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# Verisk Analytics, Inc. (VRSK)

Q1 2021 Earnings Call

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## MANAGEMENT DISCUSSION SECTION

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

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

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### Stacey Jill Brodbar

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

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

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

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 will turn the call over to Scott.

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### Scott G. Stephenson

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

Thanks, Stacey. Hello, everyone, and thank you for joining us for our first quarter 2021 earnings conference call.

2021 is a special year here at Verisk, as it marks our 50th anniversary as a company. For 50 years, our mission and purpose has been the same. We work non-stop in partnership with our customers using data and insights to make a difference by helping protect people, economies, society, and our planet. On this journey, we have used our unique data and combined it with advanced technologies in new ways to unlock meaningful insights about risk, becoming a global leader in cutting-edge analytics, and while we are very proud of our accomplishments over the last 50 years, it inspires us to look ahead to all the difference we can make over the next 50 years.

I'm pleased to share that this year is off to a solid start, marked by continued growth in our subscription businesses. We delivered solid growth in Insurance, a modest sequential improvement in our Energy segment, yet we had a challenging quarter within Financial Services. While certain of our businesses continue to be impacted by the pandemic, those revenue streams show resilience as the underlying causal factors improve, and we have confidence in those relationships. Lee will provide more detail in his financial review.

For 2021, we remain focused on building long-term shareholder value, delivering for our customers through innovation and service, while also protecting the health and well-being of our teammates around the globe. Currently, most of our offices are operating in a Phase I format and are available for those employees who volunteered to work in the office. We do have certain offices that have advanced to Phase II and even Phase III as conditions in their local markets allow, and employees are energized to be back in the office.

Our Global Protection Services team closely monitors directives from local governments and public health officials around the world as well as incorporates learnings from our local market experiences to make real-time decisions to maintain the safety of our people. To that end, our teams are closely monitoring the current situation in India in the face of the severe second wave of COVID, and we are providing relief and assistance to our India colleagues including vaccination coverage, virtual medical services, emergency relief funds, and other essential programs. To-date, we have experienced minimal or no disruption to our business or the services we provide.

Over the duration of the pandemic, our teams have proven they can transition efficiently into different work modes with minimal interruption in service to our customers. So while there remains some uncertainty around return-to-office timing across our many different markets, I have complete confidence that our 9,000-plus teammates at Verisk will continue to navigate through these times effectively and deliver the highest value to our customers.

Throughout the pandemic, I've maintained a high level of engagement with our customers' CEOs across all three of our segments. Despite the virtual setting, the frequency of these meetings has increased, and the level of engagement and mutual respect has deepened. In these conversations, we are discussing our customers' highest strategic priorities. In all circumstances, we are receiving feedback that Verisk is a trusted and differentiated partner, and that our solutions and innovations play a large and increasing role in our customers' journeys to becoming more digitally engaged, more automated, and more efficient. These type of constructive meetings are happening across all levels of our organization, most recently within our underwriting and claims councils which include representatives from our Top 25 customers in the Insurance vertical.

With regard to digital engagement, we continue to see very strong adoption of our virtual claims processing platforms, ClaimsXperience (sic) [ClaimXperience] (5:48), as insurers continue to find additional use cases for remote claims handling outside the pandemic. Our virtual claims tools enable our customers to conduct business at a time when in-person processes were not possible, but it also has the added benefit of settling claims with greater speed. In fact, virtual claims are paid on average 30% faster than the traditional process.

We've recently added new features to enhance the solution including remote measurement, object recognition, and an automated damage assessment tool. We also are having success converting customers from transactional usage to long-term contracts with committed volumes as they build comfort with the tool and realize the value that remote claims processing can bring to their organization.

One of the strongest signals of the deep and expanding relationships with our customers in our view is the fact that they entrust us with their data. I'm pleased to share that in the most recent year, 29 insurers have decided to newly contribute data to our ISO Statistical Database. This is the highest number of new participants in a single year over the last 10 years and represents a range of different customers from insure tech start-ups to multi-state carriers.

On the sales front, we're having great success selling in virtual mode and remain committed to advancing our techniques with ongoing training across the many new virtual selling tools we employ. Our pipelines of new opportunities are some of the strongest in our history, and they continue to build. Our customers are more

engaged with Verisk as a partner as evidenced by increased numbers of meetings, better attendance at our virtual conferences, and contract renewals and signings of new deals that are longer in duration.

On the innovation front, we continue to make advances with our solutions to drive digital engagement, automate processes, and create a seamless interconnected ecosystem, what we at Verisk refer to as platform to analytic environments. While this is a journey we've been on for some time, the pandemic has catalyzed our customers to move forward with greater urgency and speed.

These platform to analytic environments offer our customers deep integration into their workflows and allow a massive amount of information to be rendered so that decisions can be made quickly and accurately. Often, these environments are more software-intensive as we are utilizing the software to gather more data, automate more processes, and become even more deeply embedded with our customers. These platforms are also driving healthy and profitable growth for Verisk across our verticals. Let me give you a few recent examples.

Within life insurance, we're driving strong growth and profitability as we bundle the industry-leading module software offerings at FAST with the data analytics we have developed across Verisk to create a full suite of life insurance solutions in one singular platform. We're having great success extending and accelerating the adoption of FAST solutions across our broad customer base and have a strong pipeline of future deals.

In addition, we recently launched new analytics including EHR Triage Engine and Life Risk Navigator. Electronic Health Record Triage Engine uses advanced data analytics and natural language processing to distill thousands of pages of electronic medical records into a short summary and provides an automated underwriting score, both of which reduce underwriting costs and speed up the process and that leads to an improved buying experience for the end consumer. Life Risk Navigator is a cloud-based modeling platform that offers in-depth portfolio analytics to enhance risk selection, quantify changes in mortality rates, and drive overall better decision-making.

Further, in March, we enhanced our capabilities in life insurance through the acquisition of 4C Solutions, a software advisory firm with expertise in group life insurance. The addition of 4C enables us to extend our expertise into the group life market and help address the needs for group life insurers and institutional annuity providers.

While each solution is strong on its own, we believe we deliver even more value for our customers as these solutions are integrated into one holistic interconnected ecosystem.

