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EDITED TRANSCRIPT

VRSK - Verisk Analytics Inc to Acquire Wood Mackenzie Call

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PRESENTATION

Operator

Good day everyone and welcome to the Verisk Analytics/Wood Mackenzie acquisition call. This call is being recorded.

At this time for opening remarks and introductions I would like to turn the call over to Verisk's SVP and Treasurer, Ms. Eva Huston. Ms. Huston, please go ahead.

Eva Huston - *Verisk Analytics, Inc. - SVP, Treasurer, and Chief Knowledge Officer*

Thank you, Shelley, and good morning to everyone. We appreciate you joining us for the discussion of the acquisition of Wood Mackenzie which we announced earlier today.

With me on the call this morning are Scott Stephenson, President and Chief Executive Officer, and Mark Anquillare, Chief Financial Officer. Following comments by Scott and Mark highlighting some key points about WoodMac, its strategic fit and the transaction we will open up the call for your questions.

The press release referenced on this call can be found in the investor section of our website Verisk.com. A replay of this call will be posted on our website and available by dial-in for 14 days until March 24, 2015.

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We have also posted a slide presentation on our website that summarizes many of the details we will be discussing and that we will be referencing during the call.

Finally today's call may include forward-looking statements about Verisk's future performance. Actual performance could differ materially from what is suggested by our comments today. The Safe Harbor is included on slide 2 of our presentation deck and information about the factors that could affect future performance is contained in our recent SEC filings.

Now I will turn the call over to Scott Stephenson.

Scott Stephenson - *Verisk Analytics, Inc. - President & CEO*

Thanks, Eva. Good morning everyone.

As you know earlier today we announced the signing of a definitive purchase agreement to acquire Wood Mackenzie or WoodMac as they are known in the industry. WoodMac is a global leader in data analytics for the energy, chemicals, metals and mining verticals. We are really excited about this transaction for three key reasons.

The first one is that WoodMac is a fantastic and uncommon business which in every important respect is Verisk-like, has a very long track record of growth and will continue to grow inside the global and energy vertical. Secondly WoodMac's business development activity is truly international and will accelerate Verisk's work to globalize several of our own solution sets especially in the insurance industry. And third, Verisk will repurpose its risk analytics for WoodMac's 800-plus and growing customers spanning issues of climate risk, country and political risk and environmental health and safety risk.

The transaction stands solidly on the fundamentals of WoodMac's business and does not rely on the benefits we will find in leveraging their international platform to expand our existing verticals or by applying Verisk's risk analytics for the benefit of WoodMac customers. Nevertheless we are confident in our ability to create additional value for our shareholders through these new pathways to growth.

If you take a look at slide 5, you will see that WoodMac maps very well to the distinctives which are a core part of The Verisk Way. Qualitatively WoodMac provides mission-critical solutions which are embedded in customer workflows and it is founded on unique proprietary data assets. Quantitatively its business model is one of strong innovation-driven growth with a revenue CAGR of 16% over the past five years and a majority of revenue coming from subscriptions and long-term contracts.

It also has strong EBITDA margins which benefit from scale economies and strong free cash flow generation. And just like most of our existing businesses WoodMac is a build it once and sell it many times model. Like Verisk it has a customer-centric culture and leadership team who are passionate about using data analytics to help customers manage their business risks and opportunities.

WoodMac's culture is completely consistent with The Verisk Way which we discussed with you at our Investor Day last week. WoodMac meets all of our strategic and operating criteria.

We've consistently said we will use our substantial capital for acquisitions to add such businesses to our portfolio. In 2012 for example we acquired Argus which provides data analytic solutions to the global financial services industry. That move into a new vertical has worked very well, as will this one.

Argus has worked and WoodMac will work because both are a strong fit with our strategic criteria and our cultural norms. These Verisk-like businesses are somewhat rare and we are quite pleased to have the opportunity to add WoodMac to the Verisk family.

In addition to being a great data analytics business and having a strong culture WoodMac accelerates our vision to be a leading global data analytics provider and positions us in the energy vertical which we believe has strong underlying fundamentals and is vital to the world economy for the long run.

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Slide 6 summarizes some key facts about WoodMac. Headquartered in Edinburgh, WoodMac has a 40-plus year track record of providing objective analysis and advice on energy assets, companies and markets giving clients in over 80 countries around the world the insight they need to make better asset investment and portfolio allocation decisions. WoodMac's diverse blue-chip customer base includes over 800 international and national energy companies as well as chemicals, metals and mining companies, financial institutions and governments.

WoodMac works with a range of diverse teams from policymakers, business development professionals and market analysts through to corporate finance executives, risk teams and investors. Wood Mackenzie leverages predictive models and robust proprietary data gathered over the past century to describe and value assets, forecast their future productivity and value and provide clients with trusted strategic advice.

WoodMac's experts rigorously analyze the data and work directly with clients to address their business challenges. They have a global presence including offices in Edinburgh, Dubai, Houston, London, Singapore and Sydney with about 1,000 employees in these and other global locations.

We met the WoodMac management team in 2011 and have had the opportunity to get to know them over the years. Both we and they have consistently felt a natural alignment in vision, strategy and culture. This prior relationship not only made the decision easier but we believe it will make integration a very smooth and short process.

The WoodMac team will remain intact and continue to lead as part of the Verisk family. We are eager to share best practices and leverage one another's experience and expertise. As we look at the opportunities for growth at WoodMac we see plenty of upside from continued innovation and cross-selling just as is the case in our Insurance, Healthcare and Financial Services verticals. WoodMac's business is 80% subscription-based and they complement their data analytics with highly valuable analytic services.

These services in turn help drive the creation of new subscription solutions. This model is very similar to that of Argus as well as some of our other businesses like AIR.

