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VRSK - Q1 2015 Verisk Analytics Inc Earnings Call

EVENT DATE/TIME: APRIL 29, 2015 / 12:30PM GMT

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PRESENTATION

Operator

Good day, everyone. Welcome to the Verisk Analytics First-Quarter 2015 Earnings Results Conference 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 Senior Vice President and Treasurer, Ms. Eva Houston. Ms. Houston, please go ahead.

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

Thank you, Jake, and good morning to everyone. We appreciate you joining us today for a discussion of our first quarter 2015 financial results.

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 our strategic priorities and financial performance, we will open up the call for your questions.

All the numbers we discuss today, unless otherwise stated, will reflect continuing operations and exclude results from Interthinx. Interthinx is shown in discontinued operations, reflecting the sale of the business in March 2014. The earnings release referenced on this call, as well as the associated 10-Q, can be found in the investor section of our website at 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.

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Finally, as set forth in more detail in yesterday's earnings release, I will remind everyone that 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. Information about the factors that could affect future performance is summarized at the end of our press release, as well as contained in our recent SEC filings.

Now, I will turn the call over to Scott Stephenson.

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

Thanks, Eva. Good morning, all. In the first quarter, we again delivered excellent results with total and organic revenue growth of about 12% and an increase in diluted adjusted EPS of about 22%. Profitability was strong with EBITDA growth of 18% and margins that continue to be industry leading. We're pleased with these results, which we believe reflect the strength of our solutions and their value to our customers.

During the quarter, as you know, we announced the $2.8 billion acquisition of WoodMackenzie. We have received regulatory approval for the transaction and expect to close in the second quarter, as we had previously stated, after completing debt and equity offerings to fund the transaction. I had the chance recently to spend time with many of our new WoodMac colleagues in a variety of offices around the globe and I came away even more impressed with the depth, expertise, and professionalism of the team.

We could not be more excited to welcome the WoodMac team into the Verisk family. WoodMac is a global data analytics company with a culture very much like our own.

We're adding a truly Verisk-like business, one which offers its customers industry standard solutions based on proprietary data. The solutions are primarily provided through recurring subscriptions, which benefit from network effects and scale economies.

Like Verisk, WoodMac has demonstrated an ability to grow by adding value through all of its customers' business cycles, over a very long period of time. In the first quarter, WoodMac grew revenue in the high single-digits as measured in pounds.

Because of our combined free cash flow-generating capabilities and the strength of the Verisk balance sheet, we will be able to acquire WoodMac with the benefit of an appropriate level of financial leverage. Our use of a prudent mix of debt and equity allows us to maintain our investment grade credit rating.

With regard to capital allocation for buybacks, we entered into a $500 million accelerated share repurchase program in December of 2014. As a result, we had no incremental repurchases during the quarter.

Once we're on track to meet our commitment to delever to 2.5 times gross debt to EBITDA, we will manage our repurchase program as a part of our balanced use of capital. Our existing authorization at the end of the quarter was about $190 million.

We continue to focus on innovation throughout our businesses, as we believe this will enable us to deliver value to our customers and therefore, strong financial results for the long term. A great example is our ongoing innovation effort that we announced recently with the launch of ISO ClaimSearch DNA.

Some of you may have seen a demo at our Investor Day in March. With this new solution, P&C insurers can better visualize large networks of suspicious activity operating across the industry. DNA magnifies the power of ISO ClaimSearch, which recently passed the 1 billion claims mark, to find patterns of potential fraud in increasingly large data sets and detect entire networks of organized activity among individuals and businesses, including related service providers.

The patent pending technology provides a fully automated solution to proactive fraud network detection. The advanced analytics and predictive models work seamlessly to uncover hidden relationships across large data sets and to prioritize the networks of interest for each customer. ISO ClaimSearch DNA also provides insurers with alerts and actionable intelligence on their suspicious networks and claims for further investigation.

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Organized fraud often affects multiple carriers, so an industry-wide perspective is essential to helping companies fight large scale fraud by giving them the whole picture. This is one of many innovative solutions that we continue to develop.

