

Verisk Analytics

Downgrading to Neutral: 2023 was great, 2024 likely just good

Rating Change: NEUTRAL | PO: 260.00 USD | Price: 233.70 USD

Three reasons this year may have less upside than 2023

We're downgrading Verisk to Neutral from Buy and lowering our PO to \$260. Verisk's Insurance data and analytics business is poised for compounding double-digit EPS growth. However, we see three headwinds to 2024 valuation upside and sentiment: 1) likely slowing sales growth against a very strong 2023, 2) limited margin upside as VRSK invests in GenAI tech, and 3) investors shifting more towards cyclical from defensive stocks amid 2024 rate cuts and a likely soft landing. Our revised \$260 PO still factors in a premium to peers, which we think is warranted given VRSK's high subscription sales mix (~80% of total) and dominant positioning in the P&C Insurance-data sector.

Back to the algo: we expect normalized 2024 sales growth

2023's sales strength has buoyed valuation. Quarterly sales have beat sell-side expectations by >2% the last three quarters, and our 4Q23 outlook assumes a 3% beat. This provides a tough setup for 2024. We model 6.8% 2024 organic sales, vs. +9.0%E for 2023 and the company's 6-8% annual target growth. Elevated auto insurance shopping amid industry rate increases (up ~17% y/y on average in the US) has been a material driver of outperformance. The year has also benefited from below-normal industry attrition. In 2024, we expect sales growth to normalize against difficult comparisons (including the pop in auto insurance shopping) and more normalized industry consolidation / attrition.

We no longer expect margins at high-end of target range

VRSK is on track to reach its 54-56% 2024 EBITDA margin target, but we expect it to be towards the mid-point of the range due to GenAI investments. We're lowering our margin target to 55.3% (or +150bp), from 56.2% prior. The company had not considered GenAI (it was still very new) when it set its financial goals at its March 2023 Investor Day.

Valuation largely prices in Verisk's resilient business

Share are trading at 35/32x 2024/25E P/E, 12/20% premiums to Info Services peers. We think Verisk's defensive business model justifies a premium multiple to peers, but we think there are other Info Services stocks with more upside catalysts near-term. Our revised \$260 PO is 39/36x our 2024/25 estimates, assuming modest multiple expansion on strong execution. Our prior \$270 PO was based on a 40x 2024 P/E multiple.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	5.52	5.01	5.72	6.64	7.24
GAAP EPS	4.08	6.00	4.37	6.30	6.91
EPS Change (YoY)	9.5%	-9.2%	14.2%	16.1%	9.0%
Consensus EPS (Bloomberg)			5.73	6.63	7.47
DPS	1.16	1.24	1.36	1.50	1.66
Valuation (Dec)					
P/E	42.3x	46.6x	40.9x	35.2x	32.3x
GAAP P/E	57.3x	39.0x	53.5x	37.1x	33.8x
Dividend Yield	0.5%	0.5%	0.6%	0.6%	0.7%
EV / EBITDA*	24.2x	28.6x	25.5x	23.2x	21.5x
Free Cash Flow Yield*	2.6%	2.3%	2.5%	2.9%	3.2%

* For full definitions of *IQmethod*SM measures, see page 7.

08 January 2024

Equity

Key Changes

(US\$)	Previous	Current
Inv. Opinion	B-1-7	B-2-7
Inv. Rating	BUY	NEUTRAL
Price Obj.	270.00	260.00
2023E Rev (m)	2,679.2	2,683.7
2024E Rev (m)	2,860.1	2,867.4
2025E Rev (m)	3,060.3	3,068.1
2023E EPS	5.73	5.72
2024E EPS	6.74	6.64
2025E EPS	7.36	7.24

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Stock Data

Price	233.70 USD
Price Objective	260.00 USD
Date Established	8-Jan-2024
Investment Opinion	B-2-7
52-Week Range	169.74 USD - 249.26 USD
Mrkt Val (mn) / Shares Out (mn)	34,060 USD / 145.7
Free Float	99.2%
Average Daily Value (mn)	207.39 USD
BofA Ticker / Exchange	VRSK / NAS
Bloomberg / Reuters	VRSK US / VRSK OQ
ROE (2023E)	75.5%
Net Dbt to Eqty (Dec-2022A)	205.0%
ESGMeter TM	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

