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Verisk Analytics, Inc. (VRSK)

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, everyone. And welcome to the Verisk Fourth Quarter And Full-Year 2024 Earnings Results Conference Call. This call is being recorded. Currently, all participants are in a listen-only mode. After today's prepared remarks, we will conduct a question-and-answer session where we will limit participants to one question so that we can allow everyone to ask a question. We will have further instructions for you at that time.

For the opening remarks and introductions, I would like to turn the call over to Verisk's Head of Investor Relations, Ms. Stacey Brodbar. Ms. Brodbar, please go ahead.

Stacey Jill Brodbar

Head-Investor Relations and FP&A, Verisk Analytics, Inc.

Thank you, operator. And good day, everyone. We appreciate you joining us today for a discussion of our fourth quarter and full-year 2024 financial results. On the call today are Lee Shavel, Verisk's President and Chief Executive Officer; and Elizabeth Mann, Chief Financial Officer.

The earnings release referenced on this call, as well as our traditional quarterly earnings presentation and the associated 10-K, can be found in the Investors section of our website, verisk.com. The earnings release has also been attached to an 8-K that we have furnished to the SEC. A replay of this call will be available for 30 days on our website and by dial-in.

As set forth in more detail in today's earnings release, I will remind everyone today's call may include forward-looking statements about Verisk's future performance, including those related to our financial guidance. Actual performance could differ materially from what is suggested by our comments today. Information about the factors that could affect future performance is contained in our recent SEC filings.

A reconciliation of reported and historic non-GAAP financial measures discussed on this call is provided in our 8-K and today's earnings presentation posted on the Investors section of our website, verisk.com. However, we are not able to provide a reconciliation of projected adjusted EBITDA and adjusted EBITDA margin to the most directly comparable expected GAAP results because of the unreasonable effort and high unpredictability of estimating certain items that are excluded from projected non-GAAP adjusted EBITDA and adjusted EBITDA margin, including, for example, tax consequences, acquisition-related costs, gains and losses from dispositions, and other nonrecurring expenses, the effect of which may be significant.

And now, I'd like to turn the call over to Lee Shavel.

Lee M. Shavel

President, Chief Executive Officer & Director, Verisk Analytics, Inc.

Good morning, everyone. And thank you for participating in our call today. I am pleased to share that Veris delivered strong fourth quarter results, underscored by 11% subscription growth and solid margin expansion, translating into double-digit profit growth.

Organic constant currency revenue growth of 8.6% was a sequential improvement from the third quarter, driven by underlying sales momentum, along with certain benefits from elevated storm-related transactional activity from Hurricanes Helene and Milton. Despite the storm benefits, transactional revenues were down slightly in the

quarter due to the ongoing conversion of transactional revenues into committed subscription contracts that we have spoken to you about.

This fourth quarter capped off a solid annual performance that compounded on top of strong growth in 2023 and was in line with our guidance and the longer-term expectations we set at Investor Day in 2023. For 2024, Veris delivered OCC revenue growth of 7.1%; OCC adjusted EBITDA growth of 9.9%; and 120 basis points of margin expansion, resulting in 16% EPS growth. Elizabeth will provide the financial details in her review, but these results are further demonstration of our predictable growth trajectory and our results-oriented culture.

We built strong momentum throughout the year and delivered these results by focusing on three key initiatives: one, enhancing our go-to-market approach; two, elevating and intensifying our strategic dialogue with clients; and three, investing in innovation at scale on behalf of the industry. Let me spend a few minutes on each and discuss how we plan to further advance on them in 2025 to deliver another year of strong growth, profitability and invention.

First, in 2023, our businesses worked with an outside consultant to incorporate sales enhancement strategies tailored for each business. As a result, in 2024, we aligned sales territories and account teams for improved client coverage and implemented new sales force compensation plans that better match with business needs and industry best practices. Additionally, we introduced product integration in certain businesses for a simpler sales process. Finally, we introduced pricing optimization strategies and tools to drive a more value-based conversation with clients.

Specifically, in our Extreme Events business, where we recently introduced our global suite of next-generation models, we benefited from this new client-centric approach as we are capturing strong value-based pricing realization and extending duration in contract renewals. After a year of record new sales across all of Verisk, our sales teams are energized as we enter 2025 as they have identified further areas to improve, including cross-business unit sales collaboration opportunities.

Our second initiative has focused on enhancing and deepening engagement across the broader industrywide and C-suite level. This approach has given Verisk deeper insights into our clients' enterprise needs, broadened and strengthened our relationships, and opened new opportunities with carriers, intermediaries, reinsurers, regulators and other ecosystem participants.

These stronger connections have allowed us to discuss with clients the value we bring to the ecosystem and have resulted in stronger renewals and improved sales outcomes. This impact has been especially significant within our largest clients, where we have achieved accelerating growth.

In 2025, we are expanding this approach with more clients, reinforcing our trusted partnerships. For example, our broadened approach to industry engagement has created new opportunities for our anti-fraud business to serve the state insurance departments and the National Insurance Crime Bureau. By leveraging our core claims search platform and advanced analytic tools, we help automate and triage the increasing number of criminal referrals and leads these agencies receive every day.