We continue to feel confident in our long-term opportunities to grow shareholder value through a combination of innovation-driven, organic growth and prudent deployment of capital, including through our strategy-driven M&A. And with that, I'll turn it over to Mark to cover the financial results in more detail.

Mark Anquillare - *Verisk Analytics, Inc. - CFO*

Thank you, Scott. In the first quarter, we again delivered both revenue and EBITDA growth, while also investing in the future. Revenue grew 12.1%. Excluding the effect of recent acquisitions, revenue grew 11.5%. This strong organic growth reflects the health of our business and the value we deliver to our customers through our mission critical solutions.

Within the Decision Analytics segment, revenue grew 16.6% and 15.6% on an organic basis. We saw organic growth across all four categories, led by financial services.

Decision Analytics insurance grew 8.7% in the first quarter. The increase was driven by strong growth in underwriting solutions and good growth in catastrophe models, claims, and loss quantification solutions.

Touchstone continued to be a growth driver in the quarter and we are pleased with the contribution from Xactimate as well. Financial services revenue from continuing operations increased 67.3%, driven by strong overall performance bolstered by a significant one-time project around advertising effectiveness. This project yielded very nice profitable revenue in the quarter, as well as intellectual property, which we will leverage repeatedly as our advertising effectiveness business grows.

Excluding this project, which had revenue around $11 million, growth in the quarter was 15.1%. The advertising effectiveness market is early in its development, yet has significant long-term potential.

Healthcare revenue grew 17.5% as reported, with increases in all solution groups, led again by payment accuracy. The results in the quarter came in ahead of our expectations as the transactional nature of much of the business means we have lower visibility than in our other businesses and we saw higher levels of pass-through revenue than anticipated. Our current forecast indicates growth will moderate as we move through the rest of the year.

As you know, our second half of the year is seasonally larger than the first hall. We expect the visibility in the Medicare Advantage business to increase as the year progresses.

The changes in contract language we discussed with you last quarter took effect later in the year than we had anticipated. As we told you last quarter, the Verisk Health revenues for first quarter 2014 would have been $58.4 million, if reported on the basis of the new contract language.

On that same basis, the first quarter 2015 revenue would have been $68.4 million. Growth on a net basis was 17.2%, just below the reported growth in the quarter.

Specialized category revenue increased 16.5% in the first quarter and 4.3% on an organic basis. Maplecroft's $2.6 million of revenue in the quarter was in line with our expectations. We continued to see growth in the quarter from environmental health and safety solutions and we are seeing good traction from our commercial, weather, and climate analytics.

Risk assessment revenue grew 5.3%, indicating the value to our longstanding insurance customers. Industry standard insurance programs grew 5.5%, reflecting our 2015 invoices, which were effective January 1 and continued contribution from newer solutions.

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Our property-specific rating and underwriting information revenue grew 4.8% in the quarter. This increase was driven by higher transaction volumes from those customers who have not yet migrated to a subscription or long-term contract. We have focused on transitioning most of our customers to subscriptions over the past couple of years, which provides us with good visibility.

Total EBITDA increased 18.3% to $216.3 million. The 28.9% increase in Decision Analytics EBITDA to $115.3 million was the result of growth in the business and improved operations, particularly at Verisk Health.

Decision Analytics EBITDA was also helped by a non-recurring project at Argus, which was very profitable. Finally, Decision Analytics EBITDA includes about $4.4 million of fees related to the WoodMac acquisition.

Risk Assessment EBITDA increased 8.2% to $101 million as a result of revenue growth and good expense management, including lower people-related costs following the fourth quarter talent realignment. We do expect to hire additional people as part of the realignment initiative.

Interest expense was up $823,000, primarily due to increased debt related to the funding of the accelerated share repurchase program. Total debt, both short-term and long-term, was about $1.3 billion at March 31, 2015.

Reported effective tax rate was 38.1% for the quarter.

Adjusted net income increased 15.2% to $107.5 million in the quarter. Adjusted EPS on a fully diluted basis was $0.67 for the quarter, an increase of 21.8%. The average diluted share count was 161.5 million shares in the quarter. On March 31, 2015, our diluted share count was 161.7 million shares.

