

Verisk Analytics, Inc. (VRSK)

\$163.69 (As of 06/24/20)

Price Target (6-12 Months): **\$174.00**

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 year-to-date. The outperformance partly reflects better-than-expected revenue performance in the last five 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.

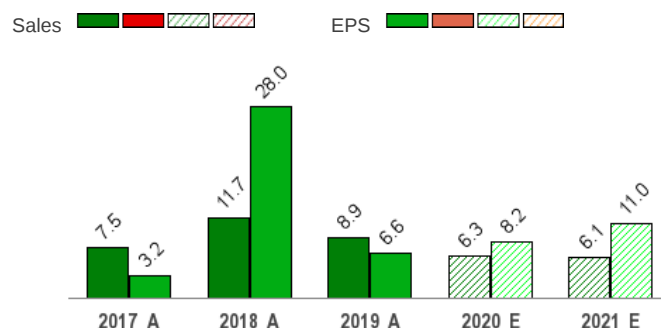
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$173.77 - \$116.61
20 Day Average Volume (sh)	1,031,062
Market Cap	\$26.6 B
YTD Price Change	9.6%
Beta	0.71
Dividend / Div Yld	\$1.08 / 0.7%
Industry	Business - Information Services
Zacks Industry Rank	Bottom 9% (230 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.6%
Last Sales Surprise	0.6%
EPS F1 Est- 4 week change	0.1%
Expected Report Date	08/04/2020
Earnings ESP	0.0%
P/E TTM	36.2
P/E F1	34.5
PEG F1	3.4
P/S TTM	9.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	713 E	724 E	734 E	749 E	2,939 E
2020	690 A	684 E	691 E	711 E	2,771 E
2019	625 A	653 A	653 A	677 A	2,607 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.26 E	\$1.31 E	\$1.33 E	\$1.35 E	\$5.26 E
2020	\$1.17 A	\$1.18 E	\$1.18 E	\$1.22 E	\$4.74 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 06/24/2020. The reports text is as of 06/25/2020.

Overview

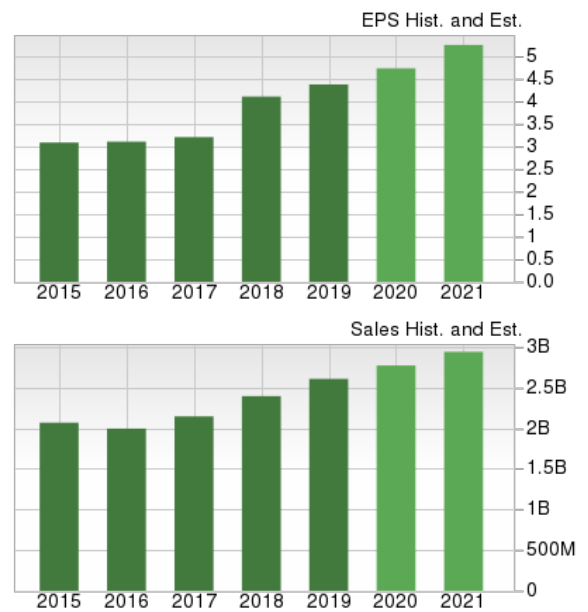
Headquartered in Jersey City, N.J., Verisk Analytics is one of the leading data analytics providers serving customers in insurance, energy and specialized markets, and financial services. Using advanced technologies to collect and analyze data, Verisk draws on unique data assets and deep domain expertise 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 over the past year, gaining 14.8% against the industry's decline of 1.6%. The **outperformance** partly reflects better-than-expected revenue performance in all the four quarters of 2019 as well as in first-quarter 2020. Strength across segments and solid organic growth have been benefitting the stock's top line performance.
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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**. Total debt at the end of first-quarter 2020 was \$3.33 billion, compared with \$3.40 billion at the end of the prior quarter. Total debt to total capital ratio of 0.61 is higher than the industry's 0.59 and the previous quarter's 0.60. An increase in debt to capitalization ratio indicates higher risk of insolvency in challenging times. Further, the company's cash and cash equivalent of \$204 million at the end of the first quarter was well below this debt level, underscoring that the company doesn't have enough cash to meet this debt burden. Also, the cash level, can't meet the short-term debt of \$483 million.
- ▼ 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 Surpasses Q1 Earnings and Revenue Estimates

Verisk Analytics reported solid first-quarter 2020 results, with earnings and revenues surpassing the Zacks Consensus Estimate.

Adjusted earnings per share of \$1.17 beat the consensus mark by 2.6% and rose 13.6% on a year-over-year basis. The upside can be attributed to organic growth in the business and lower average share count.

