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Verisk Analytics, Inc. (VRSK)

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Regina and I will be your conference operator today. At this time I would like to welcome everyone to the Verisk Analytics Third Quarter Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions]

I would now like to turn the conference over to Stacey Brodbar. Ma'am, you may begin.

Stacey Jill Brodbar

Head of Investor Relations, Verisk Analytics, Inc.

Thank you, Regina, and good day to everyone. We appreciate you joining us today for a discussion of our third quarter 2018 financial results. With me on the call this morning are Scott Stephenson, Chairman, President, and Chief Executive Officer; Mark Anquillare, Chief Operating Officer; and Lee Shavel, Chief Financial Officer.

Following comments by Scott, Mark, and Lee, highlighting some key points about our 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 Investor section of our website, verisk.com. The earnings release has also been attached to an 8-K that we have furnished to the SEC. A replay of this call will be available for 30 days on our website and by dial-in.

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.

Now I will turn the call over to Scott.

Scott G. Stephenson

Chairman, President & Chief Executive Officer, Verisk Analytics, Inc.

Good morning, everyone. It's good to be reporting another quarter where we can see strength in organic growth of our business across all our verticals. Excluding exceptional events in the third quarter of 2017 in the Insurance segment due to extreme weather and in the Financial Services segment due to a contract signing, the organic growth of our company was 7.5% in the quarter, consistent with our long-term model, and the profile of our growth is also reflecting our long-term model, in that it is balanced across all the verticals.

I thought I would take a few minutes this morning to comment on the environment in which we do our work and the factors which interact with our results. Fundamentally, we are aligned with one of the most powerful movements in the economy, which is companies harnessing data analytics with even greater focus and investment. There is a new level of digitization of business operations that has become a necessity for companies in all the verticals we serve.

While the notion of data as an asset has been around for a while, companies now are compelled to change the way they interact with their customers by becoming faster, more automated, more visual, and easier to use. These changes at the front-end of the business model require companies to rewire most everything behind the front-end as well. As businesses become more digital, they accumulate more data in real-time, and this causes them to become more analytic, given the decreased cost of ingesting and storing the data combined with improving data science.

Against this backdrop, our ability to help our customers on the digitization journey, in combination with our unique datasets and deep domain knowledge, give us expanding opportunities to add value for our customers. The search for efficiency and insight from data analytics will only increase for our customers. As long as we remain close to our customers, hearing their emerging needs and responding with timely useful solutions that leverage our scale across industry participants, our value to our customers will grow. It is a positive thing for us that our customers are becoming more data analytic and hiring more data scientists. This increases their propensity to value the things we do.

We are always alert to three risks. Is the regulatory environment changing? Is the structure of the verticals we serve changing? And, is the environment causing changes in the cost of doing business? On the one hand, the regulatory front has seen some change, but on the other hand there have been few changes that have materially impacted our business.

One noteworthy move of the last several years has been more scrutiny in the banking sector, but the only effect has been our need to make some of our products more ready for reporting requirements, and that shift has already occurred. At the societal level, there has been movement toward more concern about data privacy, with approaches such as the General Data Protection Regulation, or GDPR, in Europe. The primary effect of this is to reinforce the diligence we've always brought to keeping our data assets secure.

Although data analytics, innovation, and technology continue to evolve and increase in importance, the structure of our industry verticals is not changing to any material degree. In Insurance, the global reinsurers and brokers have seen some consolidation as they work to adjust to a world in which risk can be borne directly by the capital markets, but the bulk of our work is with primary insurers, and the reinsurers are being affected in modifying their businesses. And more generally, the effect of digitization is to reduce distribution advantages and fixed costs, both of which will lessen the incentive to combine companies for cost advantage.

The environment carries two trends, which push our costs in opposite directions. On the people front, we are increasing the mix of our team, which comes from the hard core data science world. These folks are highly sought-after and paid accordingly. On the technical infrastructure front, the move toward cloud computing and away from premise computing will reduce our computing and storage costs. We are in the early stage of seeing these benefits.

So, our overall perspective is that the basic conditions of our environment remain constructive. What it's down to, therefore, is the depth of our relationship with our customers, and the capability of our team to innovate solutions and make them work for our customers. In the past 30 days, I've visited with four CEOs of our leading customers. In every case, I came away with an enhanced sense of opportunity. As they take their businesses forward in a digitizing environment, their expressed preference is for a relatively short list of partners who can make sense of all the technical innovations and relate them to existing workflows. In such an environment, a trusted and tested partner like Verisk stands taller. As long as we continue to invest to keep our customers at the leading edge of innovation and do so with efficiency, we will realize value.

On the talent front, I just received the results of our most recent employee engagement survey. We have once again qualified as a certified Great Place to Work. Additionally, Forbes has named Verisk to its World's Best Employers list and its America's Best Employers for Women's list in 2018. This is supportive of our business, because our talent is what drives our customer depth and innovation agendas. We are expanding our business footprint globally and in line with this, we are making moves to have centers of excellence in multiple geographies, with special focus on India and Eastern Europe.

Lastly, our progress in the UK market remains encouraging with recent contract signings with market leaders. We are viewing our approach there as a template we will use, as we target other specific markets in Europe and Asia.

So with that, let me turn the call over to Mark.

Mark V. Anquillare

Chief Operating Officer & Executive Vice President, Verisk Analytics, Inc.

Thanks, Scott. In our Insurance business, we had another strong quarter, with all insurance-facing businesses, Underwriting & rating, as well as Claims, contributing to growth. Let me highlight a few areas that drove top line growth and update you on several initiatives that better position us for the future.

During the quarter, Underwriting & rating delivered another strong quarter of organic growth across personal lines underwriting, extreme event modeling, and industry-standard insurance program, through a combination of cross-sell of the existing solutions to new customers and the sale of new innovative solutions.

Our Risk and Analytics Summit recently took place in Jersey City, focusing on our underwriting and pricing solutions. We covered a wide range of topics, including industry disruption, talent training in the insurance industry, and cutting-edge technology, in combination with demonstration to some of our newer solutions. The conference attracted about 150 insurance companies from around the world and featured a list of more senior level attendees this year. Feedback was very positive, with participants excited by the direction of our solutions and complimentary of the diverse and thought-provoking sessions.

The engagement with customers was strong, further cementing the type of relationship that has led to our high customer retention rates and Verisk demonstrating the thought leadership in the property and casualty insurance industry that clients expect.

In our extreme event modeling business, growth in AIR solutions remains strong. During the quarter, AIR Worldwide released Touchstone Re, a new catastrophe modeling application designed for estimating the loss potential of reinsurance contracts and portfolios, industry loss warranties, and insurance-linked securities. Touchstone Re is a major upgrade from CATRADER that enables companies to model and price complex reinsurance structures, understand where their exposures are concentrated around the globe, and summarize their portfolios and aggregate their overall risk.

As you may recall, 2017 was marked by exceptional storms globally, including hurricanes Harvey, Irma, and Maria in the United States. In fact, 2017 was a record-setting year with the catastrophe losses of more than $130 billion across the industry, which compares to an average loss of about $55 billion over the 10 years prior to 2017.

Our Claims business benefited from the severe weather in third quarter 2017, which resulted in a revenue surge of approximately $8 million. After normalizing revenue from severe weather, our Claims business unit experienced another very strong quarter, with organic growth across all business units. Let me provide some color on these successes.

