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VRSK - Q2 2015 Verisk Analytics Inc Earnings Call

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CORPORATE PARTICIPANTS

Eva Huston *Verisk Analytics Inc - SVP and Treasurer*

Scott Stephenson *Verisk Analytics Inc - President and CEO*

Mark Anquillare *Verisk Analytics Inc - CFO*

CONFERENCE CALL PARTICIPANTS

David Togut *Evercore ISI - Analyst*

Tim McHugh *William Blair & Company - Analyst*

Jeff Meuler *Robert W. Baird & Company, Inc. - Analyst*

Manav Patnaik *Barclays Capital - Analyst*

James Friedman *Susquehanna Financial Group / SIG - Analyst*

Toni Kaplan *Morgan Stanley - Analyst*

Bill Warmington *Wells Fargo Securities, LLC - Analyst*

Andrew Steinerman *JPMorgan - Analyst*

Andrew Jeffrey *SunTrust Robinson Humphrey - Analyst*

Joseph Foresi *Janney Montgomery Scott - Analyst*

Jeff Silber *BMO Capital Markets - Analyst*

Sara Gubins *BofA Merrill Lynch - Analyst*

Arash Soleimani *Keefe, Bruyette & Woods - Analyst*

Anj Singh *Credit Suisse - Analyst*

Adrienne Colby *Deutsche Bank - Analyst*

Andre Benjamin *Goldman Sachs - Analyst*

PRESENTATION

Operator

Good day, everyone, and welcome to the Verisk Analytics second 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 SVP and Treasurer, Ms. Eva Houston. Ms. Houston, please go ahead.

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

Thank you, Jennifer, and good morning to everyone. We appreciate you joining us today for a discussion of our second 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'll open up the call for your questions.

The earnings release referenced on this call, as well as the associated 10-Q, can be found in the Investors 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 SEC filing.

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

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

Thank you, Eva. Good morning, all.

In the second quarter, we again delivered excellent results, with total revenue growth of about 18% and an increase in diluted adjusted EPS of about 35%. Profitability was strong, with adjusted EBITDA growth of 22%, and margins that continue to be industry leading.

On an organic basis, and excluding the Verisk Health pass-through revenue and expenses, the top line grew 9.4%. On that basis, adjusted EBITDA grew 16%. We are pleased with these results, with good contributions from our existing and our acquired businesses.

During the quarter, we completed the $2.8 billion acquisition of Wood Mackenzie. As we've told you since announcing the transaction, WoodMac is very much Verisk-like: a subscription business built on proprietary data assets and benefiting from network effects and scale economies.

For the full second quarter, and on a comparable accounting basis to last year, WoodMac grew revenue over 10%, measured in pounds. To fund the acquisition of WoodMac, we issued $1.25 billion of bonds, and drew $1 billion of borrowings, under our new $1.75 billion revolver. We also issued 10.6 million shares of stock for $722 million.

Our use of a prudent mix of debt and equity allows us to maintain our investment-grade credit ratings, while taking on an appropriate level of financial leverage. We remain committed to our long-standing approach to capital allocation, which is for a mix of acquisitions and share repurchases. With regard to capital allocation for buybacks, we completed the $500 million accelerated share repurchase in June.

While in the course of delevering toward our long-term target of 2.5 times, we expect to re-engage our share repurchase program. Our existing authorization at the end of the quarter was about $190 million. We're even more excited about the opportunities, now that the WoodMac team is part of the Verisk family.

Given the depth, expertise, and professionalism of the team, I am particularly pleased by the high levels of employee retention and enthusiasm following the close. Year to date, the retention of our subscription-based customers was almost 99%, which demonstrates the value of the WoodMac solutions.

Our comprehensive integration efforts are tracking well, including looking for opportunities to cross-sell heritage solutions into the WoodMac client base. One of our first initiatives was to move Verisk Maplecroft under WoodMac leadership. This effort has clear goals to enhance the existing suite of risk management and supply chain solutions for all clients, and to help businesses in the natural resource sector better navigate their above ground risks.

We intend to be the leading provider of risk analytics to the world's largest companies. By combining WoodMac and Verisk Maplecroft, we offer clients a formidable scope of resources, which now cover the entire range of above and below ground risks.

As we think about the medium-term revenue growth opportunity, you will see us investing now. While WoodMac's private equity owners invested in the business, allowing WoodMac to grow revenue, we have made a very conscious decision to accelerate some incremental investments, to allow WoodMac to go even faster, with a view towards driving medium-term growth.

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In addition, we are taking advantage of the end market downturn, to hire exceptional talent from the industry. We feel very good about the outlook for WoodMac, and its ability to be a meaningful contributor to Verisk's financial profile, for many years to come. We have spent time over the past few months visiting offices around the world and meeting with some of the WoodMac customers, and are very encouraged by our now global organization.

We are optimistic about the expansion opportunities for our other businesses. For example, we launched Touchstone 3.0 recently, which is part of our already global Catastrophe Modeling business. We continue to see good adoption for the platform, which is meeting our customers directly where their needs are. We had record attendance at our London risk symposium in June, as we continue to look to add value for our insurance customers outside the United States.

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 our strategy driven M&A.

So with that, let me turn it over to Mark, to cover some of the financial results in more detail.

Mark Anquillare - *Verisk Analytics Inc - CFO*

Thank you, Scott. In the second quarter, we again delivered both revenue and adjusted EBITDA growth, while also investing for the future. Revenue grew 17.5%. Excluding the effect of recent acquisitions and Verisk Health pass-throughs, revenue growth was 9.4%.

The strong organic growth reflects the continuing demand for the high-value solutions we offer to our customers. We will be discussing adjusted EBITDA with you today, which excludes an $85 million hedge gain and $27 million in nonrecurring transaction costs related to the WoodMac transaction.