Revenues of \$689.8 million beat the consensus estimate by 0.6% and increased 10.4% year over year on a reported basis and 5% on an organic constant-currency (cc) basis.

Quarter Ending 03/2020

Report Date	May 05, 2020
Sales Surprise	0.62%
EPS Surprise	2.63%
Quarterly EPS	1.17
Annual EPS (TTM)	4.52

Segmental Performance

Insurance segment revenues totaled \$344.1 million, up 12.5% year over year on a reported basis and 8.4% in organic cc.

Within the segment, underwriting and rating revenues of \$489.4 million rose 7.9% on a reported basis and 4.9% in organic cc. The upside was primarily driven by rise in prices derived from continued enhancements to the content of the solutions within industry-standard insurance programs, sale of expanded solutions to existing customers in commercial and personal lines as well as contributions from catastrophe modeling services.

Claims revenues amounted to \$145.3 million, which declined 1.6% on a reported basis but inched up 0.4% in organic cc. The top line was negatively impacted by the injunction ruling against roof measurement solutions, which were partially offset by claims analytics revenues and repair cost estimating solutions revenues.

Energy and Specialized Markets segment revenues amounted to \$160.1 million and increased 24.6% year over year on a reported basis and 2.6% in organic cc. The uptick can be attributed to growth in core research, increases in environmental health and safety service revenues as well as weather analytics revenues. These were partially offset by a decline in market and cost intelligence solutions due to implementation projects that did not reoccur as well as downfall in consulting revenues.

Financial Services segment revenues of \$40.3 million declined 6.4% year over year on a reported basis but improved 3% in organic cc. Impact of portfolio transactions, which were closed in the quarter, led to decline in reported revenues. Revenue growth on an OCC basis was driven by rise in management information and regulatory reporting as well as fraud and credit risk, partially offset by downfall in portfolio management and spend-informed analytics.

Operating Results

Adjusted EBITDA of \$318 million increased 9% on a reported basis and 7.4% in organic cc. Adjusted EBITDA margin came in at 46.1% compared with 46.7% in the prior-year quarter.

Operating income in the fourth quarter was \$252.3 million compared with \$202.4 million in the prior-year quarter. Operating margin rose to 36.6% from 32.3% in the year-ago quarter.

Balance Sheet and Cash Flow

Verisk exited first-quarter 2020 with cash and cash equivalents of \$204.4 million compared with \$184.6 million at the end of the prior quarter. Long-term debt of \$2.65 billion was flat with prior-year quarter's level.

The company generated \$362.6 million of cash from operating activities and capex was \$52.9 million. Free cash flow was \$309.7 million.

Share Repurchases & Dividend Payout

During the reported quarter, Verisk returned \$218 million to shareholders through dividend payouts and repurchases

During the first quarter, the company repurchased nearly 1.1 million shares at an average price of \$154.56 for a total cost of \$174 million. As of Mar 31, the company had \$454 million available under its share repurchase authorization.

The company paid out a cash dividend of 27 cents per share on Mar 31. On Apr 29, the company's board of directors approved a quarterly cash dividend of 27 cents, payable on Jun 30, to shareholders of record as of Jun 15.

Recent News

On **Apr 20, 2020**, FAST — a Verisk business — announced that Lincoln Heritage Life Insurance Company has opted for FAST Insurance Components to enable end-to-end digital transformation.

On **Mar 4, 2020**, Verisk announced that it has expanded its new InsurTech solution — OneXperience — into commercial insurance, aimed at helping insurers conduct underwriting process of commercial properties quickly and more accurately with the help of digitalization.

Valuation

Verisk shares are up 9.6% in the year-to-date period and 14.8% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 5.2% while those in the Zacks Business Services sector are down 5.3% in the year-to-date period. Over the past year, the Zacks sub-industry is up 16.3% but the sector is down 1.6%.

The S&P 500 index is down 2.7% in the year-to-date period but up 7.6% in the past year.

The stock is currently trading at 32.82X forward 12-month price-to-earnings, which compares to 28.63X for the Zacks sub-industry, 28.65X for the Zacks sector and 22.46X for the S&P 500 index.

Over the past five years, the stock has traded as high as 39.94X and as low as 20.22X, with a 5-year median of 25.56X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$174.00 price target reflects 34.93X price-to-earnings.

