Verisk Analytics, Inc. (VRSK)

$163.59 (As of 01/22/20)

Price Target (6-12 Months): **$175.00**

Long Term: 6-12 Months	**Zacks Recommendation:** **Neutral**
	(Since: 02/20/19)
	Prior Recommendation: Underperform
Short Term: 1-3 Months	**Zacks Rank:** (1-5) **3-Hold**
	Zacks Style Scores: VGM:D
	Value: D | Growth: B | Momentum: F

Summary

Verisk's top line continues to grow organically. The company's expertise in providing predictive data analytics and decision support solutions provides it an edge over competitors. Verisk has been continuously acquiring and investing in companies globally to expand its data and analytics capabilities across industries. The company has been rewarding its shareholders through dividend payment and share repurchases. On the flip side, Verisk's shares have underperformed the industry in the past year. The underperformance partly reflects lower-than-expected earnings performance in the first three quarters of 2019. Increase in depreciation and amortization expense and a higher effective tax rate have been weighing on the stock's bottom line performance. High debt may limit the company's future expansion and worsen its risk profile.
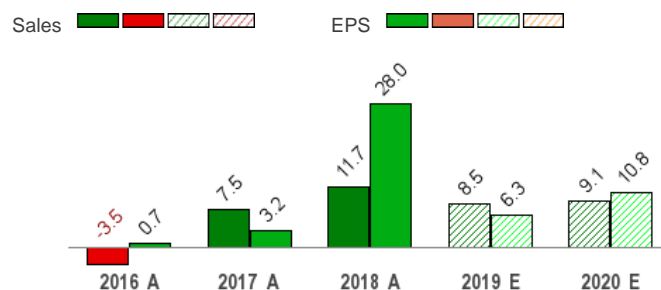
Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$164.97 - $115.24**
20 Day Average Volume (sh)	**650,362**
Market Cap	**$26.8 B**
YTD Price Change	**9.5%**
Beta	**0.69**
Dividend / Div Yld	**$1.00 / 0.6%**
Industry	**Business - Information Services**
Zacks Industry Rank	**Top 45% (116 out of 255)**
Last EPS Surprise	**-0.9%**
Last Sales Surprise	**0.3%**
EPS F1 Est- 4 week change	**-0.4%**
Expected Report Date	**02/18/2020**
Earnings ESP	**-0.7%**
P/E TTM	**38.1**
P/E F1	**33.8**
PEG F1	**3.3**
P/S TTM	**10.5**

Sales and EPS Growth Rates (Y/Y %)

Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2020	686 E	711 E	710 E	723 E	2,834 E
2019	625 A	653 A	653 A	669 E	2,598 E
2018	581 A	601 A	599 A	614 A	2,395 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	$1.13 E	$1.20 E	$1.23 E	$1.27 E	$4.84 E
2019	$1.03 A	$1.10 A	$1.12 A	$1.12 E	$4.37 E
2018	$0.94 A	$1.06 A	$1.08 A	$1.04 A	$4.11 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/22/2020. The reports text is as of 01/23/2020.

Overview

Headquartered in Jersey City, N.J., Verisk Analytics is one of the leading data analytics providers serving customers in insurance, energy and specialized markets, and financial services. Using advanced technologies to collect and analyze data, Verisk draws on unique data assets and deep domain expertise to provide innovations that are integrated into customer workflows. The company offers predictive analytics and decision support solutions to customers in rating, underwriting, claims, catastrophe and weather risk, natural resources intelligence, economic forecasting and many other fields. The company operates in 30 countries.

Verisk reports through three business segments: Insurance, Energy and Specialized Markets and Financial Services.

Insurance Segment (71% of 2018 revenues): The segment serves P&C insurance customers and focuses on the prediction of loss, the selection and pricing of risk andcompliance with their reporting requirements in each U.S. state in which they operate. Its customers include most of the P&C insurance providers in the U.S and to some extent in the non-U.S.markets. It has two sub-segments: Underwriting & rating and Claims.

Energy and Specialized Markets Segment (21%): Through this segment, the company provides data analytics services across the natural resources value chain which includes the global energy, chemicals, metals, mining, power and renewables sectors. The company offers research and consulting services focused on exploration strategies and screening, asset development and acquisition, commodity markets, and corporate analysis. The company also offers consultancy in the areas of business environment, business improvement, business strategies, commercial advisory and transaction support. The company helps businesses and governments better analyse and manage climate and weather-related risks. Its growing customer base includes international and national energy companies along with chemicals, metals, mining, power utilities and renewables companies, financial institutions, and governments.