Turning to slide 7 this conceptual diagram highlights for you the breadth and depth of WoodMac's solutions. They span a range of commodities, geographies, energy and material supply chains and a broad range of information.

On slide 8 you can see the global footprint of WoodMac. Their people are diversified across geographies mapping well with their customers. We are thrilled to advance our global presence.

With offices and local market knowledge around the world we anticipate being able to leverage the newly expanded Verisk to benefit our other businesses supporting the efforts of our Insurance and Financial Services teams. As I mentioned earlier, the financial case for this acquisition stands alone without synergies although we expect to develop additional pathways to grow through time.

A global presence will be critical to Verisk as we advance our supply chain risk initiatives through our range of capabilities including geopolitical risk scoring at Maplecroft, climate expertise at Verisk Climate, catastrophe risk analytics at AIR and industrial supply chain risk expertise at 3E. Global presence allows WoodMac to add value for their customers around the world. That's one factor which contributes to high levels of customer satisfaction and very high retention rates.

You can see direct quotes from customers we gathered as part of our diligence efforts on slide 9. The quotes underscore how embedded, strategic and strong WoodMac's relationships are with their customers.

On slide 10 we summarize how our existing primary verticals measure up across three attributes and underlying market growth. We now add energy, chemicals, metals and mining through WoodMac and believe you will find as we do that these spaces compare favorably to the businesses already part of the Verisk family.

Similar to our existing verticals of Insurance, Healthcare and Financial Services, we see the opportunity to grow faster than the underlying industries we serve as our data analytics are used to power smart decision-making. The strong customer relationships and the mission-critical solutions

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WoodMac provides have allowed them to grow through the cycles of the energy market as you can see on slide 11. This is very much akin to Verisk's ability to grow when the commercial P&C insurance markets cycled down in 2007 through 2010.

We believe there are a number of drivers of future demand. Also on slide 11 we highlight some of the key secular demand drivers for data analytics in the energy sector. Companies in the oil and gas industry need information to make decisions such as where to drill, how to prioritize their drilling projects and how much capital to spend.

In 2014 the global oil and gas industry spent more than $600 billion on upstream capital expenditures. This is a large amount of investment that WoodMac helps companies manage efficiently.

Companies also need advisory services to help them value their assets, be it an oilfield, a coal mine or an LNG project. Financial companies and banks also need information about these assets and their valuation in order to advise their customers, make loans, and decide about investments in the oil and gas space.

While a natural question is the impact of current low oil prices on the business, the fundamental revenue growth driver is long-term investment in upstream CapEx rather than short-term commodity pricing. Our view is that 2015 is solid based on existing subscription contracts and all the customer discussions we've held. Over the long term the outlook for CapEx is that it will continue to grow over time as investment in energy production will be needed to support a growing world economy.

And we expect the business to grow even faster than the underlying market as has been true of Verisk across all of our vertical markets. Nevertheless we have been conservative in modeling growth in 2016 and into 2017 to account for any potential near-term volatility in oil and gas CapEx that could be caused by lower commodity prices. As we think about our other intellectual property assets we are preparing to apply our risk and supply chain capabilities to the energy, chemicals, metals and mining spaces.

In addition we believe that the depth of knowledge about these markets at WoodMac will be very helpful in understanding how these critical inputs influence many global supply chains. While we are excited about these potential synergies our financial models do not rely on them as I mentioned earlier.

Finally I want to address one of the questions we expect to be top of mind as you think about this transaction. Why now? In recent months oil prices have seen a dramatic drop and market observers expect increased near-term risk of softness or turbulence in the industry.

While there could be some headwinds for WoodMac in 2016 and possibly into 2017, we are focused on the long-term opportunity. Just as ISO has a long history of growing through insurance industry cycles, WoodMac has a long history of growing through energy industry cycles. We have spent a considerable amount of time on this question and feel comfortable with the resiliency of the WoodMac business.

This was a moment when WoodMac was available and the likely case was that it would either go public or be sold to a strategic acquirer in 2015. Had we not acted now, acquiring WoodMac would have been more expensive or perhaps impossible in the future.

We were very interested in WoodMac as far back as 2011. However, the focus of our efforts in the period 2010 to 2012 was to complete the buildout of our Healthcare position and an expanded footprint in Financial Services through the Argus acquisition. We are excited that the company became available at a moment when we are larger and even better equipped to buy it and to integrate it.

To summarize, we are thrilled to be adding WoodMac to the Verisk family. It is truly a Verisk-like business in large end markets with long-term need for innovative data analytics solutions. The company has a great culture and an outstanding leadership team.

And now, Mark will take you through some of their financials and the details on the transaction.

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Mark Anquillare - *Verisk Analytics, Inc. - EVP, CFO, and Group Executive, Risk Assessment*

Thank you, Scott. As you saw in our press release this morning we are acquiring WoodMac for GBP1.85 billion in cash or about $2.8 billion in US dollars subject to typical closing adjustments. We expect to go directly to the debt and equity markets in advance of the closing to fund the acquisition.

And we have committed bridge financing available if necessary. We are still determining the exact mix of financing but plan to issue about $2 billion in debt and up to $800 million of equity. Pro forma for the acquisition we expect to maintain our investment-grade ratings and are planning to delever back towards 2.5 times debt to EBITDA by the end of 2016.

We are excited about the financial prospects for WoodMac and think it is a great transaction for the reasons outlined on slide 12 including strong free cash flow characteristics as well as the ability to finance it through an attractive combination of debt and equity. For the year ended December 31, 2014, WoodMac's revenue was GBP227 million and EBITDA was GBP107 million, representing an EBITDA margin of 47.1%.

On slide 13 you can see the strong financial results that WoodMac has delivered over the past 10 years. The charts going back further look very similar. WoodMac has been able to grow the top line at double-digit rates on a sustainable basis for many years and has delivered very good profitable growth, with EBITDA margins in the mid to high 40s.

