

Verisk Analytics, Inc. (VRSK)

\$168.69 (As of 02/21/20)

Price Target (6-12 Months): **\$178.00**

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:B

Value: D

Growth: B

Momentum: A

Summary

Verisk's shares have outperformed the industry in the past year. The outperformance partly reflects better-than-expected revenue performance in the last four quarters. The company'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. Further, it 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, 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.

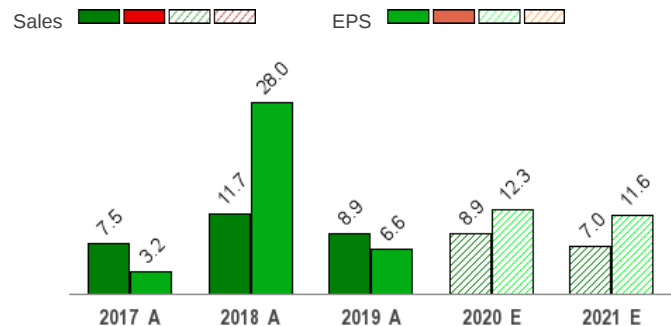
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$171.73 - \$124.79
20 Day Average Volume (sh)	640,434
Market Cap	\$27.5 B
YTD Price Change	13.0%
Beta	0.68
Dividend / Div Yld	\$1.08 / 0.6%
Industry	Business - Information Services
Zacks Industry Rank	Top 44% (111 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.9%
Last Sales Surprise	1.2%
EPS F1 Est- 4 week change	0.6%
Expected Report Date	NA
Earnings ESP	-0.3%
P/E TTM	38.5
P/E F1	34.3
PEG F1	3.4
P/S TTM	10.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	742 E	771 E	767 E	777 E	3,038 E
2020	688 E	714 E	712 E	723 E	2,838 E
2019	625 A	653 A	653 A	677 A	2,607 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.28 E	\$1.36 E	\$1.39 E	\$1.39 E	\$5.49 E
2020	\$1.14 E	\$1.24 E	\$1.25 E	\$1.29 E	\$4.92 E
2019	\$1.03 A	\$1.10 A	\$1.12 A	\$1.13 A	\$4.38 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 02/21/2020. The reports text is as of 02/24/2020.

Overview

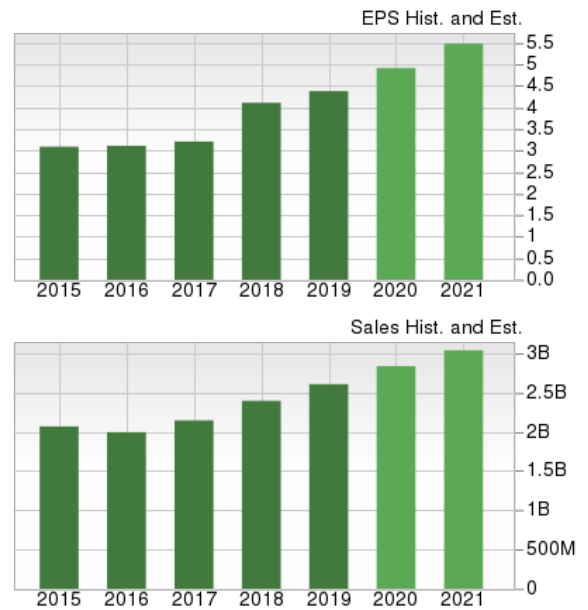
Headquartered in Jersey City, N.J., Verisk Analytics is one of the leading data analytics providers serving customers in insurance, energy and specialized markets, and financial services. Using advanced technologies to collect and analyze data, Verisk draws on unique data assets and deep domain expertise 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 2019 revenues): The segment serves P&C insurance customers and focuses on the prediction of loss, the selection and pricing of risk and compliance 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 (22%): 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,



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 2019, total revenues grew 6.7% on an organic constant-currency basis, which marks an improvement from 6.1% growth in 2018 and 5.3% in 2017. 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 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, Verisk completed seven acquisitions — FAST to enhance its data and analytics solutions in life insurance and annuities market, Commerce Signals to enhance its Financial Services segment, BuildFax to boost its Insurance segment, 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, Keystone Aerial Surveys, Inc. to expand its aerial survey services, Property Pres Wizard to enhance its Insurance segment and Content as a Service business to strengthen its environmental health and safety services and extend its global customer footprint and European operations. 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 2019, Verisk repurchased shares worth \$300 million and paid \$163.5 million in dividends. As of Dec 31, 2019, the company had \$128 million under its share repurchase authorization. On Feb 12, 2020, the company's board of directors approved an additional authorization of \$500 million as well as a dividend hike of 8%, raising the quarterly cash dividend from 25 cents to 27 cents, payable on Mar 31, 2020, to shareholders of record as of Mar 13, 2020. 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.
- ▲ Verisk's shares have outperformed the industry in the past year, gaining 34.7% compared with the industry's rise of 34.6%. The **outperformance** partly reflects better-than-expected revenue performance in the last four quarters of 2019. Strength across segments and solid organic growth have been benefitting the stock's top line performance.