Free cash flow, defined as cash provided by operating activities less capital expenditures, increased 25.2% to $146.2 million for the three-month period ended March 31, 2015. This represented 113.8% of EBITDA.

As you know, first quarter is a strong cash flow quarter for us given our January 1 cycle of invoices in our industry standard programs. Capital expenditures decreased 31.5% to $24.8 million in the quarter and were 5.4% of revenue.

We continue to expect CapEx of about $150 million, up modestly from 2014. As of March 31, 2015, our cash and cash equivalents were $152.8 million.

As you think about your models for the full year, all of the following observations are before adding WoodMac. You will recall that second quarter is when we have our annual merit increases and they cause a typical step up in salary expenses.

As I mentioned previously, the Argus project work was very profitable. In addition, we anticipate amortization of intangibles of about $53 million, fixed asset depreciation amortization of about $110 million, and a tax rate around 38%. The higher expected depreciation and amortization is due to internally developed software leading to new solutions moving into service sooner, which we view as a positive for our business.

Because of the accelerated share repurchase, our share count will be down year-over-year in 2015. Based upon our current debt balances and maturities, full year interest expense will be about $66 million. After the WoodMac transaction closes, we will provide additional details to help you update your models with more granularity.

Overall, we are pleased to report that our business is performing well. We are seeing growth across multiple verticals and we are executing on our operational plans.

With that, I'll turn it back to Eva for a comment before the Q&A.

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

Thanks, Mark. We appreciate all of the interest in Verisk. Given the large number of analysts we have covering us, we ask that you limit your questions to one and one follow-up. This will give more people an opportunity to ask their questions. Also, given that the WoodMac acquisition has not yet closed, we will appreciate you focusing your questions on the Verisk quarter and business.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Your first question comes from Tim McHugh from William Blair & Company.

Tim McHugh - *William Blair & Company - Analyst*

Okay, thank you. Just want to ask on Argus, the media effectiveness, can you elaborate, I guess, in more detail what it was and I guess on the financial impact, how profitable is it? And then I guess also elaborate on the future. I guess you talked about retaining the intellectual property and how maybe you can repeat the work in the future?

Mark Anquillare - *Verisk Analytics, Inc. - CFO*

Yes, thank you Tim. Let me take that. This is Mark. The Argus business is very subscription-oriented. Because of the nature of advertising effectiveness, there is some project work, either direct with customers or with partners. And this was an opportunity to really build out a very interesting capability that we will be able to leverage and use into the future.

And I would tell you that I think we're optimistic that both that capability and database will be leveraged, but I think it also kind of sets the stage, hopefully in the future, for a longer-term subscription along the same lines. So we're optimistic, probably a little longer out.

To answer your question, some of the work or a lot of the work that was performed in support of that project, did take place or part of it took place in 2014. So as you think about the first quarter in 2015, that was higher than our traditional margins. It was a very strong margin business as it affected the first quarter 2015.

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

It's Scott here. I'll just add that one of the things that's going on is the functionality that Argus represents in the ad effectiveness world is one that various players are becoming more familiar with, more comfortable with. And I think that probably, from time to time, there will be projects like this just because they get started, they figure out what it's really about and then hopefully and often, usually, it matures into a longer-term kind of a relationship.

Tim McHugh - *William Blair & Company - Analyst*

Okay, thanks. And then I guess on healthcare, you made the comment that you expect it to moderate I guess across the year. Is it just tougher comparisons? Is there something that you see I guess in the pipeline or something that's falling off that I guess gives you that expectation?

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Mark Anquillare - *Verisk Analytics, Inc. - CFO*

Yes, sure, Tim, let me take that. Obviously, we were very pleased with the quarter at Verisk Health. As you kind of move forward, yes, second half of the year is where a lot of the Medicare Advantage work comes in. We don't have quite the visibility on that, as we've said in the past, it's a little more transactional in nature. And we're just trying to make sure that everyone appreciates that first quarter was a good one, but we do see that there will be probably a little bit of ramp down as we progress through the year just as in relation to the comps and the lack of visibility into the prospective revenue streams.

Tim McHugh - *William Blair & Company - Analyst*

Would you be willing to frame, at all, I guess the level of moderation that you expect?