Financial Services Segment (7%): Through this segment, the company maintains the largest bank account consortia to offer competitive benchmarking, decisioning algorithms, business intelligence, and customized analytic services to financial institutions, payment networks and processors, alternative lenders,

EPS Hist. and Est.

Sales Hist. and Est.
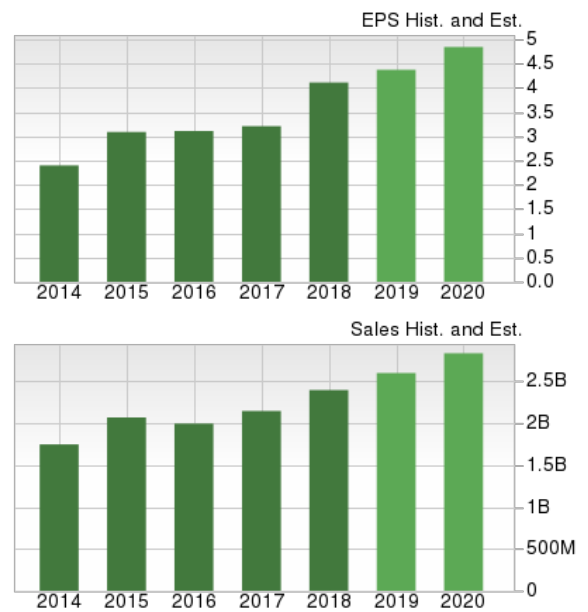
Reasons To Buy:

▲ Using advanced technologies to collect and analyze data, Verisk draws on unique data assets and deep domain expertise to provide **predictive analytics and decision support solutions** that are integrated into customer workflows. The scalability of its products has led to highly cash-generative businesses characterized by high net margins and relatively low capital intensity. Verisk's operation in a large and diverse addressable market with low customer concentration helps mitigate operational risks. With high barriers to entry in the industry, Verisk also enjoys a dominant position. We also appreciate Verisk's expertise in providing predictive data analytics decision by using advanced technologies to collect, interpret and analyze different types of data sets in real time and at scale. The company mainly uses advanced technologies such as the latest remote sensing and machine learning technologies along with cloud computing, which primarily drive the company's business. The majority of the technologies used by Verisk is developed, maintained and supported by almost 20% of its employees. The company's efforts to stay technologically updated to meet varying customer and client demands look impressive. Such a deep technical prowess for analytics and Big Data provide it an unrivalled edge over its competitors. All these initiatives augur well for long-term growth and stability of the company.

▲ Verisk continues to witness **higher organic revenue growth** through a combination of increase in new customers for existing solutions, cross-sale of its existing solutions to existing customers and the sale of new solutions. The company continuously seeks to expand its portfolio by leveraging its deep knowledge and embedded position to develop new, proprietary data sets and predictive analytics by working with its customers to understand their evolving needs. Notably, Verisk has recorded an average organic revenue growth of about 8% in the past 10 years. In the first nine months of 2019, total revenues grew 7.1% on an organic constant-currency basis. In 2018, total revenues grew 6.5% organically and 6.1% on an organic constant-currency basis. This marked an improvement from the organic revenue growth in 2017, wherein total revenues grew 4.5% organically and 5.3% on an organic constant currency basis. Verisk aims to create long-term value through organic growth**.** It continues to extend its footprint in new markets, with healthy long-term growth potential, through targeted international expansion. This holistic growth model will help it to strengthen its leading position in the market. Moreover, Verisk continues to earn a major portion of its revenues from subscriptions and long-term agreements. In the first nine months of 2019, Verisk's three reportable segments: Insurance, Energy and Specialized Markets and Financial Services generated a respective 82%, 78% and 72% of revenues from subscriptions and long-term agreements for its solutions.

