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VRSK - Q3 2015 Verisk Analytics Inc Earnings Call

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PRESENTATION

Operator

Good day, everyone, and welcome to the Verisk Analytics third-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 SVP and Treasurer, Ms. Eva Huston. Ms. Huston, please go ahead.

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

Thank you, Jackie, and good morning to everyone. We appreciate you joining us today for a discussion of our third-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.

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

Finally, as set forth in more detail in yesterday's earning 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 filing.

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And now, I will turn the call over to Scott Stephenson.

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

Thanks, Eva; good morning, everybody.

Before we turn to our third-quarter results, I want to highlight two recent milestones in our journey. Forbes included Verisk in its list of the world's 100 most innovative companies, and Verisk was added to the S&P 500 index. Both of these achievements are recognition of the foundation that's been created over decades and the hard work being done by our colleagues to add value for our customers every day and evidence of excellence at scale.

Yesterday we announced the exploration of strategic alternatives for our healthcare analytics business. We have spent much time in thoughtful consideration of how Verisk Health fits within the broader Verisk. Our process of exploration has been under way for over a year, and we are running a deliberate process.

Verisk Health is an excellent business with a large market opportunity. Given our strategy and global ambitions, along with current market valuations for assets of its type and quality, we may have an opportunity to refine our strategic focus with Verisk. We will update you on the strategic process in the future.

On to some high-level results: In the third quarter, we delivered strong overall results with total revenue growth of 23% and an increase in diluted adjusted EPS of 33%. Profitability was strong with adjusted EBITDA growth of 32% and margins that continue to be industry leading. We grew the top line excluding the healthcare analytics business and recent acquisitions, over 7%. On that basis and excluding the gain on sale of third-party warrants, adjusted EBITDA grew about 10%. We are well positioned to execute in the future and will have more to say about that at our upcoming investor day in December.

As we think about long-term shareholder value and capital allocation, an essential filter for us is the set of distinctives which are part of the Verisk way. These distinctives are: one, unique data assets, two, domain expertise, three, first-mover advantage, and four, deep embedment in customer workflows. These distinctives define successful data analytics businesses, and will continue to inform our approach -- and our long-standing approach for the allocation of capital, which is a mix of acquisitions and share repurchases.

We also remain focused on delevering to our long-term target of 2.5 times by December 2016 with progress in the third quarter. Even as we delever, we have flexibility to make acquisitions and return capital to our shareholders through repurchases of our stock. Our existing authorization at the end of the quarter was about $190 million.

I would like to make several remarks about Wood Mackenzie. This is a very unusual moment in the oil and gas industry. Even though a challenging energy market has increased the demand for WoodMac's analyses, our customers have reacted to the current circumstances by being very careful about all forms of spending ranging from capital expenditure to more discretionary services. We have certainly felt that impact, most strongly seen in our non-subscription revenues, which have softened at this moment and somewhat sooner than we anticipated. And yet, I believe that the true quality of WoodMac is shining through particularly brightly right now because of the current challenges. This is a highly moded business, providing must-have content to customers, and doing so in ways that highly engage our customers.

As a result, the challenging circumstance notwithstanding, WoodMac has grown 7% year to date. I find that to be extraordinary performance under extreme circumstances, and I couldn't be prouder of my WoodMac colleagues.

This business is even better than I thought it was at the time we bought it. Renewal rates are extremely high, same-store use of our content is up 25% year over year, channels for distributing our product are expanding, and customers are being well serviced. It is my view that the mode around this business is widening at this moment.

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When customer spending patterns return to normal, we will be an even stronger partner to our customers, and our growth will reflect this. In the intermediate and long term, I continue to expect this business to produce strong growth that equals or exceeds that of Verisk overall. An investment analyst recently said it well -- businesses like ours are about very strong end-market positions and compounding organic growth. WoodMac has proven that, even in unusual and challenging circumstances, it can deliver both.

I can also report that we are beginning to see all of the benefits that we expected in addition to WoodMac's own performance. The integration of WoodMac and Maplecroft has been achieved, and we are beginning to see the first examples of cross-selling. WoodMac is serving as the hub of our supply chain thinking and we have added oil industry experts to accelerate our work there. WoodMac's global footprint is being used to strengthen and integrate the overseas operations of other parts of Verisk. We are collaborating well to extend Verisk's strengths with respect to core competencies like large-scale data integration.

Speaking of which, at our upcoming investor day, you will hear more about our focus on our five core competencies, which are, number one, large-scale data integration, number two, multi-tier multi-spectral imaging, number three, data visualization and consumability with an emphasis on geolocation, number four, stochastic methods leading to prediction in complex environments, and number five, localization of solutions including the sourcing of relevant local data.