We are also delivering very strong growth at Sequel as we help our customers in the specialty markets digitize and modernize. Sequel solutions create a truly integrated ecosystem across carriers, brokers, and managing general agents throughout the specialty market, and we're bringing in new customers and expanding our suite of products across existing customers. We are also beginning to see traction in our global expansion of Sequel with new clients signed in the US and Asia-Pacific.

To further enhance the value and capability of the Sequel ecosystem, we recently acquired a majority stake in Whitespace Software. The powerful combination of Whitespace's digital placing platform with Sequel's pricing distribution and policy administration applications enables a seamless real-time quote-to-bind solution with straight through submissions for our existing and prospective customers.

In our Energy business, we continue to make advances on the development of new modules and sales of new subscriptions for our Lens platform. Despite the softness in the energy end-market, customers are recognizing the

value and uniqueness of the platform, and this is reflected in new customer subscriptions and constructive pricing for customers that adopt Lens.

Additionally, we have lots of interest in future releases for Lens and already have a group of development partners in place to support Lens Power. Backed by the proprietary data assets of Wood Mackenzie and Genscape, Lens Power enables customers to maximize investment opportunities in clean energy and be on the forefront of the energy transition and further advances our market-leading position in the energy transition.

We are well-positioned to capitalize on the growing trend of countries and companies around the world increasing investment toward renewables and green energy, and our solutions will help inform these critical decisions at the highest levels.

Lens Power is part of a broader suite of solutions that we have within our Energy segment to help our customers navigate the changing ESG landscape. We are seeing a positive market response to our Energy customer solutions for improved management of supply chain risk and ESG priorities like emissions benchmarking and supplier diversity programs.

Not only are we helping our customers with their ESG initiatives. We have also moved forward on our own ESG agenda. In early April, we released our annual CSR report which you can find in the Corporate Social Responsibility section of our website. This year's report is notable for three reasons.

First, the Environmental section features our climate disclosure report which speaks to the four pillars of TCFD: governance, risk and opportunities, risk management, and metrics and targets. Our board and senior management team are very engaged on these subjects, including climate change and climate transition, both on the risks we face but equally important on the opportunities they present for our business. We've been helping customers understand, measure, and manage risk associated with climate and weather for decades, wind storms, wildfire, and flood risk, among others, and are building on a base of knowledge, data, predictive models, analytic expertise, industry-leading standards, and investments that are already in play and serving our Insurance and Energy customers daily.

Second, we used the CSR report as the vehicle to deliver our first-ever disclosure in accordance with SASB's recommendations for professional and commercial services companies. The disclosure includes baseline metrics around workforce composition, diversity, engagement, and turnover. We intend to update those metrics in our CSR report each year.

And finally, the CSR report calls out Verisk's approach to cybersecurity, a comprehensive document that describes our commitment and investments to strengthen data security and privacy. That commitment doesn't just exist on paper but is reinforced through the mandatory training we conduct annually for all of our employees.

We're very proud of the progress we made throughout 2020. Our board and senior management team are very much engaged, and our entire organization is committed to continue to move forward our ESG agenda over the coming years. I'm confident we have the right strategy and team in place to meet our long-term growth objectives. Our deep domain expertise and relationships with our customers help inform our innovation agenda, and we are treating the year 2021 as one that provides a unique set of signals on the resilience of the different parts of our company, which we are pulling into our always active capital process to insure that our capital is deployed into the highest return opportunities.

Now, I'll turn the call over to Lee to cover our financial results.

## Lee M. Shavel

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

Thank you, Scott. First, I would like to bring to everyone's attention that we have posted a quarterly earnings presentation that is available on our website. Additionally, you may notice that we have a slightly new presentation of our financial statements. As Scott mentioned earlier, during the quarter we closed on a majority investment in Whitespace Software. As a result, we now report net income and earnings per share attributable to Verisk.

Moving to the financial results for the first quarter, on a consolidated and GAAP basis, revenue grew 5.3% to \$726 million. Net income attributable to Verisk decreased 1.8% to \$169 million, while diluted GAAP earnings per share attributable to Verisk declined 1% to \$1.03, reflecting a \$19 million gain on dispositions in the prior-year that did not reoccur.

Moving to our organic constant currency results, adjusting for non-operating items as defined in the non-GAAP financial measures section of our press release, we are very pleased with our operating results considering the continued impact from COVID-19. In the first quarter, organic constant currency revenue grew 3.4% led by continued strength in our Insurance segment and modest sequential improvement in our Energy segment.

This quarter's performance fundamentally reflected a year-over-year comparison to a largely pre-pandemic quarter, although we began to see progress in our COVID-sensitive revenues which improved sequentially. Our non-COVID-sensitive revenues, as we defined at the start of the pandemic, grew approximately 4.9% on an organic constant currency basis, down from 6.5% rate in the fourth quarter, reflecting a lower level of catastrophe bond securitization activity at AIR and a higher level of impact from consolidation in the Insurance and Energy segments.

We did continue to experience, as we have since the onset of the pandemic, a negative impact from COVID-19 on certain of our products and services, largely transactional in nature which represent the balance or approximately 15% of our revenues. However, we saw an improvement as certain of these products and services returned to growth on a year-over-year basis.

COVID-sensitive revenues declined approximately 5.9% on an organic constant currency basis during the first quarter compared to the 12.5% decline in the fourth quarter, primarily as the result of improved consulting activity in our Energy sector but also reflecting a return to growth of several products and services particularly in the US.

Despite the impact on revenue in the first quarter, we are pleased to report that we delivered solid EBITDA growth and expanded margins as a result of effective expense management and lower travel expenses. Organic constant currency adjusted EBITDA growth was 5.2% in the first quarter, up from 4.9% growth in the fourth quarter.

Total adjusted EBITDA margin for the quarter, which includes both organic and inorganic revenue and adjusted EBITDA, was 47.6% in the quarter, representing leverage across our Insurance and Energy verticals, offset in part by weakness in Financial Services. This margin level includes roughly 150 basis points of benefit from lower travel expenses but also reflects a return to a more normal pace of head count growth and an increase in the pace of investment in our technological transformation, including our cloud transition process.

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

In the first quarter, Insurance segment revenues increased 6%, reflecting healthy growth in our industry-standard insurance programs, catastrophe modeling solutions, repair cost estimating solutions, and insurance software

solutions. We experienced a modest benefit from storm-related revenues as a result of the ice storms in Texas and the Southeast. However, this was more than offset by a lower level of securitization revenues in our catastrophe modeling business as issuance was lower year-over-year. In addition, we experienced declines in certain transactional revenues that were negatively impacted by COVID-19 as we had very minimal COVID impact in the first quarter of 2020.

