# Verisk Analytics, Inc. (VRSK) CEO Scott Stephenson on Q3 2019 Results - Earnings Call Transcript

Oct. 30, 2019 2:58 PM ET
by: SA Transcripts

Q3: 10-29-19 Earnings Summary

SEC *10-Q* *Slides*

EPS of $1.12 misses by $-0.01 | Revenue of $652.7M (9.02% Y/Y) beats by $2.36M

## Earning Call Audio

Subscribers Only

00:00 -51:34

Verisk Analytics, Inc. (NASDAQ:VRSK) Q3 2019 Earnings Conference Call October 30, 2019 8:30 AM ET

**Company Participants**

Stacey Brodbar - Head Investor Relations

Scott Stephenson - Chairman, President & Chief Executive Officer

Mark Anquillare - Chief Operating Officer

Lee Shavel - Chief Financial Officer

**Conference Call Participants**

Manav Patnaik - Barclays Bank

Toni Kaplan - Morgan Stanley

Ashish Sabadra - Deutsche Bank

Gary Bisbee - Bank of America Merrill Lynch

Jeff Meuler - Robert W. Baird & Co.

Andrew Jeffrey - SunTrust Robinson Humphrey

George Tong - Goldman Sachs Group

Christopher Campbell - Keefe, Bruyette & Woods

Joseph Foresi - Cantor Fitzgerald

Bill Warmington - Wells Fargo Securities

**Operator**

Good day, everyone and welcome to the Verisk Third Quarter 2019 Earnings Results Conference Call. My name is Jay, and I will be your conference operator for today. At this time, all participants have been placed on mute to prevent any background noise. After the speaker's remarks, there will be a question-and-answer session. [Operator Instructions]

I would now like to turn the call over to Verisk's Head of Investor Relations Ms. Stacey Brodbar for opening remarks and introduction. Ms. Brodbar you may begin your conference.

**Stacey Brodbar**

Thank you, Jay and good day to everyone. We appreciate you joining us today for a discussion of our third quarter 2019 financial results. Today's call will be led by Scott Stephenson, Chairman, President and Chief Executive Officer, who will provide a brief overview of the strategic direction of our business. Mark Anquillare, Chief Operating Officer will then provide an update on our insurance segment. Lastly, Lee Shavel, Chief Financial Officer will highlight some key points about our financial performance.

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'll turn the call over to Scott.

**Scott Stephenson**

Thanks, Stacy. Good morning, everyone. I'm pleased to share that Verisk had another strong quarter of growth fueled by our market-leading innovation and continued focus on delivering an exceptional customer experience. Verisk reported organic constant currency revenue growth of 7.6% and organic constant currency adjusted EBITDA growth of 7.7%. This growth was driven by strength in our Insurance segment and solid improvements in Energy and Specialized Markets.

On the innovation front, I'm especially pleased to see strong revenue growth tied to the investments, we have made in platformed analytic environments. Such environments include our visualized ClaimSearch for fraud fighting and claims adjudication; our Touchstone platform for catastrophe modeling X1 for global property estimating, Lens for energy analytics; and our PowerAdvocate platform were adjusting and understanding supply chain costs in the Energy space. These platforms take the level of intimacy with our customers and their workflows to a whole new level and deliver enhanced growth and operating leverage.

Specifically at Wood Mackenzie, this month we released the second module to Lens called global upstream valuation, which expands screening and valuation capabilities across the whole world. This solution enables our customers to analyze and interact with out comprehensive global upstream data set to make faster data-driven commercial decisions.

We continue to be encouraged by the early results of Lens, but equally important is the fact that having a new and unique product in the marketplace has really energized our sales teams. This has translated into improving sales of our core research as well as strong growth in our breakout solutions, including subsurface, chemicals and the energy transition practice.

Our energy transition practice was previously known as power and renewables and this shift reflects our commitment to helping our clients cope with changes in the energy markets. In our PowerAdvocate business we are experiencing strong growth as we are helping our energy customers use data to more effectively spend their capital and save costs. We see opportunities to leverage the C-suite relationships from Wood Mackenzie to introduce PowerAdvocate at an enterprise-wide level and also to help bring our spend and cost solution.

