Verisk Analytics, Inc (VRSK)

Updated August 12th, 2023 by Felix Martinez

Key Metrics

Current Price:	$235	**5 Year CAGR Estimate:**	-4.7%	**Market Cap:**	$34.03 B
Fair Value Price:	$114	**5 Year Growth Estimate:**	9.0%	**Ex-Dividend Date:**	09/14/23
% Fair Value:	205%	**5 Year Valuation Multiple Estimate:**	-13.4%	**Dividend Payment Date:**	09/29/23
Dividend Yield:	0.6%	**5 Year Price Target**	$176	**Years Of Dividend Growth:**	4
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Rating:**	Sell

Overview & Current Events

Verisk Analytics, Inc. is an American multinational data analytics and risk assessment firm based in Jersey City, New Jersey, with customers in insurance, natural resources, financial services, government, and risk management sectors. The company uses proprietary data sets and industry expertise to provide predictive analytics and decision support consultations in areas including fraud prevention, actuarial science, insurance coverage, fire protection, catastrophe and weather risk, and data management. Through advanced data analytics, software, scientific research, and deep industry knowledge, Verisk empowers customers to strengthen operating efficiency, improve underwriting and claims outcomes, combat fraud, and make informed decisions about global issues, including climate change and extreme events, as well as political and ESG topics. The company has offices in more than thirty countries. Verisk has started and grown its dividend since 2019 and has a current market cap of $34.03 billion.

On August 8th, 2023, the company reported second quarter results for Fiscal Year (FY) 2023. The company witnessed a significant uptick in its financial performance. Consolidated revenues rose impressively by 10.1%, amounting to $675.0 million. This surge was primarily driven by robust growth in underwriting and claims activities, reflecting the company's competitive edge in these domains. Income from continuing operations also registered a substantial increase of 17.7%, reaching $204.3 million for the quarter. This boost was chiefly attributed to the growth in the Insurance segment and a favorable comparison to the loss incurred from the sale of the Financial Services segment in the previous year.

The company's positive financial trajectory was further evidenced by the substantial rise in Adjusted EBITDA, which reached $365.2 million, signifying an impressive 13.5% growth. This upward trend remained consistent when considering the organic constant currency (OCC) basis, where the surge in Adjusted EBITDA reached a notable 12.6%. These increases in income from continuing operations and Adjusted EBITDA were propelled by a combination of robust revenue expansion and prudent cost management strategies implemented across the company's various sectors.

Notably, the company demonstrated enhanced efficiency in cash flow management. Net cash provided by operating activities surged by 48.2% to reach $192.9 million, while free cash flow, another important non-GAAP measure, exhibited a remarkable increase of 120.8% to $134.7 million. This strong financial performance was reflected in the company's commitment to providing returns to shareholders through a cash dividend payment of 34 cents per share on June 30, 2023, with a similar dividend approved for distribution on September 29, 2023. Furthermore, the company's decision to revise its financial guidance for 2023 underscored its optimism for sustained success in the near future.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$2.21	$2.40	$3.09	$3.11	$3.74	$4.11	$4.38	$5.04	$5.31	$5.76	***$5.71***	***$8.79***
DPS	---	---	---	---	---	---	$1.00	$1.08	$1.16	$1.24	***$1.36***	***$1.91***
Shares[1]	172.0	169.0	168.0	171.0	169.0	168.0	167.0	165.0	163.0	154.7	***154.7***	***154.7***

The company has been growing earnings at a double-digit rate over the past ten years. Over the last ten years, earnings have grown by over 11.2% annually. However, earnings have been slowing down recently. For example, earnings have

[1] Share count is in millions.

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had a compound annual growth rate of 6.8% over the past five years. We also expect that earnings will be down for 2023. However, after 2023, we expect that the company will continue to grow its earnings at a 9% annual rate giving us earnings of $8.51 per share in 2028. The company started to pay its dividend in 2019 and has increased its yearly with an average growth rate of 7.4%. The company can continue this growth rate as earnings will grow and because of the low dividend payout ratio.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	29.9	26.6	24.9	26.1	25.7	26.3	34.0	41.2	43.1	30.6	***41.1***	***20.0***
Avg. Yld.	---	---	---	---	---	---	0.7%	0.5%	0.5%	0.7%	***0.6%***	***1.1%***

The company has a high valuation currently. The company has a current PE of 41.1x earnings with only an expected annual earnings growth of 9% for the next five years. Because of the lower earnings growth, a fair multiple would be 20x earnings. We would see a multiple compression of (13.4)% over the next five years at the current price.