Adjusted EBITDA grew 8.3% in the first quarter while margins expanded 196 basis points demonstrating strong margin expansion despite certain revenue declines, investment in our breakout areas, and increased costs associated with our cloud transition.

Energy and Specialized Markets revenue decreased 0.6% in the first quarter due to declines in consulting and implementation projects and some modest headwinds related to consolidation in the end-market. Growth in core research and environmental health and safety service revenues was offset by declines in transactional and consulting revenues. We attribute our performance to the diversification of our revenue streams into higher growth breakout areas like the energy transition and chemicals, the broad range of end-markets that we serve, and the strength of our relationships in the industry.

Adjusted EBITDA grew 6.6% in the first quarter while margins expanded 237 basis points, reflecting continued cost discipline and the benefit of lower travel expenses.

As a key partner to our Energy customers, we are deeply engaged with them and part of their most strategic and important decisions. We have a track record of managing through volatile times effectively and believe we are well-positioned with our energy transition solutions as well as our Lens platform to continue to outperform the end-market and help our customers navigate this broad energy transition.

Financial Services revenue declined 12.8% in the quarter, reflecting the continued impact of contract transitions that we undertook in 2020 and which will continue for the next two quarters as well as lower levels of project spending from our bank customers stemming from the COVID-19 pandemic and fewer bankruptcies as a result of government support and forbearance programs.

Adjusted EBITDA declined 74%, reflecting the negative impact of lower sales and a larger impact of corporate expense allocations on the segment's smaller base.

We continue to make progress on our journey to transition Verisk Financial Services to a more sustainable, subscription-based business. We are achieving the goals we have set for the business and have taken actions that we believe benefit the business in the long run but are likely to continue to negatively impact our growth over the next few quarters.

To that end, given the continued impacts from COVID-19 and the contract transitions, we expect to see a similar level of revenue and profit performance in the second quarter of 2021. However, as the impact of the contract transitions abate and our COVID-sensitive revenues improve, we anticipate a stronger back half of the year performance.

Our reported effective tax rate was 22.5% compared to 20.8% in the prior-year quarter, mostly owing to lower stock option exercises in the current period. As we have discussed, there will likely continue to be some quarterly variability related to the impact of employee stock option exercises which depends in part on the Verisk's stock price and employee personal decisions.



As a result of a tax law change in the UK, we now believe that our full year tax rate for 2021 will be between 23% and 25%, up from the 20% to 22% we had previously provided. This UK legislation was passed in March and will increase the UK corporate tax rate to 25% from 19% previously. This UK tax rate increase is likely to create variability in our quarterly rates as we expect we will be subject to a one-time non-cash revaluation charge in the third quarter related to a deferred tax liability when the bill is expected to become law. Our best estimate at this time is that our quarterly rate in the third quarter will be in the range of 33% to 35%, but we expect this to be primarily one-time in nature and do not anticipate a material long-term impact from this increase.

Adjusted net income was \$203 million, and diluted-adjusted EPS was \$1.23 for the first quarter 2021, up 4.6% and 5.1% from the prior year, respectively. These increases reflect solid top line growth, cost discipline in the business, a reduction in travel expenses as a result of COVID-19, and a lower average share count. This was offset in part by a higher effective tax rate.

Net cash provided by operating activities was \$449 million for the quarter, up 24% from the prior-year period primarily due to increased customer collections and a reduction in travel payments as a result of COVID-19.

Capital expenditures were \$59 million for the quarter, up 12%. We continue to believe that CapEx will be in the range of \$250 million to \$280 million, reflecting our continued investment in our innovation agenda, our technological transformation, as well as the carryover of certain expenditures that were delayed in 2020 as a result of the pandemic.

Related to capital expenditure, we expect fixed asset depreciation and amortization will be within the range of \$200 million to \$215 million. However, we now forecast intangible amortization to be approximately \$180 million, reflecting impact of recent acquisitions and changes in foreign currency rates. Both depreciation and amortization elements are subject to foreign-exchange variability, the timing of purchases, and the completion of projects and future M&A activity.

During the first quarter, we returned \$147 million in capital to shareholders through share repurchases and dividends. In addition, in May, we repaid our 5.8% senior notes in the amount of \$450 million through a combination of cash from operations and proceeds from our credit facility.

Our strategy to deliver long-term sustainable growth remains unchanged, and we believe the stability and predictability of our subscription revenues will persist. As we approach the anniversary of the onset of the pandemic, we plan to continue to provide updates on our non-COVID and COVID-sensitive revenues to offer transparency on the recovery of our business. We remain confident that COVID impacts do not represent a structural change in our fundamental growth drivers and believe that, as the underlying causal factors abate with the rollout of vaccinations and the opening of global economies, we will show strong resilience and recovery. We also have confidence in our ability to manage the cost structure effectively to protect profitability that we would remind you that cost comparisons will be more challenging beginning in the second quarter.

Taking this all together, we believe that as the COVID impacts abate, we can return to our long-term growth model of 7% organic constant currency revenue growth with core operating leverage allowing EBITDA to grow faster than revenue, although it's difficult to predict that timing.

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

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

## QUESTION AND ANSWER SECTION

**Operator:** Thank you. [Operator Instructions] We have our first question coming from the line of Toni Kaplan from Morgan Stanley. Your line is open. Please go ahead.

**Toni M. Kaplan**

*Analyst, Morgan Stanley & Co. LLC*

Q

Thanks a lot. I was hoping, Scott, that you could give us an update on the renewables business. I know you touched on it in the prepared remarks, but I guess, how big is it now? What are the fastest growing areas within it? And what's proprietary within the renewables and energy transition? Thanks.

**Scott G. Stephenson**

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

A

Right. So, what we do in the renewables area, Toni, is across a very broad front. So it is everything from solar to wind to biomass. What differentiates us is a couple of things. One is we believe that we actually have unique data about really the supply side of those industries.

In addition to that, we're able to relate the developments in that part of the energy ecosystem to the rest of the energy ecosystem. And that's really critical because that is what all the players in the energy space want to do, including the traditional hydrocarbon based players. They are all very, very interested in how they modify who they are in order to move into this future.

