Markets LLC

Q

That's really helpful color. Thanks.

Lee M. Shavel

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

A

Thank you.

Operator: Your next question comes from the line of Kelsey Zhu with Autonomous. Please go ahead.

Kelsey Zhu

Analyst, Autonomous Research US LP

Q

Hi, good morning. Thanks for taking my question. Just on subscription revenues in Q3, I was wondering if you can share a bit more colors on what drove the acceleration of growth. I know you've highlighted a number of segments where you've seen really strong growth, and one of them is property estimating solutions. And I was wondering if that is also impacted by demand around Hurricane Helene and Milton as well.

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

A

Thanks for the question, Kelsey. Yes, as we looked at – you're right, we've seen accelerating subscription growth even sequentially from last quarter. When you really look at it, it isn't any one thing or one area of our business. Obviously, we've now called out and quantified the impact of the contract conversion, but the underlying subscription growth really hits across all of our businesses. And the drivers are the ones that we really highlighted

in the prepared remarks, it's the two factors, our focused go-to-market and customer client engagements and then the strength being driven by our product development and innovation. And those two things are supported by the tailwind of premium growth. But in general, what you're seeing is the momentum from new sales – from conversions to subscription and from upsizing usage and adding products from Verisk.

Kelsey Zhu

Analyst, Autonomous Research US LP

Q

Got it. Thanks a lot.

Operator: Your next question comes from the line of Surinder Thind with Jefferies. Please go ahead.

Surinder Thind

Analyst, Jefferies LLC

Q

Thank you. As we think about just the current health of the insurance companies and all of the change that's kind of pending, how do we think about this idea that insurance companies are trying to enter this period of much more focused profitability. And you hear about – you see what's going on in Florida, California, some of the topics that we've talked about in the past. How are you guys assessing that? I don't want to call it a headwind, but just that transition that the industry seems to be going under in this part of the cycle?

Lee M. Shavel

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

A

Yes. Surinder, thank you very much for the question. And particularly, value the context and looking at the industry as a whole, which, as you know, we spend a lot of time thinking about. And so from our perspective, I think when you look at the premium growth, you look at the improvements in the combined ratios and overall profitability of the business and particularly in light of the significant storms and some of the hits that the industry has taken, I think it's a reflection of continued interest in the data and the analytics that we provide to them to make better risk decisions which will continue to be a driver of opportunity for us because we can gather that information, we can apply analytical methods across – that can be utilized across the industry.

But also, to your point, in terms of moving into this more focused profitability dimension. Our work to identify where we can improve their internal processes by automating more of their functions, integrating data into the workflow has been a very active component of those higher-level enterprise discussions that we're having. And it's a conversation that is happening at the Chief Information Officer level and the CEO level or the heads of business that are interested in improving their process.

And then a second element of that is how do we integrate external parties that are part of the insurance ecosystem and what they're doing to improve overall efficiency. A great example of that is what we have been doing in London with our Whitespace platform, where we are integrating brokers and underwriters to both improve the efficiency of that interaction, but also improving the data quality that the underwriters are utilizing to make placement decisions. So, I think everything that you are describing encourages continued engagement with us on finding and developing those solutions.

Surinder Thind

Analyst, Jefferies LLC

Q

Thank you.

Operator: Your next question comes from the line of Faiza Alwy with Deutsche Bank. Please go ahead.

Faiza Alwy

Analyst, Deutsche Bank Securities, Inc.

Q

Yes. Hi. Thank you. I wanted to ask about the benefit that you've been highlighting from Core Lines Reimagine. And I'm curious of where we are in that journey. And maybe if you could share with us sort of what percentage of your clients or any metric you want to share are sort of on that Core Lines Reimagine program?

And I think, Lee, you talked about the new initiative called the Future of Forms, so should we expect that to be sort of a continuing or a similar level of value driver as we look ahead to 2025 and beyond?

Lee M. Shavel

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

A

Thanks, Faiza. So, delighted to talk about that. I'm actually going to ask Saurabh Khemka, who leads that business and has been an architect and a driver of that Core Lines Reimagine. And I'll just say that it's both qualitatively the feedback and the engagement we're getting from clients, we referred a little bit of that in terms of the Executive Insights that we're providing to them, but also the very specific dynamic of our ability to capture the value of that through the repricing of our longer-term contracts and what we're hearing. But allow me to have Saurabh give more color in terms of what he's hearing directly from clients there.

