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# Verisk Analytics, Inc. (VRSK)

Q4 2021 Earnings Call

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good day, everyone, and welcome to the Verisk Fourth Quarter 2021 Earnings Results Conference Call. This call is being recorded. Currently, all participants are in a listen-only mode. After today's prepared remarks, we'll conduct a question-and-answer session where we will limit participants to one question. We'll have further instructions for you at that time.

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

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### Stacey Jill Brodbar

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

Thank you, Ram, and good day, everyone. We appreciate you joining us today for a discussion of our fourth quarter and full year 2021 financial results. Today's call will be led by Scott Stephenson, Verisk's Chairman, President, and Chief Executive Officer; Lee Shavel, Chief Financial Officer and Group President; and Mark Anquillare, Chief Operating Officer and Group President.

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](http://verisk.com). The earnings release has also been attached to an 8-K that we have furnished to the SEC. A replay of this call will be available for 30 days and 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 impact 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.

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

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### Scott G. Stephenson

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

Thanks, Stacey. Good morning, everyone, and thank you for joining us for our fourth quarter 2021 earnings conference call.

Before we discuss the company's performance, I want to first reflect on the recently announced leadership succession plan. After 21 years at Verisk, I will be retiring as CEO following our annual meeting of shareholders, and I'm pleased that Lee Shavel will succeed me as CEO and Mark Anquillare as President.

It has been an honor and privilege to lead Verisk through critical and transformative periods for our company and the industries we serve. With a dynamic executive team, deep bench of talent, strong balance sheet, collaborative culture, a modernized technical environment, and leading-edge analytic and software platforms in place, this is the right time to begin the transition to Verisk's next CEO. I have every confidence that under Lee and Mark's steady leadership, the team will continue to empower a better, more resilient, and sustainable tomorrow for customers and the world.

I'd like to personally thank all 9,000-plus Verisk teammates for their passion and dedication to always being innovative, for their underlying commitment to our customers and for conducting business each and every day with the utmost integrity. I know the Verisk I will be leaving is more data-rich, more modern, and more integrated with our customers, and the future is very bright.

Most of you know Lee quite well. Since joining Verisk in 2017, he has served as our Chief Financial Officer and has been a trusted partner who has sharpened our focus on the effective allocation of capital. In 2021, Lee became Group President of our Energy and Financial Services segments and successfully integrated the business for improved strategic and operating coordination and accelerated investment in the company's energy data analytics platform. In addition, he's been actively engaged in the company's ongoing business and portfolio review, which I'll speak to in just a bit.

Partnering with Lee will be Mark Anquillare, who has been elemental to Verisk's growth, operational excellence, and customer-centric culture for 30 years. Mark has been instrumental in growing the company's insurance vertical and aligning the company's enterprise risk assessment and management with its core operations.

With Lee as CEO and Mark as President, I have great confidence that we have the right team in place as we execute on our plans to enhance shareholder value, and I look forward to working together toward a smooth transition of leadership.

I also want to comment briefly on the recent governance actions that were announced last week. These actions were the culmination of a broad shareholder engagement and outreach program that the management team and independent members of our board of directors have undertaken since last year's annual meeting. As part of our proactive approach, we focused on environmental, social, and governance matters as well as long term strategic positioning and operational excellence. We appreciated the broad set of perspectives we heard over the course of conversations with investors, who represented a wide variety of geographies and investment styles, and we greatly value the input we received.

Reflecting this feedback from shareholders, we've taken a series of actions including, first, a proposal in the company's 2022 proxy statement to declassify the board of director election terms; second, the separation of the Chairman and CEO roles effective at the 2022 annual meeting; third, the implementation of return on invested capital based incentives for named executive officers and other leaders; fourth, direct oversight from the board on the risks and opportunities that sustainability issues create; and fifth, continued ongoing board refreshment. We believe these actions will bring improved transparency, increased accountability, and further align our corporate governance with best-in-class practices.

Turning now to the financial results, and I'm pleased to share that Verisk delivered a strong fourth quarter, demonstrating the consistency and stability of our subscription-based business model, the relevancy and mission-critical nature of our solutions, and our relentless focus on our customers. The net result for the fourth quarter was organic constant currency revenue growth of 5.2% and organic constant currency adjusted EBITDA growth of 7.6%, reflecting solid growth in our Insurance segment and sequential improvement in Energy and Financial Services.

For the full year, Verisk reported consolidated revenue growth of 7.7% and adjusted EBITDA growth of 6.8%, reflecting the positive impact of acquisitions including Jornaya, Data Driven Safety, Roskill, and Whitespace. On an organic constant currency basis, Verisk grew revenue 5% and adjusted EBITDA 4.7%. The last year was also one of major technological transformation, international expansion, and continued investment in innovation, all of which occurred alongside our comprehensive portfolio review.

Starting with our Insurance business, 2021 was a strong year as we reported 6.9% organic constant currency revenue growth and 6.5% organic constant currency adjusted EBITDA growth. We experienced exceptional new sales growth across a broad range of insurance solutions, including underwriting, claims, extreme events, and international software solutions and strong uptake for new InsurTech solutions like our LightSpeed platform.

We continue to see strong demand for our ESG-related solutions for corporate customers, including our country, climate, and human rights data and analytics solutions.

Overall, our insurance franchise remains competitively positioned, and we are advancing our lead by continually building our data advantage and maximizing the strategic synergies across our insurance data assets and solutions.

This year, we added 47 new data contributors to our statistical agent database to support rate-making across our core insurance lines and provide our insurance customers with valuable analytics that can help them innovate and expand in the rapidly changing marketplace. This includes contributions from global, national, super-regional, and regional companies and builds upon the 37 contributors we added in 2020.

Additionally, we expanded our contributory image library with real-time images of damaged property and autos for claims settlement with the contribution of images from a top five insurer. We also expanded our data use rights for automated underwriting, analytics, and subrogation. We continue to experience exponential growth in our small business database, which should fuel future opportunities across the small business lines of insurance.