And then on top of all of that, we believe that we have the best platform to analytic environment going in Lens, which permits us to put all of this wonderful content into our customers' decisioning workflows in a really easy to consume and we believe differentiated way.

**Toni M. Kaplan**

*Analyst, Morgan Stanley & Co. LLC*

Q

Thank you.

**Scott G. Stephenson**

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

A

You're welcome.

**Operator:** Our next question comes from the line of Manav Patnaik from Barclays. Your line is open. Please go ahead.

**Manav Patnaik**

*Analyst, Barclays Capital, Inc.*

Q

Thank you. I was just wondering – as things are opening up here and you guys get a little bit more visibility, just longer term, I guess I wanted to just understand how you guys think about that 7% growth target for your entire company. I was just curious like if anything has changed, if you need to kind of revisit that target?

**Scott G. Stephenson**

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

A

Yeah. Nothing has changed in our perspective on that, Manav. One of the things that, and I sort of referenced this in my comments upfront, but we are watching very carefully the results we're producing in 2021, both the what we've deemed the COVID-sensitive revenues but also the non-COVID-sensitive revenues, and those would relate more to the subscription products that we have. And actually, we see good progress in the performance of those. And actually, they really have been the most steady part of our performance over the last several quarters.

And we also referenced our pipelines, both renewals as well as new sales opportunities. And as I mentioned in my comments upfront, we have some of the strongest pipelines we've ever had, and our focus is so very definitely on subscription-based solutions.

So the context for my answer to your question is that's where we're focused. Those are in good shape, they have been in good shape through the pandemic, and we think that they will remain on that track going forward.

**Lee M. Shavel**

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

A

And, Manav, it's Lee. If I could just add to that, one thing that I think gave us confidence on the resilience of the growth rates was the overall performance of our non-COVID-sensitive revenues through this period, that we maintained stability there. And in a lot of cases, given some of the value of our data and workflow-oriented products in this more remote environment, in some ways I think as we come out of this, it has accelerated some opportunities for us for the deployment of our data and analytics into these new environments.

**Manav Patnaik**

*Analyst, Barclays Capital, Inc.*

Q

Okay. Understood. And then just on the breakout area investment, Lee, I think you've talked about kind of the ROIC in metrics and so forth before. But I was just curious from – what time parameters do you put when you make those decisions? Like, how much of the long-term investment or do you have certain criteria that it has to return within a couple of years, et cetera? I was just curious if you could talk a little bit about that.

**Scott G. Stephenson**

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

A

Yeah. Lee, that's kind of into our work papers on how we look at the many investment opportunities we've got. So maybe you want to talk to that.

**Lee M. Shavel**

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

A

Yeah. Manav, thanks for the question. And I think, as you can appreciate that we – when we look at that investment portfolio, we think of it in that regard where we have a wide range of products with different time horizons and different levels of risk associated with them, some earlier-stage business opportunities, some later-stage. We do try to manage those naturally overall to deliver return clearly in excess of our cost of capital, and for higher risk, smaller projects at a level well-above that at some premium reflecting that higher risk.

And I would say that on average, this of course is going to vary from project-to-project, but we're generally looking to achieve those types of returns on a three to four-year timeframe in order to get to an acceptable return with upside beyond that. That's the general parameters of the portfolio. And I think we also want to make it clear that,

that is not just internal investment or external investment in M&A. We are evaluating the utilization of capital against both of those investment opportunities.

Certainly on the internal investment, the opportunities to leverage our existing assets and our position in infrastructure substantially enable us to deliver higher returns we expect, but on lower investments. On the M&A front, they are larger investments from a scale standpoint, but we are clearly focusing on how we are adding value to those. And the success that we've had with the life – the FAST acquisition, with the Genscape acquisition, with the acquisition in our 3E area, are all evidence of our ability to deliver value, either through reduced costs or improved functionality of those businesses.

So hopefully that gives you some context in how we look at both the internal and the external investment and some of the benchmarks that we use.

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**Manav Patnaik**

*Analyst, Barclays Capital, Inc.*



Okay. Thank you.

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**Operator:** We have our next question comes from the line of David Togut from Evercore ISI. Your line is open. Please go ahead.

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**David Mark Togut**

*Analyst, Evercore ISI*



Thank you. Good morning. Bridging to Manav's question, what are your current capital allocation priorities among acquisitions and share repurchase, when you evaluate those two at current prices and valuations? And then third would be dividend growth?

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**Scott G. Stephenson**

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



Yeah. So I'm glad you asked that last bit, David, because we have multiple forms for returning capital to shareholders. But even before that, I would really emphasize investment into the business to build these engines of growth. You hear us talking all the time about platform to analytic environments. They are really the source of so many forms of goodness in terms of value for customers, and the result of them is that we have much stickier relationships, which are just that much more [ph] recurring (34:46). So if I was to prioritize our use of capital, I'd actually start with internal investment, which is a genuine focal point.

We're very happy to return capital to shareholders. We have a long track record of doing that, and we feel very good about that. And with respect to M&A, Lee was already talking about kind of how we look at it, I mean, it's not as if we've earmarked some number of dollars or percentage of total capital available to go into M&A. It's more a question with that third leg of whether or not the opportunity is compelling and meets our return hurdles. And we are definitely emphasizing that, which, in combination with what we – who we already are, the whole becomes greater than the sum of the parts.

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**Lee M. Shavel**

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



Yeah. And David, it's interesting, the – and it's not uncommon for folks to make a comparison between share repurchases and M&A. I will tell you that we think of it differently in that we view M&A as more akin and evaluate it relative to our internal investment because both of them are capital investments that we're making to generate

return for shareholders. And both of those are subject to our return thresholds that we think are necessary to create value.

And then if we are unable to find return opportunities in either of those, and I want to emphasize to Scott's point, we think there one of the strengths of Verisk is the breadth and the depth of opportunity for us to invest internally in new products at very high incremental returns across a broad range of client-driven opportunities in our industry sectors. But similarly, we see other opportunities on the M&A front. If we don't see acceptable returns in either of those ventures, then we view share repurchases, as with dividends, an opportunity to return capital that we can't create value from in terms of higher returns.