The foundation of our Claims business unit consists of two core solutions; ClaimSearch, our industry fraud prevention solution; and Xactware, our repair cost estimating in workflow tools. These solutions are well-penetrated and deeply embedded in the workflows of U.S. insurers. From this strong position, we have been successful growing the business through a couple of avenues.

The first path for growth is the sale of these core solutions to new segments. We continue to extend the consortium data and the use cases for our claim solutions, including new lines of insurance, such as health and disability. During the second half of 2017 and into 2018, we extended beyond insurance companies and have signed several contracts with service providers to help them manage their workflow and better serve their insurance customers. In addition, we continue to gain market share in the repair cost estimating market by signing new contracts during 2008 (sic) [2018] (00:11:49) that have contributed to the growth.

The second avenue of growth is the development of new analytic solution, leveraging our underlying core solutions. A few examples of success include ClaimDirector, our expert claim scoring systems that helps customers distinguish between suspicious and meritorious claims. This proactive fraud-fighting tool provides scores based on the analysis of each claim's attribute and the broader industry data from ClaimSearch.

In addition, ClaimXperience, a digital engagement platform that provides insurance companies with important tools to help claims representatives work more effectively with policyholders. This workflow tool leverages the underlying Xactware solutions and helps insurers engage with their policyholders in their supply chain.

Finally, Geomni, our business unit that aggregates an image library of commercial and residential structures and leverages advanced analytics to extract measurements data. Although applicable in many markets, Geomni's early success has been in the insurance claims adjusting market due to the tight integration with our Xactware repair cost estimating tools. This has resulted in noteworthy efficiencies for insurers and strong growth at Geomni, where we have signed several new contracts and have gained market share. Across all businesses, from both a customer and financial perspective, we're very pleased with the performance of the Insurance business.

With that, let me turn the call over to Lee to cover our financial results.

Lee M. Shavel

Chief Financial Officer & Executive Vice President, Verisk Analytics, Inc.

Thank, Mark. First, I'd like everybody to know that we posted a quarterly earnings presentation that's available on our website. The presentation provides some background data trends and analysis to support our conversation today.

So moving to the financial results for the quarter, on a consolidated and a GAAP basis, revenue grew 9% to $599 million. Net income was up 37.5% to $166 million for the quarter. Diluted GAAP EPS was $0.99 for the third quarter of 2018, an increase of 37.5% compared with the same period in 2017.

Before I begin discussing the financial results in more detail, I would like to call your attention to three exceptional items in the quarter that impact year-over-year comparisons. Number one, Insurance segment organic constant currency revenue growth and adjusted EBITDA growth were impacted by $8 million in exceptional storm-related revenue in each of the third and fourth quarters of 2017. This was the result, as Mark described, of exceptional client activity related to hurricanes Harvey, Irma, and Maria in 2017.

Two, Financial Services segment organic constant currency revenue growth and adjusted EBITDA growth were impacted by $6 million in nonrecurring TSYS project revenues in the third quarter of 2017, as we described in our last earnings call. These revenues were the result of the initiation and implementation of our partnership with

TSYS and do not reoccur. We do anticipate over time revenues from the joint marketing of our analytics products to TSYS customers.

And three, in August 2018, the subordinated promissory note associated with the sale of our healthcare business in 2016 was settled in full for cash proceeds of $121 million. As a result, we reported a gain of $12 million in the third quarter of 2018. The interest income associated with this note was approximately $1 million per month or $3 million per quarter. Given the settlement timing, we recorded interest income of $2 million in the third quarter of 2018 compared to $3 million in the prior-year's quarter. The related gain and interest income from the note settlement were excluded from all adjusted EBITDA calculations.

Please note that, historically, this interest income was included in adjusted EBITDA. Consequently, our ongoing adjusted EBITDA will be reduced by $3 million per quarter, mostly in the Insurance segment.

With those items covered, let's focus on our organic constant currency results for all year-over-year growth rates and to eliminate the impact of currency fluctuations, recent acquisitions for which we don't have a full year-over-year comparison and nonrecurring items.

Acquired revenue and adjusted EBITDA in the quarter from all deals that haven't moved into organic results were $32 million and $9 million, respectively. On a reported organic constant currency basis, Verisk delivered revenue growth of 4.7% and adjusted EBITDA expense growth of 7.9% for adjusted EBITDA growth of 1.6% and an adjusted EBITDA margin of 48.5%.

The revenue and adjusted EBITDA growth rates reflect the impact of the exceptional storm activity and the nonrecurring TSYS revenue in the third quarter of the prior year. Normalizing for these events, revenue growth would have been 7.5% and adjusted EBITDA growth would have been 7.1%, reflecting organic growth across all our industry segments. Adjusted EBITDA margin for the quarter of 48.5% was down slightly from 48.7% on a normalized basis in the prior period.

Now, let's turn to our segment results on an organic constant currency basis. As you'll see in table 2 in the press release, Insurance reported 5.5% revenue growth and adjusted EBITDA growth of 2.5%, reflecting the inclusion of exceptional storm revenue in the prior period. Excluding these events in the prior year, Insurance revenue would have grown 7.7% and adjusted EBITDA would have grown 6.4%, reflecting an adjusted EBITDA margin of 54.3%, down from 55% in the prior year on a normalized basis due to continued investment in Geomni and other breakout opportunities, as well as higher commissions related to the strong sales and higher salary and benefit expenses to support growth opportunities.

Within our Underwriting & rating business, we saw solid performance, with healthy growth in both personal and commercial lines. Within Claims, the strong growth was driven by solid performance across most of our claims businesses, partially offset by a modest decline in our workers' compensation claim resolution services.

Energy and Specialized Markets delivered revenue growth of 6.3% in the quarter, up from 5% in the prior quarter, as the energy industry continues to recover. Growth improved in both our consulting and research solutions, and we also had a positive contribution from environmental health and safety revenues.

Adjusted EBITDA increased 9.1%, also an improvement from 0.9% growth in the prior quarter. Adjusted EBITDA margin of 31.8% was up from the prior year period of 31%, despite the ongoing investments in WoodMac 2.0 and our chemicals, subsurface, and power and renewables breakouts that increased head count and associated compensation expense. These areas represent opportunities to leverage Wood Mackenzie's data and industry expertise more broadly and to deliver and develop products more swiftly and efficiently.

Financial Services revenue declined 9.2% in the quarter and adjusted EBITDA decreased by 28.6%, reflecting the impact of the nonrecurring TSYS revenue of $6 million in the prior-year period. On a normalized basis, revenue would have grown 9.1% in the quarter and adjusted EBITDA would have grown 15.2%, reflecting growth in portfolio management solutions, which includes our foundational benchmarking analytics, and spend and marketing solutions, where we are leveraging our data and expertise in consumer spending to support both financial and non-bank clients.

In addition, expense control contributed to the strong adjusted EBITDA growth. Adjusted EBITDA margin of 34.7% in the period compares to 32.8% in the prior year on a normalized basis. We continue to be encouraged by the progress in our Financial Services segment and certainly are pleased by the strong normalized results in this quarter, demonstrating the core growth potential of the business.

It's important to keep in mind that we are working to reduce the variability of revenue in the business, particularly around project-based items. As we continue to work through this process, the Financial Services segment will continue to have a higher level of quarterly fluctuations on revenues and growth than our other segments.