This continued growth and our contributory data is a testament to our partnership with our customers, who entrust us with their data assets, a responsibility that we do not take for granted. These ever-growing datasets not only enable and empower us to innovate further to solve our customers problems, but they also fortify our competitive position and strengthen our growth potential into the future.

Importantly, our strategic decision to extend our data analytics to additional areas within the broader Insurance segment is delivering results for our customers and for Verisk. For example, Verisk's life insurance solutions combine our data analytics and software platforms within the life and annuity segment, helping carriers, distributors, and acquirers transform their product rollout, customer buying experience, underwriting, policy management, and claims. In addition, we are saving our customers significant CapEx and OpEx and expediting their speed-to-market for new products.

During 2021, Verisk life insurance solutions delivered strong double digit growth with faster growth in our licensed revenues. Moreover, our late 2020 acquisition of Jornaya and the subsequent acquisition of Contact State in the UK is enabling us to extend our data analytic capabilities into the marketing suite of our insurance customers and is driving strong growth for Verisk.

Our marketing analytics solutions help insurance carriers and financial services companies improve the timing, relevancy, and compliance of consumer engagements using end-market behaviors and consent-based data solutions.

Marketers are increasingly focused on first-party data enrichment as their foundational strategy, all the while managing risk and protecting consumer privacy in an increasingly complex and evolving privacy landscape. Jornaya partners with the biggest insurers and powers data-driven personalized marketing programs for their customers' acquisition and retention.

We are also excited about the added capabilities we will be bringing to our marketing solutions through the addition of Infutor, a strategic acquisition that we closed earlier this month. The investment rationale for this transaction is clear. Infutor offers real-time identity resolution and consumer intelligence to marketers to help understand the consumer behind each marketing interaction. Combining this with Jornaya's unique insight into end-market behaviors positions Verisk marketing solutions as a key data partner to our insurance customers. It also further strengthens our insurance offering as we continue our portfolio reshaping efforts and increase our focus on the Insurance segment.

Turning to our Energy and Specialized Markets segment, for the full year 2021 we delivered organic constant currency revenue growth of 2.4% and organic constant currency EBITDA growth of 6.4%, reflecting sequential improvement as we move through the year. This is driven in large part by an enthusiastic reception to our Lens platform which helped our Energy businesses deliver solid annualized contract value growth resulting from three consecutive quarters of mid-single digit ACV growth.

As we continue to integrate the business for improved strategic and operating coordination and accelerate technology investments, we have an active pipeline of new features and functionalities scheduled to be released during 2022 within our Lens platform, including ongoing development of discovery and valuation capabilities in our power, upstream, and subsurface packages. In addition, we will continue to bolster our existing data to include emerging technologies such as hydrogen and carbon capture and storage.

These combined efforts should continue to drive increased adoption and uptake by our customers. With just over 10% of our ACV related to Lens, we feel confident in our penetration runway and expect this to support continued sequential growth in 2022.

Now let's turn and discuss our portfolio review process. As we've mentioned on previous earnings calls, we've been engaged in an ongoing and comprehensive bottoms-up review of our non-Insurance businesses and overall portfolio composition.

With the assistance of outside advisors, our Board and management team has extensively studied each of our non-Insurance business units, analyzing them across a broad spectrum of financial and operating metrics, including long term sustainable growth, operating leverage, and capital return potential. We also carefully explored competitive positioning, business scale, cross-vertical data and technology synergies, and the shape and long term development of the end-markets.

Key to our decision-making is driving synergies across our businesses and improving sustainable returns on invested capital. It is with this in mind that we determined to sell two of our business units that after careful review did not meet certain operating metrics or did not prove to generate the needed synergies.

First, we've recently announced the sale of our environmental health and safety business, 3E, to New Mountain Capital for a total potential aggregate consideration of up to \$950 million. Verisk intends to return the immediate after-tax proceeds of roughly \$460 million to shareholders through share repurchases once the transaction closes late in the first quarter of 2022.

Second, as we announced yesterday, we have signed a definitive agreement to sell Verisk Financial Services to TransUnion for a total cash consideration of \$515 million. VFS has a unique and proprietary dataset that positions them at the nexus of payments, commerce, and banking as the only provider of a full customer wallet view of consumer banking and spending behavior.

This transaction will best position Verisk Financial to capitalize on the changing market dynamics and continued digitization of banking and retail, while providing increased focus for Verisk going forward. The closing of this transaction is subject to customary closing conditions including regulatory approvals. Like with 3E, we intend to return the after-tax proceeds to shareholders through share repurchases.

Moving on to our Energy business, we continue to actively evaluate alternatives for this business with relevant work streams underway. This includes preparing for the potential creation of a standalone public entity that would benefit from enhanced independence, agility, and unique brand value. We are also exploring how to structure such a transaction in a way that enhances tax efficiency to the benefit of our shareholders.

We believe the 2021 ACV momentum, the penetration runway we have for Lens, and the long term growth prospects of the Energy transition represent an immediate growth and return opportunity. We are also undertaking a more intensive review of where we can leverage datasets across our Insurance and Energy businesses to create value for our clients and shareholders.

These actions, combined with an improving energy industry end-market and newly-changed leadership team within the business unit, give us confidence in the continued momentum of this business and gives us the necessary flexibility regardless of which long term strategic path we pursue.

In connection with our comprehensive portfolio review, we are also undertaking a proactive study of our cost structure to make sure that we better align our costs with the scale and requirements of our ongoing Verisk businesses. Under Mark's leadership, we will continue to work to reduce our overall expense base by more than just those costs associated with the two business units we have agreed to divest. This work includes productivity initiatives from our Lean Six Sigma teams, use of our global talent optimization hubs, the continued modernization of our technology infrastructure, and careful management of head count.

Certain of these actions are already underway, and we plan to further update you on our progress on our next earnings call. We have confidence that through our active management of costs and ongoing transformation of our portfolio, cost structure, and technology infrastructure we can return to growth in line with our long term objectives and deliver OCC adjusted EBITDA growth ahead of revenue growth in 2022 and beyond.