Within the Decision Analytics segment, revenue grew 24.6%, and 11.6% on an organic basis, excluding acquisitions and the Verisk Health pass-through revenue in the second quarter. We saw organic growth across all four categories, led by Financial Services and Healthcare. Decision Analytics insurance grew 8.1% in the quarter. The increase was driven by strong growth in Underwriting Solutions. Loss quantification, Claims, and Catastrophe Modeling solutions all contributed to the growth. We again saw good growth from Touchstone, Xactimate and 360Value.

Financial Services revenue increased 20.8%, driven by continued strong demand for our solutions and services. We are continuing to make progress in the advertising effectiveness space, as well as expanding internationally. Consistent with the plan we put in place at the start of the year, we expect Argus to grow in the high teens for the full year 2015. We called out high project revenue the last quarter. And, we have always factored that in to our full-year expectations.

The underlying growth rate of the core business continues to track in the high teens. And for the next couple years, there may be some variability from quarter to quarter, as large pilot projects start up and wind down in the advertising effectiveness space.

While it's still early, we do have a line of sight into our incremental projects in the ad effectiveness space, that we hope become recurring, as we move into 2016. Also, we continue to be pleased by the global advancements for the business.

Healthcare revenue grew 19.6%, excluding about $2.1 million of pass-through revenue, in the second quarter of 2015. We saw growth across all solution groups, led by revenue and Quality Solutions. The results in the quarter were, again, ahead of our expectations, as the transactional nature of much of the business continues to provide less visibility than our other businesses.

With the Medicare Advantage season underway, our execution remains solid. And, we see EBITDA growing faster than revenue for the year, as expected. The Medicare Advantage space remains dynamic, as customers manage their strategies in real time, with respect to the populations they analyze.

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We remain a leader in the space and we'll have a much clearer sense of what the 2015/2016 Medicare Advantage season will look like, when we speak with you following the third quarter. As we look out a bit further, we're excited about the opportunities we see to grow in the commercial risk adjustment space, including with exchanges, which will provide some seasonal balance to our Medicare risk adjustment business.

Energy and specialized revenue increased 6% on an organic basis. Including the recently acquired WoodMac and Maplecroft businesses, growth was almost 200%. WoodMac's revenue contribution beginning May 19 was about $40 million, reflecting a reduction due to purchase accounting rules for deferred revenue. Because there's no change in expenses, this will impact reported adjusted EBITDA equally. We reflected this in the accretion range we provided previously.

WoodMac has continued to perform well, even in a challenging energy market. And on a comparable basis to the second quarter 2015, WoodMac grew 10% in pounds. We continue to expect full-year growth in pounds, excluding deferred revenue impact, to be in the high-single digits. Based on the current exchange rates, we expect WoodMac's reported revenue, under our ownership for 2015, to be at least $225 million.

As a result of the purchase accounting related to reduction to revenue, margins will appear artificially low this year, at around 40%. When these transitional effects have worked their way through our P&L, we expect EBITDA margins, on a normalized basis, to be at least 45%. Maplecroft's $2.1 million of revenue in the quarter was in line with our expectations. We continue to see good growth in the quarter in environmental health and safety solutions, and are seeing good traction from our commercial weather and climate analytics.

Risk assessment revenue grew 6%, indicating the value to our long-standing insurance customers. Industry standard insurance programs grew 6.2%, reflecting our 2015 invoices, which were effective January 1, and continued contributions from newer solutions, such as predictive models and electronic rating content. Our property specific rating and underwriting information revenue increased 5.7% in the quarter. This increase was driven by new subscriptions.

Adjusted EBITDA, which excludes nonrecurring gains and expenses from the WoodMac transaction, increased 22.3% to about $238 million. Total adjusted EBITDA margin was 47.7%.

The 32.1% increase in Decision Analytics adjusted EBITDA, to $136 million, was a result of growth in the business and improved operations, including in Verisk Health. In addition, we saw the benefit from lower pass-through expenses, which will continue through the year.

Risk assessment adjusted EBITDA increased 11.3%, to about $102 million, as a result of revenue growth and good expense management, including lower people-related costs following the fourth quarter talent realignment. We continue to expect to hire additional people, as part of the realignment initiative.

Reported interest expense was $37.7 million in the quarter. Excluding the nonrecurring WoodMac transaction related costs, interest expense was $24.3 million. Total debt, both short term and long term, was about $3.3 billion at June 30, 2015. Our leverage at the end of the second quarter was about 3.3 times. We are committed to bringing leverage down to about 2.5 times, by the end of 2016.

Our reported effective tax rate was 18.8% for the quarter. Excluding the nonrecurring WoodMac related costs, the effective tax rate was about 31.1%. This rate reflects the benefits of our tax planning efforts and lower foreign tax rates. Adjusted net income, excluding the nonrecurring WoodMac related costs, increased 32.8% to $129 million in the quarter. The nonrecurring items in the quarter, which were excluded from adjusted net income, totaled $55.9 million.

The December 2014 accelerated share repurchase was completed in June 2015. As a result, an additional 800,000 shares were delivered to the Company. The $500 million ASR resulted in the repurchase of 7.2 million shares, at an average price of $69.62, during the period. The average diluted share count was 167.6 million shares in the quarter. On June 30, 2015 our diluted share count was 171.4 million shares.

Adjusted EPS, excluding the nonrecurring WoodMac related costs, on a fully diluted basis, was $0.77 for the quarter, an increase of 35.1%. Free cash flow, defined as cash provided by operating activities less capital expenditures, increased 40% to $295 million, for the six month period ended June 30, 2015, including the contribution from WoodMac. This represented 65.1% of EBITDA.