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Timestamp: 08 January 2024 06:00AM EST

iQprofileSM Verisk Analytics

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	13.8%	18.8%	18.7%	29.8%	33.1%
Return on Equity	32.6%	34.5%	75.5%	235.2%	442.8%
Operating Margin	33.4%	56.3%	44.1%	46.1%	47.0%
Free Cash Flow	887	784	845	980	1,090

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.3x	1.3x	1.3x	1.3x	1.3x
Asset Replacement Ratio	3.9x	0.8x	0.9x	0.9x	1.0x
Tax Rate	23.9%	18.8%	29.5%	23.5%	23.5%
Net Debt-to-Equity Ratio	106.7%	205.0%	NM	NM	NM
Interest Cover	7.9x	10.1x	9.6x	10.8x	11.4x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	2,999	2,497	2,684	2,867	3,068
% Change	7.7%	-16.7%	7.5%	6.8%	7.0%
Gross Profit	1,941	1,672	1,817	1,956	2,085
% Change	8.4%	-13.8%	8.7%	7.6%	6.6%
EBITDA	1,520	1,285	1,443	1,585	1,711
% Change	10.4%	-15.5%	12.4%	9.8%	8.0%
Net Interest & Other Income	(125)	(232)	(271)	(123)	(127)
Net Income (Adjusted)	902	796	843	966	1,056
% Change	8.2%	-11.8%	5.9%	14.6%	9.3%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	666	954	644	918	1,007
Depreciation & Amortization	68	341	266	263	268
Change in Working Capital	(153)	(24)	19	8	31
Deferred Taxation Charge	50	(261)	(35)	(38)	(32)
Other Adjustments, Net	525	48	183	73	78
Capital Expenditure	(268)	(275)	(231)	(244)	(261)
Free Cash Flow	887	784	845	980	1,090
% Change	8.0%	-11.6%	7.8%	16.0%	11.2%
Share / Issue Repurchase	(391)	(1,530)	(2,495)	(845)	(1,045)
Cost of Dividends Paid	(188)	(195)	(197)	(218)	(243)
Change in Debt	110	430	(895)	0	200

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	280	113	498	416	419
Trade Receivables	446	290	232	248	232
Other Current Assets	176	523	152	160	163
Property, Plant & Equipment	658	542	594	559	530
Other Non-Current Assets	6,247	5,495	2,829	2,846	2,895
Total Assets	7,808	6,961	4,306	4,229	4,238
Short-Term Debt	971	1,393	0	0	0
Other Current Liabilities	872	926	644	676	720
Long-Term Debt	2,343	2,343	2,867	2,867	3,067
Other Non-Current Liabilities	780	531	330	330	330
Total Liabilities	4,966	5,193	3,841	3,873	4,117
Total Equity	2,843	1,768	465	356	121
Total Equity & Liabilities	7,808	6,961	4,306	4,229	4,238

* For full definitions of iQmethodSM measures, see page 7.

Company Sector

Business Services

Company Description

Verisk provides data and decision support solutions to enable customers to better understand and manage risk. Following the sale of its energy business in February 2023, Verisk provides services to insurance markets. As of 2022, customers included the top 100 US P&C insurance providers.

Investment Rationale

Verisk is a strong franchise with quality data assets, a wide competitive moat, and a profitable and predictable business model. However, we see moderating sales growth in 2024 following above average growth in 2023. Moreover, valuation has gotten rich over the past year and with rate cuts imminent, there are more attractive opportunities across the information services sector. We think the risk/reward is balanced and rate the shares Neutral.