On our technology transformation, we continue to make progress on our move to the cloud, and 2022 marks a pivotal year. I'm pleased to share that Verisk no longer owns a mainframe, and we've outsourced our small remaining mainframe footprint. Additionally, as we approach over three quarters of our compute environment residing in the cloud, we will reach the point late this year where we will begin closing the first of our US data centers with the second to follow in 2023 and officially retire the mainframe at that time. This is an exciting milestone for Verisk, and we look forward to achieving these goals and delivering all the benefits of cloud to our customers.

Before turning it to Lee, let me touch on our strong free cash flow generation which enables us to fund the highest return on invested capital opportunities, while also directly returning capital to our shareholders. In 2021, we returned over \$660 million to shareholders through dividends and share repurchases. I'm pleased to announce that our Board of Directors has approved a 7% increase in our annualized cash dividend to \$1.24 a share and an incremental \$1 billion in our share repurchase authorization to support ongoing capital return.

And now, with that, let me turn the call over to Lee for the financial review.



## Lee M. Shavel

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

Thank you, Scott, and on behalf of the entire team, let me thank you for your leadership and dedication to Verisk. You have driven success at Verisk, broadened our horizons, and provided a rare balance of leadership and humanity. It has been a privilege to work with you and learn from you over the past five years, and I'm fortunate to know that I will have your support and counsel through this transition.

I'm humbled to be named Verisk's next CEO and excited about our opportunities to build upon our track record of success and further strengthen the company ahead. I would like to thank the many shareholders who have personally expressed their confidence in my leadership ahead. And it has been a pleasure to get to know so many of you over the past five years, understand your perspectives, and take your input. I look forward to building on this dialogue going forward.

Before we discuss the financial results, I would like to bring to everyone's attention that we have posted our traditional quarterly earnings presentation that is available on our website.

For the fourth quarter of 2021, on a consolidated and GAAP basis revenue grew 7.4% to \$766 million. Net income attributable to Verisk decreased 19.5% to \$142 million, while diluted GAAP earnings per share attributable to Verisk decreased 18.7% to \$0.87 per share.

Our GAAP results include a release of a \$50 million litigation reserve previously taken for a patent suit with EagleView Technologies (sic) [EagleView Technology Corporation] (00:20:27) that has now been settled and a \$134 million non-cash impairment charge related to our Financial Services segment.

Moving to organic constant currency results, adjusted for non-operating items as defined in the non-GAAP financial measures section of our press release, we are very pleased with our operating results led by continued and consistent growth in our subscription revenues. In the fourth quarter, organic constant currency revenue grew 5.2% driven by continued strength in our Insurance segment and sequential improvement within our Energy and Financial Services segments.

Our non-COVID-sensitive revenues, as we defined at the beginning of the pandemic, increased 6.2% in the fourth quarter of 2021, our strongest quarter of growth for the year. This stable growth in our non-COVID-sensitive revenues representing 85% of our total revenues reflects the durability and resilience of our primarily subscription model and the mission-critical nature of our solutions.

Our COVID-sensitive revenues, which represent 15% of our consolidated revenues, declined 1.1% as compared to declines of 12.5% in the fourth quarter last year. While certain of our businesses are back to pre-pandemic levels, we experienced a modest setback relative to the third quarter in certain transactional businesses including workers' compensation claim solutions, repair cost estimating solutions, auto solutions and energy consulting services. Additionally, we saw continued COVID-related weakness in the part of our Financial Services segment related to bankruptcy volumes.

To be specific, our COVID-sensitive revenues decreased 2% in both our Insurance and Energy segments, but increased 4% within Financial Services. As we move into 2022, we will no longer report this breakdown of our revenue growth as it's becoming less relevant as we are two years into the pandemic and compares have normalized.



Consolidated OCC adjusted EBITDA growth was 7.6% in the fourth quarter, reflecting core operating leverage on solid revenue growth and cost efficiencies. Total adjusted EBITDA margin, which includes both organic and inorganic revenue and adjusted EBITDA, was 49% in the quarter, up 80 basis points on a year-over-year basis and still well above our pre-pandemic margin level of 47.1% recorded in the fourth quarter of 2019.

While we are experiencing some inflation in certain of our salaries and benefits and the return of certain COVID-related costs back into the business, we were able to offset that with core operating leverage and efficiencies. This level of margin also includes approximately 70 basis points of headwind from our ongoing technological transformation including our cloud transition costs, which we absorbed into our cost structure.

That said, we are already generating real economic value from our cloud transition as our cash flow benefits primarily from lower capital expenditures on third-party hardware and software exceed our P&L expense.

On that note, let's turn to our segment results on an organic constant currency basis.

In the fourth quarter, Insurance segment revenues increased 6.4%. We saw healthy growth in our industry-standard insurance programs, claims analytics solutions, extreme event solutions, life insurance solutions, and international insurance software solutions. We did experience a 2% decline in our transactional revenues because of a slower storm season versus last year and a modest step back in certain COVID-related revenues including workers' compensation claim solutions.

Adjusted EBITDA grew 6.3% in the fourth quarter while margins declined 50 basis points to 54.1%, reflecting a return to a more normalized rate of head count growth compared to the prior year, higher year-over-year short term incentive compensation expense, and the return of certain travel expenses. Nevertheless, this quarter's margin is still 160 basis points above our pre-pandemic levels recorded in 2019 and continues to reflect accelerated investment in our high-growth areas like life insurance and marketing solutions, the impact of acquisitions, as well as our technology modernization including our cloud transition.

Energy and Specialized Markets revenue increased 2.8% in the fourth quarter, a modest sequential improvement from the third quarter with building momentum as we enter 2022. In the quarter, we delivered double digit growth in energy transition and chemicals research coupled with modest growth in our core research subscriptions.

As Scott mentioned, we continue to benefit from strong adoption of our Lens platform as customers are seeing the value of our integrated cloud-based data analytic environment and had a successful renewal cycle in the fourth quarter of 2021, our largest renewal quarter of the year.

