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Verisk Analytics, Inc. (VRSK)

Q4 2015 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day everyone, and welcome to the Verisk Analytics Fourth 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 F. Huston

Senior Vice President, Treasurer & Chief Knowledge Officer

Thank you, Dorothy, and good morning to everyone. We appreciate you joining us today for a discussion of our fourth quarter 2015 and full year 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 the call, as well as the associated 10-K, 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, until March 24, 2016, on our website and by dial-in.

Finally, as set forth in more detail in today'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 contained in our recent SEC filings.

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

Scott G. Stephenson

President, Chief Executive Officer & Director

Thanks, Eva. And good morning, everyone. We reported another year of industry-leading high-single-digit organic revenue growth with margin expansion and excellent free cash flow generation.

Fourth quarter results were in line with our expectations, with total revenue growth of about 21% and an increase in diluted adjusted EPS of about 23%. Full year revenue grew 18% and diluted adjusted EPS increased about 29%. We grew the top line, excluding the healthcare analytics business and recent acquisitions, over 5% in the quarter and 7% for the full year. Profitability was strong as adjusted EBITDA excluding acquisitions grew about 7% in the quarter and 14% for the full year. Our adjusted EBITDA margins were 47% in the quarter and 48% for the full year.

We continue to work on our comprehensive review of strategic alternatives for the healthcare analytics business. There is a range of alternatives and not solely limited to a sale of the business. As responsible stewards of shareholder capital, we are being methodical and thoughtful in our approach. The volatility of the equity and leverage markets in the last quarter of 2015 and the beginning of 2016 has contributed to the timing of our efforts. We expect to be able to provide you with an update by the time we report first quarter earnings.

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We're always looking to innovate to drive growth at Verisk. For example, in our insurance business one of the solutions which has been contributing to growth in Risk Assessment is the ISO electronic rating content suite. We rolled out new features including an automated maintenance feed that allows insurers to import the most recent changes to ISO loss costs and rating algorithms directly into their rating systems. This is innovation which helps our customers to implement rate changes more quickly and more efficiently.

In other recent news, WoodMac announced a commercial alliance with Thomson Reuters. This alliance gives customers of the Eikon platform a direct link to WoodMac's oilfield data and research. The information and analysis we are providing includes crude oil production, oil product balances and stocks, oil product prices, crack spreads and refining margins. This is an important new channel for WoodMac, extending our reach to customers we were largely not already serving.

Looking at capital deployment, we are on track to meet our deleveraging commitment even as we have made a number of tuck-in acquisitions and returned capital to our shareholders through repurchases.

We made a couple of acquisitions in the fourth quarter for about $50 million. We acquired Infield Systems including its proprietary database of offshore asset prices. We also acquired PCI Group, which has proprietary data assets and deep chemical industry domain expertise. These two acquisitions complement and enhance our data and capabilities at WoodMac very nicely.

During the quarter, we returned capital to shareholders through the repurchase of over $20 million of stock. Our remaining authorization at the end of 2015 was $469 million after a $300 million increase in December, and we remain buyers of our stock at current levels. We are committed to a prudent mix of M&A and share repurchases over time to complement and enhance our core businesses. This combination positions us very well to deliver the kinds of shareholder returns over the next several years that we expect of ourselves and you expect of us.

Our initiatives during the past year position us well to execute on our plans for 2016 and we're constructive on the outlook. We expect our combined insurance businesses will grow at least as fast as they did in 2015. This reflects the quality and value of the solutions we provide and the strength of our relationships. As we discussed at Investor Day in December, we expect WoodMac to grow in constant currency, even when excluding the effect of Infield and PCI.

Given the end market dynamics, we think this is a strong reflection of the quality of our team, the strength of our intellectual property and the depth of our customer relationships. Our health care business grew 6% in 2015 with expanding margins, and we anticipate a higher rate of growth and additional margin expansion in 2016. We also expect Argus to grow double-digits for the full year 2016, even with the one-time project revenue we had in the first quarter of 2015.

Over and above all of this, in 2016 we will strengthen our foundation. Our internal environment for handling large amounts of diverse data types is rapidly and continuously improving. Our data assets, already among the largest private data sets in the world, will expand. And our global footprint, a key to providing organic growth opportunities over the long term, is now in place and growing. Verisk is today one of the world's most valuable, vertically oriented data analytics companies. Our robust plans to the year 2020 will lead to new levels of distinction and performance.

So with that let me turn it over to Mark to cover the financials in more detail.

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Mark V. Anquillare

Chief Financial Officer & Executive Vice President

Thank you, Scott. For the fourth quarter, we again delivered solid revenue and EBITDA growth while also investing for the future.

Revenue grew 20.6% in the fourth quarter and 18.4% for the full year. Net of healthcare pass-through revenue, and excluding the effect of recent acquisitions, total revenue grew 3.9% in the fourth quarter and 7.4% for the full year.