Stock Data

Average Daily Volume 887,429

Quarterly Earnings Estimates

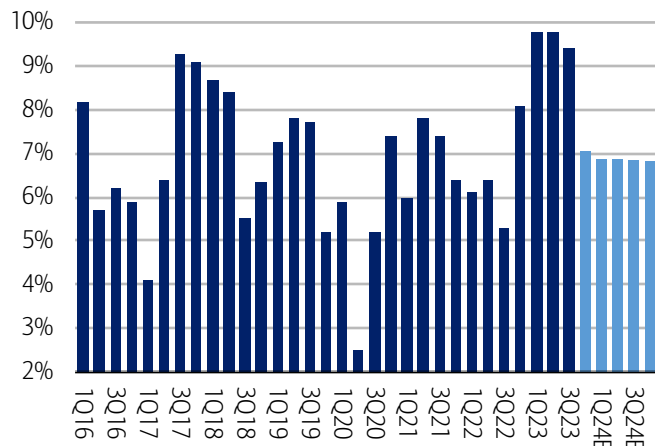
	2022	2023
Q1	1.34A	1.29A
Q2	1.53A	1.51A
Q3	1.46A	1.52A
Q4	1.43A	1.42E

2023 sales were exceptional; 2024 we think will be good

Verisk's quarterly organic sales growth has averaged 9.7% over the past three quarters driven by healthy subscription growth (~80% of revenues), as well as very strong transactional revenue growth.

Exhibit 1: Since 1Q23, Verisk's organic sales growth has outpaced its 6-8% target annual growth rate

We assume sales normalize in 2024E against difficult comparisons

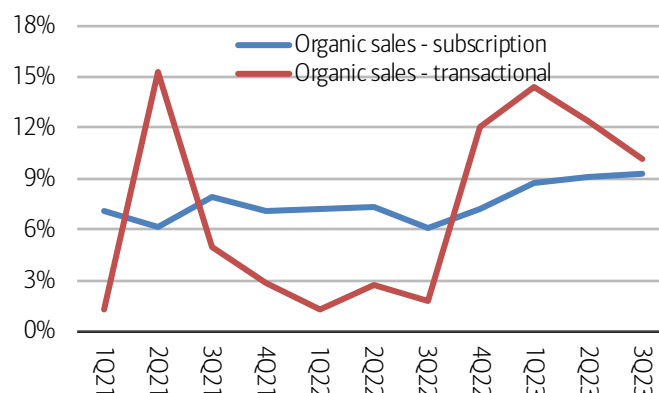


Source: BofA Global Research estimates, company reports

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Exhibit 2: Subscription organic revenues stepped up to 8-9% in 1Q-3Q23

Transactional revenues tend to be choppy, but have been very strong since 4Q22



Source: BofA Global Research estimates, company reports

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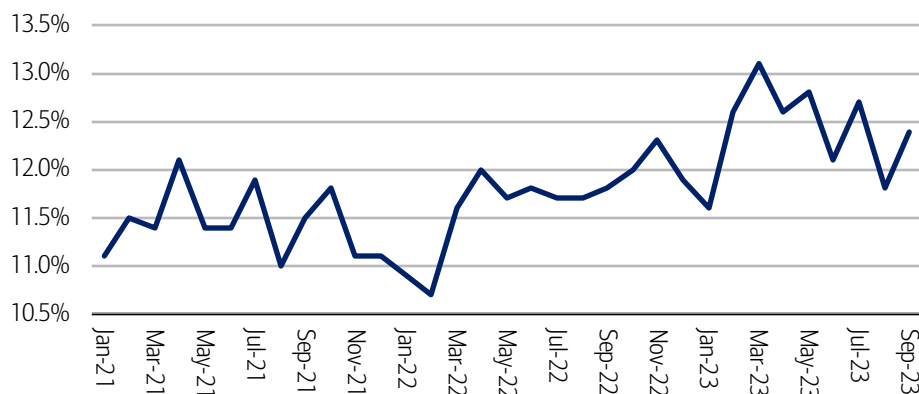
Verisk overdelivered on 2023 sales growth

Subscription growth has benefited from the flow through of net premium growth within its forms, rule, and loss costs business (20-25% of contracts within this line of business are tied to net premium growth on a two-year lag and premiums were up ~9-10% in 2021), strong growth in anti-fraud claims business as a transactional product switched to a subscription model in 2H22, robust demand for property estimating solutions as customers' become increasingly focused on extreme events, success with new product launches, and lower than normal levels of attrition/industry consolidation.

Non-subscription growth has benefitted from a recovery in the autos space due to an increase in consumers shopping for insurance (marketing spend has still been weak), strong double-digit growth in life insurance solutions, travel solutions benefitting from post-COVID rebound internationally through 1H, elevated severe storm activity helping property estimating-related sales, and strong catastrophe bond issuance (skews to 2Q).