Our work is helping state fraud bureaus operate more efficiently and effectively, ultimately saving the system money while improving benefits to the consumer. We have identified further opportunities to scale this initiative into additional states over time.

Our third initiative is investing in innovation at scale on behalf of the industry. Our strong free cash flow generation allows us to invest both in improving the value of our existing solutions and inventing new solutions to address industry needs. Our Core Lines Reimagine project is a prime example of the greater value we are driving for our clients.

Throughout 2024, we introduced new features onto the digital platform, like the actuarial hub, which provides tools and risk insights to help insurers leverage ISO loss cost data quickly and confidently to address the evolving pricing needs of the market.

Additionally, our Future of Forms tool is helping underwriters quickly analyze and react to form changes that are impacting filings, driving efficiency and faster speed to market. And just in the fourth quarter, we introduced Future of Forms and Filing Intelligence for the business owners line. We also introduced a new ISO Forms library experience with the replatforming of our forms library from our legacy ISONet.

The new forms library experience includes an improved search function, a more intuitive user experience, and the ability to bulk download forms from the library. In total, we introduced 13 modules across Core Lines Reimagine in 2024, and we are slated to introduce an even greater number of modules throughout 2025.

In our Extreme Events business, our sustained investment behind cutting-edge science and advanced technologies has delivered models that have proven to be accurate and loss predictive through the recent hurricanes and wildfires. In June of 2024, we released an update to our California wildfire model that included the impacts of downslope Santa Ana winds that contributed to the devastating Eaton and Palisades wildfires.

We've estimated a loss range of \$28 billion to \$35 billion for these two events, and clients who are already using the model have access to simulated scenarios that were predictive of the losses that tragically occurred. We are continuing our typical pace of investment to keep our models at the highest levels of predictive science and have plans for an update to our US severe convective storm model to be released later this year.

We are also taking the learnings from our elevated strategic conversations with clients and investing behind initiatives that they are most focused on. To that end, this year, we are increasing investment toward new inventions that integrate data sets from across Underwriting, Claims and Extreme Events.

At Investor Day, we discussed with you how we are moving from a siloed organization to one that is more integrated, and this invention focus moves us one step closer on that journey. And we are hearing from clients that they too want help flowing information better within their own organizations and across the ecosystem.

Verisk is in a unique position to invent solutions with great competitive differentiation that can help bridge these long-standing industry practices. Verisk augmented underwriting is one such example. This innovative solution combines our rich property data sets from Underwriting with our software capabilities in Specialty Business Solutions and our catastrophe modeling expertise to provide a seamless end-to-end solution that enables our clients to evaluate large-scale property inquiries to ensure optimal pricing and coverage.

Augmented underwriting offers clients an automated way to evaluate large numbers of property files that they previously could not address with manual processes, enabling better risk selection, and ultimately, portfolio optimization. Additionally, we continue to grow our Claims ecosystem to drive more connectivity and interoperability within the industry.

Within Property Estimating Solutions, we have added 21 new partners to our ecosystem in the last year, and we now connect over 100 industry participants, which offers our clients more choice from the platform as well as a seamless workflow tool that streamlines operations for improved outcomes. We are also extending that ecosystem approach within our anti-fraud business, with solid growth from three partners in 2024 and plans to add up to 20 new partners in 2025. This will enable the industry to more effectively fight fraud, waste, and abuse, and ultimately, benefit consumers and policyholders.

During the fourth quarter, we sold a small nonstrategic asset called Atmospheric and Environmental Research, or AER, which was part of our Underwriting subsegment. AER's solution set had little strategic or customer overlap with our other businesses, and this sale is further evidence of our active portfolio management.

Before I close, I want to take a moment to address the devastating wildfires in Southern California, which have had a profound impact on individuals, businesses, communities and our insurance industry clients. Across Verisk, we are actively supporting our clients during this challenging time.

Within our Property Estimating Solutions business, we are equipping claims adjusters and restoration contractors with tools to streamline the claims estimation and rebuilding process. Specifically, we are offering the AI-enabled ClaimXperience solution, including its personal property and additional living expense modules, to help clients collaborate more effectively and deliver faster and more accurate assistance to policyholders. These capabilities not only enhance the efficiency of the claims process, but also provide critical support for policyholders as they navigate their recovery.

We also have representatives from our survey teams from Underwriting and Extreme Events on the ground to help understand in real time the disruption and impact of the wildfires to ultimately incorporate into our models. Even before this year's fires, Verisk was the first organization to submit a wildfire model as part of the California Department of Insurance initiative to stabilize the insurance market. Models provide insights into natural disaster risks, and we believe, can support increased insurance availability across the state, which will benefit all stakeholders.

Notwithstanding the significant losses the industry is bearing related to the LA fires, the overall trends of strong premium growth and improving profitability in 2024 are a positive for the industry's interest and capability to adopt and integrate improved data, analytics and technology into their businesses.

Now, let me turn the call over to Elizabeth to review our financial results for the fourth quarter and full year as well as provide our detailed guidance for 2025.

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

Thanks, Lee. And good day to everyone on the call. On a consolidated and GAAP basis, fourth quarter revenue was \$736 million, up 8.6% versus the prior year, reflecting solid levels of growth across both Underwriting and Claims. Income from continuing operations was \$204 million, up 12% versus the prior year, while diluted GAAP earnings per share from continuing operations were \$1.44, up 15% versus the prior year. The increase in diluted GAAP EPS was driven by strong operating performance, a litigation reserve expense in the prior-year period, and lower share count.