Saurabh Khemka

Co-President, Underwriting Solutions, Verisk Analytics, Inc.

A

Yes, absolutely. So, thanks for the question, Faiza. I think you had asked three things. So first, in terms of where we are with the program, we are slightly more than halfway through the program as we think about the investment and where we are in terms of bringing new innovations to the customers.

Second, you talked about how do we think about KPIs and how do we think about KPIs internally about the program. One of the things we look at is the number of new insights that we're bringing to market and the number of new insights that customers are benefiting from. So, we've talked about the Experience Index where we now launched that for five out of the six major lines of business. We'll launch the sixth one next year. The Future of Forms that we talked about, we started with a major general liability update. We expect that to become part of our major updates going forward. So, you will see that next year as we bring in new updates to our [indiscernible] (00:35:42) program. You're going to see that. So that is a continuous innovation that we're going to bring to market.

And one thing that I just want to highlight that brings it all together for us as we think about customers and their engagement, we have a new engagement platform at core.verisk.com, and we're highlighting that to our customers. And what we're seeing is, as we're putting these new content and our existing content on this new platform, the engagement level is multiple times what we had previously. So, we're excited that these new innovations are driving usage at our customers, which, as you know, drives the value for us from a Core Lines perspective.

Lee M. Shavel

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

A

And if I could add in a broader sense, I think that this is a reflection of several things. One, it's improving our ability to utilize the data sets because we've effectively had to pull those data sets out, manipulate them in ways in order to deliver them to our clients more effectively, which facilitates more fluidity analytically in what we can do and

coupled with both the strong response that we're getting from clients to the product and our higher level of engagement.

It is, I think, a change in the culture in which we're approaching developing our business. And while there are specific targets and product enhancements that we're pursuing, I think that it actually opens up a broader opportunity for us to think about how we utilize those data sets in new ways, serving other constituencies within our clients.

Faiza Alwy

Analyst, Deutsche Bank Securities, Inc.

Q

Great. Thank you so much.

Operator: Your next question comes from the line of Andrew Steiner with JPMorgan. Please go ahead.

Andrew C. Steiner

Analyst, JPMorgan Securities LLC

Q

Hi, Elizabeth. When you were talking about 2025 headwinds, and I appreciate the business has a lot of momentum. It's just prudent to mention the headwinds as well. One of the things you didn't list there is kind of the continued conversion from non-subs to subs. And we had that dynamic. You were kind enough to help us quantify it this quarter, but do you feel like that's going to be a notable headwind going forward?

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

A

Thanks for the question, Andrew. Yes, so the impact of that one conversion will be felt for approximately a year from the second quarter. So, you'll see that. But we were talking about the business in aggregate. That's just a geographic shift from transaction to subscription, which is why I didn't call it out as a headwind overall.

Lee M. Shavel

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

A

Yes. And I think that's – thanks for the question, Andrew. I mean, I think that is an important distinction. And that's the reason why I pulled back to the overall growth. That adjustment was a specific geographic just shift from transactional to subscription. But that doesn't impact, I think the longer-term opportunity for growth that we see in both the transactional and the subscription businesses.

Andrew C. Steiner

Analyst, JPMorgan Securities LLC

Q

Right. And Lee, when you said 8% in your prepared remarks, you just meant all-in total organic revenue growth a year ago, it was 9.4%, and this quarter was 6.8%, you just did the two-year stack for that, right?

Lee M. Shavel

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

A

That's exactly right, Andrew.

Andrew C. Steiner

Analyst, JPMorgan Securities LLC

Q

Okay. Thanks for clarification. Okay.

Operator: Your next question comes from the line of Jeff Meuler with Baird. Please go ahead.

Jeffrey P. Meuler

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

Q

Yes. Thank you. Can you just give us any sense of, I guess, bookings trends or quota attainment, the reasons you're citing as the primary drivers of the subs acceleration and momentum sounds like better solution sales, not just the industry written premium tailwinds and transaction to subs conversion. But just if you can give us any sense on how bookings are trending? Thanks.

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

A

Yes, Jeff, thanks for the question. Yes, yes, they are trending well. That subscription growth is a function of strength overall, strength in acquiring new customers and strength in selling all the factors we talked about, cross-sell and upsell and adding some of our new products and data sets.