Exhibit 3: Auto insurance shopping activity through September 2023

Shopping activity has ticked up in 2023, peaking in March 2023



Source: J.D. Power Insurance Loyalty Indicator & Shopping Trends (LIST)



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Shopping activity has ticked up in 2023, peaking in March 2023

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We expect a good but normal year in 2024

We assume 2023's momentum moderates in 2024. We model 6.8% 2024 organic sales growth. We assume this moderation comes as insurance industry attrition (~100bp headwind on average) and consolidation normalizes from below-normal 2023 levels.

We assume auto insurance revenues (10% of total) are up y/y. We assume auto insurance shopping moderates against difficult comparisons, but is still up y/y as customers' react to ongoing rate increases. We also expect auto insurers to return to marketing, which benefits Verisk's sales. Insurance marketing solutions (the majority of which come from the auto insurance) was \$80mn of sales in 2022, of which 10% (or \$8mn) of those revenues were transactional. Those revenues were down y/y in 2023. Our insurance team is optimistic that Progressive restarts its marketing program in early 2024, and the rest of the sector returns to marketing over the course of 2024 and into 2025.

Starting to see signs of industry consolidation normalizing

TransUnion called out some increased disruption from insurance state exits on their 3Q23 call. According to Verisk, states like California and Louisiana are seeing insurers exit. However, Florida, which has been challenged, is starting to see some early green shoots. The impact to Verisk's sales from state exits can be delayed with the timing of renewals because ~80% of revenues are subscription-based. In addition, there has been some consolidation with RenaissanceRe acquiring Validus Re, the treaty reinsurance business of American International Group, in early November 2023. Verisk's most significant exposure to reinsurance is through their Extreme Events business.

We expect in line 2024 EBITDA margins

In our view, Verisk is on track to reach its 54-56% 2024 EBITDA margin goal. However, we think the company's is more likely to be towards the mid-point of the range, rather than hitting the high-end or even beating the range.

We're modeling 53.7/55.2% 2023/24 EBITDA margins. This compares to a 52.0% 2022 pro forma adjusted margin (for the stand-alone Insurance business). The company has already executed on cost cutting projects that gets it to 90%+ of its planned savings, which gives management the confidence it can achieve at least the low-end of the range.

We have gleaned that the company is ahead of plan on its infrastructure and technology-related margin initiatives, but real estate exits have been tougher than planned in some cases. The company also plans to invest in Generative AI initiatives, which were not contemplated when it initially set its margin goals. Lastly, in 2024, it's facing some higher legal, incentive, and commission costs.

Valuation**Exhibit 4: Information Service comparable company valuation**

Verisk is trading at 12% and 20% premiums to peers on 2024E and 2025E P/E

Company	Share price	Enterprise value (\$bn)	Net debt / TTM EBITDA	Dividend yield	CY23-25E CAGR			P/E		EV/EBITDA		P/FCF	
					Revenue	EPS	FCF	CY24E	CY25E	CY24E	CY25E	CY24E	CY25E
Information Services Coverage													
Equifax	\$237.02	\$35.0	3.5x	0.7%	12.8%	30.7%	61.1%	28.8x	21.1x	17.3x	14.0x	27.7x	20.9x
FactSet	\$456.58	\$19.0	1.6x	0.9%	6.3%	12.7%	15.0%	28.6x	24.7x	21.9x	20.0x	27.6x	23.0x
Gartner	\$425.37	\$35.0	0.8x	0.0%	8.6%	12.4%	16.3%	39.6x	34.1x	24.8x	22.4x	26.2x	23.9x
Moody's	\$371.69	\$73.2	2.0x	0.8%	8.6%	17.5%	23.0%	29.8x	26.4x	23.0x	21.3x	26.5x	25.9x
MSCI	\$538.05	\$46.4	2.5x	1.0%	11.0%	14.3%	13.3%	36.5x	31.5x	27.8x	25.0x	32.7x	28.3x
S&P Global	\$427.93	\$146.4	1.8x	0.8%	8.3%	14.0%	21.1%	29.6x	26.3x	22.5x	20.4x	28.2x	24.6x