During the past several months, our progress advancing our competencies agenda was well aligned with the distinctives, as you would expect. For example, we announced General Motors, through a subsidiary, OnStar, as the first auto manufacturer to sign on to the Verisk telematics exchange. Auto insurers will have expanded access to connected car data in an easily usable format, paving the way for new and innovative usage-based insurance programs. Insurers that have their own telematics models will also be able to connect to the exchange for data about their consenting customers. The exchange will create new opportunities for customers who choose to deepen their relationship with auto manufacturers.

More recently, we announced a new ISO ClaimSearch integration model for claim system vendors. The model provides claims handlers an unprecedented, interactive view of over 1 billion industry claims, and allows them to navigate seamlessly across a series of interactive analytics to improve efficiency. This deep claims systems integration represents an important evolution of real-time claim analytics and processing. And it's an important part of a multiple-phase project to create a more intuitive, robust ISO claim search system that offers cutting-edge systems fully integrated throughout the life of the claim.

Finally, AIR is collaborating with leaders security risk and cyber-data providers to build an advanced cyber-risk model to help the insurance industry better manage the evolving threat of cyber attacks. AIR will leverage terabytes of data gathered by a partner from sensors across the Internet. Another partner has provided AIR with historical incident data on more than 16,000 breaches. In addition to probabilistic loss estimation, the AIR cyber-risk model will offer a set of deterministic scenarios that will allow companies to begin to truly understand the aggregated risk of large-scale cyber attacks.

We will continue to build out our solutions to benefit our customers and the industries we serve, further developing the core competencies aligned with the Verisk way's four distinctives. We view these as critical foundations for the most successful data analytics businesses and the lens through which we have made and continue to make our capital allocation decisions. We're very confident in our path and our ability to execute.

With that, let me turn it over to Mark to cover our financial results in more detail.

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

Thank you, Scott. In the third quarter, we again delivered both revenue and EBITDA growth, while also investing for the future. Revenue grew 22.7%; organic revenue grew 7.3% excluding the healthcare analytics business and recent acquisitions. EBITDA grew 31.9% to $279 million; EBITDA margins excluding healthcare, acquisitions, and the $15.6 million gain on the sale of third-party warrants, were over 50% for the quarter and year to date. Third-party warrants related to our ownership position in EagleView.

Within the Decision Analytics segment, revenue grew 31.8%, and 8.1% ex healthcare and acquisitions in the third quarter. Decision Analytics insurance category revenue grew, led the organic growth in the quarter both in percentage and dollar terms. Decision Analytics insurance revenue

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grew 8.6% in the quarter. The increase was well balanced across our solutionaries, and reflective of the close integration of our teams as they serve our customers.

Financial services revenue increased 7.3% driven by continued underlying demand for our core solutions and services. Year-to-date growth was 30.2%, and as we noted last quarter, we continue to expect Argus to grow in the high teens for the full-year 2015. The underlying growth rate of the core business continues to track in the high teens as well. The variability around the quarters has been driven by our activity in the media effectiveness space, an area we continue to see opportunity to develop and monetize.

The healthcare business is tracking to our internal full-year revenue and EBITDA forecast. It is an excellent business in a growing market.

Energy and specialized revenue increased 5.6% on an ongoing basis, reflecting continued success in our environmental health and safety businesses. Including the recently required WoodMac and Maplecroft businesses, growth in the category was over 400%. As a reminder, WoodMac's revenue contribution continues to be impacted by a purchase accounting reduction. WoodMac's revenue in pounds grew 1% in the quarter and approximately 7% year to date through September.

You recall that we indicated a conservative approach to our model for 2016 and into 2017. For the more discretionary part of the Business, some of those headwinds materialized sooner than we had forecast. However, despite these earlier-than-expected headwinds and because of the strength of the subscription business, we expect full-year growth in pounds excluding deferred revenue impact to be in the mid-single digits, modestly below our prior expectations.

Including the adverse impacts of the exchange rates, we expect WoodMac's reported revenue under our ownership for 2015 to be about $210 million, lower than we previously discussed. We continue to focus our efforts and resources on the long-term development of our business, for the benefit of our customers and shareholders. We are pleased with the work that Wood Mackenzie and Maplecroft has begun to do together.