Adjusted EBITDA, which excludes the second quarter hedge gain and WoodMac one-time acquisition costs, grew 22.5% to $263 million in the fourth quarter. For the full year, adjusted EBITDA grew 24% to $996 million. Adjusted EBITDA margin for the full year was 47.4%, excluding the $15.6 million third quarter warrant gain. And adjusted EBITDA margins excluding healthcare, acquisitions, and third quarter warrant gains were over 50% for the quarter and year-to-date.

Within the Decision Analytics segment, revenue grew 29% in the fourth quarter and 5.3% excluding healthcare and acquisitions. Revenue growth in the quarter was driven by insurance. For the full year, Decision Analytics revenue grew 25.9% and 9.3% excluding healthcare and acquisitions.

Decision Analytics insurance revenue grew 7% in the fourth quarter. Performance in the quarter was led by strong growth in loss quantification solutions with good contributions from insurance, anti-fraud claim solutions, and underwriting solutions. Catastrophe modeling solutions also contributed to the growth. Full year Decision Analytics insurance growth was a solid 8.1%.

Financial Services revenue declined 2.6% in the quarter due to project work in the prior-year period which did not recur this year. For the full year Financial Services revenue grew 20.5% as a result of media effectiveness project revenue and continued demand for analytic solutions and services in the U.S. and notably expanding globally.

The Healthcare business again performed slightly ahead of our internal forecast. Net of pass through revenue, Healthcare declined 2.4% in the quarter but grew 6.2% for the full year. Population solutions led the growth in the quarter while payment solutions led the growth for the full year. All areas contributed to full year growth and full year margins improved versus 2014.

Energy and specialized revenue increased 410% in the fourth quarter and 264% for the full year. Organic growth in the quarter was 4.3% and for the full year 5.1%. Commercial weather and climate analytics and environmental health and safety solutions led the growth.

WoodMac revenue in pounds and on a comparable basis declined 1% in the quarter and increased approximately 5% for the full year. For the period of our ownership, WoodMac contributed $211 million, slightly ahead of what we discussed with you last quarter despite exchange rate headwind.

We're pleased with WoodMac's performance in an extraordinary time for their customers. Annual contract value of signings were up in 2015. Customer retention remained strong and client engagement as measured by portal activity was up 26% versus 2014.

Turning to Risk Assessment. Revenue grew 5.4% in the quarter, indicating the value to our long-standing insurance customers. The overall increase within the segment was due in part to 5.5% revenue growth of industry-standard insurance programs resulting primarily from growth in 2015 invoices effective from January 1. Property-

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specific rating and underwriting revenue increased 4.9% in the quarter. Growth was a result of new sales with higher committed volumes. For the full year, Risk Assessment revenue grew 5.8% driven by 6% growth in industry standard programs and 5.1% growth in the property-specific rating and underwriting category.

As I mentioned earlier, EBIT (sic) [EBITDA] increased 22.5% in the quarter to $263 million resulting in EBITDA margins of 46.9%. Decision Analytics adjusted EBIT (sic) [EBITDA] increased 30.8% to $161 million in the quarter as a result of acquisitions, growth of the business and lower professional services fees. Excluding the effect of recent acquisitions, second quarter WoodMac onetime items and the third quarter warrant gain. Decision Analytics adjusted EBITDA increased 3.7% in the quarter and 13% for the full year.

EBITDA margins for the Healthcare Analytics business net of pass-through expenses were 24.8% in the quarter and 25% for the full year. Fourth quarter 2015 EBITDA in Risk Assessment increased 11.4% to $102 million as a result of good revenue growth, good expense management and the talent realignment costs in the prior period. Excluding the prior-period talent realignment cost, EBIT (sic) [EBITDA] grew 5.8% in the quarter and 8.8% for the full year.

Reported interest expense was $33 million in the quarter. At December 31, 2015 total debt was about $3.2 billion including about $870 million in revolver borrowings. Our leverage, at the end of fourth quarter was about 2.9 times. We'll remain committed to bring the leverage down to about 2.5 times by the end of 2016. Since the end of the fourth quarter we have paid an additional $165 million. Our cash and cash equivalents were about $138 million at the end of 2015.

Our reported effective tax rate was 30.3% in the quarter. For the full year 2015 the effective tax rate was 29.3%. Adjusted net income increased 28% to $138 million in the quarter and 28.1% to $520 million for the full year.

The average diluted share count was 172.6 million shares in the quarter. On December 31, 2015 our diluted share count was 172.2 million shares. Adjusted EPS on a fully diluted basis was $0.80 in the quarter, an increase of 23.1%. For the full year adjusted EPS grew 28.8% to $3.09.

For shares purchased in the quarter, the average purchase price was $73.20. At December 31, 2015 the company had about $469 million remaining under our share repurchase authorization. Our share repurchase program has been successful to date, generating annualized IRRs well above our cost of capital.

In 2015 free cash flow grew 33.5% compared with the prior-year period of $458 million and representing 46% of adjusted EBITDA from continuing operations in the 12 months of 2015. Growth in free cash flow is driven by improved profitability in the business and stable CapEx, partially offset by higher interest and fees related to the WoodMac acquisition.