▲ **Acquisitions** have also been one of the key growth catalysts for Verisk. The company has been continuously acquiring and investing in companies globally to expand its data and analytics capabilities across industries. From 2015-2017, the company completed 21 acquisitions. In 2018, the company has acquired four companies — Rulebook, Validus-IVC Limited, Business Insight Limited and Marketview Limited. While Rulebook should solidify Verisk's position in the global insurance market, the buyout of Validus will help improve and automate the claims settlement process. The other two acquisitions will help Verisk in its predictive analytics and consumer spending analytics decision making. In 2019 so far, Verisk announced four acquisitions. In December, the company has signed a deal to buy FAST to enhance its data and analytics solutions in life insurance and annuities market. In October, the company signed a deal to acquire property condition and history data provider BuildFax to boost its Insurance segment. In August, Verisk inked a deal to buy out Genscape to expand its Wood Mackenzie business line's existing intelligence in energy data and analytics, and strengthen its research and consultancy across the natural resources sectors. In March, the company inked a deal with an enterprise application software provider to acquire the latter's Content as a Service business to strengthen its environmental health and safety services and extend its global customer footprint and European operations. Apart from the aforementioned announcements, the company has also acquired two companies in 2019 — Keystone Aerial Surveys, Inc. in July to expand its aerial survey services and Property Pres Wizard, LLC. in August. Verisk's long-term business strategy includes growth through acquisitions. Internally, it is focused on evaluating and integrating acquisitions that are valuable for its shareholders. The company continues to look for strategic acquisitions.

▲ We are impressed with Verisk's consistent record of **rewarding its shareholders**. In the first nine months of 2019, Verisk repurchased shares worth $200 million and paid $122.7 milion in dividends. The company also entered into an additional $50 million ASR agreement. The associated shares will be delivered and settled in the fourth quarter of 2019. As of Sep 30, 2019, the company had $228 million under its share repurchase authorization. The company paid out a cash dividend of 25 cents per share on Sep 30. On Oct 23, the company's board of directors approved a cash dividend of 25 cents per share to be paid out on Dec 31 to shareholders of record as of Dec 13. Previously, in 2018, 2017 and 2016, the company had repurchased shares worth $438.6 million, $276.3 million and $326.8 million, respectively. Such moves indicate the company's commitment to create value for shareholders and underline its confidence in its business. These shareholder-friendly initiatives not only instill investors' confidence but also positively impact earnings per share.

> Acquisitions, strong organic revenues and focus on advanced technologies are positives for Verisk.

Reasons To Sell:

▼ **Brexit can have a serious negative impact on Verisk's European operations and businesses.** A direct immediate outcome of Brexit was devaluation of British pound in the global market. With the exit of U.K. from the European Union (EU), the relationship between U.K. and EU has become unstable and the laws and regulations imposed on any kind of trade or business conducted between the two is likely to have an adverse impact on overall business activity, political stability and economic conditions in both regions. Brexit could further result in higher tariff and non-tariff barriers to trade between the U.K. and the European Union, lowering productivity of the company. These undermine the long-term growth potential of the company to some extent.

▼ Verisk has a **debt-laden balance sheet**. As of Sep 30, 2019, long-term debt was $2.67 billion while cash and cash equivalents were $311.8 million. High debt may limit the company's future expansion and worsen its risk profile. Also, escalating investments for software development to expand growth in organic businesses and recent acquisitions resulted in higher capital expenditures.

▼ Verisk's business model centers on huge amount of data. Consequently, the company is **susceptible to operational risks** related to security breaches in its facilities, computer networks, and databases, resulting in loss of its credibility and/or customers. Dependence on external sources for data supply can lead to contractual and pricing issues with data suppliers (some of them are also rival parties). Data theft and misuse by third-party contractors could also lead to loss of businesses and jeopardize the fundamental existence of the company.

▼ Verisk's shares have underperformed the industry in the past year, gaining 41.9% compared with the industry's rise of 43.2%. The **underperformance** partly reflects lower-than-expected earnings performance in the first three quarters of 2019. Increase in depreciation and amortization expense and a higher effective tax rate have been weighing on the stock's bottom line performance.

Verisk has high capital expenditure and is exposed to operational risks.

Last Earnings Report

Verisk Q3 Earnings Lag Estimates, Revenues Beat

Verisk Analytics reported mixed third-quarter 2019 results, wherein the company's earnings lagged the Zacks Consensus Estimate but revenues surpassed the same.

Adjusted earnings per share of $1.12 missed the consensus mark by a penny but improved 3.7% on a year-over-year basis. The company's bottom line benefited from organic growth, contributions from acquisitions, decline in interest expense and lower average share count, which were partially offset by the rise in depreciation and amortization expense and a higher effective tax rate.