Moving to our organic constant currency results, adjusted for nonoperating items, as defined in the non-GAAP financial measures section of our press release, our operating results demonstrated growth across both Underwriting and Claims.

In the fourth quarter, OCC revenues grew 8.6%, with growth of 7% in Underwriting and 12.7% in Claims. This represents sequential improvement in our revenue growth rates across both subsegments and caps off another year of results in line with our longer-term targets that we laid out at our 2023 Investor Day.

For the full year 2024, we delivered OCC revenue growth of 7.1%, compounding on the strong 8.7% OCC revenue growth from 2023.

Our subscription revenues, which comprised 82% of our total revenue in the quarter, grew 11% on an OCC basis during the fourth quarter. The drivers of growth in the quarter were consistent with trends we have seen throughout 2024, including strength across our largest subscription-based businesses as well as the continued conversion to subscription from previously transactional contracts.

We continue to see positive outcomes in Forms, Rules, and Loss Costs as our investment in Core Lines Reimagine is delivering additional value for our clients, leading to strong renewals. In Extreme Events Solutions, as we mentioned earlier, our enhanced go-to-market strategy is helping drive new customer wins as well as strong renewals with extended terms. Within Property Estimating Solutions, we are seeing strong sales of our advanced analytics, including XactXpert and our weather applications, which focus on hail and wind. And finally, our pricing and bundling strategy is driving solid growth in our anti-fraud business.

Our transactional revenues declined 1.1% on an OCC basis during the fourth quarter. This decrease reflects the continued conversion to subscription from previously transactional revenues, including the impact of the one discrete contract we have spoken to you about previously.

We also experienced a more normalized level of attrition, particularly within the InsurTech customer segment of our auto business. The decline was partially offset by the elevated levels of transactional volume in our Property Estimating Solutions business related to Hurricanes Helene and Milton.

Moving now to our adjusted EBITDA results. OCC adjusted EBITDA growth was 13.5% in the quarter, while total adjusted EBITDA margin, which includes both organic and inorganic results, was 54.1%, up 70 basis points from the reported results in the prior year. This quarter's margin expansion highlights the effects of strong revenue growth and ongoing cost discipline, including the benefits of our global talent optimization initiatives. We did experience a modest headwind in this quarter's margin from foreign exchange translation, offsetting the benefit that we experienced in the third quarter.

For the full year 2024, adjusted EBITDA margins were 54.7%, up 120 basis points year-over-year and in the upper half of our guided range. This margin reflects core operating leverage on our solid revenue growth and continued cost discipline while also absorbing the impact of our self-funded investments back into our business to fund future growth. I also would note that while it caused quarterly variability, foreign currency translation had minimal impact on full year results.

Continuing down the income statement, net interest expense was \$35 million compared to \$28 million in the same period last year. This increase is primarily due to higher interest expenses from the issuance of senior notes in the second quarter at a higher interest rate, leading to an increased run rate expense going forward. We do have a \$500 million maturity coming due in June 2025, and given that our leverage is slightly below the low end of our targeted range of 2 to 3 times adjusted EBITDA, we will likely refinance during the year.

Our reported effective tax rate was 26% compared to 24.9% in the prior-year quarter, reflecting the timing of certain discrete tax items as well as the tax impact from the disposition of AER in the quarter. On a full year basis, our tax rate was 22.6% as compared to 25.2% in the prior year, reflecting the benefit from certain onetime discrete items in the current year as well as impact from our energy divestiture in the prior year.

Adjusted net income increased 11.6% to \$228 million and diluted adjusted EPS increased 15% to \$1.61 for the quarter. The increase is primarily driven by solid revenue growth, strong margin expansion and a lower average share count. This was partially offset by the higher interest expense and a higher tax rate. For the full year, adjusted EPS of \$6.64 was up 16.3%, reflecting strong operational growth, a lower tax rate and lower share count, offset in part by higher interest expense.

From a cash flow perspective, on a reported basis, net cash from operating activities increased 1% to \$255 million, while free cash flow increased 2% to \$200 million, reflecting the timing of higher interest payments versus last year and certain onetime items in the prior year. On a full year basis, free cash flow increased 11% to \$920 million, a record for Verisk, demonstrating the strong cash flow generation characteristics of our subscription-based business model.

We are committed to returning capital to shareholders, and during the quarter, we returned \$355 million through repurchases and dividends. 2024 marks the third year in a row that we have returned over \$1 billion in capital to shareholders through dividend and repurchases. And I am pleased to share that our board has approved a 15% increase to our dividend and an additional \$1 billion in share repurchase authorization, demonstrating our confidence in our economic model and our commitment to return capital to shareholders.

As we discussed, we are entering 2025 energized and with strong momentum. To that end, we are pleased to deliver our outlook for 2025, which builds upon the strong performance we delivered in 2024. Our guidance reflects the divestiture of AER, which contributed \$17 million in revenue in 2024 and was included within our Underwriting subsegment. Our guidance also assumes current foreign currency exchange rates, current interest rates and current tax rates.