Mark Anquillare - *Verisk Analytics, Inc. - CFO*

Tim, I think we've tried to stay away from any specific guidance on this topic and as I said, I think we feel good about the healthcare business. We like the fact that its growth is across all of the segments. But I think we'll stay away from any specific growth rates at this point.

Tim McHugh - *William Blair & Company - Analyst*

Okay, thank you.

Operator

Your next question comes from Manav Patnaik from Barclays.

Manav Patnaik - *Barclays Capital - Analyst*

Thank you. Good morning, everybody, and congratulations on another impressive quarter. I just wanted to follow-up on that ad effectiveness question. Clearly, you guys have been talking about this for a couple of quarters and I think that I understand what the opportunity there is. I was hoping you could help us frame what the addressable market is from your piece of the pie, your share of what that market potentially is just to understand how we could frame the potential size of this business for you down the road?

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

Manav, Scott here. There's a couple things. One is, I would say that while interest in advertising effectiveness has effectively existed as long as advertising has existed, in reality, we now have data sets and methods which allow us to look at the relationship between the signals which are put out and the response which is given to those signals. And our Argus team is very well-equipped to work in this field, both because of the content that we've got, but also the methods and our general excellence, actually, at large scale data analytics.

So this is a category done the way we're doing it that is relatively new and so that, to me, is the primary framing thought here is that it's early days. The other thing that I would say is that the kind of work that we're doing applies to both traditional and new media and we're working to bring the capability into all of those different domains. And so when you're talking about the new media space for example, you tend to find some relatively large players.

And it's very much a part of our plan and our goal to be working with a good number of them. So that's not giving you a total TAM for the opportunity, partly again, because we're in early days, but we see this as a very major opportunity.

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Manav Patnaik - *Barclays Capital - Analyst*

Okay, fair enough. And then just on the follow-up, on the Verisk Health side, you mentioned that you saw some notable operational improvement on the healthcare side. I know you haven't given us absolute margins before, but can you maybe just help us understand the magnitude of that improvement and if that is something we should see as sustainable going forward?

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

We certainly expect that operational effectiveness will continue to grow at Verisk Health. It was a point of primary focus by our Verisk Health colleagues in 2014. It was reflected in, what I would call, material improvements in some of the core metrics that relate to, for example, the RQI side of the business and the team remains focused on taking it to an even higher level. So, you've heard us say that we have felt and continue to feel that there is an opportunity and that we will see margin improvement in Verisk Health and we stand by that.

Manav Patnaik - *Barclays Capital - Analyst*

Okay, thanks a lot for the time, guys.

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

You bet.

Mark Anquillare - *Verisk Analytics, Inc. - CFO*

Thank you.

Operator

Your next question comes from David Togut from Evercore ISI.

David Togut - *Evercore ISI - Analyst*

Thank you, good morning, Scott and Mark.

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

Good morning.

David Togut - *Evercore ISI - Analyst*

We saw very strong margin expansion in the quarter. EBITDA margin is up 250 basis points year-over-year. Historically, Scott, you've said that you're very long-term focused in your investment program. And perhaps you could frame this for us, recognizing that you did call out one-time high margin revenue in the quarter? Is this potentially the beginning of a trend where we start to see positive operating leverage going forward?

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

Yes.

David Togut - *Evercore ISI - Analyst*

Care to elaborate?

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

Well, we start with, as I think everybody with us today knows, we start with a very highly efficient organization already and we pay a lot of attention to that. The benefit, of course, by the fact that we run our business in a way where fundamentally, our model has scale and leverage built into it. So the starting point for the performance of our business, with respect to profitability, is the nature of the business that we have and that we choose to build.

But having said that, I don't think that there's anything inconsistent with our long-term focus and our focus on organic revenue growth as being a particular measure of our vitality as an organization and looking for ways to operate our business with even more efficiency. So, we don't feel as if we're engaging in any sort of a trade-off between the near-term and the long-term, even as we give a great deal of attention to the efficiency of our operations. Mark, I don't know if you want to add anything to that?