Adjusted EBITDA increased 15.3% in the fourth quarter, and margins expanded 360 basis points to 36.2%. A portion of the margin expansion reflects favorable comparisons versus last year's fourth quarter which included a timing difference for certain compensation expenses that were one-time in nature.

For the full year, margins in the Energy segment expanded 90 basis points, reflecting core operating leverage and inclusive of continued investment in our Lens platform and our cloud transition.

As we look forward to 2022 for modeling purposes, 3E contributed a high-teens percentage of segment level revenue and adjusted EBITDA in fiscal 2021. Given that the transaction is likely to close in the first quarter of 2022, financial results for this business will be included in our GAAP results but will be excluded from all organic constant currency growth figures.

Financial Services revenue was essentially flat in the quarter, reflecting double digit growth in combined spend-informed analytics and portfolio management, offset by continued weakness primarily in the bankruptcy business. Adjusted EBITDA increased 4.6% in the quarter while total adjusted EBITDA margins were 28.9%, up 230 basis points year-over-year because of expense discipline. Like 3E, results from VFS will be included in our GAAP results but will be excluded from all organic constant currency growth figures.

Our reported effective tax rate was 13.7% compared to 18.4% in the prior-year quarter. This quarterly tax rate benefited from higher levels of stock option activity and certain one-time discrete items in the quarter. Looking ahead to 2022, we expect our full year tax rate to 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 increased 14.8% to \$240 million, and diluted adjusted EPS increased 15.7% to \$1.47 for the fourth quarter of 2021. These increases reflect organic growth in the business, contributions from acquisitions, a lower effective tax rate, and a lower average share count.

Net cash provided by operating activities was \$188.6 million for the quarter, down 24% from the prior-year period, reflecting the impact of the one-time payment related to the settlement of the EVT litigation. For the full year, net cash provided by operating activities was \$1.2 billion, reflecting growth of 8.2% versus the prior-year period.

Capital expenditures were \$85.3 million for the quarter, up 17.8% versus last year, reflecting increases in capitalized software development offset in part by savings on third-party software and hardware as we move to the cloud. CapEx for the full year 2021 was \$268.4 million as we continue to invest in innovation and future growth opportunities. Capital expenditures as a percentage of revenue was 9% for 2021.

As we have discussed previously, our business is becoming increasingly software-intensive both organically and through our recent acquisitions. Our customers are recognizing the value and capabilities that our proprietary software can deliver, as evidenced by increased subscription pricing and deeper integration with our customers' workflows.

As we look forward to 2022, we expect our capital expenditures to approximate \$280 million to \$310 million. This range supports our plans to increase our software investment through the acceleration of our pace of development in Lens and extending software development into core underwriting, where we believe there is a similar opportunity for platform enhancement.

Additionally, it reflects the reality of inflation for hiring talent in software development, data science, and cloud architecture and the impact of prior acquisitions. These software investments generate some of the highest internal rates of return as we drive incremental value by distributing these platforms across our broad customer base and become even more deeply embedded in customer workflows. We believe these investments will continue to build upon the trend of improving returns on invested capital we have recently delivered.

Related to CapEx, we expect fixed asset depreciation and amortization to be within the range of \$220 million to \$240 million and intangible amortization to be approximately \$145 million. Both depreciation and amortization elements are subject to FX variability, the timing of purchases, and the completion of projects and future M&A activity.

During the fourth quarter, we returned \$122 million in capital to shareholders through share repurchases and dividends as our strong cash flow allows us to invest behind our highest growth and highest return initiatives while also returning capital to shareholders consistently. As we look to 2022, we expect to deploy the after-tax proceeds

from the sale of our 3E and Verisk Financial businesses for share repurchases in addition to our normal pace of quarterly repurchases which we generally execute through an accelerated share repurchase program.

In summary, we are seeing increased momentum across our businesses, as demonstrated by our [ph] quarterly (00:30:40) business. At the same time, we are making important progress executing on strategic, operational, and governance initiatives, several of which we announced since our last quarterly call and some of which remain ongoing today, and all of which are consistent with our commitment to enhancing shareholder value.

We will continue to move diligently ahead in pursuing the most value-creating path for our shareholders and all of Verisk stakeholders, and we have confidence that through our active cost management and ongoing transformation of our portfolio, cost structure, and technology infrastructure we can return to growth in line with our long term objectives and deliver OCC adjusted EBITDA growth ahead of revenue growth in 2022 and beyond.

We 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, sir. [Operator Instructions] We have our first question from the line of Toni Kaplan with Morgan Stanley. Please go ahead.

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**Toni Kaplan**

*Analyst, Morgan Stanley & Co. LLC*

Q

Great. Thank you. I was hoping, Lee, that you could talk to us a little bit more about the rationale on why a spin is the right move for the Energy business. We're just not getting the price that you wanted. And maybe also I'll sneak another one in. Like, could you just talk about how you're viewing the growth priorities for the remaining Insurance business as well? Just international, life, or just other new products? Thanks so much. Thanks.

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**Lee M. Shavel**

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

A

Yeah. Thanks, Toni. So, first, I want to be clear that what we're describing is an alternative, and so as we think about the strategic review that we've undertaken, it's clearly an option to think about a separately capitalized entity that enhances the independence, the agility, leverages the standalone brand value of the entity.

So, from our standpoint, given the momentum that we see within the business, as we talked about with the ACV growth in 2021, we want to make certain that we understand the mechanics, the timetable for that option. But we will continue to evaluate the market conditions and our ability to continue to contribute to the growth of that business overall. So, to us, it's a natural and understandable alternative for us to consider in terms of overall value creation for the shareholders.

I want to make it clear that all options are still on the table. We haven't ruled anything out. And we're, as we've described before, in the process of evaluating those but taking clear steps to be prepared for whichever alternative we think is the best from a value standpoint.