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Capital expenditures decreased 20.7%, to $60.1 million for the six months period ended June 30, 2015. And, we're at 6.3% of revenue. We continue to expect CapEx of about $170 million, including WoodMac. As of June 30, our cash and cash equivalents were $145 million.

As you think about your models for the full year, including WoodMac purchase accounting from the time we closed, but excluding the second quarter of nonrecurring items, we anticipate amortization of intangibles of about $145 million. And, we'll provide an update when the purchase accounting is finalized.

Fixed asset depreciation amortization, about $125 million. Diluted weighted average share count of $169 million. Based upon the current debt balances, the full year interest expense will be about $110 million. This amount excludes the second quarter bridge fees and the make whole fees we paid, to eliminate the private bonds. For the intangible amortization add back in the adjusted net income calculation, we're using a 26% tax rate, to reflect the US/foreign mix of intangible amortization, post WoodMac acquisition.

Finally, for the second half of 2015, we currently expect the tax rate to be around 36%. Overall, we're pleased to report that our business is performing well. We're seeing growth from multiple verticals and we are executing on our operational plans. And, our integration of WoodMac is progressing well. With that, I'll turn the call back to Eva for comments before Q&A.

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

Thanks, Mark. We appreciate all the interest in Verisk. Given the large number of analysts we have covering us, including two who have just initiated in the quarter, we ask that you limit your questions to one and a follow-up. This will give more people an opportunity to ask their questions. And with that, I'll ask the operator to open up the lines.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

David Togut, Evercore ISI.

David Togut - *Evercore ISI - Analyst*

Could you give us some perspective on the positive operating leverage we saw in the quarter? It looked like tremendous operating expense control. Is this something that represents an inflection point for Verisk? If we put WoodMac aside, Verisk ex-WoodMac, do you think that you're past the big investment cycle that you've been in, in the last two to three years?

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

Thanks for the question, David. We have talked about the margins being strong, and we would expect that to continue. So, now let me add maybe a little bit of color. And, maybe more directly respond to some of your questions. First of all, as you think about why those margins are higher, a couple things.

One, the business has natural operating leverage we've highlighted in the past. I think you're seeing that. Our level of investment continues. I don't think it's accelerating, inside the business. But, we continue to have a lot of opportunities to invest, but the leverage is outpacing. Verisk Health pass-throughs, that is just a mathematical thing. But, clearly, that helps the overall margin picture.

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And, if you look back on 2014, we did incur some FTC related costs in 2014, that aren't there in 2015. Only thing I'll caveat, as you look forward, we did have the talent and realignment in the fourth quarter of 2014, related to the risk assessment group. We do intend to hire back a lot of those people. So, you'll start to see that in the second half and into 2016.

David Togut - *Evercore ISI - Analyst*

Just a quick follow-up question on the healthcare business, which was up nicely, 20% in the quarter. You called out RQI, but any specific call outs on payment accuracy or enterprise analytics in the quarter?

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

Well, we're very pleased with broad-based growth across all four pillars, inside of our business. So, we're not really distinguishing among them. But, we definitely look to all of them for growth, and they're all growing.

David Togut - *Evercore ISI - Analyst*

Thank you very much.

Operator

Tim McHugh, William Blair & Company.

Tim McHugh - *William Blair & Company - Analyst*

Just on healthcare, I think last quarter you had had a comment, that you expected growth to slow in the second half of the year. I didn't notice that comment this quarter. Is that still the case, or has your view changed?

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

No. Same view as last quarter, no change.

Tim McHugh - *William Blair & Company - Analyst*

Okay. And I guess, can you talk a little bit at a high level, to the extent what your view at this point is, on M&A activity amongst your client base? Both in the reinsurance market and the health plan market. How do you think about that impacting you? And, how do you think about the opportunities and challenges that that will bring about?

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

When we go through our planning cycle each year, and I'll start with insurance for example, we actually build into our assumptions a degree of industry consolidation. We just expect it, actually. And, it's just a very routine part of our planning. And, we're not trying to specify any two organizations will come together. But more, just anticipating that there will be a degree of it.

So, what's happening in the insurance space is, moment in time, nothing other than what we would have expected. And at the moment, whatever small effects are being felt, are being felt, probably differentially, on the reinsurance side actually. But moment in time, the next time that,

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unfortunately, the world experiences a major natural catastrophe, that will all turnaround very, very quickly. And, new capital will come into the market. And so, it moves a little bit. But, nothing out of the ordinary, nothing unanticipated.

On the healthcare side, we'll see what the effect is, of some of these organizations coming together. Their own operating plans, I don't think, are clear at this time. Maybe starting to take shape, but it will be a little while before they work through, et cetera.

But, the two things that give us confidence: number one is where Verisk Health sits in this universe, as a very, very important partner to the leaders in the space. And the other comment I would make is, as we just look at the demography of the emerging world, some of our most important customers and closest relationships seem to be the ones that are doing well, as the industry structure changes. So, that's an encouraging point for us.

Tim McHugh - *William Blair & Company - Analyst*

Okay. Thank you.

Operator

Jeff Meuler, Baird.

Jeff Meuler - *Robert W. Baird & Company, Inc. - Analyst*

You gave a metric on WoodMac client retention. I just wasn't quite sure exactly what it was. I think you said 99%, but was that at a customer count level? And, was that during Q2 or since you've owned that? What exactly metric did you disclose?

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

Yes. So Jeff, it was 99%. It was year-to-date. It was on subscription-based revenue. So what we're doing is, we're looking at customers that have had subscription contracts and asking the question, as we've moved forward in time, how many of those did we retain? And, that was the 99%.