And then finally, with regard to dividends, as you have seen, we have established a pattern of increasing that dividend. That becomes – that remains subject to the Board's view on the dividend increase, but there is a recognition that companies that have demonstrated an ability to deliver consistent growth in the dividend over time are rewarded for that discipline. We believe that it has introduced a valuable additional component to our investor base, as more yield-oriented investors that are looking for both growth and yield have been very additive to our shareholder base, and so we think that that is a useful additional component in our capital return strategy.

**David Mark Togut**

*Analyst, Evercore ISI*

Q

Thanks very much. Appreciate it, Lee and Scott.

**[05FTHR-E Steve Collis**

A

You bet.

**Operator:** We have our next question coming from the line of George Tong from Goldman Sachs. Your line is open. Please go ahead.

**George K. Tong**

*Analyst, Goldman Sachs & Co. LLC*

Q

Hi. Thanks. Good morning. Financial Services revenues are continuing to see the impact of contract transitions which you noted will continue for the next two quarters. Is it possible to parse out how much impact is coming from contract transitions and how much is due to core reduced spending from banks and fewer bankruptcies?

**Lee M. Shavel**

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

A

Yes, George. Thanks for the question. We estimate that the impact of the contract transitions in the first quarter was approximately two-thirds of the revenue decline that we saw on a year-over-year basis. And, as you note, this is something that will cycle through. We believe that those contract transitions, I would just remind folks, represented in part a re-balancing of our relationship with several of those contracts shifting in our general strategy to move from less upfront revenues to more revenues extended over the relationship. So, it reflects that.

There is some upside in future periods that balance that impact, but the short answer is in the quarter it was about two-thirds of the impact. And, as you mentioned, we expect that impact to be – to follow for the next two quarters.

**George K. Tong**

*Analyst, Goldman Sachs & Co. LLC*

Q

Got it. Very helpful. And just to follow-up on the cost side, you mentioned that cost comparisons will be tougher in 2Q. How much in expenses do you expect to come back in the coming quarters?

**Lee M. Shavel**

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

A

So, George, thanks for the question. I appreciate what you're looking for. It's hard to quantify. I guess I would approach it this way. One way to think of it is clearly we had a benefit from T&E of the reduction, the elimination of travel. And we have described what the impact is from a margin standpoint of that, for instance, 150 basis points in this quarter. And we would expect that we would continue to see that benefit, and so we'll see increase in T&E expenses. But I think that's going to be a gradual increase over time.

The other element is going to be compensation and/or incentive compensation in particular where we're going to see a more normalized level. As we saw in 2020, the responsiveness of our compensation, particularly incentive compensation, flexed down. We are expecting a more normalized return, so we'll see some increase in that. Plus, we are also beginning to normalize head count as we see demand from the businesses to support their overall growth.

So, there are a lot of factors, but as we move through 2021, one way to think about it is in reference to 2020. 2020 we saw the revenue impact, but we saw expenses decline more than the revenue impact, driving EBITDA growth of nearly 10% over that period. In 2021, I think, we're going to see a recovery in revenue. But as we look at those comparisons, we will see higher expense growth. We still expect to be able to deliver EBITDA growth, but it will be driven by the pace of expense growth, fortunately, which remains within our control.

So our hope is that we will be able to manage that expense growth on the T&E, on the compensation front in terms of head count growth, in order to continue to deliver growth, although not naturally at the same level that we were able to achieve in 2020.

Another way to think of it is that we do expect that, that dynamic will drive some reduction in margin, but we still are expecting to be able to retain, as we've said in the past, some meaningful level of the efficiencies that we achieved in 2020. I hope that gives you some direction towards your question, George.

**George K. Tong**

*Analyst, Goldman Sachs & Co. LLC*

Q

Yes. Very helpful. Thank you, Lee.

**Operator:** We have our next question, comes from the line of Alex Kramm from UBS. Your line is open. Please go ahead.

**Alex Kramm**

*Analyst, UBS Securities LLC*

Q

Yes. Hey. Good morning, everyone. Maybe just starting on the Energy business, I'm not sure if I missed it, but clearly trends have gotten better. You sound pretty optimistic about energy transition and pipelines here. Does that basically mean you think the business has bottomed? Or are you still cautious in terms of the next few quarters? Maybe the broader cyclical impact could still be negative?

[05FTHR-E Steve Collis

A

Yeah. I'll just go back to something that we've said for a long period of time, which is, for our business and the energy sector in general to perform, we just need a normal environment. We don't need a roaring commodity price. We just need a normal kind of environment. And our view is that that's more or less where the system has gotten to.

**Mark V. Anquillare**

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

A

And I would say, Alex, I think, we're encouraged by what we are experiencing both in the sales pipeline and in the consulting pipeline. We're also encouraged by the receptivity of our clients to the Lens platform as they are interacting with it and as they're using it. They are clearly seeing the value that we are adding to the data and the research products that we've provided before.

So clearly there is a lot of risk ahead as we manage through the pandemic, but we are seeing, we think, very constructive signs based upon the level of engagement we have so far.

**Alex Kramm**

*Analyst, UBS Securities LLC*

Q

Okay. That's fair. And then secondarily, a little bit more holistic question. But, Lee, obviously the Energy and the Financials business started reporting to you. I think, it's been now three months. Not a long time, but three months nonetheless. And I think last quarter when I asked about the business mix, Scott sounded a little bit more open to holistically review the portfolio. So, just wondering, Lee, and maybe Scott too, as you've maybe dug deeper into those businesses, any early findings, any areas for improvement, or anything where you're saying, hey, this is maybe not as good of a fit than we thought historically? So, any update will be helpful on that front. Thank you.

[05FTHR-E Steve Collis

A

Well, why don't I start. But, Lee, I think the question is kind of directed to you and your oversight, but I'll just say that there is a playbook at Verisk which, when it is in place, works very, very well, and that playbook is really centered on creating what we call platform to analytic environments and analytic objects which become industry-standard analyzed output. And the more that we feature those in the mix of what we do in any part of Verisk, the business becomes very sticky, very resilient, grows well, represents a lot of value for customers.

And I'll just say that, and I'm going to pick Financial Services in particular, the focus here at the moment is first of all to make sure that we capture all the COVID-sensitive revenues as the environment changes. Make sure that we capture all those revenues back into the mix, one. And two is the continued development of the platforms inside of Verisk Financial that will represent that same kind of Verisk way, the Verisk model, really, for doing business. And that's really what we're focused on in the near-term. And we're expectant about both of those things as it relates to the business.