On your second question with regard to overall growth priorities, yeah, I would say that, firstly, the breadth of what we can address within the insurance industry given the number of datasets, given the demands, is very broad. And I think, we've demonstrated by identifying areas of growth under Mark and his team's leadership in life, internationally, we've been able to tap into a wide range of new ways to apply our datasets.

Part of what I think I would like to spend more time thinking about is really elevating the broader utility and industry-oriented mission of our Insurance business. We've done a great job focusing on the needs of our clients, and I think, there are opportunities to think about what we can do on a broader industry basis where we have additional leverage across our existing insurance clients and the functions that the insurance industry provides.

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**Toni Kaplan**

*Analyst, Morgan Stanley & Co. LLC*

Q

Thank you.

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**Operator:** Thank you. The next one, we have the line of Greg Peters with Raymond James. Please go ahead.

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**C. Gregory Peters**

*Analyst, Raymond James & Associates, Inc.*

Q

Good morning. I guess congratulations on your retirement, Scott.

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**Scott G. Stephenson**

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

A

Thanks, Greg.

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**C. Gregory Peters**

*Analyst, Raymond James & Associates, Inc.*

Q

And for my question, I guess I'm going to focus on the CapEx guidance and your comments around CapEx. Just looking for more color. So, you said I think 9% of revenue in 2021, if I look at your guidance. And I just did some quick back-of-the-envelope math. It looks like CapEx for 2022 could be growing faster if at the top end of the range, and certainly organic revenue and with the divestitures as a percentage of revenue it's going to increase. So, I guess, you've provided some comments, but if you could give us some more granular detail about what's going on there, that would be helpful.

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**Scott G. Stephenson**

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

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Sure.

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**Lee M. Shavel**

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

A

Thanks, Greg. This is Lee. So, I think, your observations are accurate, and I think, they reflect a couple elements that are contributing to that. One is that as a function of a number of initiatives, most significantly Lens, but also some additional CapEx investment that we have made in the Insurance business and we anticipate making in 2022, as well as some CapEx related to the ongoing cloud transition, we have been able to take a lot of hardware and software out. But there are elements of investment that we've made in that migration that will continue as we migrate more datasets on to the cloud.

Along with the impact of a higher level of capital intensity for our acquisitions, those are still providing upward pressure on our CapEx as a percentage of revenue, as you've identified. However, one thing that we think is important to balance is that at the core those investments, particularly in the software-oriented aspect of capital investment, those are supporting substantial growth and return opportunities within the business.

As I've mentioned in the comments, our ability to invest in those platforms and broadly distribute them to our client base generates growth. We have seen that specifically with our Lens platform investments, which required a meaningful investment of capital, which we were happy to do. And we've been able to observe as a function of the value that that has created for our client base, high-single digits, even low-double digit pricing increases because of the value of that platform as well as returns already on that investment at an early stage that are in excess of our cost of capital.

So, part of, I think, the tension that you've observed is that we do see opportunities to invest capital to support growth and higher returns. And as I've said previously, when we're in that situation, we are going to prioritize growth and returns relative to overall capital intensity. It is our expectation that there will be opportunities to bring that CapEx intensity down over time, but in the near term we still see very good growth and returns coming out of that.

So hopefully that gives you some context in addition to the comments that we made earlier on what's driving that in 2021 and in 2022 with the guidance we've provided.

**C. Gregory Peters**

*Analyst, Raymond James & Associates, Inc.*



It does. Thank you.

**Operator:** Thank you. The next question, we have the line of Hamzah Mazari with Jefferies. Your line is open.

**Hamzah Mazari**

*Analyst, Jefferies LLC*



Hey. Good morning. Thank you. Congrats on the new role, and also congrats on the retirement. My question is just on – just your go-to-market strategy. Clearly a lot of changes. You talked about board level corporate governance, portfolio changes. Could you also talk about whether you've looked at your go-to-market strategy and sales force incentives and maybe how that structure can also change? Or maybe it doesn't change, and if not, why? Maybe just talk about that. Thank you.

**Mark V. Anquillare**

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



Sure. This is Mark. Let me maybe focus a little bit on the insurance answer there. I think it always starts with our ability to interact most effectively with customers. And over the course of these last two years, I think, we've been very pleased with both the level and number of meetings we've had with executives. So, people are very open to getting on a Teams call, a virtual call, and we've seen that increase our NPS scores which are internal indications, certainly one of many.

We've seen higher and excellent retention rates, and probably most importantly, we've seen the best of your new sales that we've ever experienced, all that driven by what I'll refer to as higher goals, higher expectations on our

sales teams. But what we do is keep our targeted comp generally unchanged, so meaning the rates or the [ph] commercial (00:40:21) rates are generally and gradually going down as we achieve more.

So, I think, we're pleased with our go-to-market. We're always looking to refine it. We're always looking to become more effective. And I think the focus right now has been a combination of let's put a team focused on our biggest clients, and we've done a wonderful job with all the InsurTech and newer players, where we've had a lot of new opportunities.

So that is how we've, I'd say, adjusted over the last couple years. Personal versus commercial focus, attention at the highest level, and then attention on those new InsurTechs. So, always looking to improve, but I think, we've been quite effective.

Hope that's a good summary.

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**Lee M. Shavel**

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

**A**

And, Hamzah, I would add on the Energy side one of the opportunities that we've been very directly engaged in is with the integration of our PowerAdvocate and Wood Mackenzie teams. It's given us an opportunity to think about how we take that core PowerAdvocate product and distribute that more effectively on a joint marketing and sales effort across it. And it's given us an opportunity to think more broadly about what our go-to-market strategy is and how we approach that.

So that's just on the Energy side a specific example of our thinking around that topic.

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**Hamzah Mazari**

*Analyst, Jefferies LLC*

**Q**

Thank you.

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**Operator:** Thank you. The next one, we have the line of Alex Kramm with UBS. Please go ahead.