More specifically, we expect consolidated revenue for 2025 to be in the range of \$3.03 billion to \$3.08 billion. This translates to OCC revenue growth of 6% to 8%. We expect adjusted EBITDA to be in the range of \$1.67 billion to \$1.72 billion and adjusted EBITDA margin in the range of 55% to 55.8%, up from 54.7% in 2024.

Further down the P&L, we expect depreciation and amortization of fixed assets to be in the range of \$250 million to \$270 million, subject to the timing and completion of projects. We expect amortization of intangibles to be approximately \$65 million.

We expect interest expense to be between \$145 million to \$165 million as compared to \$125 million in 2024, reflecting higher debt balances and higher interest rates. And we expect our tax rate to return to a normalized level in the 23% to 25% range, higher than the 22.6% recorded in 2024, which included some onetime tax benefits. This culminates in adjusted earnings per share in the range of \$6.80 to \$7.10. We expect capital expenditures to be between \$245 million and \$265 million as we continue to prioritize organic investment in our business.

A complete listing of all guidance measures can be found in the earnings slide deck, which has been posted to the Investors section of our website, [verisk.com](https://www.verisk.com).

And now, I will turn the call back over to Lee for some closing comments.

Lee M. Shavel

President, Chief Executive Officer & Director, Verisk Analytics, Inc.

In summary, our strategic priorities are unchanged as we remain focused on delivering consistent and predictable growth, while allocating capital to our highest return on investment opportunities and returning excess capital to shareholders.

We have a unique opportunity to invest in data and technology at scale on behalf of the insurance industry and create value for our clients through invention at a lower cost of investment and ownership than an individual insurance company can on their own. We're excited by this opportunity and the team, culture and organization we have in place to pursue it in 2025.

We continue to appreciate the support and interest in Verisk. Given the large number of analysts we have covering us, we ask that you limit yourself to one question.

And with that, I'll ask the operator to open the line for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Okay. So your first question comes from the line of Toni Kaplan with Morgan Stanley. Please go ahead.

Toni Kaplan

Analyst, Morgan Stanley & Co. LLC

Thank you so much. I wanted to ask a question on price realization. You mentioned it as one of the drivers for driving that really strong subscription growth rate of 11% this quarter. How much pushback are you getting from customers? I know in the past, there was the sensitivity around raising prices because you get the data from the insurers and didn't want to sort of rock the boat on that. So are you taking more price than usual? And how are you expecting 2025 to look in terms of the pace of the elevated pricing? Thank you.

Lee M. Shavel

President, Chief Executive Officer & Director, Verisk Analytics, Inc.

Yeah. Hey. Thanks, Toni. This is Lee. Let me – I really appreciate the question, and I think it's been an important part of the momentum that we had in 2024 and what we're looking ahead to in 2025. And I think the point that I want to emphasize is that we have been more successful at driving value-driven price increases.

And that has come about as a function of two things. One, I think focusing on delivering more value and then also communicating and orienting our sales efforts around that value orientation. Two very specific examples that I would point to. One that we've talked a lot about before, which is the Core Lines Reimagine investments that we've made, where our clients are telling us that they are now seeing substantial improvements in the value of the product that they're experiencing.

We've also heard that from indirect channels. In fact, clients of ours that have communicated that this has been a significant improvement in their productivity. So that is clearly – puts us in a position where we have been able to renew these contracts from a pricing standpoint where our clients feel as though they are getting demonstrably greater value from it.

In addition, we also saw strength in our Extreme Events business where one of the evaluations that we did with an outside consultant around the sales standpoint is that there was a stronger perception of the value of our underlying models and other EES products. And so, from a sales perspective, armed with that information, it put us in a position to be able to communicate and realize that pricing to a stronger extent.

I also think in our Claims business, the efforts that we have made to open that ecosystem have created more value for our clients, and that has been helpful. So across the business, that value-driven pricing impact has been one of the key elements of the strength that we're seeing in subscription. And those aren't onetime effects. I think that that has been an overall structural and philosophical change in terms of how we approach pricing, that we expect to continue to drive results for us in 2025 and beyond.

Toni Kaplan

Analyst, Morgan Stanley & Co. LLC

Thank you.

Stacey Jill Brodbar

Head-Investor Relations and FP&A, Verisk Analytics, Inc.

Next question?

Operator: Your next question comes from the line of Manav Patnaik with Barclays. Please go ahead.

Brendan Popson

Analyst, Barclays Capital, Inc.

Hey. This is Brendan on for Manav. I just wanted to ask on the – obviously, there's more benefit from the conversions to subscription. Just wanted to see, I guess, how to think about that for 2025 and then just how to think about maybe longer term the runway there?

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

Yeah. Brendan, good morning. Thanks for the question. So let me break it into two pieces. We talked about one specific contract conversion. We quantified that in the third quarter, and it's about the same impact in the fourth quarter. That will persist through the middle of the second quarter. So kind of the next – the last full impact would be in the first quarter of next year.

But more generally, we've talked about the success in our business of converting transactional revenue or creating license packages, creating subscription packages. That's certainly been an impact that we've talked about in our anti-fraud business, and one that we've seen elsewhere across the business.