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 Dec 31, 2019, long-term debt was \$2.65 billion while cash and cash equivalents were \$184.6 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 has high capital expenditure and is exposed to operational risks.

Last Earnings Report

Verisk Beats on Q4 Earnings & Revenue Estimates

Verisk Analytics reported solid fourth-quarter 2019 results, wherein the company's earnings and revenues surpassed the Zacks Consensus Estimate.

Adjusted earnings per share of \$1.13 beat the consensus mark by a penny and improved 8.7% on a year-over-year basis. The company's bottom line benefited from organic growth, contributions from acquisitions and lower average share count, which were partially offset by the rise in depreciation and amortization expense, interest expense and a higher effective tax rate.

Revenues of \$676.8 million beat the consensus estimate by 1.1% and improved 10.2% year over year on a reported basis and 5.4% on an organic constant-currency (cc) basis.

On Feb 1, 2020, the company completed the previously announced sale of its aerial imagery sourcing group to Vexcel Imaging in exchange for a minority interest in Vexcel. Through this deal, Verisk will get access to a geospatial data library. Further, it enables Verisk to focus solely on aerial data analytic solutions to better serve commercial and insurance customers. On Feb 5, 2020, the company inked a deal to transition its Argus Data Warehouse business to a partner to focus on its core analytics capabilities. On Feb 14, 2020, the company completed the sale of its compliance background screening business for \$24 million in cash.

Segmental Performance

Insurance segment revenues totaled \$468.9 million, up 7.5% year over year on a reported basis and 5.2% in organic cc.

Within the segment, underwriting and rating revenues of \$318.5 million rose 9.9% on a reported basis and 8.2% 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 \$150.4 million, which improved 2.8% on a reported basis but declined 1% in organic cc. The upside was driven by claims analytics, workers' compensation claim solution services, and repair cost estimating solutions.

Energy and Specialized Markets segment revenues amounted to \$160.5 million and improved 23.3% year over year on a reported basis and 7.1% in organic cc. The improvement can be attributed to revenues from market and cost intelligence solutions, core research revenues, and environmental health and safety service.

Financial Services segment revenues of \$47.4 million declined 0.3% year over year on a reported basis but improved 2.1% in organic cc. The segment benefited from increase in fraud and credit risk management solutions and portfolio management solutions, which was partially offset by declines in enterprise data management revenues.

Operating Results

Adjusted EBITDA of \$318.8 million increased 10.3% on a reported basis and 9% in organic cc. Adjusted EBITDA margin of 47.1% was flat compared with the prior-year quarter.

Operating income in the fourth quarter was \$206.6 million compared with \$216.2 million in the prior-year quarter. Operating margin was 30.5% compared with 35.2% in the year-ago quarter.

Balance Sheet and Cash Flow

Verisk exited fourth-quarter 2019 with cash and cash equivalents of \$184.6 million compared with \$311.8 million at the end of the prior quarter. Long-term debt came in at \$2.65 billion compared with \$2.67 billion at the end of the previous quarter.

The company generated \$176.4 million of cash from operating activities and capex was \$64 million. Free cash flow was \$112.4 million.

Share Repurchases & Dividend Payout

During the fourth quarter of 2019, through an accelerated share repurchase (ASR) agreement, Verisk repurchased roughly 700,000 shares at an average price of \$145.07 for a total cost of \$100 million. The company also entered into an additional \$50 million ASR agreement. The associated shares will be delivered and settled in February 2020. As of Dec 31, 2019, the company had \$128 million under its share repurchase authorization. On Feb 12, 2020, the company's board of directors approved an additional authorization of \$500 million.

The company paid out a cash dividend of 25 cents per share on Dec 31. On Feb 12, 2020, the company's board of directors approved a dividend hike of 8%, raising the quarterly cash dividend from 25 cents to 27 cents, payable on Mar 31, 2020, to shareholders of record as of Mar 13, 2020.

Quarter Ending **12/2019**

Report Date	Feb 18, 2020
Sales Surprise	1.15%
EPS Surprise	0.89%
Quarterly EPS	1.13
Annual EPS (TTM)	4.38

Recent News

On **Feb 12, 2020**, Verisk and Duck Creek Technologies announced the availability of additional Verisk underwriting solutions on Duck Creek's Content Exchange. These solutions will enable insurer customers easily access robust data on applicants' previous coverage and loss history.

On **Jan 21, 2020**, Verisk announced that it has inked a deal with Vexcel Imaging wherein the latter will acquire the imagery sourcing group from Verisk's Geomni business.

On **Dec 17, 2019**, Verisk announced its alliance with the International Association of Fire Chiefs (IAFC) to help insurers identify properties that are located in communities taking action to mitigate wildfire risk.

On **Dec 12, 2019**, Verisk announced that it has entered into a strategic deal with Equifax to jointly develop the Inflection Insurance Score. Inflection is a new credit-based scoring solution formed through the combination of Verisk's insurance expertise and analytics with the robust credit data of Equifax to help personal auto and property insurers enhance underwriting and improve growth.