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**Alex Kramm**

*Analyst, UBS Securities LLC*

**Q**

Yes. Hi. Good morning, everyone. Want to come back to the earlier question from Toni on I guess, Lee, your new focus areas as you take over the company. I'm asking in particular what this means for maybe the growth outlook in the medium term. And I'm asking because you see a lot of companies in this space recently capitalize on new growth initiatives and actually position themselves for faster medium term growth. So, wondering as you refocus the company on the Insurance, as you have some maybe new growth opportunities, should we be thinking about maybe accelerated growth rates? Or is 7% still the right number to think about as you take the lead here? Thanks.

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**Lee M. Shavel**

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

**A**

Yeah. Thank you, Alex. So, look, keep in mind, with the announcement less than a week ago and the focus on the two transactions that we announced recently, I've only started to define my objectives and how we think about growth. And they will continue to develop as I spend more time with the business and most importantly our clients.

I'll start by saying that at the core, as I think all of you can appreciate, we have a phenomenally powerful engine. Two in fact that I see powering the Verisk plane. One is that rapidly growing number of datasets that have



relevance to our clients and industries, and the second is the growing demand and capacity of our clients to ingest and utilize the data.

And the fuselage of Verisk in the 9,000 colleagues that we have here who passionately harness those two engines by allowing us to invest in that data and the analytics on behalf of the industries that we serve more efficiently than they could individually and allow us to create value for them, value for our shareholders. So that's really what supports our fundamental growth expectations for the business.

The opportunity that I'm immediately focused on is, how do we improve our operating leverage internally and externally to expand the lift of those engines? Internally by increasing the operational focus that is a natural extension of the capital discipline that we've deployed, and externally by thinking more expansively about how we serve our industries to create value for them and leverage the industry scale.

I'm a big believer in simple wisdom, and I think Archimedes once said a couple of millennia ago that if you give me a big enough lever and a fulcrum to place it on, I can move the world. And we have a lot of compounding levers within Verisk, and I'll be focused on bringing them to bear on our business and financial performance.

For the time being, we think that the long term growth objectives that we have are reasonable growth objectives. Obviously, our objective is to try to prove against those, and I'm looking forward to your input and providing regular updates as we move forward.

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**Alex Kramm**

*Analyst, UBS Securities LLC*

Q

Okay. Thank you.

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**Operator:** Thank you. The next one, we have Jeff Silber with BMO Capital Markets.

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**Jeffrey M. Silber**

*Analyst, BMO Capital Markets Corp.*

Q

Thank you so much. Wanted to talk about margins. I think on your prior call you talked about adding some expenses over the course of 2022, though you still expected margins to be above the pre-pandemic levels. I was wondering if we can get some color and if possible, you can quantify what the order of magnitude will be this year on those additional expenses. Thanks.

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**Lee M. Shavel**

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

A

Sure. So that is something that we are anticipating. I think, there are a couple pandemic-related expense items that we are managing. One is the T&E impact and the kind of the normalization of that, and that is a timing aspect of when do we begin to see travel return. The other that I think all companies are experiencing right now are the heightened level of inflation and impact on compensation expectations over time.

So, each of those are having an impact. We think that the T&E aspect will be gradual. It has had a – in the fourth quarter, we began to see a little bit more of an impact. That was approximately a negative 50 basis point impact in the fourth quarter on the business – I'm sorry, on the overall margin for it. We have only seen in 2021 a bit of an STI normalization impact, but we'll probably experience a little bit more pressure on that ahead.



I think as we think about the overall margin, hopefully you've heard it in our comments. With regard to the impact of the divestitures and the specific actions that we're taking to eliminate stranded costs, our expectation for 2022 is that we will be able to deliver increased EBITDA growth relative to revenue growth, implying an expectation that through the mix of those elements, the divestitures, the actions that we're taking, and also taking into account some normalization of the T&E impact and increased compensation pressures, that we expect to deliver improvement in the margin in 2022.

**Jeffrey M. Silber**

*Analyst, BMO Capital Markets Corp.*

Q

Okay. Very helpful. Thanks so much.

**Operator:** Thank you. Next we have Andrew Steinerman with JPMorgan.

**Andrew C. Steinerman**

*Analyst, JPMorgan Securities LLC*

Q

Hi, Lee. You can imagine I wanted to jump in a little bit more on that margin comment you just made about 2022. Is that going to be margin expansion, let's just say in the current portfolio? Or is that 2022 margin expansion only on an organic basis when you exclude acquisitions that you recently made? Then the other question is within the medium term financial targets for the company is double digit reported EPS growth, and I wanted to know if that's also appropriate here for 2022.

**Lee M. Shavel**

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

A

Yeah. So, Andrew, with regard to 2022, the margin expansion that I described, which is a special case because of the structural changes that we are describing, I will say, and you can appreciate that this is not our typical guidance...

**Andrew C. Steinerman**

*Analyst, JPMorgan Securities LLC*

Q

Right.

**Lee M. Shavel**

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

A

But given kind of the structural dimension of it, that we believe, based upon factoring all of those elements in, the portfolio changes, the actions that we are taking, the impact of acquisitions as we know about at this point, that we do believe that we will be – we are in a position to deliver margin improvement over that period. We also believe – and I think, this goes to your organic question. We believe that we will be able to more than offset the impact of stranded costs related to the two businesses that we are divesting.

So that's our sense of where we are. There are a lot of variables that affect that, but that's our expectation at this point.

With regard to your question on EPS, we are not – we still believe that the double digit EPS objective is something that is achievable as part of our longer term growth, but we also have to recognize that we will have an impact to EPS as a function of the two divestitures in the period. We don't think it's a significant one, but it will certainly be a near term impact on EPS for 2022. But the underlying dynamics of our expected revenue growth,

EBITDA growth, and then the management of our share base still positions us to be able to deliver on that double digit EPS growth over time.

**Andrew C. Steinerman**

*Analyst, JPMorgan Securities LLC*

Q

Okay. Perfect. Thanks for taking the time.