As you know it isn't easy for us to find fast-growing businesses with margins like ours. In the charts on slide 14 you can see revenue, EBITDA and unlevered free cash flow over the past five years. Unlevered free cash flow here is defined as net operating profit after tax or NOPAT plus depreciation and amortization minus CapEx.

This is important because WoodMac is primarily in the UK where the rate is about 22% resulting in especially strong after-tax free cash flow generation. Given WoodMac's 23% effective tax rate this business generates nearly 30% more free cash flow than if it was domiciled in the US. We expect these benefits to increase in 2015 when the UK tax rate declines to 20% and the projected WoodMac effective tax rate improves to 22%.

So as you look at the valuation on a trailing basis, the free cash flow is important to keep in mind. On 2014 numbers and without the benefit of any synergies the multiple of this transaction is 17.3 times EBITDA and 26.4 times unlevered free cash flow. While the EBITDA multiple is higher than Verisk today the unlevered free cash flow multiple is much lower.

We approach the valuation of this asset consistent with our historical discounted cash flow focused methodology. As you know we have delivered IRRs of approximately 20% over the long periods of time using this proven approach.

WoodMac delivers these excellent financial results with high percentage of revenue from subscriptions, high renewal rates, low customer concentration and good diversification across industry groups as you can see on slide 15. On slide 16 you can see that the pro forma company will have about 75% of revenue from recurring sources including subscriptions and multiyear contracts. Insurance will comprise about 60% of our revenue followed by Energy at 16%, Healthcare at 15% and Financial Services at 5%.

We'll report WoodMac as a part of our specialized category, bringing that category to about 20% of revenue. Very important as well is the increase in Verisk's international revenue from 4% to 14% of revenue.

From a currency management perspective close to 40% of the purchase price is being paid in US dollars. We are executing appropriate hedging strategies to minimize the volatility of the purchase price until close. We are also evaluating appropriate strategies to manage our future earnings streams after ownership.

Today approximately 35% of WoodMac's revenue is actually earned in US dollars. On slide 17 you can see the pro forma 2014 revenue created from the combination of Verisk and WoodMac. 2014 pro forma revenue is over $2 billion.

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As we turn to slide 18 you can see the very strong cash flow both Verisk and WoodMac generate. The pro forma company would have delivered over $500 million of unlevered free cash flow in 2014. We're very excited about how this will look in the future as the combined company continues to grow and operate efficiently.

Slide 19 provides you the details on how WoodMac and Verisk come together financially. Turning to slide 20, we summarize how we'll pay for WoodMac. We have a committed bridge in place which we do not expect to draw since we intend to raise cash through public market financing before the close.

Based on the current market conditions we expect to fund about $2 billion of debt through a combination of new public bonds and bank debt and some funding under our existing revolver. This structure will provide both pre-payable debt to meet our delevering commitments while also allowing us to take advantage of the historically low long-term interest rates. We expect to delever quickly to 2.5 times by the end of 2016 which we believe we can do while continuing our existing capital allocation strategy.

We will be complementing the debt raise with an issuance of up to $800 million of equity. The transaction is expected to close during the second quarter of 2015 subject to the completion of customary closing conditions including receipt of regulatory approvals. We expect the acquisition to be about $0.08 to $0.10 accretive to adjusted EPS in 2015 based upon a close date of June 30.

Assuming a full year of 2015 WoodMac results the transaction is expected to be $0.16 to $0.20 accretive for 2015. Both accretion estimates exclude transaction-related fees and adjust for transitional accounting items.

We also are working on some additional tax synergies which may positively impact these numbers. After the transaction closes we will provide additional details to help you update your models with more granularity.

In summary, we are very excited about bringing WoodMac into the Verisk family with all the strategic, business and financial benefits for the combined company and our shareholders. With that I will turn it back over to Eva for a comment before Q&A.

Eva Huston - *Verisk Analytics, Inc. - SVP, Treasurer, and Chief Knowledge Officer*

Thanks, Mark. We appreciate all the interest in Verisk.

Given the large number of analysts we have covering us we ask that you limit your questions to one and a follow-up. This will give more people an opportunity to ask their questions.

With that I will ask the operator to open up the line.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Manav Patnaik, Barclays.

Manav Patnaik - *Barclays Capital - Analyst*

Thank you, good morning and congratulations on the deal. The first question I had was I was just hoping you could expand on your comments around the tie-in with the oil prices.

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You said you still expect it to be solid in 2015 and then you cited headwinds in 2016 and 2017. I was hoping if you could just expand and give a little bit more color on what that exactly means.

Scott Stephenson - *Verisk Analytics, Inc. - President & CEO*

Yes. Scott here. In 2015 because of the subscription-based quality of the business and because of the selling in of those subscriptions that have already occurred, there's a great deal of visibility into 2015 and that was the reference to having a very solid outlook in 2015.

And then the other comment about 2016 and 2017 was simply intended to say that in this moment of a certain amount of volatility in oil prices and them having moved to lower levels we're simply trying to be conservative in the way that we build our model by assuming that CapEx spending might be lower for an extended period of time. And we really think the CapEx spending is the key metric here, not oil price per se.

In other words there's a number of things which drive CapEx spending. And it is around CapEx spending and all this strategizing about all that that WoodMac content is particularly useful.

So we're just simply trying to say that in our modeling we took what we think is a conservative approach in terms of what the underlying market may be doing and therefore WoodMac may be doing in 2016 and 2017.

Manav Patnaik - *Barclays Capital - Analyst*

Okay. And then just as a follow-up in terms of the actual deal terms and so forth what are the penalties or whatever for them entertaining another bidder or is this just definitively signed they can't look and any other bids?