Capital expenditures were $166 million in the 12 months ended December 31, 2015, an increase of $19 million over the same period in 2014. Capital expenditures were 8% of revenue for the 12 months ended December 31, 2015. We continue to manage the capital intensity of the business and expect it to continue to move lower as it has over the past several years.

To think about your models for 2016, we expect CapEx of about $175 million, fixed asset depreciation and amortization of about $140 million, and amortization of intangibles of about $121 million. Based on our current debt balances, we expect interest expense to be around $130 million. We expect the tax rate to be in the range of 32% to 33%. For the intangible amortization add-back in the adjusted net income calculation, we will use 28% to reflect the tax rate applicable to our intangible assets. And finally we expect a diluted weighted average share count of about 172 million shares before incremental repurchases.

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As a reminder, first quarter of 2015 still had healthcare pass-through revenue included in the reported results. You will recall that after adjusting for the pass-through revenue of about $6.7 million, first quarter 2015 would have been $68.4. Also in the first quarter of 2015 we had about $11 million of project revenue at Argus, which had higher than average margins.

Overall we're pleased with the results for 2015 and excited by the plan for 2016 and the opportunities ahead. We expect to see growth from multiple verticals and we're managing the business to generate long-term shareholder returns. With that I'll turn it back to Eva for a comment before Q&A.

Eva F. Huston
Senior Vice President, Treasurer & Chief Knowledge Officer

Thanks, Mark. We appreciate all the interest in Verisk. Given the large number of analysts we have covering us, we ask that you limit your questions to one question and one 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 line.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of Sara Gubins from Bank of America.

Sara Rebecca Gubins
Bank of America Merrill Lynch

Q

Hi. Thank you. Good morning.

Mark V. Anquillare
Chief Financial Officer & Executive Vice President

A

Good morning.

Scott G. Stephenson
President, Chief Executive Officer & Director

A

Good morning.

Sara Rebecca Gubins
Bank of America Merrill Lynch

Q

Thank you for the commentary about your revenue expectations. Could you talk about what gives you confidence that you'll be able to grow WoodMac in constant currency in 2016, given the 1% decline in the quarter? I know you're not going to give details about subscription versus service, but any color about what you were seeing on the subscription side, particularly around renewals would be very helpful?

Scott G. Stephenson
President, Chief Executive Officer & Director

A

Yeah. So retention of customers remain strong and even in the first month-and-a-half of 2016 we're seeing strong year-over-year growth in terms of numbers of research subscriptions clients. We are seeing a increase in use of the

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portal, customer engagement is up 6% already in the year. So these are the kinds of things which basically relate to where we stand with our customers and is the source of our expectations for the year.

Sara Rebecca Gubins
Bank of America Merrill Lynch

Q

And so, I guess, is the expectation on the service side that you would continue to see pretty significant declines there, but it's less important as it becomes a smaller piece of the total?

Scott G. Stephenson
President, Chief Executive Officer & Director

A

Well, we're not really breaking that out, as you know, Sara, but I mean, our plan is for the whole business to perform.

Sara Rebecca Gubins
Bank of America Merrill Lynch

Q

Okay, great. And then just separately on margins. Could you give us any color on how you're thinking about margins in 2016? Particularly because there were some hiring plans in Risk Assessment, I'm wondering if those have started to come through or if you would expect to ramp that next year or this year?

Mark V. Anquillare
Chief Financial Officer & Executive Vice President

A

Yeah. Good question. This is Mark, Sara. So first of all, let's start with 2015. We had some one-time items: the hedge gain, WoodMac transactions, the EVT, the warrant gains. So we'll pull that out and we remain positive and constructive with regard to margins in 2016. I do want to highlight two things that we tried to do. One, specifically, the talent realignment you mentioned. We would and we do expect people to be hired back to former levels. That's probably about 50 people, just to kind of give you a flavor of things, [ph] like aro und (18:31). And the other thing we did try to call out is that the project revenue of Argus in first quarter of 2015 was about $11 million. It had very high margins. So you have to just factor those two things in and hopefully that gives you some color on where we stand.

Sara Rebecca Gubins
Bank of America Merrill Lynch

Q

Great. Thank you.

Operator: Your next question comes from the line of Manav Patnaik with Barclays.

Manav Patnaik
Barclays Capital, Inc.

Q

Hi. Good morning, gentlemen.

Scott G. Stephenson
President, Chief Executive Officer & Director

A

Good morning.

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Manav Patnaik
Barclays Capital, Inc.

Q

The first question just around WoodMac again. I was just wondering if you could help characterize your organic growth guidance of WoodMac next year in the context of what you're assuming the energy environment is? And then also maybe in context, like is this, the Thomson Reuters announcement that you did, a sign of more to come and is that maybe a material contributor to showing that growth number for 2016?

Scott G. Stephenson
President, Chief Executive Officer & Director

A

Yeah. We think there are additional channels for getting WoodMac content to market and we actually think that the number of customers that WoodMac will have in the years to come will be substantially greater than it is today and part of that is in fact the new channels. And we're very early in the journey on that particular front but I would definitely expect additional channel partnerships as a way of supplementing growth at WoodMac.

Manav Patnaik
Barclays Capital, Inc.