Exhibit 4: Information Service comparable company valuation

Verisk is trading at 12% and 20% premiums to peers on 2024E and 2025E P/E

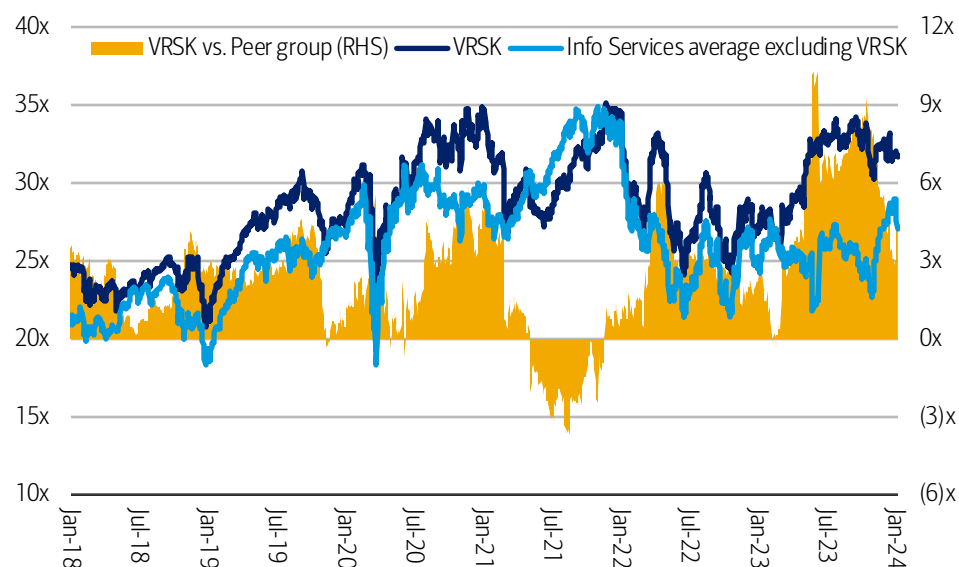
Company	Share price	Enterprise value (\$bn)	Net debt / TTM EBITDA	Dividend yield	CY23-25E CAGR			P/E		EV/EBITDA		P/FCF	
					Revenue	EPS	FCF	CY24E	CY25E	CY24E	CY25E	CY24E	CY25E
Thomson Reuters	\$143.93	\$67.5	0.7x	1.4%	5.7%	9.5%	4.5%	38.0x	35.0x	23.9x	22.8x	36.8x	33.6x
TransUnion	\$64.99	\$17.6	3.7x	0.7%	6.1%	14.0%	17.2%	20.9x	17.1x	13.7x	12.1x	44.3x	21.7x
Peer Average			2.1x	0.8%	8.4%	15.6%	21.4%	31.5x	27.0x	21.9x	19.7x	31.2x	25.2x
Verisk	\$233.70	\$36.5	1.7x	0.6%	6.9%	12.4%	13.6%	35.3x	32.4x	23.1x	21.4x	34.8x	31.3x

Source: Bloomberg, BofA Global Research estimates

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Exhibit 5: Verisk has historically traded at a premium to Information Services peers

That premium widened after Verisk exited its underperforming and more cyclical Energy and Finance businesses (in late 2022 and early 2023) and organic sales accelerated



Source: Bloomberg

Note: Peers include Equifax, FactSet, Gartner, Moody's, MSCI, S&P Global, Thomson Reuters, and TransUnion

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Price objective basis & risk

Verisk Analytics (VRSK)

Our \$260 price objective is based on a 39x and 36x our 2024E and 2025E P/E multiple. We assume modest multiple expansion from current levels on strong execution, balanced by more normalized sales growth in 2024.

Risks to the downside 1) sales decelerate more than expected due to less auto shopping and/or a tougher economic backdrop, 2) investments in GenAI and innovation are higher than expected, and 3) greater than expected industry consolidation.

Risk to the upside 1) continued momentum in auto shopping activity benefitting transactional sales growth, 2) additional margin expansion opportunities, and 3) better than expected sales performance driven by the company's growth verticals (International, marketing, life insurance).