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.

Valuation

Verisk shares are up 34.7% over the trailing 12-month period. The Zacks sub-industry, sector and S&P 500 index are up 34.6%, 22.3% and 18.6%, respectively in the same time frame.

The stock is currently trading at 33.72X forward 12-month price-to-earnings, which compares to 27.33X for the Zacks sub-industry, 26.24X for the Zacks sector and 19.09X for the S&P 500 index.

Over the past five years, the stock has traded as high as 34.83X and as low as 20.22X, with a 5-year median of 25.28X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$178.00 price target reflects 35.58X 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	33.72	27.33	26.24	19.09
	5-Year High	34.83	27.33	26.24	19.34
	5-Year Low	20.22	19.42	18.78	15.18
	5-Year Median	25.28	21.98	20.59	17.47
P/S F 12M	Current	9.63	5.84	4.2	3.51
	5-Year High	9.93	6.16	5.14	3.51
	5-Year Low	4.74	3.34	3.1	2.54
	5-Year Median	6.66	4.61	3.64	3
P/B TTM	Current	12.23	9.1	5.18	4.61
	5-Year High	56.47	9.43	6.72	4.68
	5-Year Low	7.57	4.28	4.13	2.85
	5-Year Median	9.7	6.21	5.26	3.62

As of 02/21/2020

Industry Analysis Zacks Industry Rank: Top 44% (111 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	B	-	-	D	B	C
Market Cap	27.51 B	11.23 B	24.03 B	19.32 B	81.24 B	31.87 B
# of Analysts	11	8	13	11	16	11
Dividend Yield	0.59%	0.59%	1.76%	0.98%	0.00%	2.78%
Value Score	D	-	-	D	D	D
Cash/Price	0.01	0.02	0.04	0.02	0.01	0.02
EV/EBITDA	26.14	22.74	14.08	1,393.41	30.58	18.04
PEG Ratio	3.36	2.62	2.08	3.24	1.69	4.09
Price/Book (P/B)	12.17	7.86	3.29	7.36	2.35	12.41
Price/Cash Flow (P/CF)	26.16	24.94	13.42	18.88	17.84	22.23
P/E (F1)	33.98	30.25	19.00	27.92	24.07	28.66
Price/Sales (P/S)	10.55	7.83	2.64	5.51	7.97	7.90
Earnings Yield	2.92%	3.31%	5.26%	3.58%	4.15%	3.49%
Debt/Equity	1.26	1.12	0.70	1.29	0.62	0.35
Cash Flow (\$/share)	6.45	3.61	7.03	8.45	6.70	4.01
Growth Score	B	-	-	C	A	C
Hist. EPS Growth (3-5 yrs)	11.20%	15.68%	10.84%	6.64%	17.05%	10.85%
Proj. EPS Growth (F1/F0)	12.29%	9.14%	7.09%	1.68%	24.09%	9.41%
Curr. Cash Flow Growth	6.53%	14.30%	6.72%	0.48%	147.85%	10.82%
Hist. Cash Flow Growth (3-5 yrs)	13.83%	15.01%	8.25%	8.37%	29.38%	12.37%
Current Ratio	0.50	1.33	1.22	0.89	1.08	1.17
Debt/Capital	55.85%	53.97%	42.37%	56.30%	38.74%	25.87%
Net Margin	17.26%	12.98%	11.56%	-11.37%	8.77%	26.72%
Return on Equity	33.49%	22.40%	16.80%	26.42%	11.78%	41.21%
Sales/Assets	0.40	0.41	0.55	0.47	0.22	0.44
Proj. Sales Growth (F1/F0)	8.85%	3.85%	3.90%	5.98%	50.36%	10.17%
Momentum Score	A	-	-	D	A	B
Daily Price Chg	-0.41%	-0.96%	-0.83%	-1.18%	-1.93%	-1.31%
1 Week Price Chg	1.34%	0.94%	1.65%	4.72%	0.38%	1.40%
4 Week Price Chg	2.17%	0.00%	-0.37%	2.96%	-2.24%	-0.67%
12 Week Price Chg	13.59%	8.45%	3.74%	12.88%	2.73%	2.96%
52 Week Price Chg	35.46%	33.43%	14.14%	44.38%	40.99%	18.18%
20 Day Average Volume	640,434	92,964	1,992,841	702,288	2,992,070	1,163,916
(F1) EPS Est 1 week change	0.56%	0.00%	0.00%	0.46%	0.00%	0.00%
(F1) EPS Est 4 week change	0.56%	0.00%	-0.02%	-0.84%	0.14%	0.00%
(F1) EPS Est 12 week change	0.15%	0.07%	-0.17%	-1.98%	0.35%	0.01%
(Q1) EPS Est Mthly Chg	1.07%	0.00%	-0.48%	2.51%	-2.89%	0.00%

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.

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.

Value Score	D
Growth Score	B
Momentum Score	A
VGM Score	B

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.

Disclosures

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ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

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