Q

And just on the assumption for the energy environment...?

Scott G. Stephenson
President, Chief Executive Officer & Director

A

Well, we're never going to be folks to predict the price of oil. The thing that is our real bedrock on this business is the depth of relationship that WoodMac has with its customers. We actually performed in the fourth quarter or we completed in the fourth quarter of 2015 our Net Promoter Score assessment across all of Verisk and WoodMac came in with the second highest Net Promoter Scores across all of Verisk. Their customers love them. I was with the deputy chair of one of the name brand global energy companies a couple of weeks ago and they just – they love WoodMac and they find the content and the analysis absolutely indispensable and that's really the foundation of the business.

Manav Patnaik
Barclays Capital, Inc.

Q

Got it. And then just real quickly I know in the comments you mentioned that you expect insurance growth to be at least as good as 2015. I was wondering if there was anything, any puts and takes to call out between the two divisions when we think about our models for the year?

Scott G. Stephenson
President, Chief Executive Officer & Director

A

Yeah. Looking at you, Mark, I mean, it's kind of broad based. It's across almost everything that we do actually. Underwriting was strong in 2015, will be strong in 2016. I wouldn't really differentiate greatly among the different parts of what it is we do.

Mark V. Anquillare
Chief Financial Officer & Executive Vice President

A

I agree.

Manav Patnaik
Barclays Capital, Inc.

Q

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All right. Thanks a lot, guys.

Scott G. Stephenson
President, Chief Executive Officer & Director

A

You bet.

Operator: Your next question comes from the line of Tim McHugh with William Blair.

Tim J. McHugh
William Blair & Co. LLC

Q

Yes. Thanks. Just on healthcare, I guess, can you elaborate what gives you reason to think that it will grow faster in 2016? And then you also alluded to obviously there's more options than just selling healthcare that you're looking at. Can you, if you're able to talk at all about what other options are front and center on the table right now?

Scott G. Stephenson
President, Chief Executive Officer & Director

A

Well, maybe your second question first. So from the very beginning we had all options on the table taking a very thorough look at the business and how to maximize value for our shareholders and the standing of the business and so nothing changed. There is nothing changed in that regard.

When we look at the growth of the business, part of it is we actually are having success in generating new revenue streams. I think you know that there was a lot of what we did on the revenue side that was related to Medicare Advantage. We started to do more work on the commercial side and that's a nice supplement to what we've traditionally done in the business.

Tim J. McHugh
William Blair & Co. LLC

Q

Okay, great. And then just on Argus, the marketing effectiveness type of projects, I know there's a tough comp in Q1 but when you gave your outlook in 2016 in terms of double-digit growth, are you counting on any other large lumpy projects at some point during the year when you say that?

Scott G. Stephenson
President, Chief Executive Officer & Director

A

Well, I think we've been – I think we've – for some time now been trying to make it clear that there are large name brand companies that sort of get interested in the methods and when they come in, they come in a fairly big way. There have actually been several of those in the course of 2015 and into 2016 that will be a part of the growth overall. So there will continue to be sort of these breakout kinds of moments. But as we've said, the project then [ph] ripens (23:38) into a sustainable subscription and that's fully what we expect.

Tim J. McHugh
William Blair & Co. LLC

Q

Okay. Thank you.

Operator: Your next question comes from the line of Jeff Meuler with Baird.

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Jeffrey Meuler
Robert W. Baird & Co., Inc. (Broker)

Q

Yeah, thank you. I caught the commentary from Mark in terms of annual contract value growth at WoodMac for the full year but as the year progressed, mainly as we got into the back half and into early 2016, has there been any weakening in bookings trend at WoodMac?

Mark V. Anquillare
Chief Financial Officer & Executive Vice President

A

I mentioned we've typically talked (sic) [not talked] about bookings. What I can tell you is that from a retention perspective, what we've seen in the end of the year and into even January/February is we've had retention rates that are consistent with – consistently high with what we saw for full year 2014 and 2015. So we're comfortable, actually a kind of very good part of the WoodMac business is that retention with the customers. We also mentioned kind of broadly that the bookings have been up so that's the good news. I'm not sure we're not going to give color dating back to prior to ownership. I'm not sure we have that detail with us. Sorry.

Jeffrey Meuler
Robert W. Baird & Co., Inc. (Broker)

Q

Okay. And then just thinking about healthcare quarterly modeling, with the shift in mix towards I guess de-emphasizing a little bit Medicare Advantage as a percentage of mix in favor of commercial, how much does the seasonality shift in healthcare relative to prior years?

Mark V. Anquillare
Chief Financial Officer & Executive Vice President

A

So the short answer is that, I think we've talked about this in quite a bit of detail, but the MRA business, and the medical side of it in CMS, runs the SWEEPS from July to January, February. Typically what happens is the commercial side of this nicely fits in with – more in the first half of the year. But we're not going to talk as much about the details of Verisk Health given the strategic alternative process we're engaged in.

Jeffrey Meuler
Robert W. Baird & Co., Inc. (Broker)

Q

Okay. Thank you.