Scott Stephenson - *Verisk Analytics, Inc. - President & CEO*

Yes, this is a definitive agreement.

Manav Patnaik - *Barclays Capital - Analyst*

Okay.

Scott Stephenson - *Verisk Analytics, Inc. - President & CEO*

That we've signed.

Manav Patnaik - *Barclays Capital - Analyst*

All right, thanks, guys.

Operator

Jeff Meuler, Baird.

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Nick Nikitas - *Robert W. Baird & Company, Inc. - Analyst*

Yes, thanks. This is Nick Nikitas on for Jeff. You mentioned this strong revenue growth history track record. Could you just breakout what the organic component of that was?

Scott Stephenson - *Verisk Analytics, Inc. - President & CEO*

What we've shown you is substantially organic. WoodMac has done some smallish tuck-in kinds of acquisitions but you're looking at a primarily organic profile there.

Nick Nikitas - *Robert W. Baird & Company, Inc. - Analyst*

Okay, thanks. And then just for the components of the subscription revenue growth, how much of an impact is pricing on a yearly basis? Do you see similar growth as the existing Verisk businesses there?

Scott Stephenson - *Verisk Analytics, Inc. - President & CEO*

Well I would describe it generally as being very similar to the way you can pick apart revenue growth at Verisk meaning that yes, there is the opportunity for price. Every time you cycle through an anniversary on a subscription you're going to have that discussion with the customer but in addition there is the cross-selling of new solutions to an existing customer and there's also the creation of new solution sets. And all of those things have been contributors to WoodMac's growth and will be contributors to WoodMac's growth.

Nick Nikitas - *Robert W. Baird & Company, Inc. - Analyst*

Okay. Thanks for the questions and congrats on the transaction.

Scott Stephenson - *Verisk Analytics, Inc. - President & CEO*

Thank you.

Operator

Tim McHugh, William Blair.

Tim McHugh - *William Blair & Co. - Analyst*

Yes, I guess I would just follow-up on one of the earlier questions. The comment I guess you made directionally that you're being more cautious about how you underwrote the growth in 2016 and 2017, can you be any more specific in terms of what type of growth rates we should be thinking about that you're expecting for the next two years in a softer environment? And then maybe what you would hope for in a better environment?

Scott Stephenson - *Verisk Analytics, Inc. - President & CEO*

Yes, Tim. Well the emphasis that we're placing here is on the proven track record of this business to grow well generally, to grow well specifically as the energy market has cycled up and down and to achieve growth rates which are greater than the growth rate of the underlying market. That's the profile that we expect into the future.

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WoodMac is a very creative and inventive organization and have a very good and robust pipeline of new solutions. One of the things I want to emphasize here is the very intimate relationships that WoodMac enjoys with its customers which is really a source of a lot of the thinking about the next new solution. And this is very much in line with the way we see innovation at Verisk.

The second statement among our seven leadership principles in The Verisk Way is customer-centric product innovation. Well that's WoodMac to a T. So the emphasis for us here is that there are a lot of solutions that can be and will be built for customers going forward and that's a lot of our excitement about the growth of the business.

And just like the rest of Verisk as I think you all know there were four years in a row from 2007 to 2010 where the US P&C insurance industry actually shrunk year over year for four consecutive years and yet our growth rates in the insurance space were very healthy each of those four years. So the same phenomenon we firmly believe is going to apply where WoodMac is concerned.

So again we were just trying to describe that as we went through our evaluation exercise here we took in our modeling a relatively conservative view of 2016 and potentially and into 2017 in the modeling just in case the CapEx spending remains at a somewhat lower level.

Tim McHugh - *William Blair & Co. - Analyst*

Okay, and then I guess can you contrast I think the main thing people are going to think of is IHS, at least most of the legacy assets of IHS, can you contrast the solutions here and maybe talk a little bit more about what makes the data how proprietary the data is here?

Scott Stephenson - *Verisk Analytics, Inc. - President & CEO*

Yes. So one of the things to understand about this, the data are proprietary. And I think a really good analog with respect to the proprietary quality of the content is some of the parts of Verisk which are more legacy industry-standard solutions in the insurance space.

So where do the data come from? They come from the customer.

And they come from basically the accretion of observations about the market over a very long period of time. WoodMac has been doing this a lot longer than anyone else.

On the competitive point IHS would be a competitor. There are a couple of companies in the competitor set, it's not a large set. And Wood Mackenzie's particular focus and we think distinction is in the upstream part of the oil and gas business and relating specifically to what you could call the commercial consideration.

So the commercial considerations are essentially what are the assets, how productive are they, how does the demand side excuse me the supply side of the world which WoodMac is so good at, how does that mate up with the demand side and what does all of that imply in terms of the global market. There is overlap with some of the companies but that would tend to be a real distinctive for WoodMac. There is a more sort of technical side to data analytics in the oil and gas business including on the upstream side.

That tends to be a little bit more where IHS plays. So there is overlap but not in any sense complete and we believe that WoodMac has really carved out a very nice position for itself in the commercial upstream oil and gas business.

Tim McHugh - *William Blair & Co. - Analyst*

Okay, thanks.

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Operator

Toni Kaplan, Morgan Stanley.

Toni Kaplan - *Morgan Stanley - Analyst*

Hi guys, congrats on the acquisition. What do you view as the total opportunity, basically the total addressable market for what WoodMac's products and services relate to?

Scott Stephenson - *Verisk Analytics, Inc. - President & CEO*

Thank you. Well as I was just saying you can actually think of data analytics inside of the oil and gas business as occurring in a few different places.

I was talking about commercial analytics which is a little bit more WoodMac. There's also the technical side and if you were to sum all of that up, it would be -- WoodMac would be a fractional part of that entire marketplace.