One of my leading indicators of the health of our business is how we are doing with the new disruptive players in our verticals as well as the largest and most established players. We are doing well on both fronts. We continue to win new business with InsurTech as they find value in our full suite of solutions and we continue to see progress in the cross-selling of even more valuable solutions to the established leaders in all three of our verticals.

I spent several weeks in Asia recently visiting with client leaders across our verticals from Saudi Arabia to India to Japan. What struck me was how alert the CEOs of the leading companies around the globe are to data analytic innovation and their extreme interest in Verisk solutions. We see this driving an increasing level of inquiry and a growing pipeline of opportunities for our products.

I'm also pleased with the progress, we have made with respect to our infrastructure and analytic methods over the past 90 days. We continue to make steady progress in moving our computing infrastructure to the cloud.

In the past you've heard me talk about how cloud capacity grows in a linear fashion, whereas on-premise computing gets retired episodically at what I call shelves. Because of the great work of our team, we have now reached the first of those shelves and are seeing the expected efficiencies.

We will continue to pursue these infrastructure improvements and savings persistently by product over the next few years. The global expansion of our data science team is coming along nicely and we are delighted with the quality and capacity of our emerging data science team in Kraków.

We are now out in the market with industry-standard insurance solutions that incorporate machine-learned methodologies which take the world of regulatory-ready methods to a whole new level.

On the strategic acquisition front our focus continues to be on adding valuable data sets within our existing verticals that can be leveraged across our enterprise to drive high returns on capital.

Genscape and BuildFax represent opportunities to both extend their businesses and enhance our existing products and relationships. Genscape is a market leader in sensed data for the power, oil and gas and maritime end markets. Genscape uses a network of sensors to gather for -- or near real time. We believe we can create value by combining Genscape's real-time short-term data set with WoodMac's longer-term asset valuation data sets.

We plan to develop new analytics solutions based on these combined data sets and ultimately see the data set incorporated into the Lens platform so that it can be seamlessly integrated into customers' workflows. We also see opportunities to cross-sell and expand into new client segments as there is limited customer overlap.

Ultimately, we believe that Genscape as a part of WoodMac will bolster our journey as the energy mix shifts toward more of a balance between molecule-based and electron-based.

BuildFax is a leading provider of proprietary condition and history data with a blue-chip customer base that is now part of our ISO underwriting business. We are excited to incorporate building property data and analytics solutions and see opportunities to develop new solutions as we partner with our insurance customers to help them drive their underwriting process to become quicker and more precise. We also see real opportunity to expand distribution and cross-sell BuildFax's core products across our customer base.

Finally I'd like to take a minute to clarify developments in the imaging space. In connection with the jury verdict and associated injunction related to the Geomni roof report business we have recorded a $125 million legal reserve. We were disappointed in the verdict and plan to appeal once we receive final judgment.

With respect to the current operations, the ruling pertains to only some of what we do in our Geomni unit and our roof report business represents about 1% of our annual revenues.

We are energetically working to develop a non-infringing alternative method to the current tech adjusting the cost structure over the next few quarters in light of the injunction. To that end, we are taking aggressive steps to minimize the negative impact on profitability and cash flow of the roughly $7 million in lost quarterly revenue and should see sequential progress over the next several quarters.

Perhaps the most important thing to note about our imagery business is the asset we have built in our image library and our image capture program. We now have a distinctive data asset on a national scale.

We continue to believe strongly that the combination of automated measurement through remote imagery and automated estimation and create great value for our insurance customers for Verisk and for our shareholders and remain committed to and is exciting about these technologies as ever.

Having gone through a number of specifics let me give you my overall assessment of where we stand. Our verticals are in great shape with a notable achievement of Energy and Specialized Markets exceeding Insurance's organic growth rate for the first time thus expanding our sticky recurrent subscription revenues.

Our technical infrastructure is becoming more efficient in real-time and the technical talent of our team has grown through tapping new talent sources. We've supplemented our data sets with two acquisitions that we can leverage across our enterprise. While we have lost the contribution to revenue growth provided by 1% of our revenue, we exit the quarter stronger than we entered it.

And now I'll turn the call over to Mark to provide some insights on our Insurance segment.