Reported interest expense was $32 million in the quarter, up 6.6% from the prior year quarter due to the funding of acquisitions in 2017. Total reported debt was $2.6 billion at September 30, 2018, down from $3 billion at December 31, 2017. We used the proceeds of $121 million from the repayment of the subordinated promissory note to pay down debt and our leverage at the end of the third quarter was 2.2 times. Our consolidated cash and cash equivalents were $152 million at September 30, 2018.

Our reported effective tax rate was 13.9% for the quarter, compared to 33.2% in the prior year quarter as the result of recent tax reform. Our effective tax rate was lower than our targeted range due to significant exercises of soon-to-expire employee stock options related to our 2009 IPO that produced a favorable tax rate impact.

We are maintaining our estimate of our effective tax rate in 2018 to be between 16% and 18%. However, the timing and impact of employee stock option exercises depends in part on the Verisk stock price and personal decisions. We expect the impact from employee stock option exercises will be less pronounced in 2019, and thus we will revert to a higher effective tax rate.

Adjusted net income was $182 million and diluted adjusted EPS was $1.08 for the third quarter, up approximately 30% from the prior year. This increase reflects organic growth in the business, contributions from acquisitions, and the impact of 2017 tax reform. Equalizing the third quarter of 2017 effective tax rate to that of third quarter 2018, adjusted net income and diluted adjusted EPS would have increased 3.7% and 3.8%, respectively. Further normalizing for the elevated storm and TSYS project-related revenues in the quarter, net income and diluted adjusted EPS would have increased 9.2% and 9.1%, respectively.

Net cash provided by operating activities was $227 million for the quarter, up 39.7% from the prior year. Capital expenditures were $55 million for the quarter, up 33.7% from the prior year, reflecting primarily increased investment in Geomni and software development for recent acquisitions. As we've discussed previously, 2018 will be the peak year of capital expenditure for Geomni. Free cash flow was $172 million for the quarter, an increase of 41.8% for the prior year.

We returned $102 million in capital to shareholders through the repurchase of approximately 1 million shares in the quarter at a weighted average price of $117.97. At September 30, we had $584 million remaining under our share repurchase authorization. And in addition, we initiated a new $50 million accelerated share repurchase to be executed in the fourth quarter.

In conclusion, I want to add an additional perspective. As you know, we are very focused in these calls on the results for the quarter. However, given the three items that impacted the quarter as we approach year end, I think it's useful to step back and look at our year-to-date results for the Insurance segment and Verisk as a whole.

For the year-to-date period, on an organic constant currency basis, and not – I repeat – not normalized for the exceptional storm activity, revenues were up 7.5% and adjusted EBITDA was up 7.6%, demonstrating margin improvement. On the same basis, and not normalized, Verisk revenues were up 6.3% and adjusted EBITDA was up 5.8%, reflecting a slight overall margin decline from 49% to 48.8%, despite very high margins from the storm and nonrecurring project revenue in the third quarter of last year.

These overall results, of course, reflected weaker performance of our non-Insurance segments earlier in the year and tough comparisons in the third quarter. However, in the third quarter, we demonstrated continued progress in operating revenues and margins for both segments. We are excited about the opportunities to invest in our business and remain focused on the long-term profitable growth and solid returns on capital. We remain confident that we have the financial strength and capital structure to support investment for the long term.

We continue to appreciate all the support and interest in Verisk, and we look forward to seeing as many of you as possible at our upcoming Investor Day on December 6 in New York City or welcome your participation through our webcast. Given the large number of analysts we have covering us today, we ask that you limit your questions to one and one follow-up.

With that, I'll ask the operator to open the line for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first will come from the line of Manav Patnaik with Barclays. Please go ahead.

Manav Patnaik
Analyst, Barclays Capital, Inc.
Q

Thank you. Good morning.

Scott G. Stephenson
Chairman, President & Chief Executive Officer, Verisk Analytics, Inc.
A

Good morning.

Manav Patnaik
Analyst, Barclays Capital, Inc.
Q

Scott, my first question was just tied to your opening comments around digitization and the opportunity there. And, I guess, more specifically, just in terms of the decision analytic side of Insurance, like how do you think that will perform if we do enter a tough period here in the next couple of years?

Scott G. Stephenson
Chairman, President & Chief Executive Officer, Verisk Analytics, Inc.
A

I just want to clarify your question. A tough period meaning the performance of the insurance – the state of the insurance industry?

Manav Patnaik
Analyst, Barclays Capital, Inc.
Q

Well, yeah. Just if we do hit a recession broadly in just the Insurance offers, like how do you think the analytics piece of your Insurance business...

Scott G. Stephenson
Chairman, President & Chief Executive Officer, Verisk Analytics, Inc.
A

I got it.

Manav Patnaik
Analyst, Barclays Capital, Inc.
Q

Yeah.

Scott G. Stephenson
Chairman, President & Chief Executive Officer, Verisk Analytics, Inc.
A

I understand. Yeah, thank you. Well, the best answer to that, I think, is actually found in our own historical performance. There was a consecutive five-year period where premiums were down year-over-year and our business performed very well during that period, and the reason is that what the insurance companies need to do, whether they're in particularly strong moments of the cycle or weaker moments of the cycle, is to continue to upgrade their ability to ingest information, translate it into insight, and then reflect that in a way they price their products, structure their products, adjust claims around their products, et cetera. That is the work of the insurance companies, and that's what we're fundamentally a part of.

So, we're very comfortable with how our Insurance business will do, almost regardless of the cycle. I'm saying that very strongly. Obviously, sort of extreme events in the moment can have an effect, but we've actually been through this and our business held up very well.

Manav Patnaik
Analyst, Barclays Capital, Inc.

Q

Okay. And, Mark, maybe just in terms of some of the new products and so forth you were calling out, I guess, maybe the one area maybe you can just update us on is the telematics initiative. It sounds like all the insurance companies are, obviously, talking a lot more about it on their calls, but just curious how we should think about when your exchange starts driving some contributions.

Mark V. Anquillare
Chief Operating Officer & Executive Vice President, Verisk Analytics, Inc.

A

Yeah, thank you, good question. I think we are very pleased with the position we're in, where we've these really exclusive arrangements with some of the larger OEMs and that has cemented us. So now it's every day we have more cars, more miles, and better data on that exchange. The early returns are really focused on two things. One, there's approach on the claims side to be easier and helpful to those driving your automobile. So think of an accident occurring, first of all, is there some safety or public safety you need, ambulance, could we get you a ride, tow truck? Also, let us quickly through a hot and warm transfer notify the insurance carrier that there's a claim. So this is a first notice, all automated that is very attractive to all parties involved, and that seems to be probably the place we lead.

Secondly, we have found that a lot of carriers are taking the data and the information that is coming off, we call it model-ready data, but basically they're using the data to model, and they're finding great lift in pricing policies using that industry or data exchange. So, early days, I think it will continue to grow. I would say that we all think that IoT is happening, but probably at a slower pace than what we've seen in Europe and elsewhere. We remain optimistic and we love the position we're in.

Manav Patnaik
Analyst, Barclays Capital, Inc.

Q

Got it. Thanks, guys.

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

Toni M. Kaplan
Analyst, Morgan Stanley & Co. LLC

Q

Hi. Good morning.