Specifically, in the anti-fraud, we targeted a specific customer set with a third-party adjuster and self-insured. And that specific impact will also continue really through the first half of next year. But more generally across the business, as customers see the value, as Lee talked about, and commit to longer-term contracts, that may be a sustained tailwind on the subscription side.

Brendan Popson

Analyst, Barclays Capital, Inc.

All right. Thank you.

Operator: Your next question comes from the line of George Tong with Goldman Sachs. Please go ahead.

George K. Tong

Analyst, Goldman Sachs & Co. LLC

Hi. Thanks. Good morning. Transaction revenue in the quarter benefited from elevated storm activity. Can you talk about how much of a benefit you saw from storms in the quarter and how much of a benefit you expect in 2025?

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

Yeah. Good morning, George. Thanks for the question. On the transactional side and on the impact of the storms, we've previously said that we have a threshold to quantify the exact storm's amount of when they are at least 1 percentage point impact to revenue growth.

As you heard in my prepared remarks, it did not hit that threshold. But I will say the revenue impact in this fourth quarter was approximately the same as it had been with Hurricane Ian in the fourth quarter of 2022. But the fact of the business is – the fact of the matter is the rest of our business has grown so that that no longer hits that impact level.

George K. Tong

Analyst, Goldman Sachs & Co. LLC

Got it.

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

As for expectations into 2025, these storms themselves, Helene and Milton, happened quite early – actually late in the third quarter and very early in the fourth quarter. So we don't expect them to – those storms themselves to have much impact for 2025. As for prospectively, as you know, we don't forecast, but we assume sort of a normalized level of storm activity.

George K. Tong

Analyst, Goldman Sachs & Co. LLC

Very helpful. Thank you.

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

Yes.

Operator: Your next question comes from the line of Surinder Thind with Jefferies. Please go ahead.

Surinder Thind

Analyst, Jefferies LLC

Thank you. Can you maybe provide some thoughts around just the state of insurance in the sense of what's going on in California and kind of the shift towards the state being the insurer of choice? How does that impact the business from a revenue perspective versus, I'll say, the insurance companies being or active in the state versus not being active in the state?

Lee M. Shavel

President, Chief Executive Officer & Director, Verisk Analytics, Inc.

Surinder, thanks a lot for the question. And it's obviously a very timely question. So I think, certainly, the most immediate impact, of course, are the losses that the industry are bearing from the LA wildfires. And we're clearly seeing that in the financial results that they are – that the carriers are reporting.

I think the consequences of that is it certainly points to the need for – or to the heightened risk and the need for increased pricing within that market. And one of the challenges has been that, up until recently, California did not allow forward-looking models as a basis for pricing. And they have since adjusted that. As I mentioned in the remarks earlier, we were very proud to be the first to submit our wildfire model as a basis for pricing.

So I think we are headed towards a recognition that the risk environment has changed. That should provide stability in pricing and a path to greater rate adequacy. But the carriers themselves have to evaluate whether they're getting adequate pricing to compensate themselves for the risk. And we'll see – we think that we will see that play out over the course of 2025. But there naturally is a strong incentive to continue to serve the California market because of its scale, provided that there is a good rationale for acceptable and risk-based pricing there.

And I do think that these risks that we are experiencing within California also heighten the general importance of catastrophic risk modeling and greater analytics in understanding and pinpointing where higher levels of risk are within our real estate markets in the US and certainly globally. And we see continued strong demand for the expertise that we deliver to our clients.

Surinder Thind

Analyst, Jefferies LLC

Thank you.

Operator: Your next question comes from the line of Kelsey Zhu with Autonomous Research. Please go ahead.

Kelsey Zhu

Analyst, Autonomous Research US LP

Hi. Good morning. Thanks for taking my questions. So 20% to 25% of your revenues come from contracts that have a direct input of premium growth with a two-year lag. And 2023 was a pretty strong year for premium growth, but we're also in the third year of elevated premium growth in 2025. So just curious to think about how should we think about pricing contribution to growth in 2025 compared to, I think, historical levels were more closer to 3% to 4%. And if you could quantify pricing contribution to overall growth in 2024, that would be really helpful.

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

Yeah. Good morning, Kelsey. Thanks for that. So yeah, we've previously said that 20% to 25% of our revenue comes from contracts with that input from premium growth. And we continue to experience that. I will say, more importantly for us, we've been using that as an input, but the ultimate outcome of our pricing conversations come from our clients' perception of the value that we're providing.

And so, I think Lee talked at the beginning about some of the trends and the value that we've been able to deliver to clients. So all of those things are true. Yes, we see the strong pricing input and we do see that continuing off of the 2023 numbers. But the more important conversation for us longer term with our clients is the value.

Stacey Jill Brodbar

Head-Investor Relations and FP&A, Verisk Analytics, Inc.

Next question?

A

Operator: Your next question – All right. Thank you so much. Your next question comes from the line of Faiza Alwy with Deutsche Bank. Please go ahead.

Faiza Alwy

Analyst, Deutsche Bank Securities, Inc.

Yes. Hi. Thank you so much. So I wanted to follow up on transaction revenues. So you've had some difficult comps. I'm curious how we should think about that as we look ahead to 2025? And I know, Elizabeth, you mentioned the storm impact and quantified that amount for us. But curious if all of that was in transaction versus subscription? Because I know you talked about converting some of those contracts to subscription revenue.