**Mark Anquillare**

Thank you, Scott. I'm pleased to share with you that we had another strong quarter in Insurance with all businesses looking to growth. Organic constant currency revenue growth of 7.7% was fueled by market-leading innovation and enhanced customer engagement. Our retention rates remain very high as we continue to focus on getting close to our customers and delivering a best-in-class customer service experience.

During the quarter, underwriting and rating delivered strong organic constant currency revenue growth across both personal and commercial lines underwriting, extreme event modeling, and industry-standard insurance programs.

We continue to see great success in market share gains in personal lines due to the strong sales of our LightSpeed Auto suite of products. We're excited about the new sales and growing pipeline for our data-forward LightSpeed platform, extended into small commercial and personal property.

In the industry standard insurance programs, we're experiencing growth in customer accounts. We've had success winning engagements with new start-ups and InsurTech. In extreme event modeling, we're experiencing solid demand for our detailed models, driven by signings with new clients as well as expanding relationships with existing clients. We're also seeing increased interest in some of our newer solutions including our global resilience practice which works with governments and NGOs.

During the quarter, we hosted several successful seminars for our catastrophe modeling business in Auckland, Sydney, London, and Zurich that touch more than 350 clients and prospects.

And in October, we hosted Verisk Velocity, our signature event for underwriting and rating. The event focused on the future of the insurance industry with an eye towards digitization and automation of the insurance process. The conference attendance increased 46% versus last year as we attracted attendees from 130 insurance companies from around the world.

Feedback was positive from participants. We're excited about the direction of our new solutions and our thought leadership in the property and casualty insurance industry. The agenda feature presentations and panel discussions by industry-thought leaders and allowed Verisk to showcase our latest pipeline InsurTech solution.

In fact, our customers are telling us that they look to Verisk to drive forward the innovation agenda because we not only develop leading solutions, but we can back them up with financial strength in a long and stable operating history. The claims business also delivered solid growth with contributions from claims analytics, repair cost estimating, remote imagery, and our international businesses.

As Scott mentioned, we're seeing nice success with our visualized ClaimSearch platform, which is delivering significant growth in usage and positive sentiment in customers. The platform offers customers improvements like real-time analytics, improved security and privacy protection, fast delivery, and is seamlessly integrated into workflows and claim systems.

On the international side, we're seeing solid growth from recent acquisitions like Validus in claims subrogation solution and ENI, claims automation, and fraud detection solution. They're now part of organic.

A steady stream of first-to-market innovations is one of the four distinctives at Verisk and also a key driver of our growth. In the quarter, we announced several exciting new initiatives including the launch of our Sequel product suite in the U.S. The early feedback from the market is positive and the pipeline of interest from among our specialty commercial customers is robust.

We also announced solutions in new partnerships within the life insurance market. These solutions utilize the most advanced data analytic methods including advanced voice analytics, artificial intelligence, natural language processing, and will enable Verisk to develop new benchmarking risk-scoring solutions that can help life insurance on direct policies and managed portfolio risk with increased speed and precision.

With that, let me now turn it over to Lee to cover the financials.

**Lee Shavel**

Thanks Mark. First I would like to bring to everyone's attention that we've posted a quarterly earnings presentation that is available on our website. The presentation provides background, data trends, and analysis to support our conversation today.

Moving to the financial results for the quarter, on a consolidated and GAAP basis, revenue grew 9% to $653 million. In the current quarter, we incurred some significant non-operating expenses including firstly, the $125 million litigation reserve related to our remote imagery business; secondly, $29 million in acquisition-related earnout expenses as many of our acquisitions are on target to achieve payments for exceptional performance; and thirdly, a $6 million loss generated from the sale of our retail analytics solutions business, which was previously part of our Financial Services segment. In light of these expenses, net income and diluted GAAP EPS decreased approximately 80% to $33 million and $0.20 per share respectively.

Moving to our organic constant currency results adjusted for non-operating items including currency fluctuations, acquisitions for which we don't have full year-over-year comparisons, acquisition-related costs including earn-outs, dispositions and non-recurring items including the litigation reserve, remained solid.