Scott G. Stephenson
Chairman, President & Chief Executive Officer, Verisk Analytics, Inc.

A

Good morning.

Toni M. Kaplan
Analyst, Morgan Stanley & Co. LLC

Q

First, I wanted to ask about the Insurance EBITDA. I think, Lee, you mentioned that there's going to be sort of $3 million lower in the future quarters in Insurance EBITDA because of the interest expense recorded from that promissory note. I wanted to just make sure I had that right. And so, basically this quarter you adjusted out that, as well as the gain, so it would really be as if this quarter didn't have it, but prior quarters did. I just want to make sure I understood that right.

Lee M. Shavel
Chief Financial Officer & Executive Vice President, Verisk Analytics, Inc.

A

Yeah, thank you, Toni. I appreciate the opportunity just to go into a little bit more detail on that. And so, you referred to it as the interest expense, just to be clear on the note, it was an asset that we hold. We were receiving approximately $3 million of interest income on that note. And the reason that it's in EBITDA is that under the SEC definition of EBITDA, you take net income and you add back interest expense, not net interest expense, so it's included in that calculation.

And so since this was an acquisition-related activity and we want to certainly separate out the gain and the impact of the interest income for comparability, the gain has been excluded. And then to the extent that there is any interest income in the period, we have excluded from the third quarter of 2017 $3 million of that interest income from our EBITDA and in the third quarter of 2018, $2 million of the interest income that we realized before its redemption.

And so the thing that we want for all of the analysts to understand is that going forward that that $3 million, which is in all of the segments, but the bulk of it is in Insurance, I would think of it at a corporate level of $3 million of EBITDA that comes out of our future quarterly results. Does that clarify things?

Toni M. Kaplan
Analyst, Morgan Stanley & Co. LLC

Q

It does. Thank you. And then my follow-up, I wanted to ask about energy, really good, strong organic growth quarter there. Just if you could give us a little bit more detail. I know you mentioned the markets recovering, but just what are you hearing from clients? What are sort of some of the – is it sort of driven by the consulting strength, and basically do you think that the positive trends should continue in the fourth quarter as well as into next year? Thanks.

Scott G. Stephenson
Chairman, President & Chief Executive Officer, Verisk Analytics, Inc.

A

Yeah, so maybe starting at the end of that, Toni. The performance of that segment is really pretty broadly based, and what I mean by that is that it spans the kinds of solutions that we have traditionally provided, so sort of the core look at the supply chain of the oil and gas space, but also includes the upstream subsurface kinds of analytics, which are relatively newer for us, analytics related to the renewable forms of energy. And then kind of over-the-top on all of that, the digitizing trend that I talked about probably is differentially being felt more strongly in the energy space than it is in the others, because energy actually has started further behind.

So we talked a lot about WoodMac 2.0 and essentially sort of changing our own technical infrastructure, which allows us to interact with our customers differently. That's a constructive movement in the business, because our customers themselves are also changing their digital methods on the commercial side of their businesses. So it's really very broadly based.

If you were to think of it in terms of sort of what it is that's getting delivered and looking at where we have been in 2018 and where we're going in the future, we're always encouraged when we see consulting do well, because it tends to be a leading indicator of the propensity of our customers to be thinking into the future. And that has been strong, so that's an encouraging signal for us. But, as those of you who are familiar with our story know, most of the revenue is related to subscriptions and over the course of 2018 subscriptions have advanced nicely also across several of those thematic categories that I talked about. So it's not really any one thing. It's really broadly based.

Toni M. Kaplan
Analyst, Morgan Stanley & Co. LLC

Q

Thank you.

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

Andrew Charles Steinerman
Analyst, JPMorgan Securities LLC

Q

Hi. It's Andrew. I wanted to talk about two things around Argus. I know it's a smaller business for you. The first one, Scott, you said something about – in your prepared remarks about kind of changing products to, I think, just to regs. I was wondering if that's Argus-related comment, because I remember in the second quarter you talked about some regs about targeting within Argus that needed changes for the customers. And my question is, have those changes been made and have customers moved forward? And the second question is, the contracts that were announced at Analyst Day, have those ramped up?

Scott G. Stephenson
Chairman, President & Chief Executive Officer, Verisk Analytics, Inc.

A

Thanks, Andrew. Yeah, so to your question about the models, that comment in my remarks was related to Financial Services and Argus specifically. And what's going on there, just to sort of reprieve that real quick is, that in the face of mounting regulations, the amount of documentation that is required on some of your models, if you're a bank or you're a credit card issuer, have really, really ramped up. And so we have created some offerings that were pretty popular with our customers, and that summarized a lot into what we call a wallet-share model.

And so if you're going to use sort of a wallet-share model, what the regulators have said is you cannot sort of operate that as a black box. You're going to have to show us what's inside of your black box, and so sort of the burden for our customers of opening up the black box really got sort of pretty large. And so in the face of that, what we've done is we have essentially disaggregated some of those models and sort of essentially taken the attributes which build up into the overall view, and that's what we're now making available to our customers. So I just want everybody to understand that's the movement. So the insight is still useful, but the way it gets presented has had a change.

And then to your question, so in the third quarter of 2018, the net effect of moving – some of our customers moving away from the wallet-share models and moving into the attributes was essentially a drag on the revenue line in the third quarter. So the transition is not yet complete. What that means is actually that there is upside for us going forward. We're feeling – we have felt, over the last couple of quarters, the burden of that transition, and as we go forward that's going to eventually even out or even move in the right direction.

Andrew Charles Steinerman
Analyst, JPMorgan Securities LLC

Q

And, Scott, I asked about the eight contracts from Analyst Day.

Lee M. Shavel
Chief Financial Officer & Executive Vice President, Verisk Analytics, Inc.

A

Michael, let me take that one. So, the answer is from – over this period, there has been a portion of those contracts that we have executed and have begun generating revenue, and there have been a portion that has fallen out. I appreciate your assiduousness in tracking that. It's not something that we are tracking on a regular basis. We're, obviously, looking at kind of the current portfolio, but we have realized some of those contracts and some of those we did not get the execution on. And I can try to give you more detail on that once we've kind of researched and tracked those specific items as we have in the past. But I don't have those numbers in front of me.

Andrew Charles Steinerman
Analyst, JPMorgan Securities LLC

Q

Okay. Much appreciated. Thank you.

Scott G. Stephenson
Chairman, President & Chief Executive Officer, Verisk Analytics, Inc.

A

Thank you.

Operator: Your next question comes from the line of Hamzah Mazari with Macquarie Capital. Please go ahead.

Hamzah Mazari
Analyst, Macquarie Capital (USA), Inc.

Q

Good morning. Thank you. My question is just around pricing. Just given inflation in the system, but more importantly, given your investment in new datasets, are you guys thinking about pricing differently than when you were owned by the insurance companies versus even just before you had Geomni? Just any sense on pricing philosophy and how that has changed and what we should think about going forward.

Scott G. Stephenson
Chairman, President & Chief Executive Officer, Verisk Analytics, Inc.

A

Yeah, our pricing philosophy is the same as it's always been, which is that we price to value. So we're very focused on the utility of our solutions for our customers, and it's on that basis that we set the prices for the solutions that we provide. And as has always been the case, our preference and the heart of our model is recurring subscriptions, and we find that that's good for our customers. They like knowing with some certainty what they're going to be paying for our solutions and it's good for us, because of the visibility and the recurrence. So we normally try to – that's where we try to set our pricing model.