Operator: Your next question comes from the line of Toni Kaplan with Morgan Stanley.

Toni M. Kaplan
Morgan Stanley & Co. LLC

Q

Hi. Good morning.

Scott G. Stephenson
President, Chief Executive Officer & Director

A

Good morning.

Mark V. Anquillare
Chief Financial Officer & Executive Vice President

A

Good morning.

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Toni M. Kaplan
Morgan Stanley & Co. LLC

Q

Can you give us a sense of I guess how pricing conversations have been going for WoodMac just as the year has progressed? And whether margins are still sort of – we should expect that sort of mid-40% number is still the right way to be thinking about it?

Mark V. Anquillare
Chief Financial Officer & Executive Vice President

A

So I think the reality is the contract renewals, given the nature of the customers and the pain our customers are feeling, is kind of one that is a little bit more challenging. We've tried to bundle solutions. We've tried to do things that kind of provide value to them and also provide us upside to the extent that the CapEx spend and profitability returns to our customers as they use more solutions that will give us some upside.

I think the combination of some of the work that we're doing to make the business; I'll call it a little bit more industrial – strength around IT and also to invest in the sales pipeline that gives us an extension to more people to sell it to.

But we've been investing from a sales perspective more, and we've also from a technology perspective so we can, for the most part, take some of the solutions and maybe smaller swaps and maybe more confined view, a little bit more downstream in the sense of smaller customers. And that will hopefully help us in the top line. So those investments probably have taken margins down a little bit and we would expect that in 2016 as well.

Toni M. Kaplan
Morgan Stanley & Co. LLC

Q

Okay. And just, if you could give just a little bit more color on the business model of the Thomson Reuters partnership; is that going to be considered subscription? Or is it more like one – like data feed? And are you providing sort of data at a lower rate than you would in a direct subscription? And is there a similar margin profile for that? Thanks.

Mark V. Anquillare
Chief Financial Officer & Executive Vice President

A

So let me try to take your questions, I'm not sure I'm going to do them in sequence but let me give it my best shot. First of all, the way the relationship with Reuters would be is it would be a kind of a subscription and access to a limited scope amount of information. If you wanted more you can buy different modules and different pieces. We've tried to take the data and cut some very big products into maybe smaller subsets, and provide it in a way that more people would be interested in it. Different groups of people, different customer sets.

So once again, the nature of the information businesses that we have, we would expect one, to be subscription; two, not a lot of incremental cost once you sell that implementation service, not a lot of incremental cost there. So I think we feel pretty good about the margins.

Toni M. Kaplan
Morgan Stanley & Co. LLC

Q

That's helpful. Thank you.

Operator: Your next question comes from the line of Andrew Steinerman with JPMorgan.

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Andrew Charles Steinerman
JPMorgan Chase & Co.

Q

Hi. You spoke a little fast I believe in the prepared remarks on WoodMac like-for-like growth in the fourth quarter, and does that include the couple of small WoodMac acquisitions? And if so, what would be the organic fourth quarter number, like-for-like?

Mark V. Anquillare
Chief Financial Officer & Executive Vice President

A

So like-for-like is a negative 1%. So we said that it was in the quarter negative 1%, comparable basis and that was in pounds. And we said 5% full year. And that excludes the acquisitions.

Andrew Charles Steinerman
JPMorgan Chase & Co.

Q

That excludes. Okay. Thank you.

Operator: Your next question comes from the line of Bill Warmington with Wells Fargo.

William A. Warmington
Wells Fargo Securities LLC

Q

Good morning, everyone.

Mark V. Anquillare
Chief Financial Officer & Executive Vice President

A

Hello, Bill.

Scott G. Stephenson
President, Chief Executive Officer & Director

A

Good morning.

William A. Warmington
Wells Fargo Securities LLC

Q

So I wanted to ask about the – if you look at the normalized, organic, constant currency growth rate for 2016, I think it would be helpful if you could frame for us the basis for drag that you're getting from WoodMac? I understand that WoodMac is still growing positively on a constant currency basis for 2016, but I'm trying to get at this normalized, organic, constant currency growth for 2016?

Mark V. Anquillare
Chief Financial Officer & Executive Vice President

A

Bill, I think we're not going to give specific guidance. I think we've said it's going to grow next year, I think we feel good about the business. You've heard that. So I'm not sure I can directly answer your question without giving you a specific point target for WoodMac, which I'm not going to give here today.

William A. Warmington
Wells Fargo Securities LLC

Q

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Well, the – okay. Then second question. There's been some speculation in the media that you guys have been looking at Argus. Now I don't think any of us would expect you to comment on that speculation, though my question is what are you considering doubling-down in energy? By that I mean making a sizable acquisition in the energy space?

Scott G. Stephenson
President, Chief Executive Officer & Director

A

Well, we're always thinking about where do we sit and where do we want to go with respect to our customers. And I will say that having a sense, a good sense of where the price of the commodity is going as a part of a lot of the modeling that is already built into what it is that WoodMac does today.