On an organic constant currency basis, Verisk delivered revenue growth of 7.6% in the third quarter of 2019, reflecting organic growth across all three segments and delivering on our long-term target of 7% growth.

Of our three segments, Energy and Specialized Markets recorded the fastest growth, while Insurance also delivered solid results. This was offset in part by softer growth within Financial Services. Organic constant currency adjusted EBITDA growth was 7.7% demonstrating organic constant currency margin expansion, while also continuing to invest in future growth opportunities within our business.

Total adjusted EBITDA margin for the quarter was 47.4%, flat with the prior year period. This total adjusted EBITDA margin includes both organic and inorganic revenue and EBITDA. Acquisitions decreased total adjusted EBITDA points in the period. On an organic basis and particularly on the pre-investment organic basis that we've discussed before, we saw a margin expansion demonstrating the exceptional operating leverage at the core of our businesses.

On that note, let's turn to our segment results on an organic constant currency basis. As you see in the press release, Insurance reported 7.7% revenue growth, while adjusted EBITDA increased 7.9%. Within our underwriting and rating business, growth was very broad across our solution sets in personal lines and commercial lines.

We saw healthy growth in our industry standard insurance programs, LightSpeed auto suite of products, property-specific underwriting and catastrophe model solutions revenue. We also had positive contributions from our international business. Within claims, the strong growth was driven by solid performance in claims analytics, repair cost estimating solutions, remote imagery solutions and international markets.

Total adjusted EBITDA margin declined 25 basis points to 53.1% from 53.3% in the prior year period, reflecting leverage in our core business more than offset by investment in future growth opportunities and acquisitions.

Our fastest-growing segment was Energy and Specialized Markets, which delivered revenue growth of 8.7% for the quarter, representing record growth for that segment. Strong growth in market and cost intelligence solutions, as well as noted improvement in our core research and consulting revenues, drove the growth.

Despite volatility in the oil price and recent geopolitical events in the quarter, we continue to see a stable macro mat with new and innovative platforms that help our customers more efficiently drive revenue growth and deliver cost savings.

Adjusted EBITDA increased 10.9%, reflecting leverage on solid sales balanced with ongoing investments in breakout opportunities like Lens and our chemicals, subsurface and energy transition practice. Total adjusted EBITDA margin grew to 33.3% from 31.7%.

Financial Services revenue increased 2.7% in the quarter, led by solid growth in enterprise data management and fraud and credit risk management solutions. This was offset in part by decreases in portfolio management from non-recurring consulting revenues as well as some pushouts of certain projects.

Adjusted EBITDA decreased 3.5% and total adjusted EBITDA margin decreased to 32.8% from 35.5%. We have discussed previously the journey we are on to transition this business from a top-down orientation to a bottoms-up approach, with an emphasis on steady growth.

Change at scale is never linear and as we work through this process we will continue to see quarterly fluctuations on revenue and growth, which are higher than in our other business segments. That said, we are confident in the long-term potential of financial services as we set the business up on a stronger foundation.

In the third quarter of 2019, the company completed an additional $200 million issuance of our 4.125 percentage senior notes due 2029 at an issuance price of 110.9% for an effective yield of 2.78%, into a fourth amendment to our revolving credit facility which reduced the borrowing capacity to $1 billion from $1.5 billion, extended the maturity date to August 15, 2024 and amended the pricing grid with lower rates and improved economics.

Reported interest expense was $31 million in the quarter down 3.2% from the prior year quarter due to the net repayments of our revolving credit facility. Total reported debt was $2.7 billion at September 30 unchanged from the year-end of 2018. Our leverage at the end of the quarter -- of the third quarter 2019 was 2.4 times.

Our consolidated cash and cash equivalents were $312 million at September 30, 2019. Our reported effective tax rate was 15.5% for the quarter compared to 13.9% in the prior year quarter, primarily due to the impact of a lower level of option exercises and nondeductible earnout expenses in the current -- period.

We maintain our estimate of our effective tax rate in the full year 2019 to be between 19% and 21%. Adjusted net income was $186 million and diluted adjusted EPS was $1.12 for the third quarter, up 2.6% and 3.7% respectively. This increase reflects organic growth in the business, contributions from acquisitions and a decrease in interest expense and lower share count. The benefits were partially offset by an increase in depreciation and amortization expense and a higher effective tax rate.