There are some occasions where with newer solutions particularly, the customers would prefer that we start out transaction priced, because [audio gap] (00:40:03) exactly how much of it they're going to consume as they begin using it, and so we're perfectly happy to do that when that's what the customers want. But we generally find with time that they would like us to transition to subscriptions.

And then the last thing I'll add is, as a part of our pricing philosophy, that we generally attempt to achieve multiyear subscriptions with price inflators on an annual basis, which reflects the fact that most of what we do is so basic to what our customers do, it's so embedded in their workflows, that there's just sort of a mutual understanding that this is the way business is going to get done. And so our customers are comfortable with signing multiyear agreements, and of course, for us that just represents an even higher level of recurrence. So, everything I just said has been a part of our approach since October of 2009 when you first saw us as a public company, and I'm very certain will remain our go-to-market approach.

Hamzah Mazari
Analyst, Macquarie Capital (USA), Inc.

Q

Great. And just a follow-up question. I know you touched on healthcare a bit around insurance. Maybe just remind us, how much of your business today is not P&C insurance, specifically auto, home, you touched on healthcare? And then maybe, do you see any changes in terms of autonomous cars, connected homes impacting that business just from a technology standpoint? Thanks.

Scott G. Stephenson
Chairman, President & Chief Executive Officer, Verisk Analytics, Inc.

A

So, Lee, in a minute I'll let you just talk about the split of our revenues. But, yeah, autonomous cars and Internet of Things, data coming from vehicles and from homes, very definitely a part of what we're doing. Those are constructive trends inside of our business and will only continue to be more important, especially for insurance companies. So that's just sort of established inside of what it is we're doing. Lee, do you want to just talk about the split of our business?

Lee M. Shavel
Chief Financial Officer & Executive Vice President, Verisk Analytics, Inc.

A

Yeah, let me – and, Hamzah, I think first just to kind of start off at a high level. Just from the overall insurance perspective, for year-to-date 2018, the Insurance segment represents 71% of our total revenue and 81% of our EBITDA. I think you were asking for color around what portion of our revenues or our business composition is not P&C, and so let me clarify. the vast majority of our Insurance revenues are P&C-related. Auto and home are what we do there is P&C, property and casualty related.

So you may want some context around what portion is home-related or auto-related, and perhaps Mark can give you some perspective around that. I don't know that we have that breakout, because it's embedded in, for instance, our ISO and our Claims business together, but perhaps we can talk around that. Is that the sort of information that you were looking for?

Hamzah Mazari
Analyst, Macquarie Capital (USA), Inc.

Q

Yes, exactly.

Lee M. Shavel
Chief Financial Officer & Executive Vice President, Verisk Analytics, Inc.

A

So maybe that's something we can come back to you with to try to give you the breakout on some of those other components, but we don't have those – a sense of that right now.

Hamzah Mazari
Analyst, Macquarie Capital (USA), Inc.

Q

Yeah, we can do it offline. Thank you.

Lee M. Shavel
Chief Financial Officer & Executive Vice President, Verisk Analytics, Inc.

A

Okay.

Operator: Our next question comes from the line of Andrew Jeffrey with SunTrust. Please go ahead.

Andrew Jeffrey
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Hi. Good morning. Thanks for taking the question, guys.

Scott G. Stephenson
Chairman, President & Chief Executive Officer, Verisk Analytics, Inc.

A

Good morning.

Andrew Jeffrey
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Scott, your high-level industry comments are always much appreciated for perspective. And one of the things, I think you said – you touched a little bit on the insurance industry consolidation and, obviously, you have seen that flow-through your business for the last few years, and then I think you made some comments on perhaps reinsurance.

I wonder if you could elaborate a little bit in terms of how the industry is changing via consolidation and what specifically you think that means to your business maybe shorter term or intermediate term. I assume longer-term it's not as big an impact, but I just wonder if you could maybe be a little more granular.

Scott G. Stephenson
Chairman, President & Chief Executive Officer, Verisk Analytics, Inc.

A

Yeah, sure. So all the way to the top, just talking about what the demography of the industry looks like. At the top-end of the market, there are a certain number of consolidations each year. My emphasis here would be on the fact that it's really not a very large number. But also bear in mind that there are new entrants into the insurance space on a consistent basis and several of these are what get referred to as the insurtechs. Sometimes they're innovating based upon the way that they segment the market. You have some innovation in terms of, say, peer-to-peer forms of insurance, which are kind of interesting, but they haven't expressed themselves yet as particularly big trends. But think of it as an industry where, yes, there is some consolidation at one end of the market, but there is also entry at the other end of the market.

We have done very well with the new entrants. They find it really helpful to be able to make use of our methods as they get started. They're efficient. It helps them get into business quickly. It's actually a credibility point for them as they do their business, et cetera. So, as we talk about sort of the evolution – and this is very real-time what I'm describing here, these new companies come into the market, we find that they're very inclined to work with us.

When consolidations occur – and again, my emphasis here would be how relatively few of them happen, but when they do occur, it's very situation-specific in terms of what it does to our business. There may be some cases where the two companies coming together, they're very overlapping in their use of Verisk solutions. And in that case, they very reasonably expect that like-on-like there might be some reduction in the total invoiced amount for the solution that the two companies were using and now the one are using.

But there are frequently offsets to that also, because it's also the case that one company may be using our solutions and the other company is not. And in those cases, actually, there's a very nice cross-sell opportunity within that same account. And so when we go through these transitions with our customers where two become one, we dig in very deeply and talk to them about everything that they're using that comes from us, and the things that they're not. And there can be an effect maybe in year one, although, not particularly large, and then on an ongoing basis generally, the profile of the account going forward, the growth profile is, I think – Mark, check me on this, but I think is generally about the same as it was before two companies became one. So we note consolidation, and as I say, it's very situation-specific, but it's not a major effect on our business. Anything you want to add to that?

Mark V. Anquillare
Chief Operating Officer & Executive Vice President, Verisk Analytics, Inc.

A

I think the only thing I'll – I think you were trying to get a little feel for it. I think we feel that 2017 on the primary side of things, it was kind of business as normal. I think there were some reinsurance mergers that may have a little bit of a headwind as it relates to more of our cat modeling business. That would be my high-level, short-term view of things, if that helps.

Scott G. Stephenson
Chairman, President & Chief Executive Officer, Verisk Analytics, Inc.

A

There might be a few more situations, like where AXA and XL Catlin came together, and that's an interesting one, because I think that one actually represents a fair amount of opportunity for us. But I mentioned that one, because that has sort of a global geographic markets dimension and it's also reinsurance sort of being layered more directly on top of insurance inside of one specific company. So I think you may see some of that, but that's actually the most constructive kind of consolidation I can imagine.

Andrew Jeffrey
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Okay.

Scott G. Stephenson
Chairman, President & Chief Executive Officer, Verisk Analytics, Inc.

A

For us, constructive for us.

Andrew Jeffrey
Analyst, SunTrust Robinson Humphrey, Inc.

Q

That's really helpful. Thank you. And, Scott, I think you also made a comment – maybe, Mark, it was in your comments, about Geomni share gains. I wonder if you could just talk about from whom Geomni is taking share.