So that, with respect to VFS in particular, Lee, I don't know if you want to add anything to that.

**Lee M. Shavel**

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

A

Yeah. I do. Alex, thanks for the question. And I would say just briefly, it is still early. I'm spending a lot of time with both the Financial Services and the Energy business, and really drilling into to complement kind of the top-down view from the financials, the bottoms-up focus on product, on clients, on people, to understand the underlying economics of the business.

And one, I think, observation that it's worth pointing out is that of course what's happening at those businesses is not wholly represented in what you see within the quarter. We've talked about the contract transitions that, while clearly a negative impact within this quarter, represent very strong progress in the objective that we have. The management team there has been moving very concertedly towards improving that base, and I continue to work with them to evaluate what that broader opportunity is and what the sustainable growth rate for profitability and value is for – over the long-term, as I do with the Energy business.

So, we're actively engaged in it. I would just ask for everyone's patience as we work through that and evaluate the business as a whole rather than focusing on the specific quarter's results. But that's what we've been doing.

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**Alex Kramm**

*Analyst, UBS Securities LLC*

Q

Very good. Thanks for the color.

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

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**C. Gregory Peters**

*Analyst, Raymond James & Associates, Inc.*

Q

Good morning. I was wondering if you could provide some updated views on the changing competitive dynamics in the insurance space, especially when we hear about or hearing more about the success of these software companies like Duck Creek and Guidewire. It seems like these companies are selling competitive or competing services. We hear them talking about their claims management platform, their underwriting platforms, their reinsurance capabilities. It seems to be gathering some momentum in the insurance vertical, so maybe you can provide some color around market share for Verisk versus these other companies or how you're working with these companies.

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**[05FTHR-E Steve Collis**

A

Well, do you want to take that, Mark?

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**Mark V. Anquillare**

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

A

Sure. Well, first of all, thanks for the question. I think, what our customers are looking for, these are our insurance customers, they are looking for an interconnected ecosystem, a way to pull information, a way to pull and process in a seamless way. So, we are very tightly aligned with a Duck Creek and a Guidewire. As an example, all of our ISO Loss Costs and rules, and the way we codify rates is inside of both Duck Creek and Guidewire. We pull, and customers are able to pull underwriting information from us through those two platforms. Claims fraud, same thing. We are integrated in a way that we are partners.



So, there is a way that we partner very effectively. But at the same time, the world is heading towards analytics. So, Duck Creek and Guidewire, as an example, are doing more analytics probably more focused on the individual insurer, information as they process the claim, what it looked like over the last quarter? How have the rates looked for that insured last quarter?

Where we tend to focus is, we have this aggregated view of the industry, so our analytics is more benchmark [ph] relative to (49:31) other peers, it's an industry view. Let me also remind you that as we think about software, we're becoming more software-intense, so Sequel software is moving into United States, becoming certainly more a global player beyond the London market. So, I think, there is some more overlap with the two, but we continue to work together to satisfy customers.

So hopefully that's responsive to the software play. And I'll just highlight because of the nature of our industry standard program, we're integrated with almost every policy and every vendor. We are kind of across the board. So, we'll continue to do that to share our content with any insurer or reinsurer that needs it.

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**C. Gregory Peters**

*Analyst, Raymond James & Associates, Inc.*

Q

Got it. And then my follow-up question would just be – pivot back to some comments, I think, Lee made earlier regarding just sort of the long-term targets around organic revenue growth, and then EBITDA 7%, and then EBITDA growing a little bit faster. I was wondering if you have a similar viewpoint or the Board has a similar viewpoint around free cash flow?

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**Lee M. Shavel**

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

A

Yeah. I don't see over the long-term a significant gap between the EBITDA, the revenue and EBITDA growth rates, and the – and our cash flow. The two should be fairly consistent. Obviously, there are a lot of variables that from a timing standpoint may influence that, but as kind of core growth rates, I don't see a substantial difference there.

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**C. Gregory Peters**

*Analyst, Raymond James & Associates, Inc.*

Q

Got it. Thanks for the answers.

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**Operator:** We have our next question, comes from the line of Andrew Jeffrey from Truist Securities. Your line is open. Please go ahead.

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**Andrew Jeffrey**

*Analyst, Truist Securities, Inc.*

Q

Hi. Good morning. Appreciate you taking the question. As we see the greater digitization of insurance and more lifecycle solutions, I wonder if Verisk sees an opportunity in payments as far as supporting disbursements from the carriers to the insured?

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[05FTHR-E Steve Collis

A

So, thank you for the question, and thank you for the look forward. We have recently introduced Verisk Pay, and we do believe that in this kind of world of interconnectivity and automation electronic payments are going to factor into that.

The place where we started was places where we felt we can most easily integrate into our solutions, so think of our Xactware solution which is representative of repair cost estimates and payment of property damage, and also in the world of real estate where we do some similar work. And we feel that those electronic payments could facilitate things for our customers. We're working with a big partner, Fiserv, and we hope to extend the use cases beyond claims and into some premium and other places like subrogation where we think that our insurance customers would benefit.

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**Andrew Jeffrey**

*Analyst, Truist Securities, Inc.*

Q

Great. I look forward to learning more.

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**Operator:** We have our next question, comes from the line of Jeff Meuler from Baird.

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**Jeffrey P. Meuler**

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

Q

Thank you. Good morning. Want to ask about insurance. And I know the growth rate is in the typical pretty tight range, but it decelerated. So, I heard a call-out on cat bond issuance, I think I also heard something about some end-market consolidation to meet the cat bond issuances just more naturally variable quarter-to-quarter, the consolidation would be something that would take longer to recover from. So just any help parsing out between those factors?

And then on the growth driver side, is ISO pricing this calendar year similar to prior calendar years? And I heard you on pipeline, Scott. I guess, that was pipeline conversion and bookings especially for those strategically important platform to analytic environments and analytic objects?

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**[05FTHR-E Steve Collis**

A

Yeah. So maybe I can start at the top, and, Mark, you should come in real quick on especially the first part of Jeff's question. Thanks for the questions, Jeff.