We also gave you the 10% underlying growth number, also. And I think everybody knows, that this is a business which is substantially subscription revenue. So you can derive from that, that the revenues associated with subscriptions have also done very well in that time period.

Jeff Meuler - *Robert W. Baird & Company, Inc. - Analyst*

Thanks for that. And then, given that WoodMac offers a range of subscription products, can you help sign up for us how big that cross-sell opportunity is? In the past, you've given some metrics around Decision Analytics insurance. If you got full penetration of existing products, could you give us something similar for WoodMac?

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

I don't think we put that number out, Jeff. But I'll put -- let me give you a different way of holding that. Which is, if you look at WoodMac's historic performance with respect to organic growth, which we think is the normalized expectation for this business over long periods of time.

There has been a very healthy mix of signing up new customers, cross-selling existing solutions into the existing customer base and introducing new solutions. It's been a very healthy mix of those three.

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Jeff Meuler - *Robert W. Baird & Company, Inc. - Analyst*

Okay. Thank you, Scott.

Operator

Manav Patnaik, Barclays.

Manav Patnaik - *Barclays Capital - Analyst*

My first question's also on WoodMac, just to confirm. Mark, did you say that the full-year revenue contribution from WoodMac was going to be 225 million pounds, and that the WoodMac --

Mark Anquillare - *Verisk Analytics Inc - CFO*

That's dollars. $225 million, for the period that we would own it, through the end of the year.

Manav Patnaik - *Barclays Capital - Analyst*

Okay. And then for the - Got it. And, you said the margin's at 40%, that was WoodMac specific, right?

Mark Anquillare - *Verisk Analytics Inc - CFO*

That is correct. And by the way, as we did the math there that you just described, it's at the current exchange rates. The other thing we highlighted, just processed with purchase accounting, there was some revenue that won't be recognized, deferred revenue won't be recognized. So, that artificially lowered the margins to 40%, for this period in 2015.

Manav Patnaik - *Barclays Capital - Analyst*

Got it. And, will that lapse first quarter next year, or is this just this year?

Mark Anquillare - *Verisk Analytics Inc - CFO*

It mostly lapses. The biggest reductions occur at the beginning of the period. So, it gets generally better over time, and I think it does end some time in the middle of next year, but, the dollars are much less significant then.

Manav Patnaik - *Barclays Capital - Analyst*

Okay. Last thing, on Argus. You guys said high teens. Given the first half performance, that does imply a material slowdown in the second half. Is that something -- is that just conservatism? Is there something to it?

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

Well, I want to go back to the nature of Argus. So, it also is substantially a subscription-oriented business. There are really three revenue streams associated with Argus. The subscription based, the services that we provide to individual customers and now we have this third dimension, which is related to ad effectiveness.

And, I think what Mark was referencing in his comments earlier is that, that third piece is so exciting, precisely because some of the customers that are coming newly to this capability, are very large entities. And so, as they get interested in the capability, even on a trial basis, the amount of work that they look to do with us, and the amount of analytic they look to consume, is very, very large.

And so, as this method becomes established, what we're going to see is, at moments in time, large entities diving in. And, in a very deep way. That's what happened with the project-based revenue that we reported, and that I think you're referencing here, Manav, in the first quarter of 2015.

And by the way, some of that same project revenue was actually there at the end of 2014, as well. So, it wasn't literally just only the first quarter of 2015. We also had it in 2014. But, you get these little novas, and then it becomes more standard operating procedure. You're going to see that from us for the next couple of years.

So, the expectation that you should have is that the underlying business, the subscription oriented business, is going to be a very strongly, organically performing kind of a business. And that we will have at moments in time, almost on a quarter by quarter basis, you're going to see some of this project revenue. That's the effect that you're seeing in 2015. But, the basic business is not only as healthy, it's actually healthier than it's ever been.

Manav Patnaik - *Barclays Capital - Analyst*

Thanks for that.

Operator

James Friedman, Susquehanna.

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

I'll ask my two up front. Mark, also on WoodMac. Mark, you had mentioned in your commentary that some of the deferred revenue gets written down. Maybe that's the wrong language, but if you could dimensionalize how much is that?

And then Scott, with regard to health exchanges, I think you had mentioned in your prepared remarks, or maybe Mark said this. That you had an opportunity in commercial, on the health side, and potentially with exchanges. If you could elaborate with that as well? Thank you.

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

I'll take the second one, first. Because, I think there's actually more depth in Mark's response. So yes, the exchanges are, I would call it an emerging part of the healthcare landscape. To us, it's another channel. It's another customer segment, basically. And, the same kind of risk-adjusting analytics are needed there, as are needed everywhere else.

We're excited about it. It's going to grow. It's not nearly as big as, say, Medicare risk adjusting today. But, we're providing leadership there, as we are in these other segments.

And the other thing I'll just underline here, which I believe was a part of what Mark said, was that the timing with which commercial risk adjusting revenues will show up on our P&L, will actually be a little asynchronous with the Medicare risk adjusting. Which, all else equal, is actually kind of

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good. And it helps us to manage our operations a little bit more smoothly. So, we're excited about that part of the business. So then, Mark. Back over to you for the WoodMac revenue.

Mark Anquillare - *Verisk Analytics Inc - CFO*

Sure. We had some deferred revenue on the books. So, as a result, you can't recognize 100% of that. In the quarter, that was a couple million dollars. And basically the way that works is, you'll have a normalized, or full quarter, for third and fourth. But it will, then, start to move down and get lower, through probably about the third quarter of next year.

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

Thank you.

Operator

Toni Kaplan, Morgan Stanley.

Toni Kaplan - *Morgan Stanley - Analyst*

I was hoping you could talk a little bit about the investments that you're making in WoodMac, and what the magnitude is, like going from a 47% margin to a 40%? How much of that is the investments, versus how much is the deferred accounting piece? And also, just confirm that the investments that you're making is part of the 40%?