Risk Assessment revenue grew 6.4%, continuing to demonstrate the value to our long-standing insurance customers and the standard insurance programs grew 6.7%, reflecting our 2015 invoices which were effective January 1 and continued contribution from newer solutions such as predictive models and electronic rating contracts. Our property specific rating and underwriting revenue increased 5.2% in the quarter. This increase was driven by new sales and increased prices. As a reminder, sequential growth in the fourth quarter of last year was higher than normal, as a result of a few one-time items in the quarter.

As I mentioned earlier, EBITDA increased 31.9% in the quarter to $279 million resulting in EBITDA margins of 50.7%. Decision Analytics adjusted EBITDA increased 49% to $177 million in the quarter as a result of acquisitions, growth in the business, and lower professional services fees. EBITDA margins for the healthcare analyst business were 27.6% in the quarter and 24.1% year to date. The third-quarter 2015 EBITDA in risk assessment increased 10.1% to $102 million, as a result of revenue growth and good expense management, including the impact of lower costs resulting from the fourth-quarter 2014 talent realignment.

Reported interest expense was $33 million in the quarter. Total debt, both short term and long term, was about $3.2 billion at September 30, 2015. Our leverage at the end of the third quarter was about 3 times. We remain committed to bringing leverage down to 2.5 times by the end of 2016.

Our reported effective tax rate was 32% for the quarter. This rate reflects the benefits of our tax planning efforts and lower foreign tax rates. Adjusted net income increased 35% to $146 million in the quarter. The intangible amortization in the quarter was lower than expected because of our updated evaluation for the WoodMac-related intangibles and longer average useful lives. The longer lives reflects the unique, proprietary and embedded nature of the WoodMac data.

The average diluted share count was 172.2 million shares in the quarter. On September 30, 2015, our diluted share count was 171.8 million shares. Adjusted EPS, on a fully diluted basis, was $0.85 for the quarter, an increase of 32.8%. Excluding the gain on the sale of warrants, adjusted EPS was $0.79.

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Free cash flow, defined as cash flow provided by operations, less capital expenditures, increased 50.3% to $414 million for the nine-month period ended September 30, 2015, including WoodMac. This represented 56.5% of EBITDA. Capital expenditures increased 2.7% to $106 million for the nine-month period ended September 30, 2015, and were 7% of revenue. We continue to expect CapEx of about $170 million, including WoodMac. As of September 30, 2015, our cash and cash equivalents were $169 million.

As you think about your models for the full year, including WoodMac purchase accounting from the time we closed, we now anticipate a diluted average weighted share count of 169 million shares, fixed asset depreciation and amortization of about $125 million, and amortization of intangibles of about $95 million. And we will provide an update when the purchase accounting is finalized.

In addition, for the fourth quarter, based on the current debt levels, we expect interest expense to be about $32.1 million. For the intangible amortization add-back, and the adjusted net income calculation, we are using a 26% tax rate, as we discussed last quarter. And finally, we expect the tax rate to be around 35% in the fourth quarter of 2015.

Overall, we're pleased to report the WoodMac integration is proceeding ahead of schedule, we are executing on our operational plans, and we are positioned well for profitable growth in the future. With that, I will turn it back to Eva for a comment before the Q&A.

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

Great, thank you, Mark. Given the large number of analysts we have covering us now, we would ask that you ask one question and one follow-up. That will give more people an opportunity to ask a question during the Q&A. And with that, I will open the line to the operator to open for questions.

QUESTIONS AND ANSWERS

Operator

(Operator instructions).

Tim McHugh, William Blair.

Tim McHugh - *William Blair & Company - Analyst*

On Wood Mackenzie, can you just give a little more color?

You just talked about non-subscription growth slowing, but did you see any slowdown in the subscription side of the business, and any way that you can help us quantify more on the different pieces impacting that?

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

We're not breaking out those two parts of the business, Tim, but I will say that the subscription revenue growth has held up very nicely. And the full year view and the quarterly view are both good and strong.

Tim McHugh - *William Blair & Company - Analyst*

Okay. And healthcare, two parts. One, your comment that it is tracking to your annual guidance, or your annual expectation, can you just elaborate, I think it was slower than most people expected and maybe we had the wrong view, but is there anything that has changed in the environment, whether demand or competition-wise?

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And secondarily, can you give us any sort of help with the profitability of that business as we think about the potential sale of it?

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

Let me take the first part of that, Tim. So the comment that Mark made earlier was that the business is tracking with our expectations, meaning our full-year forecast for the business, and so that was his comment.

With respect to the business, the environment is relatively unchanged. As you know there is seasonality with this business, and there is also the case where this business has more transaction volume than the rest of Verisk. You find that timing can play a role in what happens, and that is fundamentally where we sit at the moment.