Mark Anquillare - *Verisk Analytics, Inc. - CFO*

No, I agree. I just will call out a few things that we tried to talk about as we discussed here this morning. Argus, clearly, that revenue was very highly profitable. We talked about the growth side of Verisk Health, for the most part, that, as we move from gross to net, that'll actually help margins, just mathematically. Offsetting that, I want to highlight that there's an element of talent realignment in our industry standard programs and we will be hiring back there.

We will also see some salary increases across the universe and the enterprise, so those are a couple things you need to consider in the second quarter and beyond. Finally, we did have about $4.4 million of fees related to WoodMac that we called out here in first quarter; obviously, there will be some more in second quarter.

Operator

Your next question comes from Toni Kaplan from Morgan Stanley.

Toni Kaplan - *Morgan Stanley - Analyst*

Hi, thanks. So, just looking at the Decision Analytics insurance line, the growth rate tends to jump around there. So, I was wondering if there was anything that, basically anything, that depressed the growth rate in this quarter and how we should think about the full year for that one?

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

I would not point at any macro factors which would really have explanatory power there. A couple of things that are always just kind of there in the background but they kind of wash in one direction and then they'll wash in another direction. One would be just levels of claims activity, which tends to relate to both our loss quantification activities, as well as our -- it creates a climate which is supportive for catastrophe modeling in a general sense.

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And then there can be, from time to time, consolidation, particularly -- not really among the primary insurers, but more with respect to some of the brokers and some of the, maybe the second tier reinsurers. And so from time to time there's a little bit of that. And so you have those as kind of factors that are kind of in there, but substantially, what we do is actually subscription-based and long-term in nature and that continues to be the case.

Toni Kaplan - *Morgan Stanley - Analyst*

Okay, great and just on the international expansion and opportunity in financial services. Just wanted to ask how you see that in terms of timing. I guess this isn't a WoodMac question, but given that WoodMac is global, does that accelerate your sort of process of expanding internationally in financial services and what steps you need to take in terms of adapting to new geographies in that product line?

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

So we do believe, actually, that we are in the process of replatforming Verisk globally in a way that'll be supportive of, we hope and expect, many, many parts of our business. But specifically to Argus, the way you should think of that is, it's a little bit of a step function. And what I mean by that is, that lying at the center of the Argus business, just as with many other parts of Verisk, you've got these very rich data sets which are contributory from the same companies that service our primary customers.

And so, there's kind of a critical mass, sort of a quality in any given market where once you get, once we get enough of the leaders saying that they want to come in to the consortium model, it tends to then cause much of the rest of the market to come along. And so you sort of have these step function changes in state where you sort of aren't at critical mass until you are and once you're at critical mass, it all begins to change a little bit.

So even recently in conferring with our Argus colleagues, we heard some exciting news about specific markets. But you should just understand it as, there will be moments in time, in which any given market, any particular market sort of becomes a part of the Argus model and that is the way it will build, a market at a time.

Toni Kaplan - *Morgan Stanley - Analyst*

Thanks a lot. Congrats on the quarter.

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

Thank you.

Operator

Your next question comes from James Friedman from Susquehanna.

James Friedman - *Susquehanna Financial Group / SIG - Analyst*

Hi, thanks. I'll just ask my two up front. One housekeeping one, Mark: the CapEx declined significantly year-over-year. And I know you made some comments about the Q2 CapEx expectation, if you could comment why that might have happened in the first quarter? And then secondly, with regard to ISO, could you help quantify what some of the cost rationalizations might have been in the quarter? That would be helpful, thank you.

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Mark Anquillare - *Verisk Analytics, Inc. - CFO*

Sure, so let me take the first one from a CapEx perspective. We did do some moving of offices and we were moving, also, our data centers last year in first quarter so we had some high CapEx in 1Q 2014. What I think we also spotted, or at least from an ebbs and flows of CapEx, it seemed like there may be a little bit of a movement of CapEx to get some year-end deals from vendors at the end of 2014, which seemed to keep the CapEx dollars really low relative to past history in first quarter of 2015.

So I would tell you that we've kept our full year forecast generally unchanged. We just think it kind of moves out into second and third quarter and I wouldn't really point to anything except for timing with regard to the CapEx number. Second question, I think, was a little bit about the talent realignment inside of our industry standard programs. We have great people and great talent inside the IPAS team.

