Verisk Analytics, Inc. (VRSK)

Baird Facts

Please refer to Appendix - Important Disclosures and Analyst Certification.

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</tr>
</thead>
<tbody>
<tr>
<td>S2WK H-L ($) :</td>
<td>172 - 117</td>
<td>Suitability:</td>
<td>Lower Risk</td>
<td>Q1</td>
<td>1.03A</td>
<td>1.17A</td>
<td></td>
</tr>
<tr>
<td>Market Cap (mil) :</td>
<td>26,360</td>
<td>L-Term Rev. Gr Rate Est:</td>
<td>170</td>
<td>Q2</td>
<td>1.10A</td>
<td>1.13E</td>
<td></td>
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<tr>
<td>Shares Out (mil):</td>
<td>166.5</td>
<td>L-Term EPS Gr Rate Est:</td>
<td>10%</td>
<td>Q3</td>
<td>1.12A</td>
<td>1.17E</td>
<td></td>
</tr>
<tr>
<td>Float (mil):</td>
<td>161.5</td>
<td>Debt/Cap:</td>
<td>12%</td>
<td>Q4</td>
<td>1.13A</td>
<td>1.12E</td>
<td></td>
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<tr>
<td>Avg. Daily Vol (mil):</td>
<td>1.11</td>
<td>ROE:</td>
<td>59.8%</td>
<td>Total</td>
<td>4.37A</td>
<td>4.69E</td>
<td></td>
</tr>
<tr>
<td>Dividend ($) :</td>
<td>1.08</td>
<td>Insider Holdings:</td>
<td>33.2%</td>
<td>FY P/E</td>
<td>36.2x</td>
<td>33.8x</td>
<td></td>
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<tr>
<td>Yield (%):</td>
<td>0.7</td>
<td>1.0%</td>
<td>1.0%</td>
<td>5.24E</td>
<td>30.2x</td>
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EPS (Net): *Reflects Adj. EPS (ex. amortization of intangible assets, and one-time items).

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<thead>
<tr>
<th>Headquartered IPO/Founded</th>
<th>Dec</th>
<th>2019A</th>
<th>2020E</th>
<th>2021E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jersey City, New Jersey</td>
<td>Revenue (Mil)</td>
<td>2,607.1</td>
<td>2,749.3</td>
<td>2,922.9</td>
</tr>
<tr>
<td></td>
<td>% Growth</td>
<td>8.9%</td>
<td>5.5%</td>
<td>6.3%</td>
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<tr>
<td></td>
<td>Operating Margin</td>
<td>26.9%</td>
<td>35.5%</td>
<td>36.1%</td>
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<tr>
<td></td>
<td>Adj. EBITDA Margin</td>
<td>46.9%</td>
<td>46.7%</td>
<td>47.5%</td>
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<tr>
<td></td>
<td>EV/EBITDA</td>
<td>23.8x</td>
<td>22.7x</td>
<td>21.0x</td>
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Company Description

Verisk Analytics is a vertically oriented, data asset-centric, data-analytics business. It is a leading provider of information about risk to professionals in insurance, energy, financial services, government, supply chain, and risk management. The company operates primarily across three main end markets/verticals, including Insurance (~71% of 2019 revenue and ~80% of EBITDA), Energy & Specialized Markets (~22% of revenue and ~15% of EBITDA), and Financial Services (~7% of revenue and ~5% of EBITDA). Verisk’s predecessor companies were founded in 1971 and the company is currently headquartered in Jersey City, New Jersey.

Revenue Profile

- **Verisk Insurance Solutions (~71% of 2019 revenue)** – Verisk is a leading provider of information solutions to the property and casualty insurance industry, with an especially strong position in U.S. commercial and residential real estate-related insurance information solutions. Its Insurance Solutions business generates a very attractive margin, and we believe has attractive growth potential that may be underestimated by some investors. It provides solutions that assist clients across the insurance risk analysis framework, from prediction of loss, to selection and pricing of risk, to detection and prevention of fraud, to loss quantification.

- **Energy & Specialized Markets (~22%)** -- Wood Mackenzie primarily provides data and analytics services to the upstream E&P market, with proprietary data and long-standing client relationships driving a consistent track record of growth and profitability, including high levels of recurring subscription-based revenue (80%+), while recent Genscape acquisition (Nov. 2019 close) provides short-term energy flow data for power markets. The company's Specialized Markets solutions help businesses and governments manage climate- and weather-related risks, and supply chain risks with a focus on Environmental Health & Safety.

- **Financial Services (~7%)** – Verisk’s Financial Services segment (previously within Decision Analytics) operates primarily under the Argus brand, and provides a series of analytics, information and solutions (competitive benchmarking, scoring solutions, analytics, and customized services) to consumer banks and their regulators, primarily focused on credit and debit transactions, and increasingly on demand deposit accounts. The company’s database is also utilized for consumer advertising effectiveness purposes.
Verisk Analytics, Inc.
May 19, 2020

Competition
Verisk’s competitors vary largely by industry and product line, with the company holding a strong market share and large economic moat within its legacy P&C industry, and facing greater competition across its more nascent offerings with significant opportunity.

- Within the company’s Insurance offerings, VRSK retains a large market share (up to 90%+) within some business lines, and competes mostly with internal solutions developed by industry participants (insurance providers), with additional product offerings from other statistical agencies (National Independent Statistical Service and Independent Statistical Service), consulting companies (including Deloitte Consulting LLP), and information technology firms (including Pinnacle Consulting and EMB). The company’s legacy P&C Decision Analytics offerings also compete with LexisNexis Risk Solutions, which acquired Choicepoint, a provider of motor vehicle records and loss histories in February 2008, Decision Insight (property value and claims estimator), CoreLogic, and Solera (personal automobile underwriting).
- The company’s acquisition of Wood Mackenzie expanded its vertical focus into the energy, chemicals, metals, and mining industries, where Wood Mac primarily provides data and analytics services to the upstream E&P market, and competes with IHS, Inc., Drilling Info, Inc., PIRA Energy Group, Deloitte Touche Tohmatsu, as well as a series of smaller providers.