The table below shows summary valuation data for VRSK

Valuation Multiples - VRSK					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	32.82	28.63	28.65	22.46
	5-Year High	39.94	29.53	29.19	22.46
	5-Year Low	20.22	19.42	18.67	15.23
	5-Year Median	25.56	22.22	20.78	17.49
P/S F 12M	Current	9.31	6.23	3.96	3.42
	5-Year High	9.93	6.35	4.02	3.44
	5-Year Low	4.74	3.34	3.06	2.53
	5-Year Median	6.89	4.7	3.58	3.02
P/B TTM	Current	12.78	9.29	4.45	4.17
	5-Year High	35.6	9.8	6.71	4.56
	5-Year Low	7.57	4.29	3.24	2.83
	5-Year Median	9.7	6.21	5.2	3.68

As of 06/24/2020

Industry Analysis Zacks Industry Rank: Bottom 9% (230 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Alliance Data Systems Corporation (ADS)	Neutral	2
Broadridge Financial Solutions, Inc. (BR)	Neutral	4
Equifax, Inc. (EFX)	Neutral	2
FactSet Research Systems Inc. (FDS)	Neutral	4
Fidelity National Information Services, Inc. (FIS)	Neutral	3
Fiserv, Inc. (FISV)	Neutral	3
Gartner, Inc. (IT)	Neutral	3
Paychex, Inc. (PAYX)	Neutral	3

Industry Comparison Industry: Business - Information Services				Industry Peers		
	VRSK	X Industry	S&P 500	EFX	FISV	PAYX
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	2	3	3
VGM Score	B	-	-	F	A	B
Market Cap	26.56 B	10.65 B	21.05 B	20.17 B	64.68 B	25.63 B
# of Analysts	10	9	14	10	15	12
Dividend Yield	0.66%	0.66%	1.99%	0.94%	0.00%	3.47%
Value Score	D	-	-	D	C	C
Cash/Price	0.01	0.03	0.07	0.02	0.01	0.03
EV/EBITDA	28.56	20.25	12.43	1,456.61	25.62	14.41
PEG Ratio	3.42	2.77	2.85	12.66	1.69	3.25
Price/Book (P/B)	12.78	6.38	2.87	8.30	1.96	9.29
Price/Cash Flow (P/CF)	25.39	20.99	11.32	19.67	14.43	17.84
P/E (F1)	34.57	33.24	20.46	32.54	21.92	25.96
Price/Sales (P/S)	9.94	7.68	2.19	5.57	5.19	6.24
Earnings Yield	2.90%	3.01%	4.57%	3.08%	4.56%	3.85%
Debt/Equity	1.37	0.77	0.77	1.44	0.65	0.33
Cash Flow (\$/share)	6.45	3.58	7.01	8.45	6.70	4.01
Growth Score	B	-	-	F	A	B
Hist. EPS Growth (3-5 yrs)	10.56%	15.32%	10.84%	5.44%	17.52%	10.95%
Proj. EPS Growth (F1/F0)	8.15%	0.08%	-10.79%	-9.15%	10.18%	-8.17%
Curr. Cash Flow Growth	6.53%	6.86%	5.46%	0.48%	147.85%	10.82%
Hist. Cash Flow Growth (3-5 yrs)	13.86%	12.63%	8.55%	8.37%	29.38%	12.37%
Current Ratio	0.51	1.27	1.29	1.00	1.07	1.19
Debt/Capital	57.81%	44.70%	45.14%	59.06%	39.67%	24.63%
Net Margin	18.23%	12.71%	10.53%	7.45%	8.51%	26.98%
Return on Equity	34.93%	23.01%	16.06%	27.87%	9.62%	41.68%
Sales/Assets	0.40	0.44	0.55	0.48	0.20	0.46
Proj. Sales Growth (F1/F0)	6.30%	0.00%	-2.70%	4.43%	35.12%	-3.49%
Momentum Score	A	-	-	B	A	B
Daily Price Chg	-1.87%	-2.17%	-3.07%	-3.18%	-5.25%	-3.67%
1 Week Price Chg	0.93%	0.93%	0.92%	-0.05%	-0.29%	0.28%
4 Week Price Chg	0.14%	0.00%	-3.03%	10.12%	-8.30%	0.56%
12 Week Price Chg	16.27%	19.24%	22.03%	46.44%	9.77%	17.91%
52 Week Price Chg	14.75%	5.29%	-8.53%	26.75%	7.12%	-12.61%
20 Day Average Volume	1,031,062	146,462	2,805,937	1,002,139	4,680,114	2,194,189
(F1) EPS Est 1 week change	0.11%	0.00%	0.00%	0.00%	0.05%	0.00%
(F1) EPS Est 4 week change	0.11%	0.00%	0.00%	11.77%	0.98%	0.00%
(F1) EPS Est 12 week change	-3.18%	-7.25%	-12.33%	-9.53%	-9.21%	-5.55%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	47.34%	0.08%	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.

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.

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