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

So, let me let Mark begin by picking apart the revenue effect. And then, I'll come back and talk categorically about some of the investing that we're doing.

Mark Anquillare - *Verisk Analytics Inc - CFO*

I just provided you with the top line effects of things, so think of it this way. You don't recognize as much revenue, the same expenses exist, so as a result, it has a little bit of erosion to the margin itself.

What we said is 40% for the year, and we would get back to normalized 45% in the future. In addition, I think there's some investment, which we're very excited about making, that maybe Scott, do you want to give some color on?

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

Just a couple places. In a business like hours, it's always actually people. And so, some of the topics that we're on with WoodMac would include -- it's actually a very nice opportunity in the oil and gas space, to try to help players in that space observe, what we call, supply chain effects.

And that is something which is, I'd say relatively nascent. And so, we're actually building the team, the resources that are able to go after that. We are continuing to try to enhance the platform by which the content is put out there. There is so much content that is available, from WoodMac, that crosses the desk of a user's work, on a daily basis.

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So, finding ways to make it granular and accessible is an important thing. That will also actually expand the available market. And the third is, we actually think that WoodMac solutions are undersold. And so, the go-to-market capability is being expanded.

Toni Kaplan - *Morgan Stanley - Analyst*

Okay. Great. My follow-up question. The $225 million for WoodMac, for this year, in your results, in terms of revenue. Does that include any of the cross-selling that you're expecting?

And also, when would you expect to start to see some, either cross-selling or synergies? And, would you expect it to be either more gradual or a step up? Thanks.

Mark Anquillare - *Verisk Analytics Inc - CFO*

So the answer to your question is, the $225 million is the, I'll call it the WoodMac set of solutions. It does not include any of the cross-sell of other solutions, that we think will be attractive to that market.

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

The latter part, we'll talk about it as it emerges. We're putting great emphasis on it. We've actually taken two relatively Senior Executives and put them in charge of, essentially, achieving this cross-sell that we're talking about. We're taking it very seriously.

Toni Kaplan - *Morgan Stanley - Analyst*

Terrific. Nice job on the quarter.

Operator

Bill Warmington, Wells Fargo.

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

First is, I just have to mention that on the Nielsen call yesterday, they specifically pointed to marketing effectiveness being up about 22%. So, kudos to Argus there. But, that doesn't count as a question. So, hold on here. On the purchase accounting, my first question --

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

(laughter)

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

Looks like, if you ballpark it with the pro forma, looks like that was up about, adjusting for currency, about maybe 6% or 7%. And then, if you throw in the other couple million dollars for the deferred revenue adjustment, maybe that's another 400, 500 basis points.

So, WoodMac was growing at maybe 10% to 11% in the quarter? And, I wanted to first ask if that math was right. And if so, it looks like an acceleration from last year. And, maybe talk a little bit about what's driving that acceleration versus last year?

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

Your math is correct. WoodMac content is must-have for their customers. It's absolutely indispensable. And, when the end market gets perturbed the way that it has, there are puts and takes. And everybody likes to talk about the takes, I suppose, which is CapEx temporarily moving down.

But, the put is that people need to understand this dynamic marketplace even more than before. And as a result, there have been some of the customer segments, some geographies in the world, which have actually grown quite strongly.

But overall, it's more of the same story. Which is, basically, when you have must-have information, it's going to find it's market. And, that's what WoodMac is doing right now.

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

And for my follow-up question, to ask if you could update us on the pipeline for aerial imagery, new products and enhancements. I know there has been talk about Xactware's aerial sketch coming out. And, I wanted to see how that was going.

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

So we really, genuinely, believe that we have the industry standard method for the interpretation of aerial imagery. Think of it as the algorithms, think of it as the method. And in fact, we're talking about it with our customers quite a bit. And there's a lot of excitement.

So, the only thing that we haven't commented on yet, and we're not going to comment on today. But we will comment on, in the relatively near future, is our strategy for sourcing imagery. And, I'll just remind everybody that it does include aerial imagery, which makes use of the visible spectrum.

But that's not all. Our imagery strategy also embraces satellite-based, drone-based. Basically, anywhere that you can develop data about some condition, on the surface of the planet. So, you'll be hearing a lot more about that from us. But, we continue to lean into that heavily. We continue to talk to our customers about it a lot.

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

Okay. Excellent. Thank you very much.

Operator

Andrew Steinerman, JPMorgan.

Andrew Steinerman - *JPMorgan - Analyst*

I wanted to revisit these long-term margin framework of 45% to 47%. And, given the year-to-date results being above the high end, should we consider the high end 47% to be a cap for this year? Or, is 45% to 47% not meant to be a cap, in a specific year?

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

Andrew, I think what we've tried to outline is a profile of our Company over the longer-term. Yes, we've talked about that 45% to 47%. I think we're feeling good about where the margins are today. We feel that the leverage will continue, so I do not see it as a cap. I see it as a long-term direction. Obviously we're trending towards very upper end of that.

And, we consider investment for the future, whether it's around aerial imagery or around acquisitions that just don't have the same margins profile that we have. So, I would not think of it as a cap. It's kind of a longer-term type of set of numbers.

Andrew Steinerman - *JPMorgan - Analyst*

Great. Is there anything in the second half of the year, of stepped up investments, that might keep us within that 47%? Or, does the second half investment plans look similar to the first half for this year?

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

I think the only thing that we tried to highlight is that, risk assessment has done a talent realignment. We're probably a little light on resources there, and we are staffing up. That will affect us a bit in 2015, the second half. And, probably more into 2016, but that's the one noteworthy item.