So Mark, you actually commented on healthcare EBITDA margins a moment ago, so maybe you want come back.

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

Sure. Just to clarify, the third quarter healthcare margins were 27.6%. Hopefully you will have that in your math and I will reiterate strong business, competitive nature, has not changed. I think we're still extremely well-positioned in a nice big market.

Tim McHugh - *William Blair & Company - Analyst*

Can I just ask the season, is there any seasonality to that margin as we think of a full-year run rate?

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

The healthcare analyst business in the third quarter was 27.6. Historically, because of some additional volumes that we've seen for the Medicare side of things, it has been a little bit bigger, the margins a little bit better than the second half. Year-to-date we are 24.1%. I will tell you though, there was a little bit of noise in there because of the transition of accounting from what we will refer to as gross versus net, and hopefully those couple of factors will help you out.

Operator

Andrew Jeffrey, SunTrust.

Andrew Jeffrey - *SunTrust Robinson Humphrey - Analyst*

Good morning, and thank you for taking the question.

So with regard to RA, which is doing very nicely, can you talk a little bit about the sustainability of that faster organic revenue growth of 6%, 6% plus, and what exactly is underpinning that improvement over what we've seen over the last few years? Is that all invoicing, or is there some specific customer ROI call outs that are driving that?

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

Definitely not just invoicing. This is the time of year where we set the pricing for the industry standard program, rules, forms, loss cost, the part of it that relates heavily to the overall regulation and structure of the insurance industry.

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We are working very hard to expand that suite of solutions, bringing new solutions to the market and growing newer forms of putting the content and the analysis out there, so predictive models are growing very nicely, electronic rating content is growing nicely. We are searching for all opportunities to expand the business to international customers, and we've made headway on that front, as well. So it is broadly based and we are very optimistic about the future profiles of this business.

Andrew Jeffrey - *SunTrust Robinson Humphrey - Analyst*

As a follow-up, for a big picture, now that the strategic nature of healthcare is something you are thinking hard about, kind of down to three core businesses, is that in the long term, do you start to rebuild from there, or are you looking for new areas strategically long-term that are good fit or is this really probably the right core business set with which Verisk runs going forward?

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

Thank you for the question, and that is something we've spent a lot of time on, and we feel very good about these three core verticals and I think what you can expect from us is that we will continue to grow and expand inside of them.

You know, our thesis is, and I referenced this in my comments upfront, if there are things that make Verisk Verisk, those four distinctives. One of the things that I just feel so strongly about, is Wood Mackenzie is absolutely aligned with those four distinctives. And will do a better job of both feeding off of core competencies that we have at Verisk, but also feeding them.

So for example, Wood Mackenzie is a business that definitely will benefit from our strong and growing expertise in multi-tier, multi-spectral imaging in a way that actually the healthcare business wouldn't. Another comment along the same lines is that the global energy business is inherently global, whereas healthcare will always remain a domestic business.

And so we think very hard about who is it that we want to be, and I think that the right way to frame us is the verticals, the distinctives, and the core competencies that I laid out for you. And we feel that the three verticals that you focused on are very, very nice fits with that. With all of that.

Andrew Jeffrey - *SunTrust Robinson Humphrey - Analyst*

Great, thank you.

Operator

Manav Patnaik, Barclays.

Manav Patnaik - *Barclays Capital - Analyst*

I just want to step back and try to understand what changed. In a little bit more detail, so both WoodMac and healthcare.

With WoodMac, I mean last quarter the energy environment was challenging as well, but it sounded like you guys were confident with the growth rate there, so trying to understand the Delta there. And healthcare, I understand the rationale, but it sounded like you said you guys were looking at this over year ago and I think around that time you guys were pretty committed to the long-term, like selling it was not in the sights, and I think you had that focus on Investor Day.

What I'm trying to get at, is from last quarter to today, what are the real changes that have led to the WoodMac result in the healthcare decision?

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

In order, on WoodMac, the thing that I would call out for you is just that there are different profiles to how the energy market works basically.

You know, there have been, we have said for some time that we thought that 2016 could represent some softness, and the question was what might be the timing, and we just found that the timing has been pulled forward a little bit, probably related to things that are going on with our customers as they make decisions about spending, in light of the current environment and it is really that simple.

On healthcare, you know, we been asking, we're always asking the question about the deployment of capital across everything that we do. Even a year ago, we were thinking critically about what are the highest and best uses of our capital and how does healthcare fit into that picture?