Analyst Certification

I, Heather Balsky, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Business, Education & Professional Services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Alight Inc	ALIT	ALIT US	Heather Balsky
	Aramark	ARMK	ARMK US	Heather Balsky
	Cintas	CTAS	CTAS US	Heather Balsky
	CoStar Group	CSGP	CSGP US	Heather Balsky
	Dun & Bradstreet Holdings, Inc.	DNB	DNB US	Heather Balsky
	Gartner	IT	IT US	Heather Balsky
	Moody's Corp.	MCO	MCO US	Heather Balsky
	S&P Global	SPGI	SPGI US	Heather Balsky
	Strategic Education	STRA	STRA US	Heather Balsky
	Thomson Reuters	YTRI	TRI CN	Heather Balsky
	Thomson Reuters	TRI	TRI US	Heather Balsky
NEUTRAL				
	FactSet Research Systems Inc	FDS	FDS US	Heather Balsky
	First Advantage Corporation	FA	FA US	Heather Balsky
	Verisk Analytics	VRSK	VRSK US	Heather Balsky
UNDERPERFORM				
	ASGN Inc.	ASGN	ASGN US	Heather Balsky
	Clarivate PLC	CLVT	CLVT US	Heather Balsky
	Equifax	EFX	EFX US	Heather Balsky
	ManpowerGroup	MAN	MAN US	Heather Balsky
	MSCI Inc	MSCI	MSCI US	Heather Balsky
	Robert Half	RHI	RHI US	Heather Balsky
	TransUnion	TRU	TRU US	Heather Balsky

IQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt +
Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales

Basic EBIT + Depreciation + Amortization

IQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and valuations. The key features of *IQmethod* are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

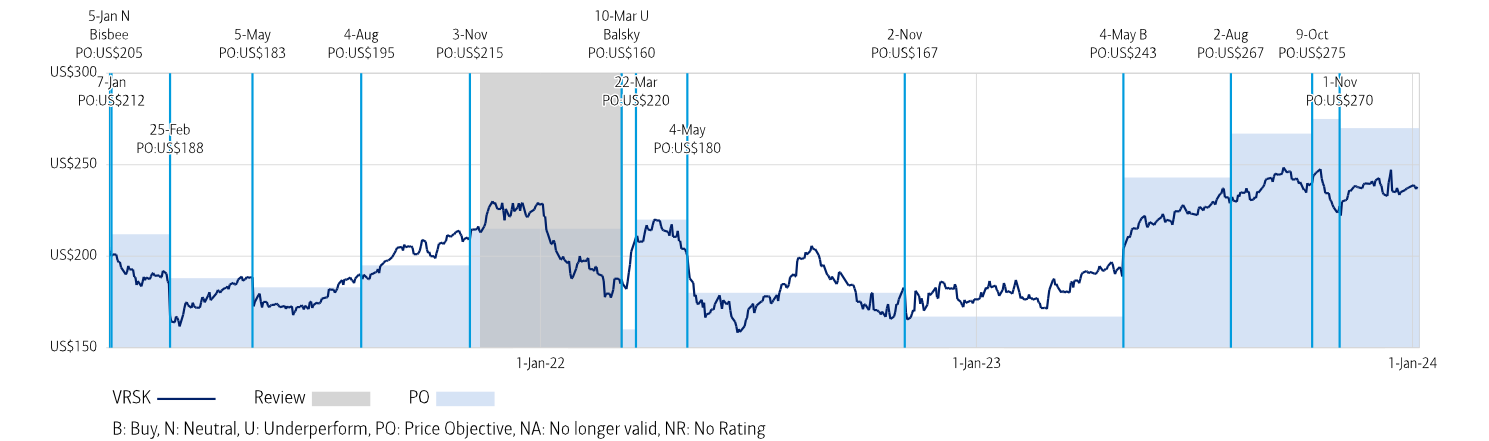
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Disclosures

Important Disclosures

Verisk Analytics (VRSK) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Business Services Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	26	55.32%	Buy	17	65.38%
Hold	8	17.02%	Hold	3	37.50%
Sell	13	27.66%	Sell	11	84.62%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. VOLATILITY RISK RATINGS, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. INVESTMENT RATINGS reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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