Toni Kaplan - *Morgan Stanley - Analyst*

Okay, great. And if you think about the differences in the growth rates between I saw on slide 22 you have the breakdown between upstream, downstream and midstream. Can you talk about maybe the growth rates between those within the WoodMac business?

Scott Stephenson - *Verisk Analytics, Inc. - President & CEO*

Well, again the emphasis here in the WoodMac business is mostly upstream and so you should think of that as the core of the business today. And that really is reflected in those historic growth rates that you see on the prior slide. But we definitely believe that because of their outstanding reputation and a very strong track record of innovation WoodMac we believe with time will have the opportunity to play in as many dimensions of the entire energy space as make sense as are places where WoodMac can add value.

Toni Kaplan - *Morgan Stanley - Analyst*

Okay, great. Just one last one for me. I know Hellman & Friedman purchased the business a few years ago.

Can you just talk about what they've done to improve it since then? Thanks. That's it.

Scott Stephenson - *Verisk Analytics, Inc. - President & CEO*

Yes, I think that Hellman & Friedman was a very good partner to WoodMac. One of the things that has occurred over the last couple of years is that an already very strong organization has had additional great leadership added to it and I certainly have to believe that was due to support from Hellman & Friedman.

I would also say that WoodMac has definitely stepped up in terms of its technology and is finding a way to get its products to its customers in ever more user-friendly kinds of ways. And so those would be a couple of the things that particularly stand out over the last couple of years for us.

Toni Kaplan - *Morgan Stanley - Analyst*

Thanks a lot.

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Operator

Jeff Silber, BMO Capital Markets.

Jeff Silber - *BMO Capital Markets - Analyst*

Thanks so much. I'm just wondering how long these negotiations have been going on and if the price came down at all because of the volatility in the energy markets?

Scott Stephenson - *Verisk Analytics, Inc. - President & CEO*

Well we're not going to comment on the process itself. It was a very good engagement with the current owners and as I say, we have been in relationship with the WoodMac leadership for a number of years now. So as in almost any acquisition situation, it's primarily strategic and then there are opportunistic dimensions in terms of the availability of assets and all of that applied here.

Jeff Silber - *BMO Capital Markets - Analyst*

Okay. And my follow-up question if the EVT transaction had been completed would you have been financially able to do this deal as well?

Scott Stephenson - *Verisk Analytics, Inc. - President & CEO*

Yes.

Jeff Silber - *BMO Capital Markets - Analyst*

Okay, great. Thanks so much.

Operator

Andrew Steinerman, JPMorgan.

Andrew Steinerman - *JPMorgan - Analyst*

Hi, it's Andrew. I wanted to get a sense of the nonsubscription business has been volatile at WoodMac and what is in the nonsubscription part?

Scott Stephenson - *Verisk Analytics, Inc. - President & CEO*

Nonsubscription is essentially taking the data sets and the existing products solutions that WoodMac has and finding a way to apply them on a customer-by-customer basis as well as exploring new issues that maybe are a little bit more bespoke to any one individual customer again using a combination of the existing data and analytics and looking for opportunities to build additional solution sets. And it's a very important part of the mix because it is really the hothouse of ideas that WoodMac is so good at then cycling around into solution sets.

Andrew Steinerman - *JPMorgan - Analyst*

And has it been volatile?

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Scott Stephenson - *Verisk Analytics, Inc. - President & CEO*

Not particularly.

Andrew Steinerman - *JPMorgan - Analyst*

Thank you.

Operator

Joseph Foresi, Janney Montgomery.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Hi, it looks like the growth rates for the business have declined a little bit over the last three years. I wonder if you could talk about that and is it going to be dilutive to growth rates in 2016 and 2017?

Scott Stephenson - *Verisk Analytics, Inc. - President & CEO*

It won't be dilutive to Verisk growth rate, certainly not in 2015 and again we've taken a conservative you in 2016 and 2017. But over the course of time we expect that WoodMac will be adding overall to Verisk's rate of organic revenue growth. And again, we have a very solid outlook on 2015.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Okay. And then the declining growth rate in the business itself over the last three years, is that market related or is it size of the business or --

Scott Stephenson - *Verisk Analytics, Inc. - President & CEO*

It's probably a little bit of both of those and also WoodMac taking the opportunity to invest a little bit more in trying to build these product platforms underneath what they do and this is maybe something that doesn't get talked about quite as much but when you replatform your business, when you start to do it but you haven't yet fully accomplished it, there's a little bit it can promote a little bit of wait and see on the part of customers. I know it's coming so maybe I'll hold off on my purchase decision just a little bit. So probably a number of factors inside there.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Okay. And then on the client side any client concentration and how many did you speak with? Thanks.

Scott Stephenson - *Verisk Analytics, Inc. - President & CEO*

Well as Mark had said in his remarks upfront, this actually -- Verisk's overall customer concentration goes down a little bit because of this transaction.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Thank you.

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Scott Stephenson - *Verisk Analytics, Inc. - President & CEO*

Sorry, we did say how many customers. WoodMac has over 800 customers.

Operator

Andrew Jeffrey, SunTrust.

Andrew Jeffrey - *SunTrust - Analyst*

Hey, good morning. Thanks for taking the question. Scott, you referred to many cross-sell opportunities.

Can you elaborate a little bit on what the timing to cross-sell might be? I assume that's something you've begun to think about. When might we hear either qualitatively or quantitatively about some cross-sell success between the two companies assuming the deal closes in a timely fashion?

Scott Stephenson - *Verisk Analytics, Inc. - President & CEO*

Well let me take that at two levels. So first of all the cross-selling that I referred to in my remarks before was cross-selling within the WoodMac customer base. So the emphasis there would be on the fact that they've always cross-sold.