Lee M. Shavel

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

A

Yes. And I would – thanks, Jeff. I would broaden it to say, I think we are – the sales results have been strong relative to our expectations kind of given this performance, and I think reflective of some of the changes that we made in our go-to-market strategy, focusing some of our territories, changing incentives, making some adjustments there, coupled with the higher level engagement, which is opening up opportunities for us to make a more value-driven sale at a senior level. And so, it's a complementary impact of that higher senior level engagement and then more effective follow-up and engagement on the sales front.

Jeffrey P. Meuler

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

Q

Thank you.

Operator: Your next question comes from the line of Manav Patnaik with Barclays. Please go ahead.

Manav Patnaik

Analyst, Barclays Capital, Inc.

Q

Thank you. Just a somewhat similar question, but Elizabeth, I think in your remarks, you mentioned how Core Lines Reimagine progress there was leading to better renewals. You mentioned pricing, but also it sounded like there was a volume component. So, I was just hoping for some examples of how and what with that Core Lines Reimagine upgrade, like are you – is the customer buying more off? I understand there's probably a pricing element because it's upgraded, but just some help there, just to visualize that would be helpful?

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

A

Yes. Thanks for the question, Manav. For Core Lines Reimagine, there isn't exactly a volume component per se. So, we're referring more to addition of new data sets, particularly in the underwriting data and analytics solutions business as well as there's some growth products affiliated with Core Lines Reimagine, things like electronic

ratings content and other ratings as a service. So those are some of the types of additions that clients could be adding.

Operator: Your next question comes from the line of Andrew Nicholas with William Blair. Please go ahead.

Andrew Nicholas

Analyst, William Blair & Co. LLC

Q

Hi. Good morning. Thank you for taking my questions. I guess, my single question. I wanted to ask on Extreme Event Solutions. Elizabeth, you talked about or cited 10 new customer wins in the quarter, in a few of the different customer segments where you're having success. Could you flesh that out a little bit more? Where are those wins coming from? What specifically is driving that increased interest from clients?

And then also like within that, are those competitive takeaways? Or are those taking advantage of Whitespace on the Extreme Event front? Thank you.

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

A

Yes. Thanks for the question, Andrew. So, here's – of those 10 new customers, nine of them are new to the modeling space entirely. So, I think this shows and reflects the broader interest of adding more specific modeling information around the climate change and climate impacts that we're seeing.

And I called out specifically some of the segments, including excess and surplus lines of insurance and the managing general agents, which has been a significant growth area in the insurance industry. And focusing on those areas is something that has driven strength across our business, but the Extreme Events business has seen that as well.

Let me also add my colleague, Rob Newbold, who runs that business to see if there's anything you'd add to that.

Robert Newbold

President, Extreme Event Solutions, Verisk Analytics, Inc.

A

Yes. Good morning. [indiscernible] (00:43:27) Elizabeth. I'll just add to the point that obviously, there have been heightened catastrophe loss activity for the past several years as we've referenced in past calls. Helene and Milton have already been mentioned. And you see an increasing number of market participants looking to better understand and quantify the risk from these events, and that's driving interest in Extreme Event modeling solutions.

Operator: Your next question comes from the line of Alex Kramm with UBS. Please go ahead.

Alex Kramm

Analyst, UBS Securities LLC

Q

Yes. Hey. Good morning, everyone. Just maybe quickly on the auto shopping trends. I think this was the first quarter where it finally turned from a tailwind to a headwind. So maybe you can help us a little bit in terms of the potential outlook here. Maybe if we stay flat at these current levels, how much that would weigh on the growth in the next 12-months or maybe if it's down, whatever, 10%, 15%, what that would mean for overall growth, if you can be that specific? Thank you.

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

A

Yes. Thanks for the question, Alex. You've heard us call out over the past five, six quarters now, the strength in the auto shopping activity and more generally, the transactional revenue growth in our auto insurance data business. And so those headwinds are playing out in the quarter as expected. I'm not sure we can quantify them in the future other than to say that the comps continue to be challenging on the transactional side for the auto business.

Alex Kramm

Analyst, UBS Securities LLC

Q

Fair enough. Thanks.