The IPAS team represents one of the units that's in industry standard programs and I think we wanted to recognize the efforts of those people over the years. And we, for the most part, offered a package so that we could get some new talent that is focused on new opportunities. This is an opportunity to become more efficient with our core business, be more effective with our core business, and at the same time, kind of backfill positions so that we can aim and point to the future with new opportunities in expansion.

And I think the hiring to backfill those positions is a little bit delayed. We want to get the right people and we want to get the right positions filled as soon as possible, but that's causing it. I would tell you that it's probably in the neighborhood of 30 to 40 positions if that helps you out.

James Friedman - *Susquehanna Financial Group / SIG - Analyst*

Thank you.

Operator

Your next question comes from Andrew Steinerman from JPMorgan.

Andrew Steinerman - *JPMorgan - Analyst*

I wanted to review the DA insurance since 9% looks very solid to me, but the question is around year-over-year comparisons in particular. And when I look at 9% growth in the first quarter versus 12% growth in the fourth quarter, I come away thinking perhaps it has to do with the year-over-year comparisons being about 4.5% more difficult in the first quarter? And what might be the implications going into the second quarter here, as there's also a larger year-over-year comparison for DA insurance?

Mark Anquillare - *Verisk Analytics, Inc. - CFO*

So let me try to answer your question, maybe more qualitatively and then I can maybe address it. So a couple things always happen. One, there is some project oriented revenue as it relates to the catastrophe modeling and the timing of cat bonds and things like that we've called out before. That caused, I think, a little bit of a comp relative to first quarter 2014, but not material. I don't think there was anything noteworthy there.

The other thing sometimes relates to the timing of new customers, so it's sometimes a bit of a grow-over as an example inside of the loss quantification. I know that we had a reasonably large customer that came on in first quarter of 2014; obviously, that customer was a customer in 2014, also in 2015. So I think, as we think forward from an insurance perspective, I think second quarter you're probably right, a little bit tougher comp.

But we have a consistency, a subscription, and I think we feel that we're going to be in good shape, probably a little more of a second half story from a DA insurance perspective.

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Andrew Steinerman - *JPMorgan - Analyst*

And 9% for DA insurance feels like a pretty normal growth rate for you, right?

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

I think the business is substantially, well entirely, the same business that it was. The only thing I would add is, as this year progresses, I think we're going to have some very exciting things to be able to talk about in terms of the expansion of some of the things we're doing, specifically on the DA side of insurance and we look forward to being able to talk about those.

These are innovations and partnerships and customer relationships, so it actually feels very good. The nature of those businesses is that they're very, very embedded with their customers and behind that, we have a series of innovations that, I think, are really quite exciting.

Andrew Steinerman - *JPMorgan - Analyst*

Sounds good, Scott thank you.

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

You bet.

Operator

Your next question comes from Joseph Foresi from Janney Montgomery Scott.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Hi. I was wondering if you could talk a little bit about what you feel will be the trajectory or seasonality in healthcare? I know it's usually back-end loaded and I know you have some different comps, so not really guidance but the way that its worked in the past is that its been more back-end loaded. So, I was wondering if you could just give us a little bit more color on how this year looks and if that's changed versus other years?

Mark Anquillare - *Verisk Analytics, Inc. - CFO*

Sure. I would tell you that we'll probably see about the same split or the same balance between first half and second half. Second half is typically a 60% relative, first half being a 40% type of total. The swing or the nature of that disparity is really in the Medicare Advantage business, it's more transactional.

And because Medicare and what we refer to as Medicare sweeps typically runs from July through the end of January, that's what causes that. Now, when those transaction volumes happen, whether it's third quarter, fourth quarter, it slides into first, it's a little tough to be very specific about that.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Okay and then just on the pricing in the insurance, your DA or your other insurance business, can you talk about your relative pricing power this year versus other years and if there's been any change there?

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

No change.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Okay, thank you.

Operator

Your next question comes from Bill Warmington from Wells Fargo.

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

Good morning, everyone.

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

Good morning.

Mark Anquillare - *Verisk Analytics, Inc. - CFO*

Hi, Bill.