Yeah. I mean, the – most of the selling effort goes where we have the priority, and the priority is on these, just as you said, just the platform to analytic environments and the analytic objects. So that is the majority of the pipeline. And so, all those comments about contract length stretching out and the depth of the pipeline, that applies fully to that part of the product suite. So, there's no real differentiation there.

When you look year-over-year on cat bond issuance, Q1 2020 was a strong quarter. Q1 2021 was a less strong quarter. We pay a lot of attention to that. Cat bond issuance has picked up since the first quarter. So, we don't see anything different in the environment. It was just really kind of moment in time.

Mark, anything you want to add there to that?

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**Mark V. Anquillare**

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

A

The only thing I'll go to is some of our traditional ISO information, and that is again rock solid with customers. If you were to look at it, the way we kind of think about it is, remember, we're taking a long-term view. We would prefer to gather new sales from new solutions and customers as opposed to artificially high price increases. So I think we remain pretty modest in kind of the way we handle pricing for ISO. And you are correct. We did highlight some industry consolidation, which doesn't necessarily – 1 plus 1 doesn't equal 1, but sometimes equals like about 1.8 in the way some of our pricing algorithms work. So that was due to a headwind for the year. Yes.

**Scott G. Stephenson**

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

A

And no change to the pricing algorithm itself at all in 2021.

**Mark V. Anquillare**

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

A

No. Not at all. Thank you.

**Jeffrey P. Meuler**

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

Q

Got it. And then a question on the expense management approach in Financial Services. It seems like revenue is kind of rebasing lower for a period of time, and I think you said that Q2 profitability should be similar to Q1 which was fairly depressed I guess in my eyes. So are you taking expenses out of the business? Or does it need to start growing again to start getting margins back up? Thanks.

**Lee M. Shavel**

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

A

Yeah. Thanks, Jeff, and certainly understand the questions.

So on the revenue front, we naturally have that impact of the contract transitions. A part of that are our contracts that are not there going forward. But, as I indicated, there also is a component where revenue has shifted into future periods. So I wouldn't describe it as a complete rebasing or elimination of that.

But the other factors are some of the COVID-sensitive revenues that we have seen the impact. We've talked about bankruptcy. We've talked about Spend Informed Analytics. We're actually seeing some stronger improvement on the Spend Informed Analytics as things open up. So hopefully if that continues we'll see strength in that regard. And of course we're also watching the bankruptcy very carefully and then the overall performance of the banks, which are doing well, and hopefully that translates into greater opportunities on the analytics and the consulting front.

On the expense front, yes. In the quarter, we had probably a heavier load of expense than we typically have. And so looking ahead we would anticipate not as heavy an expense impact. And we are looking at making adjustments from an expense management standpoint that will help us avoid or offset the margin impact that we experienced in the first quarter.

**Jeffrey P. Meuler**

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

Q

Got it. Thank you, all.

**Operator:** We have our next question coming from the line of Andrew Steinerman from JPMorgan. Your line is open. Please go ahead.

**Andrew C. Steinerman**

*Analyst, JPMorgan Securities LLC*

Q

Okay. Great. Lee, two questions. Beyond the cat bond volatility, the industry consolidation that you just recently mentioned, could you list any other drivers of why Verisk organic revenue growth on its non-COVID business, that's the 85% of revenues decelerated to 4.9% in the first quarter versus 6.5% in the fourth quarter?

And let me just kind of put out my other question, too. It's the question about 2021 EBITDA margins. Lee, in the last two quarters, you mentioned a comment about 2021 EBITDA margins relative to 2020 and 2019. Just could you update your comments? And is there any year that the margins are likely to be closer to this year?

**Lee M. Shavel**

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

A

Yeah. And thank you, Andrew. I just want to clarify, you were addressing the question both at a consolidated level? Is that correct?

**Andrew C. Steinerman**

*Analyst, JPMorgan Securities LLC*

Q

Yes. Consolidated.

**Lee M. Shavel**

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

A

Yeah. So I think we described the primary impacts, as you've indicated, in terms of the catastrophe bond impact and some of the consolidation impacts. Naturally, you can look at the performance of the other business units from a revenue standpoint in Financial Services, in particular with the contract transitions and the COVID-sensitive. I think from an Energy and Specialized Markets, it was kind of a relatively flat quarter. So I would probably just point out that Financial Services clearly had a contribution to the overall growth rate in that regard.

And as to your question on margin, I'm going to kind of go back to the way I answered a previous question which was that clearly we saw the margin benefit in 2020 resulting from the reduction of expenses to a greater degree than the decline in revenues. And looking ahead to 2021 where we will be coming out of this, we are expecting some revenue growth improvement, but that probably will be exceeded by the normalization of expenses. However, if you think about the responsiveness or the growth rates of those two lines, we are expecting that the rate of recovery from an expense standpoint will be slower, meaning that we will hope to hold on to some of that margin benefit that we experienced in 2020 but not all of it.

So that is, I think, the outcome of our expectations at this point. Kind of reiterating that we are expecting that our margins still will be above where they were pre-pandemic but will probably come down as those expenses normalize.

**Andrew C. Steinerman**

*Analyst, JPMorgan Securities LLC*

Q

Okay. Thank you.

**Operator:** We have our next question coming from the line of Hamzah Mazari from Jefferies. Your line is open. Please go ahead.

**Hamzah Mazari**

*Analyst, Jefferies LLC*

Q

Yes. Hi. Good morning. My question is around the international business within insurance. I think a couple years ago, you guys had flagged that you expected that business – I guess it was growing high-single digits, and you expected it to double organically in five years. I think that was a couple of analyst days ago. And maybe I think you guys had flagged UK, Ireland, Canada, Germany, France, India, Southeast Asia as future growth. So maybe just update us? How big is international today as part of the total offering in insurance? And then which countries are you sort of under versus over-penetrated in? Where's the opportunity?

**Mark V. Anquillare**

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

A

Thank you for the question. This is Mark. So let me kind of give you a quick summary.

So, first of all, good recollection of the overview that we provided. If I was to now grade ourselves on where we are with that, I would say from a UK perspective and Ireland we are well ahead of that plan. I think we are doing extremely well, and I think we've highlighted some of the benefits of the Sequel acquisition and just the progress that's been made there along with some of the work that we've done on the claims and underwriting front.