Q

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

Yes. Thanks for the question. On that storm, it is primarily transactional. There may be a small piece of it related to subscription from contractors, but really think of it as primarily transactional.

A

As we think about going ahead into 2025, you're right, there are some tough comps on the transactional side. We talked about the contract conversion from one discrete conversion, and as I said, that lasts through the first quarter as well as the tail of those anti-fraud conversions.

I would also add in 2025 to think about auto. Yeah, auto, the auto activity has a tough comp, particularly in Q1. The transactional activity was still quite high in the first quarter. And we've referenced on the auto side, the InsurTech segment and some weakness there, which will probably continue into the year.

As you think about transactional revenue, you should also – we mentioned the sale of AER. That was primarily a transactional business. So from a nominal standpoint, that would be coming out. Though, of course, from an OCC standpoint, which is how we typically measure ourselves, that will not be as important.

And then on the seasonality standpoint, typically in the first quarter is one with less drivers for transactional growth with weather activity being lower on the Property Estimating Solutions side. The ILS market is typically less active in the first quarter. So I hope those are some of the puts and takes that help you think about 2025.

Faiza Alwy

Analyst, Deutsche Bank Securities, Inc.

Thank you.

Q

Operator: Your next question comes from the line of Andrew Steinerman with JPMorgan. Please go ahead.

Andrew C. Steinerman

Analyst, JPMorgan Securities LLC

Q

Hi, Elizabeth. Just a few really counting punch questions about the guide. One, is there any share buyback in the guide? Two, the interest expense looks materially stepped-up to me. Like, are you making an assumption about the planned refi in that interest assumption? And then three, the D&A also looks stepped-up to me relative to last year, relative to 2024. What's driving the D&A step-up in 2025?

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

A

Yeah. Andrew, hi. Thanks for those questions. Taking them in order, yes, we highlighted some of the below-the-line items there because there are headwinds there. On the share buyback, yes, we do assume share buyback activity in 2025.

The interest expense, historically, that's not one we've called out, but we thought it was important for you to understand the dynamics there. If you look at our fourth quarter interest run rate, as I mentioned in the call, that was \$35 million. So if you just annualize that fourth quarter, that already shows the impact of the – our 2024 refinancing, and that gets you almost to the level in the guidance without even assuming any refinancing. So that's – those are some of the headwinds there that we face as with others in a rising rate environment.

And then finally, on the D&A, that is a consequence of the investment that we've had in our projects and the CapEx that we've invested. As we put projects into service and as they support the revenue growth that comes in that, that's the D&A, that's the consequence.

Andrew C. Steinerman

Analyst, JPMorgan Securities LLC

Q

Okay. Thank you.

Operator: Your next question comes from the line of Alex Kramm with UBS. Please go ahead.

Alex Kramm

Analyst, UBS Securities LLC

Q

Yes. Good morning, everyone. Just staying on the guidance for a second, but particularly on the revenue side, I mean, obviously, there's a range, and the 6% to 8% is consistent with previous ranges. So just curious, if you can maybe bracket a little bit the kind of low end and the high end. Is it all transactional volatility, which you talked about earlier? Or are there other factors that you're really focused on that can you get – that will get you to the low and the high end? And obviously, how much of that subscription growth is already kind of in the books today?

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

A

Yeah. Thanks for the question, Alex. You're right, transactional volumes is one component of the swing factors. On the other side, on the low end, we always monitor attrition and potential attrition on the customer side, including potentially if there's customers that temporarily pull back in California, that could potentially have a short-term attrition impact.

On the high end, we've talked a lot about some of the new products that we've been investing in, and we're excited about those rolling out in 2025. If there's a greater or faster traction than we've assumed, then you could

see upside there. Any of the products we've talked about from XactXpert in the Property Estimating Solutions side; we've talked about Discovery and Liability Navigator; the white space product in Specialty Business Solutions, the augmented underwriting. So there's some opportunity there on the high end.

And then finally, maybe just to be a bit more specific. We talked about transactional as a swing factor, but just to enumerate those. We talked on the auto side about the comps there. Weather and ILS can be a driver of variability on the transactional side. And then I'd also mention on the life businesses, our services support for our customers there can be a transactional variability.

Lee M. Shavel

President, Chief Executive Officer & Director, Verisk Analytics, Inc.

And Alex, thanks for the question. I think there are always these broader factors that can influence our business despite us having, I think, very good predictability as we've demonstrated and kind of really tight variance around expectations. But we've talked about the weather events, which can influence things on the margin for us.

The other thing that we're watching right now is, of course, there is a lot of activity on the government and the regulatory front. As we are sorting out the new administration's elements, we don't see anything immediately that we would identify. But of course, there's a lot that is in flux on that.

And then, of course, more broadly, the economic environment and interest rates and FX are factors that will influence us over the course of the year. But despite those – the vagaries of those broader exposures, I still think beneath that, we have a business that has strong momentum, well positioned to take advantage of the opportunity over the next several years. But thanks for the question to kind of feel out some of the elements of variability here.

Alex Kramm

Analyst, UBS Securities LLC

Thank you.

Operator: Your next question comes from the line of Ashish Sabadra with RBC Capital Markets. Please go ahead.