Operator: Your next question comes from the line of Jeffrey Silber with BMO Capital Markets. Please go ahead.

Jeffrey M. Silber

Analyst, BMO Capital Markets Corp.

Q

Thank you so much. You reaffirmed your 2024 revenue and adjusted EBITDA guidance, but it applies a pretty wide range for the fourth quarter. Are you being overly conservative? Or can you at least give us some indication what would be at the top-end of the range or the low-end of the range in terms of what's driving those assumptions? Thanks.

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

A

Yes. Thanks, Jeff. As you know, for our guidance, our intention has always been to provide a full year estimate and not to give kind of quarterly mark-to-market. Obviously, where we are, there's one quarter left, so you're inferring that. But I think we – from everything we see, we are very much in line with that full year range.

Operator: Your next question comes from the line of Peter Knudsen with Evercore. Please go ahead.

Peter B. Knudsen

Analyst, Evercore Group LLC

Q

Hi. Thank you. Good morning. Thank you for the helpful color in the prepared remarks on some the new initiatives and products Verisk has rolled out and been working on. I'm wondering if you could share some more color specifically on the Discovery Navigator tool, if there are any adoption or utilization metrics you could share, that would be great?

And maybe just more generally on any of your GenAI capabilities. How are those going? And what kind of conversations are clients having with you around those products? Thank you.

Lee M. Shavel

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

A

Yes. Thank you, Peter. So, on your question, I'm going to ask Maroun Mourad, who has responsibility for our Claims business and the Discovery Navigator feature to talk a little bit about how our clients are interacting with that? And then I'll circle back and provide some more color on a number of the GenAI initiatives that we've been pursuing. Maroun?

Maroun Mourad

President-Claims Solutions, Verisk Analytics, Inc.

A

Thank you, Peter. Good morning. Thanks, Lee. So, within Claims, we have been thoughtfully and responsibly deploying GenAI solutions, both internally to drive productivity and externally to help our clients on their talent augmentation modernization as well as productivity journey.

To your specific question around Discovery Navigator in our casualty and bodily injury space. Discovery Navigator is effectively an AI-driven automation innovation in the medical data extraction space that helps us extract specific data elements organized and catalog them and in addition, provide an executive summary to case files. And the technology has been developed with the help and supervision over about a 12- to 14-months period of our highly experienced medical as well as legal staff within the casualty business.

We've also embarked just to add a couple of other notes on an innovation journey in the property estimating space for GenAI. And a couple of examples there is an adjuster Copilot transcription summary that helps drive efficiency for adjusters, whether they're independent or working for companies as well as a loss note summary as well within a Claims fund.

Lee M. Shavel

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

A

Thanks, Maroun. And Peter, just to kind of broaden that out, in fact, your timing is great. Last week, we had within Verisk, a GenAI Day where we pulled together all of our Generative AI practitioners and our data analytics executives to talk about how they are developing in their specific areas, Generative AI for their tools so that we can learn from each other and understand what's working and what's not.

Some of the products that we talked about was within our FAST business, utilizing a feature called [ph] Ask Max (00:49:07) which is an intelligent virtual assistant that helps clients understand how to utilize the FAST installations for configuring and for end-user processes, which facilitates their effectiveness in deploying that solution. We've talked previously about our underwriting copilot that we are working with a number of clients to develop to pull together data sets and automate functions in the underwriting, particularly in commercial property, where we have a lot of data sets. We also have an application for our premium auditor auditing as a service element. There's lot of complex premium actuarial information, and this AI application helps cut the research time and empowers our customers to make informed decisions by accelerating their ability to retrieve and summarize premium audit documents.

And then we also have an AI knowledge tool for our ISO Electronic Rating Content that provides organized and detailed information about ISO circulars. And then we're also applying this to our Mozart forms comparison. You heard SK talk earlier about our Future of Forms. We are also applying an AI solution that will call out and summarize any changes made to ISO forms across versions.

So, this is just a sample of probably half dozen to a dozen specific applications as we're integrating this technology across our products to, again, improve the efficiency and productivity of our clients' underwriting and claims professionals.

Operator: Your next question comes from the line of George Tong with Goldman Sachs. Please go ahead.