Quick Summary
We rate VRSK Outperform, preferred defensive quality growth idea. In our view, Verisk represents the rare combination of a very strong and defensible market presence in economically important sectors that are unlikely to be displaced, coupled with high ROI solutions for its clients, yielding solid organic growth and very strong margins/ROIC. We continue to view VRSK as an exceptionally high quality company and core holding-type stock. We expect continued relative resilience to VRSK fundamentals in the current environment (VRSK expects organic cc revenue growth and margin expansion in 2020, and we expect solid EPS growth, while we view revenue shortfalls as largely temporary) and continue to like VRSK as a defensive quality growth idea.

Our $170 price target reflects 32.5x our 2021 adj. EPS estimate. Five-year historical NTM P/E (on adj. EPS) range has been 21-35x, averaging 26.4x (32-103% premium, averaging 56% premium

Investment Thesis
Differentiated and defensible information assets. We believe that VRSK has differentiated data assets, which we view as a source of a defensible competitive advantage, and in our view the company does a good job of defending and enhancing its competitive advantage given its n+1 data framework and scale advantages afforded to it through its category leadership positioning. In addition to its historical data and data provided to it via its intermediary positioning in markets with contributory data models, VRSK also invests in gathering additional data, deriving additional value from its data via data mining and analysis, and in analytics capabilities, both human capital driven and technology driven. The company also has the potential to repurpose its intellectual property assets, including across verticals and into adjacent markets.

Enviable position in attractive property & casualty insurance market yields world-class margins and underestimated growth opportunities, as VRSK leverages its enviable market positioning to drive growth via a combination of cross-selling and pricing power. VRSK is the largest provider of information solutions to the P&C industry, yet its revenue represents a small percentage of the approximately $500bn premium market. The company’s legacy products provide a recurring revenue base with high margins and pricing power, while its market positioning/client relationships and lower penetration rates for some of its solutions (as well as in-development solutions and/or acquisition targets) provide it with significant cross-selling opportunities.

Argus and Wood Mac provide additional attractive growth opportunities. While Argus growth is currently below its long-term trend, we remain confident in its long-term growth opportunity, and believe its differentiated data assets can be leveraged both within its core as well as adjacent markets (payments more broadly, retail, etc.). We also expect Wood Mac improvement to remain a "show me story" in the near term; however, its organic growth performance has been impressive given end-market headwinds, in our view, and it adds another long-term growth opportunity with potential to also leverage existing VRSK capabilities.

Attractive economic model with strong margins throughout an economic cycle with limited macroeconomic sensitivity, high capital efficiency (low working capital and maintenance capex requirements) and strong ROIC, recurring revenue, strong pricing power, and high incremental margins given a "build once, sell many times" model coupled with a scaled industry leadership position for several of its businesses.

Potential value accretion through capital deployment. The capital efficiency of Verisk’s business coupled with current financial leverage that we view as highly manageable with committed long-term financing should enable a combination of strategic acquisitions and share repurchases. In addition to solid underlying organic growth, management strategically allocates capital toward acquisitions of innovative enterprises that have solutions that can be sold into its existing client network or provide it footholds in new or adjacent markets, enhancing the company’s overall growth, which has aided its 10+ years of uninterrupted revenue and adj. EPS growth (10-year ~10% and ~14% CAGRs, respectively).

Risks & Caveats
Access to proprietary data. In addition to leveraging publicly available data, and internally sourcing data through fieldwork and surveys, Verisk relies on significant data partnerships with industry participants and third-party data providers. If the company’s data partners decided to no longer work with the company, the company’s existing products and new solutions could be meaningfully affected.

Regulatory. Verisk’s database of information includes both public and proprietary information. As a result, the company is subject to several regulations, including: the Fair Credit Reporting Act, Dodd Frank Wall Street Reform and Consumer Protection Act, and could be negatively affected if industry regulations were changed, or increasingly imposed.
Data protection. Given the company’s exposure to private data sources, and increasing sources of data, VRSK remains at risk from the theft of personal information or data breaches. Were the company to experience a significant data breach, its clients and data providers may choose to no longer partner with the company.

Competition. VRSK operates in several highly competitive end markets where the company may face elevated levels of risk and varying levels of performance, depending on the attractiveness of their solutions relative to other providers.

Acquisitive history. Acquisitions remain a significant portion of the company’s historical and future growth profile, and as a result pose several risks, including: the integration of operations, lower than anticipated synergies, increased future acquisition costs or difficulty finding suitable acquisitions, and potential shareholder dilution.

Outsized exposure to U.S. P&C insurance industry. Insurance solutions account for ~70% of revenue with a significant industry concentration in the U.S. P&C insurance industry. While we view the P&C insurance industry as a cornerstone of the U.S. economy that is unlikely to be displaced even over a very long horizon, if the P&C industry were to experience a significant decline in premium volumes, or an extended period of elevated claims, the company’s revenue may be impacted.
Appendix - Important Disclosures and Analyst Certification

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Rating and Price Target History for: Verisk Analytics, Inc. (VRSK) as of 05-18-2020

1 Robert W. Baird & Co. Incorporated makes a market in the securities of VRSK.

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Verisk Analytics, Inc.
May 19, 2020

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