Since that time what has happened? Well, there has been a public offering of a Company that is very analogous to ours. There has been the activity in the healthcare M&A market generally, and we take account of all that basically. And you know, with deliberation, at a moment in time, we have drawn a conclusion about an exploration.

Manav Patnaik - *Barclays Capital - Analyst*

Fair enough. A quick follow-up.

On the WoodMac, I mean how should we think about the trajectory of that 1% growth you called out in the quarter? Is that where your initial 2016 expectations were, or was that even worse than what you had modeled there?

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

We will talk in more depth about WoodMac at our December investor day and I would encourage everybody to come and be with us, but what I would point you to is what Mark put out there, our view for full-year 2015 and that is what we said about it so far.

Operator

Jeff Meuler, Baird.

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

When you said the 2016 softness in WoodMac may have been pulled forward, I know you're not breaking out subs versus non-subs, but does that include some weakness being pulled forward on WoodMac bookings trends for the subscription business?

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

No.

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

And then on the healthcare decision, to explore the strategic alternatives announced last night, the disclosure or timing of the disclosure, should we view that is being driven by press reports, or by reaching some step in the process relatively recently, and if it's the latter, can you just comment on -- and I know you talked about the timing over the last year. But can you talk about the timing of reaching that conclusion on just given how the trends are right now as you think about maximizing value for your shareholders?

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

We have been in a long and deliberate discussion with our board, and the process has accounted for a lot of different things, a lot of different considerations, and driven by our own considerations, definitely not by the press, not at all. Just in our own timing, we decided we were comfortable making the statement that we made last night. But it was entirely our own thinking, and developed again over a very -- we have been talking with our board about this for some time.

Operator

Toni Kaplan, Morgan Stanley.

Toni Kaplan - *Morgan Stanley - Analyst*

Thanks, good morning. Within WoodMac, can you give us a better sense of what services clients are pulling back on, and also just what types of customers are tightening or spending the most? Is it the NOCs or is it more broad-based?

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

I will start, and Mark, you might want to jump in, as well. We have commented on this difference between the hard-core data analytics business and then the services. It is definitely being felt on the services side.

The hard-core data analytics, which is subscription based, has performed very nicely in this environment. With respect to within the customer base, there are some segments that are doing very nicely, actually. But it is among the companies in the industry, the oil companies themselves, and I would point particularly to NOCs, and also the focused EMP players, that is where it has been felt most strongly.

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

Let me highlight something that Scott said earlier. The silver lining, the good news in there, besides the subscription rates being extremely high, the renewals of those. We've seen a lot more usage, this is about the web analytics, the actual people looking at the content of about 25%. So you can clearly see the value of the solutions they provide despite what is an interesting time in the market.

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

Sorry, I wanted to correct something I said. I did not mean to say the NOCs, I meant to say the integrated global oil companies. National oil companies have actually been pretty strong in the current market.

Toni Kaplan - *Morgan Stanley - Analyst*

Okay, great. On healthcare, just looking at the fourth quarter, should we expect a similar expectation to like the growth in this quarter, is there any reason to think that this would be better than this quarter was?

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

You know, I think we tried to highlight that we did expect a de-sell in the second half of the year from a growth perspective. We are continuing to track internally. We think it is a very good business, very big market and we have confidence in that team.

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Operator

Andrew Steinerman, JPMorgan.

Andrew Steinerman - *JPMorgan - Analyst*

The usual about EBITDA margins in the fourth quarter, including healthcare. The way I -- I want to make sure I understand the third quarter number for EBITDA margin. The 50.7% includes warrants, so if I excludes the warrants of 15.6 million gained, the third quarter was 47.8% right, and how should I be thinking about the fourth?

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

Your math is good. I've got 47.9% and I'm sure it is just rounding. I would say that we will continue to see a strength in the margins. I think you saw that in third quarter. There's operating leverage throughout.

We do have at the beginning of some of the hiring that we had identified earlier on with that realignment inside of risk assessment, so some of those costs will come back into fourth quarter. I want to mention that.

And I think that the natural ebbs and flows of expenses as it relates to the fourth quarter should feel generally like third.

Operator

Bill Warmington, Wells Fargo.

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

First, the first question on healthcare, just ask, if you go through this process and you do decide that you want to sell the assets, what are your thoughts in terms of the use of the proceeds?

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

Well, you can expect from us the same approach that we've always taken, which is when we put out a leverage target, we are going to meet that leverage target. And then, we continue to lean into the M&A agenda. That's our first, best use for available funds. We've always felt very good about the share buyback program, and you will continue to see that featured in our capital deployment, as well.