Safety, Quality, Competitive Advantage, & Recession Resiliency

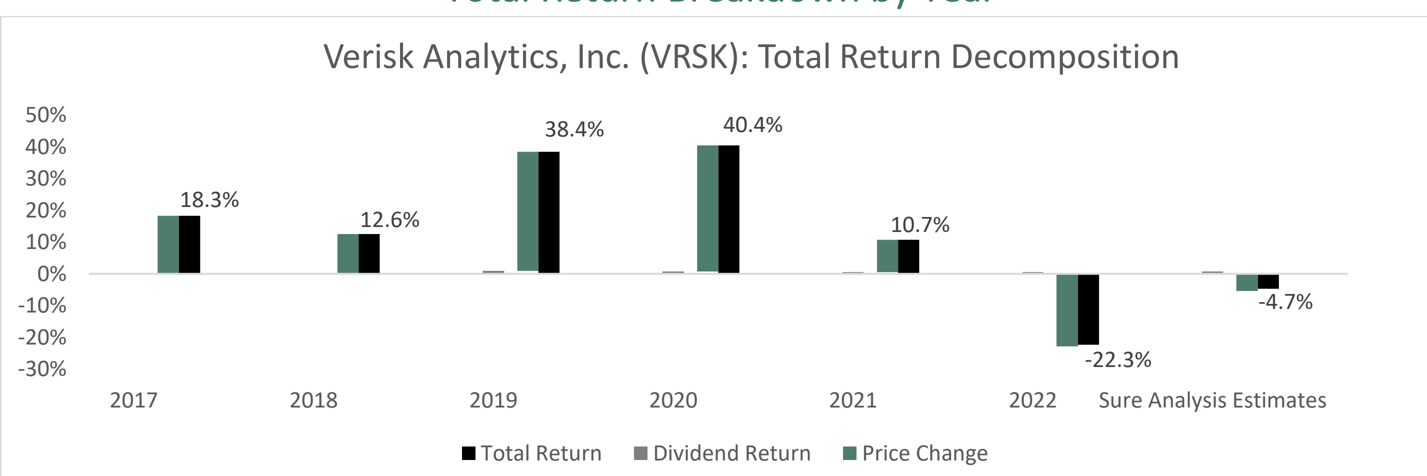
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	---	---	---	---	---	---	22.8%	21.4%	21.8%	21.5%	***24%***	***22%***

The company's competitive advantage is its vast and diverse collection of proprietary data assets critical to its analytics and risk assessment solutions. These data assets are generated from various sources, including satellite imagery, insurance claims data, weather data, financial data, and more. The company's extensive data assets provide a significant competitive advantage as they allow Verisk Analytics to offer its customers unique insights and predictive analytics, enabling them to make informed decisions and manage risk effectively. The company's balance sheet is robust as it has a BBB credit rating by S&P. The company also has an interest coverage ratio of 7.9x, which is excellent. Verisk debt to equity ratio is 2.3.

Final Thoughts & Recommendation

The company has been growing earnings nicely over the past ten years. Over the long term, this growth will continue. However, at the current price, the stock is expensive. Over the next five years, we expect the company to provide a negative return of (4.7)%, primarily due to the current valuation. Thus, we rate the stock as a sell.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	1,596	1,431	1,761	1,995	2,145	2,395	2,607	2,269	2,463	2,497
Gross Profit	973	915	1,149	1,281	1,361	1,509	1,630	1,478	1,609	1,672
Gross Margin	61.0%	63.9%	65.2%	64.2%	63.5%	63.0%	62.5%	65.1%	65.3%	67.0%
SG&A Exp.	229	187	278	302	323	379	604	308	313	382
D&A Exp.	135	144	215	225	237	296	324	358	384	340
Operating Profit	614	632	703	768	801	834	697	956	1,045	1,052
Operating Margin	38.5%	44.2%	40.0%	38.5%	37.3%	34.8%	26.7%	42.1%	42.5%	42.1%
Net Profit	348	400	508	591	555	599	450	713	666	954
Net Margin	21.8%	28.0%	28.8%	29.6%	25.9%	25.0%	17.3%	31.4%	27.1%	38.2%
Free Cash Flow	361	343	498	421	560	703	740	821	887	784
Income Tax	196	209	197	202	136	121	119	165	179	220

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	2,504	2,345	5,594	4,631	6,020	5,900	7,055	7,562	7,808	6,961
Cash & Equivalents	166	39	138	135	142	140	185	219	112	113
Accounts Receivable	143	203	216	216	291	300	373	381	268	274
Goodwill & Int. Ass.	1,629	1,614	3,998	3,589	4,714	4,589	5,263	5,493	2,530	2,181
Total Liabilities	1,957	2,134	4,222	3,299	4,095	3,830	4,794	4,864	4,966	5,193
Accounts Payable	81		93	74	69	75	80	99	92	129
Long-Term Debt	1,265	1,426	3,139	2,373	2,992	2,696	3,143	3,189	3,301	3,732
Shareholder's Equity	548	211	1,372	1,332	1,925	2,071	2,261	2,698	2,817	1,749
LTD/E Ratio	2.31	6.76	2.29	1.78	1.55	1.30	1.39	1.18	1.17	2.13

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	14.3%	16.5%	12.8%	11.6%	10.4%	10.0%	6.9%	9.8%	8.7%	12.9%
Return on Equity	86.8%	105.5%	64.1%	43.7%	34.1%	30.0%	20.8%	28.7%	24.2%	41.8%
ROIC	19.8%	23.2%	16.5%	14.4%	12.9%	12.4%	8.8%	12.6%	11.1%	16.4%
Shares Out.	172.0	169.0	168.0	171.0	169.0	168.0	167.0	165.0	163.0	154.7
Revenue/Share	9.26	8.46	10.45	11.66	12.72	14.23	15.65	13.73	15.08	15.71
FCF/Share	2.10	2.03	2.95	2.46	3.32	4.18	4.44	4.97	5.43	4.93

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.