**Operator:** Thank you. The next one, we have Jeff Meuler with Baird. Your line is open.

**Jeffrey P. Meuler**

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

Q

Yeah. Thank you. Just given all the comments on the inflationary environment, wanted to also ask how you're managing from a pricing perspective, just given the high and growing value clients are getting from your solutions. And given that I think you just took the annual pricing in ISO and some other solutions, so just how are you factoring in the expense-based inflation into how you approach [ph] price increases? (00:50:33)

**Lee M. Shavel**

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

A

So, maybe I'll try to take that. What we have typically done is we have tried to value price all of our solutions. And to the extent that you think about the value that we provide as a kind of Verisk providing a platform or an analytic, we've typically entered into multiyear contracts. They are typically three years in duration. So, as those come due, we're certainly going to try to push on a little bit more on the increase as it relates to kind of reconciling and talking about the people and the cost of labor.

On another front, we have some of our bills that are somewhat tied to premium. So, in the world of a hardening insurance market, that could have some wind at our back over the course of the next year or two.

So, I would say to you we are thoughtful about it. We're not aggressive about it. We're trying to make sure we maintain the long term relationship with customers, and that's what is in everyone's best interest.

**Jeffrey P. Meuler**

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

Q

Got it. And congrats to the three of you. And best wishes, Scott. Thanks.

**Scott G. Stephenson**

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

A

Thanks, Jeff.

**Operator:** Thank you. Next we have Ashish Sabadra with RBC Capital Markets.

**Ashish Sabadra**

*Analyst, RBC Capital Markets LLC*

Q

Yeah. Let me add my congrats as well to all three of you and best wishes to Scott. Just in terms of question, one quick clarification on the tax leakage on the Financial Services. I was just wondering if you provided the cost basis there and how should we think about the net proceeds versus the gross proceeds.

And then maybe a quick question on the Insurance. You mentioned some headwinds there in the quarter from a transactional side, but how do we think about the claims business going forward? Are these headwinds just one-off in the fourth quarter? And should we think about the claims business getting back to 7% in 2022? Thanks.

**Lee M. Shavel**

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

A

Thanks, Ashish. So, I'll take the first one and hand the second one over to Mark. From a proceeds standpoint, we – for Financial Services, we're expecting essentially a very similar number to the headline number. Slightly less for that. So, not a lot of tax leakage on that specific transaction.

**Mark V. Anquillare**

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

A

And I'll try to address the second topic. A couple things happened in the quarter that we highlighted from a transactional perspective. First of all, our [ph] pure (00:53:07) estimating business does benefit from what I'll refer to as some severe weather. Obviously, there's more instances where there is an estimate needed to repair property. There was quite a bit of severe weather in the fourth quarter of 2020. It was a rather light and quiet 2021.

And the second topic around transactional is in this world of COVID. There is fewer – we are in a business that relates to workers' comp claims, and we help insurers quantify the cost that they will incur before Medicare picks up those costs. It's called Medicare Set-Aside. And there just have been fewer workers' comp claims in that space as people generally work from home and do their work kind of in a more remote or local setting.

So, we've seen those two instances on the transactional side of things.

**Ashish Sabadra**

*Analyst, RBC Capital Markets LLC*

Q

Thanks for the color. Thank you.

**Operator:** Thank you. The next one, we have George Tong with Goldman Sachs.

**George K. Tong**

*Analyst, Goldman Sachs & Co. LLC*

Q

Hi. Thanks. Good morning. I'd also like to add my congrats to Scott and Lee. So, Verisk has announced divestitures of Financial Services and 3E as part of its portfolio review. How motivated are you to divest the remaining Wood Mackenzie business and the Energy segment?

**Scott G. Stephenson**

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

A

George, I think, we've been pretty clear that we are looking very deeply at all possible ways of maximizing the value of this very strong business that we've got. We talked specifically about a pathway which would be to make it a freestanding company. That's receiving a great deal of attention right now. At the same time, we're accounting for the condition of the business. We're looking at the real-time progression of the performance of the business. We're looking at the state of the markets. And we're looking at the macro environment. And at the intersection of all those things, we will make the ultimate and final decision about the very best way to make it the very best outcome for our shareholders. So very active, very deeply considered, and ongoing.

**Lee M. Shavel**

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

A

And I would just add our motivation is focused on what is the best value outcome for the business and for the shareholders.

**George K. Tong**

*Analyst, Goldman Sachs & Co. LLC*

Q

Very helpful. You mentioned that EBITDA growth this year should outpace revenue growth after taking into account T&E, inflation, stranded costs, et cetera. How do you expect margins to perform moving through 2022?

**Lee M. Shavel**

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

A

So, George, I would refer you back to our general guidance is that we expect over the long term for EBITDA to exceed our revenue growth given the operating leverage and feel as though we have demonstrated the underlying model that delivers on that. So, that continues to be our expectation.

**Operator:** Thank you. Next we have Andrew Nicholas with William Blair.

**Andrew Nicholas**

*Analyst, William Blair & Co. LLC*

Q

Hi. Good morning. Thanks for taking my question. I just wanted to ask about ESG. I think last week, you announced the launch of some sovereign ESG ratings via Maplecroft, and I was just kind of curious about that opportunity. If you could spend some time maybe talking about the size of that business, any kind of internal targets for growth or size you can share bigger picture? Just trying to get a sense for really how big this opportunity could be for your ESG assets specifically. Thank you.

**Scott G. Stephenson**

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

A

Yeah. Thanks for the question. It's exciting. At the moment, we treat it really as an interesting extension of things that we already do. A lot of the strength that we have to offer and the insight that we can bring has developed out of our participation in the vertical markets that we're in, beginning with Insurance, but also Energy. There are important observations that come out of both of them, and so we are trying to render that information and additional information in a way that's useful to a broad set of customers, including insurers and energy companies, but also corporates and other places.

So, it is – in a sense, it's momentum out of what we already do, but it's also kind of new business. And so, the overall ultimate appetite of the world for ESG-oriented analytics is probably quite large, but we are starting where we are and building out from there.

There are established players in providing comprehensive ratings at the corporate level, but we would have to think very carefully before we chose to move in that direction. But we can create a lot of indexed information that is really quite insightful, and that's the path we're on right now.