Andrew Steinerman - *JPMorgan - Analyst*

Thank you. Sounds good.

Operator

Andrew Jeffrey, SunTrust.

Andrew Jeffrey - *SunTrust Robinson Humphrey - Analyst*

I wonder if you could dig in just a little bit more on the WoodMac investments in new products? Scott, could you talk a little bit specifically, from a functional perspective, as to where you see the most opportunities for growth? My sense is that WoodMac is maybe a little more capital markets intensive than its largest competitor?

And I wonder if broadening out the offering is part of the initiative? And it seems like, despite that spend, it's not going to have an adverse effect on consolidated profitability. So, I wonder if you could frame up those two.

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

You're on the right trail, there. So, first of all, one of the strengths of WoodMac is that the customer base is very broad and very diversified. And, it includes integrated global oil companies, national oil companies, the Financial Services sector as you point out, pure play E&P companies, just anybody who's basically interested in the hydrocarbon. And, that's a real strength. That is a genuine strength of the company.

So, part of the opportunity here is to find ways to take this extremely rich content, and make it just as consumable as possible, for each different use case. And in fact, I would describe the Company as being fairly early in its journey, in that respect. So, that's one dimension.

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Another dimension is, remember how this business got started. It was some very talented Scotsman observing on North Sea oil, as a part of helping investors to get a perspective on all of that. And I mentioned that simply to say that, that point of initiation relates to what you could consider to be WoodMac's very greatest strength at this time, which is upstream. And I would say, particularly, rest of world.

So, some of what we can do to try to create additional growth opportunities, is to make sure that the depth of the content is equally differentiated, everywhere around the globe. And another thing is that, we have opportunities to complement the upstream focus with some other data analytics that the industry needs.

Some of them relate to the supply chain, so you're moving from upstream to downstream, as I mentioned before. Some of them relate to issues, maybe, more of operational excellence, than they do to issues of asset valuation, and asset disposal. And, some of them would relate to more directly technical dimensions of what's going on in the oil and gas industry.

So, a whole variety of ways that the business can grow. It's exactly the same play-book, in terms of what the nature of the business is and how it operates. But, yes. A broad customer base with an expanding set of functional solutions for them.

Andrew Jeffrey - *SunTrust Robinson Humphrey - Analyst*

Okay. And shifting gears to insurance, to make sure that business doesn't get short shrift. There's been some discussion around, I think in the investment community, the risk of a softer underwriting premium market.

I know we've been, Verisk has been through a cycle like that before, as a public Company. Could you refresh us as to the risk of a softer market? How you address a softer market? How, maybe, your approach to your customers might change, et cetera?

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

Yes. Our approach to our customers will change not one iota, as we move through the cycle. We are so deeply engaged with our customers that, even before cycles get observed externally, we are very aware of what's going on in their businesses.

But what goes on in their business, first of all, is that the strong signal inside of the insurance industry is that, everybody knows that there needs to be an intensified use of data analytics to drive decisioning. And in parallel with that, a drive towards more automation. So, it's actually precise analytics in a speedy way. And, that's exactly what we're working on with our customers.

As the industry cycles around, actually, when there's softness on the underwriting side, the pressure on our customers to have good underwriting performance, only increases. And so, making use of our solutions, arguably, is even a better idea when the cycle is turning down.

So, our approach remains absolutely invariant. And in fact, if anybody has the impression that our pricing, for example, is tied to industry premium volumes, that's just a misunderstanding. We are in control of our pricing. And we price to value. And our customers understand that.

Andrew Jeffrey - *SunTrust Robinson Humphrey - Analyst*

Okay. That's really helpful. Thanks a lot.

Operator

Joseph Foresi, Janney Montgomery.

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Joseph Foresi - *Janney Montgomery Scott - Analyst*

This year, we saw healthcare get off to a really good start. And, obviously, it's still performing pretty well. I was wondering, I've typically thought of that business as being backend loaded. Because, it went into Medicare. Evaluations took place. The Medicare Advantage evaluations took place. Has the seasonality in that business changed at all? And, how do we think about that seasonality going forward?

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

No. The seasonality has not changed. Medicare Advantage is still, substantially, a third and fourth quarter event. But, what Mark referenced and I'll just highlight it again is, as we begin to complement what we're doing on that side, with more commercial risk adjusting, the seasonality of commercial risk adjusting is asynchronous with what goes on in Medicare risk adjusting. So, the pattern may modify a little bit as the exchanges grow, and as commercial risk adjusting increases. But no, that's an accurate perspective on our business, as it is today. More back half than front half.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Okay. Thanks. And on WoodMac, obviously, the oil prices have rebounded. But, it seems like the business may be insulated from any changes in oil prices. Can you talk about why you think that there's a moat between the end market and what the revenue growth was this quarter, and going forward? Maybe you could spell that out for us, that would be great.

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

If you're interested in the hydrocarbon ecosystem, and you are considering the possibility of investment, either as the principal who's investing, the principal who's dis-investing or the agent who is advising on the investment or the dis-investment, you have simply got to have Wood Mackenzie content in order to make your decision.

Because, this being a global commodity, you have to understand with high precision, what the global supply curve looks like, at any given moment in time. And that supply curve is very dynamic. Very dynamic. An existing asset will lose more than 5% of its productivity in a 12 month period, if it's not reinvested in order to maintain it. And so, staying on top of that, there's always new exploration.

And then, there is the need to understand existing projects. How productive are they? And, how productive are they becoming? And so, you will feel uncomfortable knowing what to do from an asset investment or disposal point of view, if you don't have Wood Mackenzie content. It's that simple.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Thank you.

Operator

Jeff Silber, BMO Capital market.