Mark V. Anquillare
Chief Operating Officer & Executive Vice President, Verisk Analytics, Inc.

A

Well, there's only a few competitors in the market, and I think we've been fortunate to deliver value and provide a particularly integrated solution that is appealing to several insurers and service providers. So, we continue to see some opportunities, a good pipeline, as well as close sales. So that's contributing to the growth you're seeing in 2018 and should continue into the future.

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

Tim J. McHugh
Analyst, William Blair & Co. LLC

Q

Hi. Thanks. Just wanted to follow-up on, there was an earlier question about Wood Mackenzie and energy, I guess, more broadly, and I understood the kind of broad comments, I guess. But can you help us drill down into how we should think about the growth trend within the subscription piece, the high level number in the earnings release about subscription revenue [indiscernible] (00:50:02) revenue from subscription would suggest it was very strongly [indiscernible] (00:50:07) growth in that segment by the consulting piece. And I understand there is a comparison with the loss of one contract, there'll be some noise there. Can you give more color to help us understand the progress or how much progress, I guess, is being made on growing subscription revenue for that business?

Scott G. Stephenson
Chairman, President & Chief Executive Officer, Verisk Analytics, Inc.

A

Yeah, actually, quite a bit of progress is being made on subscriptions. And again, I think you do need to look beyond one quarter to say the year or even multiple years. But since we really called the turn on the business, which would have been – just referencing my notes here – oh, I guess, about 10 months ago or so, the progression of the subscriptions from then has looked very much like what we would expect and is very supportive of our view that this is a business which can perform above the rate of organic growth of all of Verisk actually.

So in the quarter, it happened that the transaction revenues were particularly strong. And, yes, we are working our way through one substantial subscription agreement that went off the books in 2018. We've talked about that. But I think that over intermediate and long periods of time, subscription revenue growth will be equal to or probably even exceed the rate of consulting – or just kind of they will both be very strong contributors, but what we're focused on is subscription revenue growth. That's the heart of our business.

Lee M. Shavel
Chief Financial Officer & Executive Vice President, Verisk Analytics, Inc.

A

Scott, maybe I could add perspective. I think, Tim, that when we think about the subscription growth and kind of the core subscriptions, kind of putting aside some of the breakouts, and the breakouts are also largely subscription-oriented and research-oriented, and we have seen steady progress in the growth rate and new subscriptions in kind of the mid-single digits category before we factor in the breakouts. And then we look at the breakouts and those have been very strong growth as we penetrated those new areas, and so that gives us confidence that moves us more into kind of the higher single digits range.

And then on top of that, we have the consulting revenue, which, as you point out, was strong. Now, consulting revenue and the growth that we saw [ph] – it experienced (00:52:47) was clearly a significant contributor to the overall growth. But we certainly see continued progress in that strength and in that improvement in subscription growth, supplemented by the breakout subscription growths, which are at a high level. So that maybe gives you some context on relative growth rates to complement Scott's perspective.

Scott G. Stephenson
Chairman, President & Chief Executive Officer, Verisk Analytics, Inc.

A

I guess, a last point I would make is that a lot of the subscription renewals occur in the fourth quarter and the first quarter. So to a degree it's not really quite surprising that the third quarter would be relatively a little quieter with respect to subscriptions.

Tim J. McHugh
Analyst, William Blair & Co. LLC

Q

Okay. And then, Lee, just a follow-up to that. Are those growth when you say mid-single digits in the core and high single including the breakout, are you excluding the loss of the – the impact of this customer that you lost?

Lee M. Shavel
Chief Financial Officer & Executive Vice President, Verisk Analytics, Inc.

A

Yes. What I'm referring to are kind of what we're experiencing currently, and so that reflects the impact of that loss of that large global investment bank. And so, I think as we've talked about in the past, that's kind of roughly 1 percentage point drag from a growth standpoint.

Tim J. McHugh
Analyst, William Blair & Co. LLC

Q

Okay. Thank you.

Scott G. Stephenson
Chairman, President & Chief Executive Officer, Verisk Analytics, Inc.

A

Okay.

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

Jeffrey P. Meuler
Analyst, Robert W. Baird & Co., Inc.

Q

Yeah, thank you. A couple segment-level margin questions. So, first, on Insurance, I know that there's other factors in here, like that come from the year ago and the interest income effect. But just on the aerial imagery investments, I guess, can you just maybe talk about where you're at in that investment cycle? What you're investing in in terms of product? Because I understand the planes and sensor investments, but I think that would flow through CapEx. So just on the margin impact, I guess, where you're at on the aerial imagery product and what you're investing in currently?

Lee M. Shavel
Chief Financial Officer & Executive Vice President, Verisk Analytics, Inc.

A

Sure. So Jeff, let me approach it this way. So, yes, there is – certainly, the bulk of the investment from a capital standpoint is going into purchasing planes and sensors and operations, and so that's something that we've talked about before that will peak in 2018. We expect that that will come down. Further, as we are ramping up the pilots and the personnel in order to drive that, that that is effectively an additional investment as we are gathering and expanding the scope and the breadth of data, and so that is factored in and you see that in the P&L.

To kind of give you some context, when we look at that impact across Verisk as a whole, that contributes about 1% roughly of our expense growth, so that gives you some context for the scale of that impact. It has a lesser impact currently on revenue, but we, obviously, are growing at a high rate, and so that translates into a slightly also smaller impact on EBITDA. So that kind of gives you kind of a sense of the scale of that investment. Mark, did you have something you wanted to add to that?

Mark V. Anquillare
Chief Operating Officer & Executive Vice President, Verisk Analytics, Inc.

A

All I was going to say is, once you get those planes and those sensors, you now need to put them in the sky, so we're looking to drive coverage as far as both nationwide and frequency so we can see changes in properties. So that causes us to have to put pilots in the plane, there's cost to operate, there's maintenance on the planes.

Clearly, then we take all of the imagery, we process it, we're trying to kind of use it for different use cases, and we're extending the analytic capabilities of the team to provide underwriting use cases, extending the claims, and cat exposure. So I want to just emphasize, there's an OpEx piece as we continue to do a lot of advanced analytics, along with build out coverage and kind of capability. So [indiscernible] (00:57:01).

Lee M. Shavel
Chief Financial Officer & Executive Vice President, Verisk Analytics, Inc.

A

And I think one thing to bear in mind is, I think as Mark was describing, the benefits of the use of this data spans across multiple of our businesses, and so it will have revenue impacts and EBITDA impacts positively as we try to leverage that data across the business.

Jeffrey P. Meuler
Analyst, Robert W. Baird & Co., Inc.

Q

Okay. That's helpful. And then on the Energy and Specialized Markets margins, they've been quite good. I feel like a couple quarters ago, you were calling out investments there with WoodMac 2.0 and the breakout initiatives. And I don't know if you were more describing why when you started presenting segment margins they were lower than investors might have expected, but I just – I guess I wanted to confirm that there wasn't some delay in those investments. They're progressing as planned and the good margin we're seeing on a year-over-year basis in that segment is even with that investment. Thank you.

Lee M. Shavel
Chief Financial Officer & Executive Vice President, Verisk Analytics, Inc.