In other words this is an inventive organization that's always creating new offerings for the marketplace. And so the growth that you've seen historically has been a product in part of cross-selling and we certainly expect and look to more of that into the future.

With respect to the rest of Verisk so for example finding a way to represent other parts of our solution suite in these geographies where we're not as strongly represented today, we expect to begin to work on that immediately. I will go back to comments we've made including even at our most recent Investor Day where in the data and analytics world we work with large, sophisticated risk-bearing entities. They are going to scrutinize solutions very carefully before they choose to adopt them because they don't throw their methods over easily.

So we've described before the nature of getting adoption in our business is you present the product, it's a very technical sale, you get to where you maybe are qualified, then you go through proof of concept, then there may be a trial in one part of your customer's business. All of this is a long process is my point.

When you get there when the customers start using the solutions there's extraordinary stickiness and that's one of the great features of our business and WoodMac's. That's all by way of saying as we try to push out say our insurance solutions into other global markets it will take some time and that's why the stress in my remarks was placed on the fact that we're going to pursue that energetically. We believe that that will actually be very good for our business but we haven't really built any of that into the modeling we've done on this transaction.

Andrew Jeffrey - *SunTrust - Analyst*

Okay. That's helpful. Thank you.

With respect to some of the ongoing investment at WoodMac standalone as well as on a consolidated basis I know one of the things Verisk constantly does is reinvest in its existing offerings. When you look at WoodMac's contribution margin would you anticipate that that stays stable or would as part of Verisk would you think about ramping spend to accelerate technology development for example?

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Scott Stephenson - *Verisk Analytics, Inc. - President & CEO*

Well, I'll say a couple of things. One is the CapEx profile of WoodMac tends to be very similar with that of Verisk so there's a harmony in terms of the business models in the sense that it's a maybe relative to all the peer group around data analytics or if you want to call it business information, the companies with whom we get peered, generally our rate of CapEx is somewhat higher than theirs and our rate of organic growth is higher than theirs as well and that's our profile.

That's WoodMac's profile and there's a strong harmony there. Inside of the Verisk family the approach with WoodMac will be absolutely the same as it is with every other part of Verisk and that is we want to have more good ideas than we can fund at any given moment. That's goodness, that's the sign of vitality inside of the organization.

So every good idea in our view we want it to be brought forward and the goal is to fund every one of them and then the sequencing is just really a function of trying to also keep the P&L moving in the right direction at all times. So I think it's going to be an extremely fruitful collaboration with our new partners at WoodMac with a strong intent to fund as many of their new product initiatives as possible.

Andrew Jeffrey - *SunTrust - Analyst*

Thank you.

Operator

Anj Singh, Credit Suisse.

Anj Singh - *Credit Suisse - Analyst*

Hi, thanks for taking my questions. I was wondering if you can talk how much of the growth recently has come from customer penetration versus addition of new customers? And in that vein can you give us a sense of what the typical spend in average contract length that customers look like?

Scott Stephenson - *Verisk Analytics, Inc. - President & CEO*

Yes, I can characterize a couple of those things for you. So again back to a prior question, you have many things contributing to the overall revenue growth at WoodMac.

I was asked about the pricing effect, in any subscription business you have the opportunity to think about pricing whenever you hit the anniversary of a contract, so WoodMac does that. With an existing account they look to and they are successful at selling out of the solution sets, new solutions as well as the value-added services.

They bring new solutions to market and they do put new customers on the customer list as well. We've actually looked at the demography of the customer base in the different segments they serve whether it's integrated oil companies, national oil companies, more pure play E&P companies, governments, financial services companies and in all of those segments there's a tail, there is a set of companies with whom they don't do business today. That will be another contributor to the growth.

Anj Singh - *Credit Suisse - Analyst*

Got it. Could you also talk about the margin improvement the past couple of years?

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Has it just been the growth of the data and analytics component? Could you also describe what the margins look like between the data analytics and services components?

Scott Stephenson - *Verisk Analytics, Inc. - President & CEO*

Yes, we're not going to break out the margin profile of the different pieces for you specifically. But just as is the case with things that we do here, the best margins inside of a business like WoodMac or the rest of Verisk is when you have a repeatable industry standard solution that is used by many customers. That's the make it once sell it many times quality and that is very definitely true of WoodMac.

Anj Singh - *Credit Suisse - Analyst*

Okay. One final one from me. In light of the stronger free cash flow profile, how do your capital allocation priorities change if at all post the delevering?

Scott Stephenson - *Verisk Analytics, Inc. - President & CEO*

Well, the way we will think about capital allocation will not change which is back to Mark's comment, we take our commitments to our debt holders very seriously. And so we will be moving back to a leverage level that we care about and that we believe our debt holders care about in a relatively short period of time. We're able to do that in part because of the very deep cash flow generation that we have here at Verisk.

But as we told you over very long periods of time, we are very concerned about the way that we allocate capital. Our first best use of capital is to help build our business inside of great assets like WoodMac. And the track record has been very strong in terms of returns for shareholders through our M&A program.

We will also continue to look to engage in buybacks and for us the minimal goal in that part of the program is to at least combat any dilution that's occurring inside of our Company. We will have those as the same priorities as we always have. We do even as we go through the delevering that Mark talked about we do have some dry powder that we'll be able to use for tuck-in acquisitions and/or buybacks.

So we feel very well set up for what's going to occur between now and say the end of 2016 where we get to that 2.5 times goal that Mark talked about. But really no change.

And again as I mentioned WoodMac's CapEx profile is also similar to that of Verisk. And so again I think this will be a very easy transition and combination because the two businesses, meaning Verisk and WoodMac, have both approached all of these things in such a very consistent way.

Anj Singh - *Credit Suisse - Analyst*

I appreciate the insights. Thank you very much.