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

Then on the second question to ask, about financial services and Argus, basically, if you could comment on the pipeline that you are seeing in demand for media effectiveness. And then, I understand it is a lumpy business because of the project-related apportion of some of the revenue, so I'm trying to understand how I should think about the annual revenue, or the growth rate for revenue on an annual basis?

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

Yes, yes. The overall profile for Argus, when you account for all the different ways that this business can grow, it can grow internationally.

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It can grow by new customer acquisition for the existing solutions. It can grow by more applied analytics for individual customers. It can grow by the expansion of the media effectiveness business, all of those things are at work. All of those things are powering the performance of Argus.

I expect Argus in 2016, and beyond, to be the same Argus that you have known and we have known. It is a very innovative team that is working on top of a very proprietary set of intellectual property assets and doing a great job with them. And so the outlook is completely unchanged.

And there is this somewhat lumpier quality, that will be there from time to time, when the very large, I will say particularly new media players, get interested, their entry tends to have a pretty substantial effect, and then it normalizes as you go forward. There probably will be lumps going forward, but the overall profile of the business is going to look very much like it has.

Operator

Sara Gubins, Bank of America Merrill Lynch.

Sara Gubins - *BofA Merrill Lynch - Analyst*

First, I have a question on decision analytics margins. When we adjust for the benefit of the healthcare pass-through revenue change and the investment gain, it looks like the underlying margins in that segment were down year-over-year. Could you talk about what might be driving that, and whether or not we should continue to see that next quarter?

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

Let me take that. There was some reduction in the margins for third quarter relative to last year when you do that math. I would highlight that overall our margins are extremely strong.

I think the decision analytic margin is based on the overall way the business is set up, and should into the future continue to grow. But I would see a consistency to fourth quarter as you saw in third quarter. That is a very good parallel.

Sara Gubins - *BofA Merrill Lynch - Analyst*

Is there anything that changed versus the first half of the year that would be driving that?

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

I mean there are few things that we highlighted upfront. If you think about the touchdown investments, some of the work that we're doing to integrate the platforms and bring touchstone together, that is one item.

And the other thing is some OpEx, some CapEx as we bring on new initiatives like the telematics data exchange, there's costs in there that we need to incur now, and revenue is following. These are long-term investments that will prove fruitful for both our top line and bottom line in future, but there is some cost to be undertaken.

Operator

Arash Soleimani, KBW.

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

A couple of questions here. You mentioned in the press release on healthcare, that it will give you the opportunity to pursue some of your global ambitions, and I just wanted to know, could talk a bit on that? Is it mostly on the insurance side, and see if there's any more color you can provide there?

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

You are going to see the capital having a couple of characteristics going forward. One is that it will be spread across everything that we do at Verisk, so it is not going to be concentrated in any one part of the business. And the other thing you will see is that we are going to try to deploy the capital disproportionately in non-US markets in order to support the expansion of everything that we do globally.

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

This is Mark, and I will chime in, sorry to do this. But even to Sara's earlier question, some the margins that you are referring to on the last question, we have put some resources into the international business development and also to localize our solutions so that we can attract and attack the various international markets. So let me add that to be the third bullet to some of the cost of we have incurred. Sorry, Scott.

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

No, thanks.

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

My second question is back on the tax rate, it was 32% this quarter and I think you guided to 35% for the fourth quarter. So it seems like it is starting to trend below the 36% we were expecting on the last call.

I'm just wondering where that could end up? Is there still opportunity to improve that in 2016?

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

This is Mark. We do believe that the rate, the effective rate in the UK, should come down by potentially a point come 2016. So that would add to the -- from a balance or waiting perspective, that should add to some good news in 2016. And we will try to provide you a little bit of guidance as we get closer to 2016, about what our expectations are. A little bit down, but still we are pretty much a US taxpayer, with a lot of footprint in New York, New Jersey, California, Massachusetts, so the US operations come with a high state tax rate.

Operator

Jeff Silber, BMO Capital Markets.

Jeffrey Silber - *BMO Capital Markets - Analyst*

In the 10K, when you're talking about the lower growth in healthcare, you said it was due to changes in our customer contract language in the healthcare revenue category. You elaborate a bit on that or is that something that just happened in the third quarter, and is that something that will impact growth going forward? Thanks.

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

I think what we are referring to there is, within customer, beginning like first quarter this year, we went from basically a gross accounting for certain services, to net accounting. We did not want to, for the most part, continue to provide a service and we went to a third party.