Quarter Ending	09/2019
Report Date	**Oct 29, 2019**
Sales Surprise	**0.29%**
EPS Surprise	**-0.88%**
Quarterly EPS	**1.12**
Annual EPS (TTM)	**4.29**

Revenues of $652.7 million beat the consensus estimate by $1.9 million and improved 9% year over year on a reported basis and 7.6% on an organic constant-currency (cc) basis. The uptick came on the back of continued strength in the company's Insurance segment and solid improvement in Energy and Specialized Markets.

Segmental Performance

Insurance segment revenues totaled $466.8 million, up 9.2% year over year on a reported basis and 7.7% in organic cc.

Within the segment, underwriting and rating revenues of $310.3 million rose 8.8% on a reported basis and 7.9% in organic cc. The improvement was primarily driven by increase in industry-standard insurance programs, property-specific underwriting and catastrophe modeling solutions revenues. Claims revenues amounted to $156.5 million, which improved 9.8% on a reported basis and 7.4% in organic cc. The uptick can be attributed to revenues from repair cost estimating and claims analytics solutions.

Energy and Specialized Markets segment revenues amounted to $142.5 million and improved 11.6% year over year on a reported basis and 8.7% in organic cc. The improvement can be attributed to revenues from market and cost intelligence solutions and core research and consulting.

Financial Services segment revenues of $43.4 million improved 0.1% year over year on a reported basis and 2.7% in organic cc. The segment benefited from increase in enterprise data management, and fraud and credit risk management solutions, which partially offset the decrease in portfolio management from nonrecurring consulting revenues.

Operating Results

Adjusted EBITDA of $309.3 million increased 9% on a reported basis and 7.7% in organic cc. Adjusted EBITDA margin of 47.4% was flat in the prior-year quarter.

Operating income in the third quarter was $75.7 million compared with $211.1 million in the prior-year quarter. Operating margin was 11.6% compared with 35.3% in the year-ago quarter.

Balance Sheet and Cash Flow

Verisk exited third-quarter 2019 with cash and cash equivalents of $311.8 million compared with $153.3 million at the end of the prior quarter. Long-term debt came in at $2.67 billion compared with $2.45 billion at the end of the previous quarter.

The company generated $213.6 million of cash from operating activities and capex was $61 million. Free cash flow was $152.9 million.

Share Repurchases & Dividend Payout

During the third quarter of 2019, through an accelerated share repurchase (ASR) agreement, Verisk repurchased roughly 491,000 shares at an average price of $152.84 for a total cost of $75 million. The company also entered into an additional $50 million ASR agreement. The associated shares will be delivered and settled in the fourth quarter of 2019. As of Sep 30, 2019, the company had $228 million under its share repurchase authorization.

The company paid out a cash dividend of 25 cents per share on Sep 30. On Oct 23, the company's board of directors approved a cash dividend of 25 cents per share to be paid out on Dec 31 to shareholders of record as of Dec 13.

Recent News

On **Dec 4, 2019**, Verisk announced that it has signed a deal to acquire FAST to enhance its data and analytics solutions in life insurance and annuities market.

On **Nov 21, 2019**, Verisk announced the launch of a new InsurTech solution, OneXperiencea. The new solution is expected to improve customer experience with real-time identification and verification of details for insured properties.

On **Nov 19, 2019**, Verisk announced the addition of Laura K. Ipsen to its board of directors, effective Jan 1, 2020.

Valuation

Verisk shares are up 41.9% over the trailing 12-month period. The Zacks sub-industry, sector and S&P 500 index are up 43.2%, 31.6% and 27.7%, respectively in the same time frame.

The stock is currently trading at 33.43X forward 12-month price-to-earnings, which compares to 27.73X for the Zacks sub-industry, 26.15X for the Zacks sector and 19.14X for the S&P 500 index.

Over the past five years, the stock has traded as high as 34.71X and as low as 20.22X, with a 5-year median of 25.23X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $175.00 price target reflects 35.79X price-to-earnings.