A

So, certainly, there has been a level of investment that we've been making in WoodMac 2.0, as well as in the breakout opportunities that we have been investing in that have an impact. Those are proceeding as we expect. WoodMac 2.0 will be an investment cycle that certainly existed in 2018 and will persist through 2019 as we expand that platform. And that we are already beginning to see some benefits of that within the business, but there will be continued CapEx investment, continued OpEx investment in that through 2019, and so that's embedded in those margin numbers. And I think one of the benefits that we saw is that we had good cost control. Headcount growth was, I think, a little lower this quarter, having brought on some of the development folks that we needed on that front, and so that contributed to the clear improvement in margin that we saw in the third quarter.

Jeffrey P. Meuler
Analyst, Robert W. Baird & Co., Inc.

Q

Thank you.

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

William A. Warmington
Analyst, Wells Fargo Securities LLC

Q

Good morning, everyone.

Lee M. Shavel
Chief Financial Officer & Executive Vice President, Verisk Analytics, Inc.

A

Good morning.

Scott G. Stephenson
Chairman, President & Chief Executive Officer, Verisk Analytics, Inc.

A

Good morning, Bill.

William A. Warmington
Analyst, Wells Fargo Securities LLC

Q

So, first question, just a clarification on the storm contribution adjustment. I know that last year was a major year for storms and outsized gains from that, but there also were severe storms in third quarter of 2018. And so when you make that adjustment, how much storm revenue – was the storm revenue contribution from the third quarter of 2018 also backed out? I just want to understand the mechanics of that adjustment.

Mark V. Anquillare
Chief Operating Officer & Executive Vice President, Verisk Analytics, Inc.

A

So, Bill, I guess our view is that 2017 was truly an exceptional year. There's always going to be severe weather. 2018 is going to be, in our mind, something really strange happened. Towards the latter part of the year is just going to be a normal year of severe weather. So I don't think we see anything adjusting or any adjustments to normalization in 2018. We've been focused on 2017 because of the exceptional aspect.

Let me just remind everybody, the way many of our contracts, specifically the Xactware or repair cost estimating contracts, work is that we provide access to the solution for a number of claims. And then when you eclipse a threshold, you then get charged per claim at excess rate. It takes quite a substantial threshold or number of volume – lot of volume to get above that threshold. I don't think we're going to see much of that in 2018. 2017 was noteworthy.

William A. Warmington
Analyst, Wells Fargo Securities LLC

Q

And then for my follow-up, Nielsen has been talking about how the GDPR regulation has been negatively impacting their marketing effectiveness business, and I know that they're a big user of the Argus data. And the Argus organic revenue growth showed a nice rebound in the third quarter. So I wanted to ask, is that rebound taking place despite – or even with that GDPR headwind, is that something that you're seeing that you're able to overcome?

Scott G. Stephenson
Chairman, President & Chief Executive Officer, Verisk Analytics, Inc.

A

Yeah. So, GDPR is a contextual factor for us, but not one that I would say is really interacting with our results near-term. And as long as we protect our data assets, the way that we have and I expect we will, I do not believe it will be a material impact going forward. So I can't comment on somebody else's construal of the effect of the regulations, but where our business is concerned. The primary effect of it, as we interface with our customers, is we have an extended discussion about contracts, because we need to now talk about the assignment of liability, at a higher level we always [ph] have to (01:02:16) talk about it, but we talk about it more than we used to. That's really the only effect that I see. And it's not material, it's not material.

William A. Warmington
Analyst, Wells Fargo Securities LLC

Q

Got it. Well, thank you very much, and Happy Halloween.

Scott G. Stephenson
Chairman, President & Chief Executive Officer, Verisk Analytics, Inc.

A

Thank you.

Operator: Your next question comes from the line of Gary Bisbee with Bank of America. Please go ahead.

Gary Bisbee
Analyst, Bank of America Merrill Lynch

Q

Hi. Good morning. So, I guess, the first question, when I look back to the beginning of 2017, pretty clearly you've had a significant investment cycle here, 20-some acquisitions and a meaningful internal step-up, things like Geomni, the new WoodMac platform, et cetera. Can you just frame for us how you think about the returns to the business that this investment cycle will deliver going forward?

And, I guess, I'm wondering things like should we think of this as incremental to revenue growth or really just bolstering the business so it can continue to deliver. How do we think about the step-down in margins and how that may trend over time? And anything about how you're thinking about the return on this. Thank you.

Scott G. Stephenson
Chairman, President & Chief Executive Officer, Verisk Analytics, Inc.

A

Right. Good. So I'll ask Lee to talk about margins in a moment, but with respect to the investments that we've made, very substantially they go in the direction of putting us into new categories of solution sets that we otherwise either haven't provided or we provided in ways that haven't fully expressed what it is we can do for customers. So, for example, the acquisition of PowerAdvocate puts us in a category of spend analytics for the energy vertical that we weren't doing before. The Sequel acquisition puts us in a position to serve the London market, particularly with respect to complex commercial risks, in a way that we weren't able to serve it before.

And then all the investments that we've done in Geomni, we were in the category of interpreting remote imagery into datasets, into analytics for our customers. The issue that we had was we didn't have enough high-quality raw material. And so a lot of the investment, as you heard Mark saying, on the Geomni side was basically to put ourselves in a position to have a lot of great raw material. So, again, that is very much aimed at putting us into a new and different position for enhanced revenue growth on the top line. And then other internal investments, the same. WoodMac 2.0 will carry with it some efficiency gains, but it also makes us more capable in front of our customers.

So very much it is about contributing to incremental growth of our business. It's not about the maintenance of things that we already do, and that is also really part of our feeling about the likely returns of these investments that we're making, which, as you would imagine, revenue ramps, most everything we do is scalable, so as these investments mature and the revenues grow, I would expect to see it be constructive with respect to margin.

And also, even if you look at more than just say a quarter – and maybe, Lee, you want to pick up here a little bit – we still see constructive progression in the organic EBITDAs inside of our business relative to the organic revenue growth rates. So...

Lee M. Shavel
Chief Financial Officer & Executive Vice President, Verisk Analytics, Inc.

A

Yeah. I would just quickly add in addition to what Mark described to develop new sources of revenue growth or enhance the revenue growth that we're generating off of our data, we're also making investments, for instance, in cloud modernization that we think will yield overall improved returns on capital and improved margins for us. So we are making those types of investments as well, and we look at each of those investments on the basis of what type of return are we generating, whether it's through savings or through incremental profitability. So, thanks, Gary.

Gary Bisbee
Analyst, Bank of America Merrill Lynch

Q

Great. Thanks. And then just the follow-up for me, so you've lapped three of the four chunkier, larger acquisitions from 2017 during this quarter. I know you don't like to talk about forward margin trends. But is there anything you'd call out that would lead us from believing the reasonable pathway here as to having lapped a lot of that drag that there's been in your profitability goes away at this point or soon? I realize you've got a tough comp in Q4 with the Insurance comparison, but anything else you'd call out, or is it reasonable of having lapped a lot of that, things look better from here? Thank you.

Lee M. Shavel
Chief Financial Officer & Executive Vice President, Verisk Analytics, Inc.

A

So, Gary, I think it's important to understand your frame of reference, because what we do try to accomplish with our organic constant currency margins is to look at the business on an apples-to-apples basis, so that the business isn't influenced by those trends. You will see in the difference between our reported and our organic margin that delta reflecting the impact of some of the acquisitions before we have a year-over-year comparison, and those also include some transition costs associated with those businesses.