Scott Stephenson - *Verisk Analytics, Inc. - President & CEO*

You're welcome.

Operator

Bill Warmington, Wells Fargo.

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Bill Warmington - *Wells Fargo Securities, LLC - Analyst*

Good morning, everyone. Congratulations on the deal to everyone. So a couple of quick questions for you.

One is I wanted to make sure I understood the regulatory timeline just because that was a real issue with EVT. Second is to ask what specifically you can do to reaccelerate the WoodMac top line? And then the third was just a housekeeping question in terms of any seasonality and quarterly revenue or margins that we should be aware of.

Scott Stephenson - *Verisk Analytics, Inc. - President & CEO*

Okay. So to your first question regulatory, the only place that we are seeking approvals is in the United States. We think it will be normal course and so that's basically the comment on that.

With respect to the top line, the goal is the same as it is with the rest of Verisk. And that is to be highly innovative in order to be able to add a lot of value for customers, make the existing solutions better. I mentioned WoodMac's recent investments in their platform which are already showing results and paying dividends.

But you always do that kind of work and you always do the work to expand the solution set. And WoodMac is a very creative organization that is really hitting on all cylinders on all of those fronts. And it's going to be a combination of those factors that will really help support the growth of the business going forward.

Bill Warmington - *Wells Fargo Securities, LLC - Analyst*

Then on the seasonality.

Scott Stephenson - *Verisk Analytics, Inc. - President & CEO*

There's not really anything there.

Bill Warmington - *Wells Fargo Securities, LLC - Analyst*

Excellent. Thank you very much.

Operator

David Togut, Evercore ISI.

Rayna Kumar - *Evercore ISI - Analyst*

Good morning, this is Rayna Kumar for David Togut. Just to follow-up on the previous question, do you expect to get WoodMac's top-line growth back up to double digits?

Scott Stephenson - *Verisk Analytics, Inc. - President & CEO*

You know, we're not sort of commenting on that specifically. But we do believe that WoodMac will be a strong contributor to Verisk's organic growth rate in 2015 and, well except it will be inorganic as booked in 2015, but it will be a good organic grower in 2015.

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We believe it will be a good organic grower over long periods of time. We look to WoodMac to help elevate Verisk's overall rate of organic revenue growth.

Rayna Kumar - *Evercore ISI - Analyst*

Okay. And could you quantify anticipated tax synergies and do you expect to realize any cost synergies from this acquisition?

Scott Stephenson - *Verisk Analytics, Inc. - President & CEO*

So let me let Mark talk about the tax synergies. With respect to cost there should be some but they're actually not particularly material relative to all the other benefits that we're looking for in this transaction. And so I would not place a great deal of emphasis on cost synergies.

This is really about expansion. It's about investment, it's about leveraging of capabilities and expertise. That's really where the emphasis is placed here, and Mark maybe you want to talk about tax.

Mark Anquillare - *Verisk Analytics, Inc. - EVP, CFO, and Group Executive, Risk Assessment*

Sure. It's a structure that is in the make so we have done some work in research. We believe that one, you know that we are a primarily US tax-based entity with more than 95% of our revenue in the United States, hence the tax rate is around 38%.

So we hope to be able to benefit from some of the international lower tax rates. And as we structure the deal, we are trying to figure out the best way to take advantage of the debt and the equity and everything we're doing. So there could be some tax synergies inside that structure and we'll share that post closing.

Rayna Kumar - *Evercore ISI - Analyst*

Okay. And just one quick follow-up. What interest rate do you expect to have the debt issued at?

Mark Anquillare - *Verisk Analytics, Inc. - EVP, CFO, and Group Executive, Risk Assessment*

Sure. So we're going to do a combination of what is some longer-term bonds. I would model something that is in the 4.5% range all in right now.

Rayna Kumar - *Evercore ISI - Analyst*

Thank you.

Operator

Andre Benjamin, Goldman Sachs.

Andre Benjamin - *Goldman Sachs - Analyst*

Thanks, good morning. My first question was I was wondering if you've determined at this point if you are planning to keep most of what you're buying and are there any assets which you think are less strategic and what strategic plans you might undertake which WoodMac is not currently doing as an independent business?

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Scott Stephenson - *Verisk Analytics, Inc. - President & CEO*

No, we're excited about everything that WoodMac is doing.

Andre Benjamin - *Goldman Sachs - Analyst*

Right. And I understand it's got a pretty strong set of assets but back to someone else's question, the margins are way higher than the low to mid 30s of some of the other industrial energy businesses like IHS and McGraw-Hill. Any insight into exactly why given similar end markets and products it is so high and particularly focused on the spike to 49% in 2013, do you think that that's achievable again?

Scott Stephenson - *Verisk Analytics, Inc. - President & CEO*

Well I think to understand WoodMac's performance there's actually you have to look at it from many different angles but I think you're asking about profitability in general. So first of all I think it goes to the business model, so it goes to the mix of subscription versus service.

I think it goes to the quality of the solutions which leads to the overall price level for the solutions that WoodMac puts out in the marketplace. I think it goes to the operating discipline that they bring to what it is that they do.

I think it also goes to the must-have quality of the content that WoodMac puts out as well as the depth of relationship that WoodMac enjoys with its customers. As a part of our diligence we actually generated Net Promoter scores for WoodMac and the other leading players in the oil and gas data analytics space.

WoodMac is very distinguished in that respect. They enjoy an unusual level of regard from their customers. Again another strong point of convergence with the rest of Verisk.

So when you have must-have content and you're embedded in part because of the depth and quality and the intimacy of the relationship with your customer it's just going to get reflected into your business results. With respect to the margin levels, we're not really targeting where the absolute level of the margins will come out.

I think that the 49% was a little bit of a spike for reasons that applied at a moment in time but obviously the margin levels are tremendous. They are Verisk-like.