So at a general level I would say that understanding the entire supply and demand picture is a useful thing to do. Now we already – I mean, if you subscribe to WoodMac product, you know that there are views of forward prices as well as the supply side volume as well as dollar value. So that will all continue to be a part of what we do and our thought process is entirely around what is it that we can do to bring more value to our customers and when we put A and B together do we unlock even more value for our customers? So we're constantly thinking about everything that we can do to increase value so I'm not going to comment on that specific situation but just generally we're very active in thinking about where we are and where we ought to be.

William A. Warmington
Wells Fargo Securities LLC

Q

Thank you very much.

Operator: Your next question comes from the line of Andrew Jeffrey with SunTrust.

Andrew Jeffrey
SunTrust Robinson Humphrey, Inc.

Q

Hi. Good morning. Thanks for taking my question. One of the conversations I've heard you had with investors over the last 12 months to 18 months with regard to healthcare is the sort of value of the data in your healthcare business compared to the data across your other businesses and I assume that the relative value of healthcare data is one of the things that has led to this exploration of alternatives.

We recently saw IBM buy Truven for a pretty big price tag. How does that influence your overall view of the value of the healthcare data in your business? Is it distinct from Truven's data? Just a little compare/contrast and whether or not sort of directionally that influences the range of outcomes possibly for that business at Verisk?

Scott G. Stephenson
President, Chief Executive Officer & Director

A

Yeah. Well, so first of all our business, there are I would say small overlaps with Truven. In fact there are bilateral commercial agreements between us and Truven. But in general, their business is by degrees different than our business. So I wouldn't really use it as a particularly meaningful marker and we're very focused on how to – the business that we've got, what are the future opportunities, how can they be maximized and how do we maximize shareholder value for our shareholders? So yes, of course we've referenced things that are going on like that transaction but in reality I think that our situation is relatively custom.

To the point about data, the basic point I would make to you is that obviously data is very important in the data analytic kind of work that we do and others do and everyone – all of the third-party vendors do but the distinction

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that we're trying to draw is when you look at the vast majority of the data that we've got inside of the insurance vertical, the financial services, retail banking vertical, and the oil and gas, metals and mining vertical, a lot of what we've got is very, very unique. The nature of regulation and industry structure in the healthcare world in the United States makes it relatively harder to have distinct data assets. That's the point that we've trying to stress. So it's not that we don't have data. We actually have a lot of data. But we very much want Verisk to be a highly distinctive, very differentiated partner to our customers. And one of the things that provides distinction is unique data assets. And they're just harder to achieve in the healthcare space.

Andrew Jeffrey
SunTrust Robinson Humphrey, Inc.

Q

Okay. That's helpful. Thank you.

Scott G. Stephenson
President, Chief Executive Officer & Director

A

You're welcome.

Operator: Your next question comes from the line of Arash Soleimani with KBW.

Arash Soleimani
Keefe, Bruyette & Woods, Inc.

Q

Hi. Thanks and good morning. Just a couple questions.

Scott G. Stephenson
President, Chief Executive Officer & Director

A

Good morning.

Arash Soleimani
Keefe, Bruyette & Woods, Inc.

Q

Can you – on the talent realignment where you said that you'll be doing about 50 new hires, is that pretty steady throughout the year in 2016? And could that have a favorable revenue impact maybe looking forward to 2017?

Mark V. Anquillare
Chief Financial Officer & Executive Vice President

A

So, let me remind you of the goal of the talent realignment. We did try to take what would be our more traditional ISO solutions business inside of Risk Assessment and focus this on kind of a shared services model, trying to take groups and become more efficient and more effective. And I congratulate the team on the work that was done there. We then took those resources and we said we were going to kind of invest in new products and in new segments. And our hope is that, yeah, that type of investment would lead us towards kind of sustainable growth in the future. And it's probably a little bit of a longer-term march than a short-term march but we're optimistic like we described earlier in those initiatives.

With regard to timing, I think we've seen quite a few people hired in the latter part of 2015 and into the first quarter here of 2016. So although, I think you're right, it will kind of extend throughout the year, I think there's a little bit more of a push or an emphasis here in the first half.

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Scott G. Stephenson
President, Chief Executive Officer & Director
A

I'll just add, I am very excited by the quality of the people we're attracting into the business. These are world-class people, global perspective. They are definitely going to help raise our analytic sights and just the quality and depth of what it is we do. It's very, very encouraging to people that we can attract to Verisk.

Arash Soleimani
Keefe, Bruyette & Woods, Inc.
Q

Thanks. And lastly on the tax on amortization. I think the guidance there was 26% before and now it's up to 28%. I was just curious what drove the increase?

Mark V. Anquillare
Chief Financial Officer & Executive Vice President
A

So what we did was we took a best guess back at the time. And remember, the world of purchase accounting and developing how much amortization runs through your books is something that won't be finalized until mid-2016. We gave you our best guess, we have a more refined estimate as to how much amortization is coming through and the amount as it relates to WoodMac is down a little bit from those original estimates, meaning that the U.K. rate is a little less pronounced or weighted in the calculation.

Arash Soleimani
Keefe, Bruyette & Woods, Inc.
Q

Okay. Perfect. Thanks for the answers.