Jeff Silber - *BMO Capital Markets - Analyst*

Mark, I'm apologizing in advance for this. But, I just wanted to circle back to your comments about the 45% margins with Wood Mackenzie. Is that after you've made these investments that you've spoken about? And, how long do you think it will take you to get there?

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Mark Anquillare - *Verisk Analytics Inc - CFO*

Sure. So, I did say at least 45%, just to make sure I readdress that. I think we feel like these are the types of investments we can monetize relatively quickly. The way some of these businesses work, I'll use supply chain as an example. You have to do some services before you can actually productize. So with that model, you're hopefully bringing in some profitable business, some profitable growth off of those services. And then what happens is, we can productize the observations and start to build margin and leverage into it.

Similarly, if you think about the platform, some of that is just customer satisfaction data visualization. But at the same time, a part of that strategy is to try to take and bundle solutions in a way that we can attract, I'll call it a tail, to the customer set. Scott addressed it with some salespeople. But at the same time, we feel that there's 900 customers that are currently a part of what I'll refer to as WoodMac customers.

But, there could be 5,000, 6,000 people who are interested in the material. And, we need to get to them. So, that's another way to monetize it. So our hope is, we talk about it medium term, but we're making thoughtful investment decisions that I think will pay off in 2016. And, you'll hopefully start to see some of that.

Jeff Silber - *BMO Capital Markets - Analyst*

Great. On the risk assessment side, you had mentioned some of the hiring that may be going on there, back half of this year and into next year. So, is it safe to assume that we would see some EBITDA margin compression, from the 59% level or so, that you've been reporting the past couple quarters?

Mark Anquillare - *Verisk Analytics Inc - CFO*

Yes, you should. That's just a reversion back to, not where we were, but we would still have leverage. I just want to highlight again, we have found ways to continue to do things more effectively and more efficiently.

And what we're starting to see, on inside risk assessment, is opportunities to re-imagine our markets a bit. And, we're going to places that we think there's opportunities. So, we're going to put some talented resources in place, to try to grow the business in a couple other spaces.

And, we're excited by the opportunity there. So, you should look to that. And, I think we would continue to see some of the growth in risk assessment continue, that is above historical norms.

Jeff Silber - *BMO Capital Markets - Analyst*

Thank you so much for the color.

Operator

Sara Gubins, Bank of America Merrill Lynch.

Sara Gubins - *BofA Merrill Lynch - Analyst*

Going back on WoodMac. So, I'm understanding that you've got a significant moat. When you talk about high-single digit growth for the rest of the year, it would suggest a bit of a slowdown from what you've seen most recently. And so, I'm wondering if you are seeing any short-term slowdown with clients? Or, if there's any variation within the client base around their behavior, or perspective client behavior?

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

No. It's really, very steady as she goes. WoodMac have really adopted a very customer-centric approach. Well, they've always been that way. But, in this current environment, I think they've shown special care and attention for the condition of individual customers. Have customized their go-to-market down to the individual account.

Under the leadership of a very, very good go-to-market team. And, the engagement with the customers. I would say the only thing that's actually changing is the term of the agreements is actually stretching out. In other words, the duration of the agreements is actually lengthening in the current environment, which is a positive.

Sara Gubins - *BofA Merrill Lynch - Analyst*

Great. Switching gears over to insurance in Decision Analytics. Catastrophe bonds were down pretty significantly in the second quarter. The comp was really difficult, and it looks like June trends have already improved year over year. Could you talk about whether or not that had any impact in the insurance segment? Obviously, the growth there was very strong on a tough comp.

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

Yes, it was there. The absolute amount of work we do around cat bonds, the absolute amount of revenue we drive there, is not particularly large as a percentage of the mix of what we do. But, yes, the effect was there.

Happily, where all of us as citizens of the world is concerned, hurricane and earthquake activity has actually been relatively low over the last couple of years. That's good. Long-term, one can't really count on that. But, with an effect like that, the whole market orients to that at a moment in time.

And, the next time we have a major event, you will see hardening, you will see capital come into the market. You will see investors trying to find lots of ways to respond to catastrophe risks. And by the way, I'll also say that, we remain extremely pleased with the share that we enjoy, inside of the analysis of cat bonds. We are the clear leader in that category, have been for a long time and still are.

Sara Gubins - *BofA Merrill Lynch - Analyst*

Thank you.

Operator

Arash Soleimani, KBW.

Arash Soleimani - *Keefe, Bruyette & Woods - Analyst*

Just a couple questions here. First, I think you mentioned in the second half of the year you're expecting a 36% tax rate. So is that 36%, is it fair to think of that as the new normal, going forward more permanently?

Mark Anquillare - *Verisk Analytics Inc - CFO*

The simple answer is yes. We would say that's probably the new norm, as it relates to going forward. We could have a little bit more opportunity as we get into 2016, but we'll keep you advised. That's where we think will play out, around 36%.

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Arash Soleimani - *Keefe, Bruyette & Woods - Analyst*

Okay. Thank you. And the other question I had, I know you talked a bit before about the International opportunity you could have in insurance, because of the more global platform that WoodMac has, from a business development standpoint. How significant is that opportunity, on the insurance side, now that you do have that platform? And, what's a general time frame? Is that something within the next 24 months, or more of a five-year strategy?

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

This is a longer-term initiative on our part. At the end of the day, it will be very powerful. At the end of the day, something that will be very material inside of our insurance business, is the globalization of it. But, it will take time. Because, the way that you become global when you are a business like us, and especially in our insurance vertical, is that you're actually multi-domestic.

So, you have to be very chinese in China. And, you have to be very french in France. And, the platform will definitely help us. And at the same time, as you know, our business model is its absolute peak best when we have proprietary data derived from our customers. And that just takes time.