George K. Tong

Analyst, Goldman Sachs & Co. LLC

Q

Hi. Thanks. Good morning. The transactional revenue tough comps begin to lap in 4Q. Can you discuss what transactional revenue trends in 4Q are incorporated into your guidance? And how much benefit from Hurricanes Helene and Milton is actually embedded into the reiterated outlook versus your upside?

Elizabeth Mann*Chief Financial Officer, Verisk Analytics, Inc.*

A

Yes, thanks for the question, George. So, I mean, I think you know we forecast in each year for sort of an average year of storms. I think you heard me talk about some of the puts and takes on Helene and Milton in the fourth quarter. The transactional revenue comps do lap, but of course, if you just look at the growth rate in the prior year, that itself was lapping the Hurricane Ian in the fourth quarter of 2022.

The final thing I'll point out on the transactional variability is the contract conversion that we called out this quarter will continue to play out in the fourth quarter and first quarter next year.

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

Q

Got it. Thank you.

Elizabeth Mann*Chief Financial Officer, Verisk Analytics, Inc.*

A

Thanks.

Operator: Your next question comes from the line of Jason Haas with Wells Fargo. Please go ahead.

Jason Haas*Analyst, Wells Fargo Securities LLC*

Q

Hey. Good morning. Thanks for taking my question. I'm curious if you could walk through again the moving pieces on guidance. It sounds like there's now at least some level of hurricane benefit baked into 4Q. [ph] I also recall it (00:52:30) that there was a 60 basis point benefit to margins from FX in 3Q. I'm not sure if you now expect to see something similar in 4Q?

And then it sounds like there was an offset from higher interest expense. I was curious if you could – sorry if I missed it, but if you could tell what interest expense you're expecting for 4Q? And then if there's just any other puts and takes that I missed, I'd appreciate it if you could walk through those again. Thanks.

Elizabeth Mann*Chief Financial Officer, Verisk Analytics, Inc.*

A

Yes. Thanks a bunch, Jason. Our guidance ranges are really for the full year. And so, the puts and takes that we're talking about in the quarter are all kind of small relative to that, but happy to walk you through those in order.

On the margin, we called out for this quarter, the 60 basis point FX benefit, which was not in our – not contemplated in the guidance range nor do we forecast that for the fourth quarter, we see to the currency traders, I guess. The interest expense, I called out was \$32 million this quarter, up from \$29 million made the year previous. You could think of that as a reasonable run rate possibly over time, I suppose the net interest expense

would go up as interest rates earned on cash balances could come down. I think those were the various puts and takes that I called out for the full year guidance and that hit the third quarter.

Jason Haas

Analyst, Wells Fargo Securities LLC

Q

Got it. Okay. That's helpful. It sounds like otherwise, for the underlying business there's no change relative to your prior guidance?

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

A

That's right. Yes.

Jason Haas

Analyst, Wells Fargo Securities LLC

Q

Okay. Thank you

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

A

Yes.

Operator: [Operator Instructions] And your next question comes from the line of Russell Quelch with Redburn Atlantic. Please go ahead.

Russell Quelch

Analyst, Redburn Atlantic

Q

Yeah. Hi. Thanks for having me on. I wanted to ask about the international business. I think you called out, if I heard it right in the pre-scripted remarks that you've seen an increased contribution to growth from the international business in the quarter. Maybe you could be a bit more specific about that, exactly what parts of the international business that's coming from? And if this is an area where you might look for further inorganic opportunities to grow in 2025. Now you're at the bottom end of your leverage range and obviously, funding rates are coming down?

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

A

Yes. Thanks for the question, Russell. Yes, we've seen strength actually in a number of our international businesses. I think we called out the life, health and travel business, which continues to expand into new regions and being pulled there by their customers. So that's seen strong growth.

Our Opta business in Canada contributed as well to that growth. I think Lee talked about some of the integration of some of the Verisk data sets there. So that's a good example of synergies and strength from the Verisk overall business contributing to one of our international acquisitions. So, all of those are factors for good growth and our Claims businesses in Germany have been doing well as well. So yes, that is an area where we will continue to look for potential acquisitions.

Lee M. Shavel

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

A

And I would just add also, as we talked about with our Specialty Business Solutions business that we continue to see strength and a strong contribution to our overall growth rate from what they are – from the services that they're providing.

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

A

Yes.

Operator: There are no further questions at this time. Therefore, this concludes today's call. Thank you for joining. You may now disconnect.

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