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

So one question for you on the margin and the very strong performance this quarter, if you add back the WoodMac closing costs, it would put you about 48.1%. And I know that when you started out a few years ago with a 43% to 45% long term target and then after the sale of Interthinx, it went up to 45% to 47% range. Given that strong performance in this quarter, adjusted for WoodMac and the fact that the gross to net and healthcare isn't yet in the numbers, should we be thinking about that upper end of that range moving up going forward?

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

Again, we're very committed to running the business with efficiency and we feel that we are steadily finding those efficiencies. And we do aspire to run a business which is as profitable as it can be and at the same time, is growing strongly, especially organically, over long periods of time. And we're still on that march and we don't feel that we have exhausted all of the opportunities to operate efficiently.

At the same time, there's always the counterbalancing point that we're introducing new innovations. Even yesterday, we were sitting down and looking at an investment that we're going to initiate this year to pursue one of those exciting opportunities that I was just talking about as it relates to DA. So there's always a balance there, but just as was the case, when we started out in the 43% to 45% range, that didn't mean we relaxed our interest in becoming more efficient and profitable and we're still in exactly that same mode.

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

Okay. And then my second question on the discrete network analysis module, just wanted to ask if you could frame what you thought that opportunity was and what kind of a contributor that was likely to be either to -- and how we should think about the time frame 2015, 2016?

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

Yes, so the work is ongoing. And I should say, by the way, that this is another good example of the Verisk way of doing innovation because one of our confidence points on this work is that its been done with close collaboration and consultation with customers, which is a very, very important part of our process. I think what remains to be seen is how much the effect of Claims DNA is in reinforcing the overall ClaimSearch franchise versus how much it will generate incremental, specifically identifiable, incremental revenue streams.

But when I think about value to the customer, the opportunity to be able to essentially interrogate the data in this much more big data kind of a way, I think the value will be significant. How we choose to commercialize and monetize that, I think that's a little down the road yet.

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

Got it. Thank you very much.

Operator

Your next question comes from Alex Kramm from UBS.

Alex Kramm - *UBS - Analyst*

Hi, good morning. Just, sorry to come back to the margin, but doing some of the math here myself, if I just look at the Decision Analytics and I assume that this project in Argus was about 80% margin and maybe that's being conservative and I adjust all of the one-timers and pass-throughs, I get to about 41%. So first of all, is that in the ballpark?

And if I compare this to a year ago, I think that's about 350 basis points margin expansion. So maybe you can just break this down where you think that margin expansion came from in terms of efficiencies on the healthcare side and maybe scale you're gaining and other things you want to point out?

Mark Anquillare - *Verisk Analytics, Inc. - CFO*

Yes, thank you, let me try to help you out with that. So I understand your math and I think it's reasonable with regard to the project revenue. I think we tried to call out that the nature of our businesses across the board have natural scale to it and the incremental margins are extremely high, it's how much investment we put in, we continue to have a consistent level there.

Verisk Health, I think, was one of the nice positives inside the quarter. We would expect that to continue, obviously, as revenue typically is a little lighter in the second quarter relative to the other quarters. That may work against us in the quarter, but Verisk Health is the biggest contributor to that good news and I think we would, as Scott suggested, we would expect that to continue.

Alex Kramm - *UBS - Analyst*

Okay, helpful. Thank you. And then maybe just on the imagery side, I think you've talked, post-EVT, that's an area you still want to get better, there's some investments. So A, is that meaningfully depressing margins right now? Are you still doing a lot of investments there? And any update where you're at within terms of competing in that business and getting a bigger piece of the pie?

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

Yes, so my earlier reference to some exciting developments in 2015, this category will definitely be one of them. The way that you need to understand this category is that there are really actually two things you have to do in order to be able to create commercial solutions for a customer. One is you have to have methods by which you can, in a highly automated way, take an image and turn it into data and the second thing is you need images which are sufficient to what it is that you're trying to do.

Our methods are world class and you heard our or you saw our announcement about AMS Geomatics, that's all part of that and we really have a team and a set of capabilities we'd put up against anybody. What we have been working on is how are we going to infuse those methods with a very comprehensive set of images? And we are laying some extremely exciting plans in place right now, not able to talk about them just yet, but we will come back on those.