Mark V. Anquillare
Chief Financial Officer & Executive Vice President
A

Sure.

Operator: Your next question comes from the line of James Friedman with Susquehanna.

James Friedman
Susquehanna International Group
Q

Scott, I appreciated your dimensions you shared on the growth prospects for 2016. I wanted to ask you about your comment about your insurance assets. Would you anticipate that both RA and insurance in DA will accelerate next year?

Scott G. Stephenson
President, Chief Executive Officer & Director
A

Yes.

James Friedman
Susquehanna International Group
Q

Okay. And then if you could comment – I know that pricing is working through the system now on the ISO database and Risk Assessment. So, could you update us as to how much of that is still on the look back of prior period premiums and what some of the inputs are for pricing on RA overall?

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Scott G. Stephenson
President, Chief Executive Officer & Director
A

Yeah. So we, I think we have shared with you in the past that sort of the mix of rev enue sources in that part of the business has changed, where it used to be that most every customer was being priced according to a two -year look back on premiums. But we're now at a point where more than 50% of what we do in RA is on multi -year agreements, not related at all to what was happening in the premiums two years prior.

And then with respect to the rest of our customer base, where we still do reference premiums from two years before, just want to remind you that there are three terms in the pricing algorithm and premium is only one of the three. And we have complete freedom with respect to the other two, which is mill rate and the flat fees. And so the actual, literal effect of what is going on in the premium environment is actually very muted at this point. And it's really value-based pricing. It's the work that we do every year to try enhance and bring current what it is that we're providing to our customers. Our customers understand the value of that kind of work and it's really on that basis that we set the prices.

James Friedman
Susquehanna International Group
Q

Helpful. Thanks a lot.

Scott G. Stephenson
President, Chief Executive Officer & Director
A

You bet.

Operator: Your next question comes from the line of Jeff Silber from BMO Capital Markets.

Jeffrey Marc Silber
BMO Capital Markets (United States)
Q

Thank you so much. You had mentioned on the adjusted EBITDA margin when we take out the gain on sale of the third-party warrants, I think it was 47 .4% for 2015, and then you said you were constructive on margins going forward. Does that mean you expect margins to go up in 2016 from that base?

Mark V. Anquillare
Chief Financial Officer & Executive Vice President
A

All right. What I tried to say was that I would caveat that positive just with the two adjustments I described. One, I mentioned the talent realignment. I kind of pointed to about 50 people, which would be some expense in Risk Assessment. We've talked about that over time. And the other thing I was just trying to call o ut was in first quarter of 2015, Argus had that revenue that was very high margins. It was about $11 million of project work. So I was trying to call out those two items in the context of what is a fundamentally sound and positive margin picture going forward.

Jeffrey Marc Silber
BMO Capital Markets (United States)
Q

Okay. That's helpful. And then just going back to Argus, you mentioned what the project revenue was in 1Q2015. Can you give us that number 4Q2014 just so we can see how the quarter you just reported compare?

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Mark V. Anquillare
Chief Financial Officer & Executive Vice President
A

Yeah. I'm not sure we've provided that in the past. It's not – it's notable as first quarter. I don't think we've given that out in the past. I'm sorry.

Jeffrey Marc Silber
BMO Capital Markets (United States)
Q

Okay. No worries. Thanks so much.

Operator: Your next question comes from the line of Joseph Foresi from Cantor Fitzgerald.

Mike Reid
Cantor Fitzgerald Securities
Q

Hi, guys. This is Mike Reid on for Joe. Thanks for taking the call.

Mark V. Anquillare
Chief Financial Officer & Executive Vice President
A

Sure.

Mike Reid
Cantor Fitzgerald Securities
Q

I had a quick question. Maybe a little more insight on Infield and PCI Group in specialized markets and kind of the impact, how much that could possibly move the needle in 2016?

Scott G. Stephenson
President, Chief Executive Officer & Director
A

We haven't really put out the absolute size of those but I would just encourage you to think of both of those as modest tuck-ins.

Mike Reid
Cantor Fitzgerald Securities
Q

Okay. All right. And obviously Argus is still doing well. Are you hearing anything else in the financial services vertical on demand in regards to macro? Or does that seem stable?

Scott G. Stephenson
President, Chief Executive Officer & Director
A

Actually, some of the fundamentals in the business are actually quite exciting. And one that I would point is the success that we're having in getting consortia of banks in end markets other than the United States to come into our method, and it's really very exciting because when that happens then we're essentially platformed in the market and now we can do – now we can bring the whole range of solutions that we've got. So we have several very exciting developments right now along those lines. But with respect to the macro environment, I mean, we've referenced it. I would encourage you to just understand. It's not really material as it relates to the prospects for the business going forward. No, it's kind of steady as she goes.

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Mike Reid
Cantor Fitzgerald Securities

Q

Okay.

Scott G. Stephenson
President, Chief Executive Officer & Director

A

The macro environment.

Mike Reid
Cantor Fitzgerald Securities

Q

Great. Thanks, guys.

Mark V. Anquillare
Chief Financial Officer & Executive Vice President

A

Sure. Thank you.