Ashish Sabadra

Analyst, RBC Capital Markets LLC

Thanks for taking my question. I just wanted to focus on the M&A. Wanted to see if there is more opportunities for portfolio rationalization, but also how is the pipeline for M&A and thoughts on M&A. Thanks.

Lee M. Shavel

President, Chief Executive Officer & Director, Verisk Analytics, Inc.

Thanks, Ashish. I'd say the pipeline for opportunity remains relatively unchanged. We have been actively engaged in looking at opportunities, and values remain high.

I think one additional dimension that I would mention is that as we have opened our ecosystem in a variety of areas, our ability to understand how new businesses are adding value to the industry potentially create opportunities for us to have a better knowledge and understanding of how those businesses might fit within our broader business. And I think that as we are thinking on a more integrated across the – on a more integrated

basis across our business, I think we are finding opportunities for us to expand and enhance some of the value propositions that we're delivering to clients.

So the environment, I think, remains unchanged. There continue to be interesting companies that are adding value to the industry. And I think our own knowledge of how we could potentially enhance or improve that value in delivering it to clients is improving.

Ashish Sabadra

Analyst, RBC Capital Markets LLC

Thanks.

Operator: Your next question comes from the line of David Motemaden with Evercore ISI. Please go ahead.

David Motemaden

Analyst, Evercore Group LLC

Thanks. Good morning. Lee, you had mentioned that you rolled out 13 modules across Core Lines Reimagine in 2024 and how that's driving better price realization. You had also said that your increase – or you're introducing a greater number of modules in 2025. Do you think that that can drive an uptick in price realizations in 2025 versus 2024?

Lee M. Shavel

President, Chief Executive Officer & Director, Verisk Analytics, Inc.

So David, thanks for the question. I think the short answer is, we believe that each incremental module that we're adding is adding value to our clients, and so becomes an opportunity for us to capture some of that value that we're delivering. But I'm going to hand it over to my colleague, Saurabh Khemka, to describe some of the modules that I think our clients will be excited about in 2025 that we're rolling out.

Saurabh Khemka

Co-President-Underwriting Solutions, Verisk Analytics, Inc.

Yeah. Thanks, Lee. As you mentioned, we are delivering these modules across two dimensions. One is providing enhanced insights to our customers from our proprietary databases. So things like our Executive Insights where we're going to be adding another module, the Commercial Auto Module; and our ISO Experience Index, which we're going to be rolling out across all commercial lines in 2025, are things we know that customers are going to be excited about and will provide more value to them.

And the second dimension is the digital delivery of our content, which increases the productivity of our customers as they look at these analytics from us. And there, our Future of Forms initiative as well as our Ratings Reimagine initiatives will have new modules coming out.

Lee M. Shavel

President, Chief Executive Officer & Director, Verisk Analytics, Inc.

And – go ahead, Elizabeth.

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

David, I'll just jump in because to address – your question was about kind of the price realization on that. And so, I'll add that, for many of our large customers, they are on multiyear contracts. And so, the pricing benefit from these new modules that we're introducing is more of a gradual and sustained opportunity, not kind of a onetime uptick.

David Motemaden

Analyst, Evercore Group LLC

Understood. Thank you.

Operator: Your next question comes from the line of Jeff Meuler with Baird. Please go ahead.

Jeffrey P. Meuler

Analyst, Robert W. Baird & Co., Inc.

Yeah. Thank you. Good morning. I get that there's been a little bit of help, especially in the back half, from the transaction to subscription conversions. But subscription organic constant currency growth accelerated every quarter of 2024. You're talking about record bookings, the innovation and revenue initiatives, good momentum. That feels like a really good launching-off point for 2025 exiting at 11% OCC.

I know you discussed some headwinds, but it doesn't totally add up to me. So just anything else you can say that would kind of like offset a exit rate of 11%. And is there any like shift in when pricing or value is kind of realized for you from like the beginning of the calendar year to midyear that's been happening or anything like that? Thank you.

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

Yeah. Thanks for the question, Jeff. I mean we are excited about the subscription strength. It's across our businesses. To the fourth quarter, and specifically, yes, we had a couple of technical helps. We just talked about the contract conversion. I think last quarter, we said that was about a 60-basis point help to subscription, as well as the ongoing conversion across our portfolio. And then just for the fourth quarter, there was a slightly easier comp over the year prior.

So those were just some of the factors. But all that said, the dynamics that we see, we are excited about the pricing realization, the value recognition from our clients, and the outcomes that we've had.

Jeffrey P. Meuler

Analyst, Robert W. Baird & Co., Inc.

Okay. Thank you.

Operator: Your next question comes from the line of Andrew Nicholas with William Blair. Please go ahead.

Andrew Nicholas

Analyst, William Blair & Co. LLC

Hi. Good morning. Thanks for taking my question. I wanted to touch on the extended duration of contract renewals, which I think, Lee and Elizabeth, you both mentioned today. Can you maybe describe a little bit more about what is enabling that? If there's any way to maybe quantify the change in average length? And what

benefits that creates, whether it be in terms of deal economics or predictability or how you manage those relationships? Thank you.