So, the theory of the case absolutely holds. And, this will be a powerful effect inside of our business. But, over intermediate to longer periods of time.

Arash Soleimani - *Keefe, Bruyette & Woods - Analyst*

Thanks for the answers and congrats on the quarter.

Operator

Anj Singh, Credit Suisse.

Anj Singh - *Credit Suisse - Analyst*

I was wondering if you can talk more about advertising effectiveness? It seems you're quite optimistic that the currently transactional activity could turn in to more subscription oriented, as well as more one-time projects. And, I appreciate the earlier color. Wondering if you can talk a little bit about what's driving the confidence.

Are you starting to see engagement from a larger number of clients? Is it the same customer at Q1 that's indicating more interest? Just trying to understand the dynamics there better. Thanks.

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

The interest in this new category is fairly broad-based. I would say, probably the primary source of my own confidence is actually looking at the size and sophistication of companies that have awakened to this opportunity, and are expressing deep and, I would say, enduring interests in these kinds of categories.

And no it's not hardly, simply, the major project customer committing over the longer period of time. It's a very rich set of opportunities. And again, as much as anything for me, it's the scale and the sophistication of the companies that are interested in what it is that we can provide here.

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Anj Singh - *Credit Suisse - Analyst*

Okay. Got it. And a little bit of a departure from the earlier questions, but could you update us on some of your innovation initiatives? Particularly around telematics? You had mentioned this at your Analyst Day last year. We saw the press release on your recent alliance with IMS. Wondering if you could share some of the progress you've made there. And, give us a sense of the client activity as it stands today?

Mark Anquillare - *Verisk Analytics Inc - CFO*

Let me take that. This is Mark. I think we feel very optimistic about telematics. And clearly, the US market's a little bit behind Europe. But, we are making progress in three areas. One, we have a couple of analytic models that seem to be truly predictive. So, one's focused on the geography, and where you drive. And then, the other is on the behavior of the driver, both highly predictive.

Two, we have been working with, obviously, our insurer customers, in a way to try to figure out a way to work with them as this third party data provider. Along with, providing those analytics. And there's certainly an openness to that, especially with, and around, the PII, or personally identifiable information, that's out there. There seems to be an interest in having someone else handle and provide that data stewardship.

And thirdly, I think we have interest in working with OEMs that are a part of, inside of the car and automobile manufacturing world, that are harvesting some of that data. So, we hope to provide some better color and some better information about our direction there, in the very near term. But, I will highlight again, a very insightful question in a topic that we're focused on, and optimistic about.

Anj Singh - *Credit Suisse - Analyst*

Great. Thank you.

Operator

Paul Ginocchio, Deutsche Bank.

Adrienne Colby - *Deutsche Bank - Analyst*

It's Adrienne Colby for Paul Ginocchio. I wanted to go back to the subject of M&A. I was wondering how the consolidation in managed care has had an effect on Verisk Health. And, if you could comment specifically on your revenue exposure to potential inquirers, versus those being acquired?

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

I think we actually touched on this before. So, just to recap. First of all, there have been announcements. These large transactions have not been completed yet. I'll also just point out that, when you look at our performance over the last several years, which has been very strong, and the industry it's been consolidating for some time now.

So, it's not as if this is any brand new phenomenon. I did comment earlier, also, that one of the encouraging things for us is that, as we look at the demography of the emerging world, we look at who it is that seems to be, in essence, coming out on top in all of this. We're encouraged to see that some of our deeper relationships, those are the companies that seem to be doing pretty well.

Adrienne Colby - *Deutsche Bank - Analyst*

Thank you.

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Operator

Andre Benjamin, Goldman Sachs.

Andre Benjamin - *Goldman Sachs - Analyst*

Just one quick question. Was there any update as to how the efforts to increase the excitement about the ISO ClaimSearch DNA product you called out last quarter is trending? And, whether or not you expect that to be a more material contributor to growth in the near to intermediate term?

Mark Anquillare - *Verisk Analytics Inc - CFO*

Let me give you a little bit of color. We have, and we are in the process of really redesigning and relaunching our ClaimSearch solution. Just to remind everybody, that is the industry standard around fighting fraud and abuse inside the P&C industry, with over a billion claims. So, that relaunch is being rolled out in a sequential way, with some of our largest customers. What we've seen is both the data visualization has been very well-received.

The tool which, maybe in the past, was a little bit more of a reporting of instances, has a lot more predictive capabilities. Which, I think, are leading to, I'll call it this way, more use of and more value from the solution. Now, how do we monetize that? Remember, this is a well penetrated solution.

What we have is a set of other analytics and information that is around that ClaimSearch product. And, we hope that continued and expanded use will lead to cross sell and upsell, into those other products. So, a little bit of a fortification. And hopefully, it will provide us for an opportunity for further growth, as we look into 2016, when we are fully launched.

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

I just want to give a shout out to our colleagues who been working on that. They have really done great work.

Andre Benjamin - *Goldman Sachs - Analyst*

A little bit of a housekeeping question. As your partner on the ad effectiveness product talks a little bit more explicitly about the growth rates there, is there anything about the nature of the arrangement with them, that would mean that you're growth from that product is any different from what they're talking about?

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

I would make a different point, Andre. Which is that, we do work in the space with our partner, but also on our own. And so, you can't just directly link the two in that way.

Andre Benjamin - *Goldman Sachs - Analyst*

Okay. Thank you.

Operator

We have no further questions in queue at this time. And, I would like to turn the conference back over to Mr. Stephenson for any closing remarks.

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

Thank you, everybody, for your interest and for joining us today. And, we look forward to speaking with you, certainly, no later than when we report out Q3. So, thank you very much for your time today.

Operator

Thank you for your participation. This does conclude today's conference call and you may now disconnect.

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