So, I think perhaps what you're seeing is a narrowing of the difference between that reported and the organic margin numbers, which I think reflects what you're describing is effectively the business is now absorbing that. We still have – I think in the fourth quarter, we still have PowerAdvocate that is outside of that, so there still will be some adjustments for that, but we are narrowing that gap.

Gary Bisbee
Analyst, Bank of America Merrill Lynch

Q

Great. Thank you.

Operator: Your next question comes from the line of Joseph Foresi with Cantor Fitzgerald. Please go ahead.

Joseph Foresi
Analyst, Cantor Fitzgerald Securities

Q

Hi. I was wondering to what extent do you think you could provide – and I don't want to take anything away from the Analyst Day, but a medium or longer-term outlook for the growth rates for the segments.

Lee M. Shavel
Chief Financial Officer & Executive Vice President, Verisk Analytics, Inc.

A

So, Joe, thanks for that. We do provide, as we described before, our target revenue and EBITDA growth rates, and what we've said is that over the long term we expect all of our businesses to deliver on those growth targets. So beyond that, we don't provide separate for that. I kind of think implied by that, obviously, the Insurance business is going to be expected to deliver on those growth rates, and we certainly expect over time – or, I should say, based on historical performance, have seen both the Financial Services and, we believe, Wood Mackenzie have delivered on higher growth rates than that, and we certainly believe that that's an opportunity ahead of us in something that we are working towards. But those we are focused on our overall Verisk growth rates and each of the businesses are expected to meet those objectives.

Joseph Foresi
Analyst, Cantor Fitzgerald Securities

Q

Got it. So, essentially those are kind of unchanged as of right now, just to be clear. And then the second question is, without being sort of on the inside of the business, maybe you could give us the top two or three drivers of margins at this particular juncture, and any area where you think there might be some volatility on the margin targets going forward. Thanks.

Lee M. Shavel
Chief Financial Officer & Executive Vice President, Verisk Analytics, Inc.

A

Yeah. So, from an overall standpoint, the important driver of margin improvement is our ability to leverage our cost base in our businesses, our data businesses, across a broader customer set, and so that's – the fundamental driver of that an additional subscription of our existing dataset, however, broadly we define that, is going to have a very high margin and one that is in all likelihood higher than our overall margin. That's the fundamental dynamic that drives our confidence in our operating leverage and our ability to achieve that.

I'd say beyond that, we are always looking for ways to become more efficient with the resources that we have. And so, Mark has been driving an initiative on looking at how we can be more efficient by leveraging our scale internationally within the business. And so, given that personnel costs represent about 70% of our cost base, we're always looking for how we can improve productivity from that base, which is something that Scott emphasizes highly in our discussions with the business. So I think that's another dimension to what we do.

And then from a technological standpoint, as I talked about, investment in cloud technology is something that we think has the opportunity to improve our margins, not just by reducing our technology costs, but by facilitating our development of products and our clients' interactions with data that kind of further extend kind of the initial dynamic that I talked about. So those, I think, would be three of kind of the things that drive our margins.

Joseph Foresi
Analyst, Cantor Fitzgerald Securities

Q

Thank you.

Operator: Our final question will come from the line of George Tong with Goldman Sachs. Please go ahead.

George Tong
Analyst, Goldman Sachs & Co. LLC

Hi. Thanks. Good morning.

Scott G. Stephenson
Chairman, President & Chief Executive Officer, Verisk Analytics, Inc.

A

Good morning.

George Tong
Analyst, Goldman Sachs & Co. LLC

Q

I have a question about organic EBITDA margin performance. You'd cited elevated investments in Geomni, breakout opportunities, and commission performance as drivers of the contraction, even on a normalized basis on a year-over-year basis. So, looking forward, can you talk about how you expect these investments to evolve and your general philosophy around organic EBITDA margin performance if you're targeting expansion over the near-to-intermediate term?

Scott G. Stephenson
Chairman, President & Chief Executive Officer, Verisk Analytics, Inc.

A

Sure. So, George, let me take a crack at that. I think that there are a couple dynamics that we think about from organic margin performance. The first is starting with, at the highest scale level, are the growth of our business where we expect revenue growth to exceed expense growth, and that drives an overall expansion of that organic margin. Offsetting that in the near-term are investments that we make in new initiatives that are going to be – at the outset going to be lower margins, but we believe that those margins will ramp-up quickly and be additive overall to the business. And so that has a near-term impact.

And then, as you described, the impact of acquisitions that may have a lower margin initially, and some of them may have a lower margin permanently, which may be dilutive to the impact, but each of them we expect in the businesses that we look at have a high degree of operating leverage. And we have an ability to improve their operating leverage over time improving margins for the business as a whole. But recognizing that we have businesses with exceptional margins, what we focus on in addition to overall driving margin growth for the business as a whole and in aggregate and consistent with our long-term targets of growing EBITDA faster than revenue, we also look at our returns on capital for those investments in new businesses.

So, core growth in the business is the fundamental driver. We are making investments near-term that will diminish near-term margin, that's a function of the investment, but hopefully, expand our growth and improve margins over time. And then the impact of acquisitions, some of which we think have higher margin, all of them we expect to have higher margin over time, but they may – as a function of their impact in the business, may be lower margin, but represent higher growth opportunities and higher return opportunities. So, hopefully, that gives you kind of the perspective on the dynamics for that margin.

George Tong
Analyst, Goldman Sachs & Co. LLC

Q

Got it. That's helpful. And then turning to your Insurance business, if you look at the organic constant currency growth rate normalizing for weather from last year, it did still step-down from second quarter growth rate. Can you talk about any unusual drivers in the quarter that might have contributed to a normalized deceleration in Insurance constant currency organic growth and maybe the momentum of the business over the course of the quarter and exiting the quarter?

Mark V. Anquillare
Chief Operating Officer & Executive Vice President, Verisk Analytics, Inc.

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So maybe I'll try to take that. This is Mark. I think if you were to actually look back on 2017, I think the answer really lies there. We had probably a little bit of a slower start to the year 2017, and we had kind of a stronger growth at the second half, so I think we referenced this maybe a little tougher comps in the third and fourth quarter just because of the nice pickup we had, some of it catch-up with first half of 2017.

What I'd just like to emphasize, and I think Lee did a nice job of it, is year-to-date we have had a very strong year from Insurance. We feel good about the direction of the business. We feel great about the relationship and the level of engagement we have with customers, and I do believe that the number of and breadth of new solutions we have provides an exciting year forward. So, I hope that emphasizes and answers your question.

George Tong
Analyst, Goldman Sachs & Co. LLC

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Got it. Thank you.

Operator: I'll now turn the conference back over to management for any closing remarks.

Scott G. Stephenson
Chairman, President & Chief Executive Officer, Verisk Analytics, Inc.

Okay. Well, thanks, everybody, for joining us today. Appreciate your interest and we look forward to seeing many, hopefully all of you, at Investor Day in just a few weeks. And between now and then, I'm sure we'll be in touch with a lot of you just for your follow-up questions. Thanks for your continuing interest. See you soon.

Operator: Ladies and gentlemen, this concludes today's conference. Thank you all for joining, and you may now disconnect.