The table below shows summary valuation data for VRSK

Valuation Multiples - VRSK		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	33.43	27.73	26.15	19.14
	5-Year High	34.71	27.73	26.15	19.34
	5-Year Low	20.22	19.42	18.76	15.17
	5-Year Median	25.23	21.85	20.56	17.44
P/S F12M	Current	9.42	6.05	4.15	3.56
	5-Year High	9.93	6.16	5.13	3.56
	5-Year Low	4.74	3.34	3.09	2.54
	5-Year Median	6.63	4.49	3.63	3
P/B TTM	Current	12.99	9.01	5.11	4.54
	5-Year High	56.47	9.01	6.71	4.55
	5-Year Low	7.57	4.28	4.13	2.85
	5-Year Median	9.7	6.21	5.31	3.61

As of 01/22/2020

Industry Analysis Zacks Industry Rank: Top 45% (116 out of 255)

Top Peers

Alliance Data Systems Corporation **(ADS)**	Neutral
Broadridge Financial Solutions, Inc. **(BR)**	Neutral
Equifax, Inc. **(EFX)**	Neutral
FactSet Research Systems Inc. **(FDS)**	Neutral
Fidelity National Information Services, Inc. **(FIS)**	Neutral
Fiserv, Inc. **(FISV)**	Neutral
Gartner, Inc. **(IT)**	Neutral
Paychex, Inc. **(PAYX)**	Neutral

Industry Comparison Industry: Business - Information Services — Industry Peers

	VRSK Neutral	X Industry	S&P 500	EFX Neutral	FISV Neutral	PAYX Neutral
VGM Score	D	-	-	F	B	D
Market Cap	26.81 B	10.21 B	24.65 B	18.74 B	82.98 B	32.07 B
# of Analysts	11	8	13	11	13	11
Dividend Yield	0.61%	0.32%	1.77%	1.01%	0.00%	2.77%
Value Score	D	-	-	D	D	D
Cash/Price	0.01	0.02	0.04	0.01	0.01	0.02
EV/EBITDA	25.55	23.83	13.98	27.59	45.17	18.15
PEG Ratio	3.35	2.57	2.05	3.10	1.78	4.12
Price/Book (P/B)	12.99	8.30	3.38	7.32	2.46	12.48
Price/Cash Flow (P/CF)	27.15	23.84	13.60	18.33	26.47	22.37
P/E (F1)	33.86	29.29	19.07	26.85	24.62	28.84
Price/Sales (P/S)	10.54	7.30	2.69	5.45	10.79	7.95
Earnings Yield	2.96%	3.41%	5.24%	3.72%	4.06%	3.47%
Debt/Equity	1.40	1.12	0.72	1.11	0.66	0.35
Cash Flow ($/share)	6.03	3.61	6.94	8.44	4.61	4.01
Growth Score	B	-	-	F	B	C
Hist. EPS Growth (3-5 yrs)	11.20%	15.36%	10.60%	8.15%	16.43%	10.85%
Proj. EPS Growth (F1/F0)	10.73%	8.82%	7.53%	3.29%	23.71%	9.41%
Curr. Cash Flow Growth	26.68%	20.06%	13.90%	0.23%	18.73%	10.82%
Hist. Cash Flow Growth (3-5 yrs)	13.83%	15.15%	9.00%	9.86%	8.93%	12.37%
Current Ratio	0.85	1.20	1.22	0.57	1.08	1.17
Debt/Capital	58.26%	53.97%	42.99%	52.56%	39.69%	25.87%
Net Margin	18.23%	14.61%	11.21%	-11.13%	12.11%	26.72%
Return on Equity	33.57%	22.75%	17.16%	24.39%	16.73%	41.21%
Sales/Assets	0.41	0.42	0.55	0.47	0.26	0.44
Proj. Sales Growth (F1/F0)	9.08%	5.27%	4.08%	5.68%	6.99%	10.17%
Momentum Score	F	-	-	F	B	D
Daily Price Chg	1.42%	0.24%	-0.04%	0.27%	1.19%	1.07%
1 Week Price Chg	2.05%	1.56%	2.29%	4.30%	3.03%	3.48%
4 Week Price Chg	9.67%	4.56%	2.05%	10.93%	4.65%	5.85%
12 Week Price Chg	10.59%	10.33%	6.92%	14.62%	14.82%	5.85%
52 Week Price Chg	40.05%	34.44%	21.50%	48.77%	51.45%	28.29%
20 Day Average Volume	650,362	55,629	1,518,423	596,023	2,393,592	1,167,022
(F1) EPS Est 1 week change	-0.26%	0.00%	0.00%	-0.28%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.41%	0.00%	0.00%	-0.31%	0.18%	0.00%
(F1) EPS Est 12 week change	-1.01%	-0.20%	-0.23%	-2.98%	2.84%	0.01%
(Q1) EPS Est Mthly Chg	0.15%	0.00%	0.00%	0.00%	0.00%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Value Score	D
Growth Score	B
Momentum Score	F
VGM Score	D

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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