We transitioned because of the contract, the nature of the contract. The bottom line, it did not change, the EBITDA did not change. I think this is just the notion of how we account for gross versus net from a revenue perspective. Same contact, same revenue, same pricing, it was just the nature of the relationship caused the change in the accounting methodology.

Jeffrey Silber - *BMO Capital Markets - Analyst*

Roughly, what was the impact this quarter?

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

Hang on. Let me look up this year. Maybe David could follow up with you, but I do believe it was probably about $10 million to $11 million, but we will get back to you.

Jeffrey Silber - *BMO Capital Markets - Analyst*

Just one question on WoodMac. You had mentioned that you are looking for, I think it was $210 million in revenue contribution on a dollar gap basis, it was lower than it was before. Can you just remind us what it was before?

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

We were at $225 million.

Operator

Andre Benjamin, Goldman Sachs.

Andre Benjamin - *Goldman Sachs - Analyst*

I first wanted to ask about the expectations for the Telematics Data Exchange, even though it is not supposed to launch until summer 2016. What is go to market, and how do you actually plan to charge the insurance companies for the service? And then given it's rolling out in 2016, how much needs to happen? Is it still primarily development work that needs to be done, or is it just signing people up, etc.?

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

Let me start with the answer, what we're doing and where we're at, and then Mark can talk about the revenue model. We are in the process of actually dimensioning the data sets and the UX so that our customers, our insurance customers can make use of the data that we will be compiling inside of the data set. So there is root and branch work that is going on right now and Mark mentioned that before.

Here's a general thing where Verisk is concerned. I think we're doing a good job of running the business tightly, which I think you can see in the margins. And we're doing that at a moment where actually the software intensity of a number of our businesses is actually going up, and so it is

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kind of a fine balancing act. And I feel very strongly positive about the way our operation has been able to actually raise efficiency while at the same time actually deepening investment in some of these ways.

So there is root and branch development work of all of the processes associated with extracting, transforming, and loading the data, then the management of the data inside of the exchange, and then the return of the analytic to the user community. That is going on and that is part of between now and December between now and December 2016.

The other thing I would a comment on, as you can imagine, when the announcement was made of our partnership with General Motors, it created quite a stir among all of the OEMs, and so there's a very brisk set of conversations going on right now with the other OEMs. The focus at the moment is the US, but our hope is that with time, having built out this capability in the United States, we will be able to work with the same OEMs, particularly those that are not headquartered in the United States, and bring the same method into other markets.

So I think you can think of it as two streams of the development going on at the moment for the domestic market: the infrastructure and the participation of the other OEMs. And then subsequent to that, there will be a pushing out globally with respect to all of that.

So that is what we are doing with the business. Mark, you want to talk a little bit about the revenue model?

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

Sure. What we put in place is really this wonderful consortium model that will ramp up for those people who choose or opt in. What we do expect to do is monetize this by providing this very useful N plus one-type data to our insuror customers, in really two forms. We will play the part of, if you need the data, like we would it we serve that up to them.

But what we also do, we have the opportunity to provide a lot of analytics around that. You know we have some very interesting telematics scoring models, whether it's about the behavior of the driver, or about the location in which the drive happens from point A to point B. All of that factors into the underwriting and the pricing of the risk, meaning the pricing and the policy.

We have an opportunity to provide those analytics along with the data to our customers and we have a very unique position to aggregate a lot of industry data in a very unique way. So I get pretty excited about the opportunity here, and the relationship to bring basically all these OEMs together with the insurance industry and be the hub of that consortium.

Andre Benjamin - *Goldman Sachs - Analyst*

As a follow-up, I know you talked in the past about the efforts to build up the imagery capabilities and you listed out a number of areas that you hope to talk about on your analyst day, and I was wondering any detail about how you're thinking about that today, given the hazards that you talked about in the past would be helpful.

And you think about cost, I was wondering what the impacts these investments and that effort are having on cost, and should we see a step up or step down from current levels over time as you roll those out?

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

Our interest level remains very high. And our goal is to have a number of use cases, some of the most important use cases in the nearer term relate to the insurance industry, and we have already actually seen our ability to create material revenue streams in what we're doing. To my way of thinking, we're still right at the beginning basically. Our methods are very good.

Our methods will be expanding. Because as you know, the heart of the paradigm today, is to make use of an image coming from the belly of the plane 2000 feet or 3000 feet above the ground. When we say multi-tier, multi-spectral imaging, we're talking about using an image from a satellite

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which is 30 miles to 50 miles up, a plane, an unmanned aerial vehicle. And something else which is going to be occurring going forward will be the use of hand-held devices to also provide imagery.