Not really influencing margins very much at the moment and we actually think the approach that we're coming up with here, it probably will, there will be maybe a minor effect, but we're going to manage this in a way that we believe there's a good chance that as revenues mount, they'll be matching and exceeding, ultimately, the expenses. But that will be a little bit of a build through time, but we're very, very focused on this category.

Alex Kramm - *UBS - Analyst*

All right, great thank you.

Operator

Your next question comes from Andre Benjamin from Goldman Sachs.

Andre Benjamin - *Goldman Sachs - Analyst*

Thank you, good morning.

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

Good morning.

Andre Benjamin - *Goldman Sachs - Analyst*

A question on the healthcare business, I was wondering if you could maybe give a little color on the drivers of the growth, particularly how much is from new clients versus your existing clients just running more volume through the business? Or how much of it is from those same clients maybe buying more products within the suites you offer?

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

You're always going to find those three things in the mix, Andre. And I would say that something that is always very important to us and something that is always very encouraging to us is when we find existing customers moving into new parts of our suite. And we -- definitely all of those are represented in the mix, including first quarter 2015.

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Andre Benjamin - *Goldman Sachs - Analyst*

And I guess in conversation with the same customers, I was wondering, are there any notable thoughts or feedback that you've gotten with respect to out they're thinking about the changes in Medicare reimbursement rules and the management of your products?

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

Well that's always going to be a part of their thinking and they and we both pay close attention to what CMS is doing. I would say that I think what is really leading the thought process for our customers in this category is probably less what's going on in the regulatory environment and it's more about their own thoughts on how to maximize their own performance, basically.

And so it's literally them trying to do their good work and manage their businesses to the highest levels of performance and I think that's the greater factor in how they're choosing to manage the way that they engage with CMS. Therefore, that part of our business which is about that, which is over in RQI, it's more their own thoughts about their own businesses. That's really what is the leading factor.

Andre Benjamin - *Goldman Sachs - Analyst*

Thank you.

Operator

Your next question comes from Anjaneya Singh from Credit Suisse.

Anjaneya Singh - *Credit Suisse - Analyst*

Hi, thank you for taking my questions. First off, on just the advertising effectiveness project revenue, you've discussed the opportunity around this quite a bit in the past and on this call. I'm wondering, as we look forward, if the project revenue you saw is what should be expected in these types of solutions or if subscription-based engagements might also be possible at this early juncture?

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

Subscription-based engagements are definitely possible and are occurring, even at this time. And really, what we were trying to indicate with our comments was simply that it may well be the case that, from time to time, as the category emerges, there will be individual larger players who get interested. And there's, at a moment in time, there's a high degree of engagement as they assess the methods and figure out exactly what they can do and what they will mean for them, which we hope and expect will sort of mature into ongoing subscription-like relationships.

Anjaneya Singh - *Credit Suisse - Analyst*

Okay, that's helpful. And a question for Mark, you talked about the risk assessment talent realignment savings being invested back into the business and I appreciate the comments on the 30 or 40 positions you need to fill. I'm wondering if you can discuss what your expected timeline is to fully work through those hiring plans? Just trying to get a sense of when RA margins may work back down to a more normalized level?

Mark Anquillare - *Verisk Analytics, Inc. - CFO*

Sure, I'll give you my best timeline. Our goal continues to be to find the right people because we want to move and create some exciting opportunities in markets and new product ideas, but if you think about Verisk as a whole, it's about the people. And intellectual capital is so important, so we just need the right people. I think we would have hoped to have many of those positions filled in the first quarter and if I said second quarter, I

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know things will roll into third. But I think we are actively trying to fill those positions with the right people and are looking to do so as quickly as possible.

Anjaneya Singh - *Credit Suisse - Analyst*

Appreciate it, thank you.

Operator

There are no further questions. I'll turn the call back over to the presenters.

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

Well, thank you and we appreciate everybody being with us this quarter. Appreciate your support and your interest and we look forward to talking with you at the conclusion of the second quarter. Enjoy your day.

Operator

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

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