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

A

Yeah. Thanks for the question, Andrew. It is a maybe gradual impact, not – the extension of contract length is one that hasn't been a material change for our business. Maybe a gradual change as our largest customers are looking for certainty in future price outcomes. And some of our businesses have had success in locking in longer-term contracts. But it's an evolution in our business, not a drastic change.

Lee M. Shavel

President, Chief Executive Officer & Director, Verisk Analytics, Inc.

A

Yeah. And I would add to that, David (sic) [Andrew] (00:53:06). I think that it demonstrates at one level, to move to that longer contract. There certainly is an economic incentive on the part of the client from our standpoint, the greater predictability. Obviously, there is growth embedded in those contracts. But I think it's also a reflection of a greater degree of confidence and a stronger strategic relationship that if that weren't in place or that weren't developing, then I think you would see more of our clients wanting to kind of keep those contracts at the shorter end, maintain optionality and flexibility around it.

So I view it more broadly as a barometer of our ability to become even more deeply embedded and a comfort that we're adding value, that we're a partner to them, and it gives us other areas to focus on in making those clients more efficient and more effective.

Operator: Your next question comes from the line of Jason Haas with Wells Fargo. Please go ahead.

Jason Haas

Analyst, Wells Fargo Securities LLC

Q

Hey. Good morning. And thanks for taking my question. I'm curious if you could talk about how your marketing business performed in the fourth quarter and what's your expectation for that business in 2025? Because we've seen some pretty good advertising and marketing spending from the insurance industry. Thanks.

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

A

Yeah. Jason, thanks for the question. On the marketing business, the insurance customer segment has seen strong growth, and we see tailwinds on that going into next year. The rest of the customer base still has been more muted based on the advertising and marketing segment overall. And so, we're watching that business as it develops into next year.

Jason Haas

Analyst, Wells Fargo Securities LLC

Q

Thank you.

Operator: Your next question comes from the line of Russell Quelch with Redburn Atlantic. Please go ahead.

Russell Quelch

Analyst, Redburn Atlantic

Q

Yeah. Hi. Thanks for having me on. I wanted to talk about CapEx. I know that the CapEx came in quite far below the prior guidance range in 2024. I think it was about 10% below the range what you were guiding for. I'm trying to square that with your comments. You've been investing more in the business. Wondering, if maybe you've delayed some capitalizations of some projects in 2025, especially given you're guiding CapEx up 15% year-on-year to 2025.

Also more broadly, are there any comments you want to provide on free cash flow growth expectations in 2025?

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

A

Yeah. Thanks for the question, Russell. On the 2024 number, there wasn't any major decision or forceful delay of projects there. We're just – we're always going to be mindful of expenses. And if we don't spend it, we'll be cautious. But yeah, I think there are some timing factors that just pushed some things into 2025. There's also quite a bit of investment that's taking place also in our OpEx space as well. So those two things give what we think is a healthy amount of organic investment into the business.

On the free cash flow growth, we don't forecast that, but we were very happy to have double-digit free cash flow growth in the full year this year. And I think a measure of our confidence in the free cash flow growth into next year is the dividend increase that we've communicated.

Russell Quelch

Analyst, Redburn Atlantic

Q

Yeah, perfect. Great. Thank you.

Operator: Your next question comes from the line of Jeff Silber with BMO Capital Markets. Please go ahead.

Jeffrey M. Silber

Analyst, BMO Capital Markets Corp.

Q

Thank you so much. Actually, a couple of quick numbers questions. I know it's difficult to quantify some of the, I guess, extreme events. But the California wildfires did happen earlier in the quarter. Is it possible to give us some estimate of what the impact of that might be on your business?

And secondly, Lee, I think you had alluded to some of the stuff going on in Washington. Can you talk about your exposure either directly or indirectly to federal government-related revenues? Thanks.

Elizabeth Mann

Chief Financial Officer, Verisk Analytics, Inc.

A

Thanks, Jeff. On the California wildfire side, as we talked about, it definitely has an industry impact, and it's something that everybody is watching. But just a from a brass tacks numerical impact to us, that will be kind of part of the – that will be hard to quantify.

Just for avoidance of doubt, I want to clarify that while hurricanes can have an impact on our Property Estimating Solutions business as we provide support to the repair, while we do provide that support in the wildfire situations, but they are far less – they are far more geographically concentrated, so it does not have the financial impact on our business, typically.

I'll turn it to Lee.

Lee M. Shavel

President, Chief Executive Officer & Director, Verisk Analytics, Inc.

A

Great. And Jeff, yes, thank you. It's a natural question to ask. So revenues from – revenues with the federal government are less than 1% of our total revenues. Like everyone else, we've been monitoring the changes coming out of Washington closely. And at this point, we don't believe that we have any direct exposure to tariffs or the trade executive orders.

As you probably appreciate, our work with state and federal government agencies work to save the industry by offering efficiency and automation and risk management, which we think is still fundamentally in the interest, not only of the industry, but ultimately, policyholders. And of course, with insurance being a primarily state-based regulatory infrastructure, the involvement of the federal government on the overall insurance regulatory regime is relatively light.

Jeffrey M. Silber

Analyst, BMO Capital Markets Corp.

Q

Thanks so much.

Operator: Thank you, everyone. There are no questions in the queue. This concludes today's call. You may now all disconnect. Have a nice day, everyone.

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