Andre Benjamin - *Goldman Sachs - Analyst*

Thank you.

Operator

(Operator Instructions) Alex Kramm, UBS.

Alex Kramm - *UBS - Analyst*

Yes, hey, good morning everyone. Just coming back to the question about growth, I'm not sure how specific you want to be obviously but given that you give specific guidance here, maybe you can talk about specific expectations for 2015 in terms of revenue and margin. And since I expect you don't want to do that can you at least give us a little bit more color what could drive the variability?

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If you look at the annualized accretion here you're saying $0.16 to $0.20. What would be the factors that bring that to the low-end or the high-end?

Scott Stephenson - *Verisk Analytics, Inc. - President & CEO*

Well, again first of all what I'd like to really emphasize that we've been trying to say throughout our presentation here is that this is a business where there is in general very good visibility because of the recurring revenue nature of what it is that WoodMac does, very similar to the rest of Verisk a lot of subscription business and therefore a lot of visibility. So based upon that, based upon the success that WoodMac has had in terms of contract renewals and new contract signings, third quarter, fourth quarter of 2014 and into 2015 we think that there is a very solid outlook for the Company in 2015.

We think that WoodMac is doing very smart things in terms of the way that they are serving and relating to their customers at a moment where oil prices did cycle around a little bit. So we feel very good about the way that the WoodMac team are conducting their business commercially at this moment.

The nature of the business model is one that is so familiar to us so we have confidence in the way the business is being operated. And so with visibility into the revenues and confidence in the operating model you have a very you can develop very quickly a very strong sense of what the margin profile for the business is likely to be like on a go-forward basis. And the other part of the presentation that we've been trying to make is that on the one hand WoodMac even in prior moments where say oil prices cycled down quite a bit still found way to grow strongly.

We think all of the same commercial tactics and all of the same factors will apply at this particular moment. And it is a moment and so just wanting to be sound and conservative in our planning as we modeled in 2016 and 2017 we just took the more conservative end of what potentially could happen in 2016 and 2017 as we went through our valuation, etc. In reality what we know the WoodMac team is doing and will continue to do is to innovate and to relate deeply to their customers and find ways that they always have to outperform the growth rate, considerably outperform the growth rate of the market they are serving.

So one thing that you will never hear us do as we talk about this business going forward is predict oil prices. The key in this business as it is in all of the Verisk businesses is understanding the customer and developing the next solution that they need as well as providing the existing solutions with quality and efficiency and excellence. That's exactly what WoodMac do.

Alex Kramm - *UBS - Analyst*

Sorry, so just to clarify on my specific question around the variability of the accretion, so basically you're saying is you do have a lot of visibility but you want to be conservative given that macro factors can have an impact? Did I hear that correctly?

Scott Stephenson - *Verisk Analytics, Inc. - President & CEO*

That's correct. And Mark, do you want to expand on that?

Mark Anquillare - *Verisk Analytics, Inc. - EVP, CFO, and Group Executive, Risk Assessment*

Let me just also highlight a few maybe more technical points. One as we transition there is some accounting transitional items that will work against us.

There is obviously a factoring into what's the financing look like, how much debt versus equity. And the third component, currency and exchange rate, is in that obviously related to the debt it's also interest rate on the debt. So those are the couple of unknowns and variables that we'll be working on over the course of the next few weeks.

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Alex Kramm - *UBS - Analyst*

Great, then maybe as my follow-up and this might be a little early but coming back to your capital allocation you highlighted that this Company throws off a lot of free cash flow and obviously it's going to be overseas. So just wondering I think in the near-term I assume you will have overseas debt so that's where probably most of that free cash flow goes. But thinking a little bit more longer term given that you will now throw off a lot of overseas cash you probably don't want to bring back for tax reasons, do you think this puts you in a position to maybe look a little bit more overseas when it comes to the future M&A pipeline or is that too early of a question?

Scott Stephenson - *Verisk Analytics, Inc. - President & CEO*

No, first of all the strategic view is what's really driving us here. So we'll be very smart in the way that we think about stewarding our financial assets and the tax effects associated with where the money sits, etc. But it's really the strategic case that we're on here and to your question, yes, we explicitly actually are looking to tilt the M&A portfolio in the direction of nondomestic markets.

That is an explicit goal now and into the future, not to the exclusion of what we're doing in the United States. This is still where the majority of our revenue sits. And we're open to every good idea to stay on strategy and continue to build the businesses that we've got consistent with our return expectations.

But I believe that basically with this acquisition we've really put ourselves in a position where up until now mostly we've been fishing in 22% of the world's economy and now we'll be fishing in 100% of the world's economy as it relates to M&A opportunities. And our business development activities will respond to the new opportunity that we've got and we are explicitly looking in that direction. And again I'll also say that we're looking to amplify some of the parts of our solutions suite today that are mostly domestic for the United States.

We're looking to amplify the reach into other marketplaces based on the very extensive business development and commercial organization that WoodMac has in a lot of economies around the world today and we're really excited to do that. Again we didn't try to justify this transaction based on any of that but we definitely, definitely have that in mind.

I think that will be very good business for us. I think that with time that will become meaningful for us.

Alex Kramm - *UBS - Analyst*

All right, fantastic. Thank you.

Operator

There are no further questions at this time. I'd like to turn the call over to Scott Stephenson for closing comments.

Scott Stephenson - *Verisk Analytics, Inc. - President & CEO*

Okay, well I just want to thank everybody for joining us today. You certainly heard our explanation about this transaction.

We will move to close it as quickly as we possibly can. And we are just so excited about the opportunity to partner up with our new colleagues at WoodMac.

So thanks for taking time with us today and we will be speaking with you again soon. Enjoy your day.

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Operator

This concludes today's conference call. You may now disconnect.

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