So, it's a very good vector. It's a long march. The world will have big appetite for ESG analytics, and we will do the Verisk thing in serving that world.

**Andrew Nicholas**  
*Analyst, William Blair & Co. LLC*

Q

Great. Thank you.

**Operator:** Thank you. Next we have Manav Patnaik with Barclays.

**Manav Patnaik**  
*Analyst, Barclays Capital, Inc.*

Q

Thank you. Good morning, and congratulations to Lee, Mark, and Scott. I just wanted to focus on the Insurance segment. A lot of good examples of new dataset contributors, progress, et cetera, investments that you were referring to earlier. I think, you also just rebranded the business as well. So, just in the context of all that's going on, I just wanted to try and get a sense of in what timeframe should we start seeing some of these investments start generating revenues that could be accretive to overall kind of that 7% growth you guys have talked about before?

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

A

So, thanks for the question. I think, we're pretty excited about the places that we are investing. We tried to highlight a little bit of the work that we're doing with life insurance and marketing. Those are clearly areas of investment. Also we talked a little bit about just our core business which represents the ways we go-to-market and provide our customers with the cost of goods sold and the policy language of their – the insurance contracts.

We're going to spend some time hopefully helping our customers better consume and take on our information in a more cost-effective and efficient way. So, in my mind, we've been doing this for like 5 years or even more, probably 10, and we've been seeing those benefits over the last 5 in the form of a combination of top line growth which is accelerated and also in the form of customers much more appreciating the services and offerings we provide.

So, we continue to look very deeply at return on invested capital. We're very thoughtful about where and how we invest. We're kind of tight about that if you ask our teams as to how we go about this. So, we try to prioritize these in a way that we think will both help our customers and ultimately help all stakeholders involved. So, we'll continue what we're doing, and hopefully we can even go faster. The theme is accelerate.

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

A

And, Manav, thanks. We appreciate the question. And obviously we're sorting through the impact of a number of the transactions that we've announced recently. And our hope is that as that settles we look forward to getting together with investors broadly and talking about all of the elements of growth within the business to give a clearer picture of what Verisk looks like ahead. But we're very excited about that future.

As Mark described a couple of those opportunities, one of the ones that we've talked about a fair bit with investors is the investment that we've made in our LightSpeed platform where we've been able to find new ways, new areas to assist our insurance clients. And it's a perfect example of how we've been able to develop an industry solution. And I think, there are a broad range of opportunities that we're thinking about in addition to the investments that we're making in our core lines business to really expand and elevate the services that we provide to our customers there.

**Manav Patnaik**

*Analyst, Barclays Capital, Inc.*

Q

Thank you.

**Operator:** Thank you. The next one, we have the line of Kevin McVeigh with Credit Suisse.

**Kevin McVeigh**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Great. Thanks so much, and let me add my congratulations all around as well. I wonder I guess, Lee or Scott, if you could give us some thoughts. It seems like the majority of the proceeds is going to go to buyback as opposed to M&A. Within the kind of the framework of the Insurance business overall, any thoughts as to M&A within the context of that as opposed to buyback and just the decision on the buyback as opposed to maybe increasing some targeted M&A?

**Lee M. Shavel**

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

A

Sure. Thanks, Kevin. So, we generate, I think, as you'll appreciate, very substantial amount of capital. Well, I've certainly talked at length around the discipline that we have brought to our M&A function. It's been focused on where we can create value. There has been no constraint on the deals that we want to pursue that we think are generating good returns or additive and value-creating.

And so given the proceeds that were released as a function of this transaction, we don't see any need to reserve any portion of that amount for M&A. We can fully fund that out of our existing capital generation, and we think this is a demonstration of our capital discipline of when we have excess capital beyond what we can immediately deploy, we return that to shareholders.

**Kevin McVeigh**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Great. Thank you.

**Operator:** Thank you. The next one, we have Andrew Jeffrey with Truist Securities.

**Andrew W. Jeffrey**

*Analyst, Truist Securities, Inc.*

Q

Hi. Thanks for squeezing me in here. Appreciate you taking the question. But I apologize, I jumped on the call a little late. I don't know, Mark, if you addressed this at all, and – but I'm wondering about InsurTech broadly. And if you could talk a little bit about the nature of those customers versus, say, legacy P&C customers what the contracts look like, if there's anything unique about those customers other than their apparently faster growth rate that you think gives Verisk an advantage or you think is notable generally as you look at your overall customer roster. I'm just trying to understand what you think the opportunity is there.

**Mark V. Anquillare**

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

A

Sure. Let me take that on. So, when I think of InsurTech, there's two types of InsurTechs. There's those folks who are kind of the technology savvy [indiscernible] (01:04:19) underwriter, and then there's service providers. And I think, your question is focused on the former.

Let me say this. We've done exceptionally well with InsurTech, and I think in large part it's because they are not kind of living through what is a lot of legacy technology and a lot of legacy integrations. They have the ability to choose what we think is the best and most accurate solutions and best analytics for their own need, and they have in many cases or almost all cases chose Verisk, which we're delighted to see.

What we have in the form of these partners is usually, because of their ramping kind of business model, we typically start with kind of a lower price, kind of a hopefully get them in the door type of price. But what they do is they buy not just one or two solutions, but they bought the entire suite. So, we have with these InsurTechs usually a broader and more widespread set of solutions and a broader partnership with these InsurTechs. And then as they grow usually a little bit tied to their size and their premiums, we're able to grow with them.

So, I think, it's been a great nurturing type of relationship. I think, they helped us get better. They're very creative, very innovative. We think we are the same. And it's been a wonderful partnership. So, our new sales, our growth, and our opportunity has really been bolstered by these InsurTechs.

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**Andrew W. Jeffrey**

*Analyst, Truist Securities, Inc.*



Helpful. Thanks.

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**Operator:** We don't have any further questions at this time. And with that, this concludes today's conference call. Thank you for participating. You may now disconnect. Have a great day.

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