As we think about other regions, we did highlight France and Germany, and I would say there it's been a tougher sledding. We were looking for a combination of organic access as well as movement into maybe some businesses that provided services there, I think from an M&A perspective. I think we've done well from a cat bond perspective, cat modeling perspective, so there strong grade. Just probably less progress with some of the other underwriting and claims in that France and Germany field.

I think we had kind of talked about Asia-Pacific as more long-term. I'm not sure I could comment on that. That's probably still on the horizon.

So thank you for the question. I think we'd give ourselves overall strong grades.

**Hamzah Mazari**

*Analyst, Jefferies LLC*

Q

Great. And just my follow-up question, and you touched on it, Lee, a little bit on the timeframe in evaluating the non-insurance segments. But do you sort of have any high-level color? Has that Financial Services business has changed structurally? I know a while back – and, Lee, I know you weren't there at that time, but the health care business had structurally changed, and the government had gotten more involved. The business wasn't as global, and there were some other items.

As you look at this business with new competition or other stuff, maybe diversifying away from banking customers has been slower, do you have a sense of timeframe wise? Is that sort of you still looking into that, or do you guys have a pretty good view there already?

**Lee M. Shavel**

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

A

So, Hamzah, thank you for the question. And I think there is an external perspective and an internal perspective if you're asking about the structural, has the business changed structurally. And I think your primary question is from an external standpoint, and I would say that the presence of other players that serve that banking, the banking industry particularly as it relates to cards remains – has remained relatively consistent.

The large players, whether they're the credit bureaus or the network companies, are there. They serve that industry, and the Verisk Financial Services entity has for a long time competed very successfully within that environment given the very unique nature of the dataset and the unique relationships that they have with the industry. And they provide a service by integrating that dataset and delivering it in a way that others aren't able to do.

And so I don't believe that there has been a material change, but we are mindful of the competitive environment that they operate in.

From the other perspective, from a structural change, I can say unequivocally that we have changed and improved the business in shifting it to more of a sustainable focus on growth within the business with the steps that the management team has made. Some of those have had obviously a challenging financial impact in the short-term, but we believe that the business is better positioned for the long-term given those structural changes.

So I wanted to address both parts of those questions.

**Hamzah Mazari**

*Analyst, Jefferies LLC*

Q

That's great. Very helpful. Thank you.

**Operator:** Our next question comes from the line of Gary Bisbee from Bank of America. Your line is open. Please go ahead.

**Gary E. Bisbee**

*Analyst, BofA Securities, Inc.*

Q

Hi. Good morning. I just wanted to go back to some earlier commentary on the Energy business. Scott, I think you said you just need sort of a normal market environment, not necessarily a robust one, to deliver to your goals in the business. I guess I wanted to ask, what is it you would expect to deliver in a normal environment? In the five years you've owned the business, it's grown 7% once and not grown a couple of those years. And so it's just not clear to me that this business is positioned, particularly given the volatility inherent in the end-market, to deliver to the long-term revenue growth targets you've set for the company.

And on a number of occasions, actually said this business should outperform those over the long-term or grow faster than some of your other assets. So what is it you're playing for in a normal energy market, if we're moving back into that today? Thank you.

**Scott G. Stephenson**

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

A

Yeah. You bet, Gary, thank you for the question. And actually related to the way that Lee was responding to that prior question about Financial Services, so if you kind of get to the top of sort of our business and that ecosystem, what you're looking at is global customers that are large, that are facing challenging issues in terms of how they're going to run their businesses in the future, are calling increasingly upon data analytics to try to help them make these very, very important decisions, and have only a few places that they can turn to outside of their own four walls in order to find support with respect to the kind of data analytics that they want to make the commercial decisions that they need to make.

And then I would add to that one other point which is the range of topics in the ecosystem that can be covered, and those have really expanded in light of the energy transition. And there was an earlier question about, what do we do with respect to renewables? But I would point out also that in the energy space, there is a great sensitivity to topics of climate change. And so our ability to also observe on things like emissions is an important capability and a distinct capability.

And so the summation of all of that for me, Gary, would be that you're right about the track record. I would point out over the course of the last five years there have been two relatively unprecedented shocks to the pricing of the commodity. And I'm not here to predict that there can't be any more of those, but they're pretty unusual and in a relatively compressed period of time. Against that, I would put a very large global market with increasing appetite for data analytics of the kind that we provide.

And so my summary in all of that would be that I look for this business to contribute at or above the targets we have as a company overall. We're going to hold it to that standard. So that's really it.

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**Gary E. Bisbee**

*Analyst, BofA Securities, Inc.*



Yeah. And then just one quick follow-up for Lee. A couple years ago, the company had discussed sort of a glide path lower in capital intensity, and now of course I think that was in large part on the Geomni business at the time. And since then, you've stepped up technology investment considerably. I guess I'm just wondering, if you could level set for us today, how are you thinking about capital intensity over the next few years? As you get through more of the cloud projects, is the goal still that that moderates a couple of points lower over time? Or where are you at now? Thank you.

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**Lee M. Shavel**

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



Thank you, Gary. And so the short answer is, yes. And it is a function, as you've described, of our migration to the cloud, which is reducing the level of CapEx that we would have typically spent on hardware and infrastructure. Now, offsetting that, but we still think it not completely offsetting that benefit, is an increasing level of internal software development intensity which is a function of some of the trends that Mark was talking about in terms of utilizing software opportunity as a way to activate and deliver our datasets and provide solutions for our clients.

And so that is clearly an element that we think is added to our business. It's generating good returns. We never want the CapEx intensity metric to obscure our fundamental return objectives, so we do expect to see that improvement over time. It has probably been obscured by some of the real estate renovations that we have done recently that are included in that. But we are realizing real benefits in terms of reductions in CapEx and even OpEx expenses related to infrastructure as a result of that, and some of those are being reinvested in some of the software development elements as we develop that component of the delivery of our datasets.

**Gary E. Bisbee**

*Analyst, BofA Securities, Inc.*

Thank you. Helpful.



**Operator:** And there are no further questions. I'll turn back the call over to you, Stacey.

**Stacey Jill Brodbar**

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

Okay. Well, thank you, everybody, for joining us. Appreciate all the questions and the dialogue, and we will certainly, as always, be following up with many of you following this call. So thank you for the continued interest and support. We'll speak with you soon. Bye for today.

**Operator:** This concludes today's conference call. Thank you, all, for participating, and you may now disconnect. Have a great day.

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