We're not very far away from the day when all of us may use our hand-held device to image the interior of the places where we live, and that information also can potentially be used in the insurance process. And then there are a lot of other use cases. The solar industry, municipalities, and on and on. I think we're just at the beginning of this march.

We have made efforts, and we continue to make efforts, to step up the availability of relatively precise aerial imagery today because that relates to today's use case. I think what you're going to find from us, is that with time, the relative importance of the other forms of imagery will go up. And so the mix will probably modify as we go forward. With respect to the cost of sourcing aerial imagery today, we are sourcing more images.

You know, and it will be there in the cost structure, but I don't think it will be a huge factor. Partly because we found new and different ways to contract the sourcing for the images. It will all remain relatively dynamic. But the category remains very, very interesting to us.

Operator

Anj Singh, Credit Suisse.

Anj Singh - *Credit Suisse - Analyst*

I was wondering if you could discussed the dynamics behind why there was such a latent impact on the services businesses for WoodMac, in light of where the oil prices have been and some of your competitors dealing with this pressure for a few quarters now?

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

You know, I'm not really going to comment on the competitors, except to say that we observe in what we're doing, the relationship that we have with our customers. And what we see is that the content that we provide is must-have and the depth and quality of the customer relationships remains unchanged.

The renewal rates are enormously high. There actually higher than found in several parts of Verisk, and so we are very, very pleased with where the business sits in terms of making a difference for customers and the content being meaningful.

And as you know, the revenues at WoodMac are weighted heavily toward the recurring subscription-based data analytics. And that continues to do very well. In this moment, as, I would say particularly our industry customers, our oil and gas industry customers are attempting to respond to an unusual set of circumstances. They've decided in this moment as they right-size their own teams, as they have modified their capital expenditures, they've also taken a hard look at that which is discretionary.

And the kind of services that we provide, which is the minority of what we do, those have been under pressure at this time. But I think the true measure of the business is the underlying recurrent subscription business, and that's held up I think very nicely, actually.

Anj Singh - *Credit Suisse - Analyst*

And one other on WoodMac. You've recently announced an e-commerce service for WoodMac. I'm curious to see how much of this decision here was something that you're being proactive on, or is it more of a pull-type function of clients interested in one-off or a la carte types of products and services?

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

I'm glad you asked, and you're actually going to see more of that from us. We've actually put out there an announcement about the first one. But there will be many, many more.

There are a number of ways to put the content out there and it is definitely us pushing, not others pulling. In other words, we said we can slice and dice our content, which is the thing that we look -- that's one of the plays we run across everything we do. Particularly relevant here, it is not existing customers saying, I want to get it differently, or I want different discrete packets of what you've got. You've already got a very highly featured menu that you can already shop when you're an existing customer. This is really about trying to move the content towards an entirely new user community. Mark, you want to say something else?

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

I think we highlighted this on the last quarter call. If you actually look at the number of customers that WoodMac has, in that 8 to 900 range, that is a very small number relative to the number of people who could potentially benefit from the content. Moving downstream, not in an upstream but a downstream perspective to the smaller customers has been a constant push that we're on. It comes in the form of some new sales reps to attack that. But, as well, the Internet or e-commerce approach to providing a smaller package of solutions that people can access through the web is another approach to doing that. So we remain optimistic about ways we can get downstream to maybe provide opportunities to a bigger set of customers.

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

As much as WoodMac is a leader in its category, this is an undersold business.

Operator

Paul Ginocchio, Deutsche Bank.

Paul Ginocchio - *Deutsche Bank - Analyst*

Just a couple of concerns that have come up with results around healthcare and the call today on energy. The lack of guidance this has created, probably even more uncertainty around both of those. Is there any way here at the end of the call you can clarify or help us to get a little bit of color on trends going forward? Can you give us 3Q bookings growth for WoodMac? And how does the fourth quarter in healthcare look? Is it more like the third quarter or more like the first half?

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

We've never provided bookings commentary on any of our businesses. Mark already put out there our expectation for WoodMac for the full year 2015, so I do think we spoke to that. In light of our comment about our strategic review, we said what we're going to say about healthcare.

Operator

Jeff Meuler, Baird. I now turn the call back over to Mr. Stephenson for closing remarks.

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

Okay, well thank you very much everybody for joining us. We look forward to catching up with you at Investor Day in December. We hope all of you will be there with us. We will feature lot of discussion and commentary about Wood Mackenzie particularly, and so hopefully you will find that very helpful and interesting. Otherwise, thanks and enjoy your day.

Operator

Ladies and gentlemen, this concludes today's conference call. You may now disconnect.

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