Operator: Your next question comes from the line of Anj Singh from Credit Suisse.

Zachary Bakal
Credit Suisse Securities (USA) LLC (Broker)

Q

Hey, everyone. This is Zach Bakal on for Anj. Thanks for taking my questions. I just wanted to first ask again about that Argus segment and I think for the full year your commentary has been pretty consistent that you expect a high teens growth and we had a little bit better than that. I'm just wondering if that was a little bit stronger than you expected and that if that's just driven maybe by the consortia of banks or something else?

Mark V. Anquillare
Chief Financial Officer & Executive Vice President

A

I would tell you that Argus is a wonderful business. I mean I just always like to mention that again. It has an incredible data asset that kind of creates a real barrier there and what the team there has been able to do is two things. One, provide great service and new products to those customers. And then we have the project revenue that is a little bit more related to the marketing and advertising effectiveness. We're trying to transition that to more subscription and I think we're being successful.

So what we try to call out from an outlook perspective is that we continue to see very strong double digit growth and that is a growth even with or even kind of assuming the growth where that's going to happen in first quarter. So I felt we were trying to pretty transparent on that and hopefully that just clarifies the comments we made earlier.

Zachary Bakal
Credit Suisse Securities (USA) LLC (Broker)

Q

Yeah. Thanks. I think we all appreciate that. And then just secondly on the Telematics Data Exchange, you know what we've been reading of that, it's getting prepared for say a June launch. We haven't really heard any additional partnerships aside from the one you already mentioned with OnStar and GM. Have you been able to build any additional partnerships? And will the program require any further partnerships to launch in June?

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Scott G. Stephenson
President, Chief Executive Officer & Director
A

So in reverse order, we can start serving insurance companies even without additional OEMs in the partnership. One of the things you have to reference by the way is how advanced or not each OEM is with respect to the connected car movement. So some had gotten on with it more. Others less, GM has actually been a leader. That's one of the reasons why we were so excited about striking the partnership with them.

But no, we can and will and are selling the data and the analytics into the insurance vertical beginning with the rollout of the platform. And as we add additional OEMs, the value just simply goes up, but we don't have to wait for that. And as you'd imagine, the team is out and having a lot of conversations with a lot of OEMs domestically and globally to promote the method. So this is a very – this is something we talk about very frequently inside of the management team, and we have great hopes for this and a lot of focus on this.

Zachary Bakal
Credit Suisse Securities (USA) LLC (Broker)
Q

There's a lot of interest from us as well. Thanks for taking my questions.

Scott G. Stephenson
President, Chief Executive Officer & Director
A

Yeah. You bet. Thank you.

Operator: Your next question comes from the line of Andre Benjamin with Goldman Sachs.

Andre Benjamin
Goldman Sachs & Co.
Q

Thanks. Good morning.

Scott G. Stephenson
President, Chief Executive Officer & Director
A

Good morning.

Mark V. Anquillare
Chief Financial Officer & Executive Vice President
A

Good morning.

Andre Benjamin
Goldman Sachs & Co.
Q

I think both of my questions have been answered, but I guess one piece I was hoping to maybe push a little bit more back to the WoodMac color, I know you're not giving any specific guidance, but I think the other businesses you have given at least directional color on how you're thinking about growth in 2016 versus 2015. So versus the 5%, is there any color that you can provide whether up or down from there, knowing that there's a wide range for positive?

Mark V. Anquillare
Chief Financial Officer & Executive Vice President
A

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Yeah. I'm going to say it again. I said that it's going to grow, and I think we've been trying to be a little bit more transparent with regards to an outlook. I think that's as far as we're going to go at this point, and I hope you can respect that.

Andre Benjamin
Goldman Sachs & Co.

Q

Okay. Then I think aerial imagery is an area you talk a lot about in the past, and we know you continue to innovate in a lot of parts of your business that don't necessarily get as much air time. I was wondering if there was any update on what you're up to there and the effect we can expect that to have on the insurance growth?

Scott G. Stephenson
President, Chief Executive Officer & Director

A

Yeah. So you may have noticed last year that we actually put out a press release that we were sourcing images again. And that's on our – based on our own efforts, but we're also working with others to source imagery. What makes it really special is the analysis that converts it into solutions that can be used by insurance companies and players and other industry verticals. And we are very, very happy with our methods, and we expect to see increasing commercial results in 2016 for what it is that we're doing. So yeah, it's an abiding part of what we're doing.

Andre Benjamin
Goldman Sachs & Co.

Q

Thank you.

Scott G. Stephenson
President, Chief Executive Officer & Director

A

Yeah. You're welcome.

Operator: And there are no further questions at this time. I will turn it back over to you for closing remarks.

Scott G. Stephenson
President, Chief Executive Officer & Director

Okay. Well, thank you, everybody, for joining us today. We appreciate your interest, and we are looking forward to being together with you again in about a quarter's time. And we certainly will have interesting updates for you at that point. So thanks very much, and enjoy your day.

Operator: Ladies and gentlemen, that does conclude the conference call for today. We thank you for your participation and ask that you please disconnect your line.

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