Net cash provided by operating activities for the quarter down 5.7% from the prior year. Net cash provided by operating activities was $780 million year-to-date, up 2.5% from the prior year. Capital expenditures were $61 million for the quarter, up 10.1% from the prior year and CapEx represented 9.3% of total revenue in the quarter.

We now expect capital expenditures to come in at the low end of the $220 million to $240 million range, we provided for 2019. Free cash flow was $153 million for the quarter a decrease of 10.8% from the prior year, primarily due to higher income tax payments associated with a lower level of option exercises and timing differences related to the payment of certain expenses.

Free cash flow was $627 million year-to-date, an increase of 3.4% from the prior year. During the third quarter we returned -- reserves through share repurchases and dividends. We repurchased approximately 491,000 shares at a weighted average price of $152.84 for a total cost of $75 million.

At September 30, we had $228 million remaining under our share repurchase authorization. In addition, we initiated a new $50 million accelerated share repurchase to be executed in the fourth quarter.

And on September 30, we paid a cash dividend of $0.25 per share of common stock. This year, our Board of Directors approved a cash dividend of $0.25 per share of common stock payable on December 31, 2019 for shareholders of record on December 13, 2019.

We are excited about the opportunities to invest in our business and continue to manage capital prudently through internal investment strategic acquisitions and the return of capital to shareholders, being 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. [Operator Instructions] I'll ask the operator to open the line for questions.

**Question-and-Answer Session**

**Operator**

[Operator Instructions] Our first question comes from the line of Manav Patnaik. Your line is open.

**Manav Patnaik**

Thank you. Good morning gentlemen. My first question is just broadly around innovation and I guess the existing contribution from those products. You mentioned a lot on the call today. And I think recently you launched the cyber data exchange court side etcetera, etcetera.

Is there any way to parse out like how much of the last several years innovation is contributing to the revenue growth today?

**Scott Stephenson**

It's kind of hard to separate the effects Manav and reason is that, some of the innovation shows us as an entirely unique product with a very discrete revenue stream, but it also shows up as increased penetration of an existing product or price realization related to an existing product.

So it actually shows up in several places and an example of that would be the Lens platform which is supportive of – solutions, but also represents a discrete revenue stream in and of itself.

**Operator**

Thank you. Next question comes from the line of Toni Kaplan. Your line is open.

**Toni Kaplan**

Thank you. Scott, you discussed the impact of the litigation with regard to Geomni. But could you just give us a sense of if you feel the future opportunity is reduced? Or I know you mentioned you're trying to find non-infringing ways to address the roofing opportunity. But are you shifting some focus to the non-roofing opportunities? Or just I guess, how should we think about the future here?

**Scott Stephenson**

So we've always been interested in remote imagery for a whole variety of reasons and actually those reasons relate to use cases, which are even beyond the insurance vertical and we're -- well. So first of all by way of context what we do is a lot more than just roof reporting.

And we remain very interested in the category. We think that imaging remotely and then being able to in a very automated way translate what you've seen with the sensor is just -- that's an important technology for the world going forward, and we're intending to participate in it. We have participated in it and there are a number of ways to monetize the imagery itself. And so, no, I don't think that our opportunity is -- we don't see it any differently than we did.

**Toni Kaplan**

Thank you.

**Scott Stephenson**

Welcome. Thanks.

**Operator**

Thank you. Next question comes from the line of Ashish Sabadra. Your line is open.

**Ashish Sabadra**

Thanks for taking my question. Can you just help size the annualized revenues for the two acquisitions Genscape and BuildFax? And then also just talk about the historic growth and margin profile for these two acquisitions. Thanks.

**Lee Shavel**

Yeah. Ashish thanks for the question. We haven't broken out the revenues for those acquisitions separately. It will become organic. We're still closing Genscape and expect that within the next couple of weeks. But I would expect for the organic components incorporated in the fourth quarter results where you begin to get some sense of the scale of that.

**Ashish Sabadra**

That’s helpful. Thanks.

**Operator**

Thank you. Next question comes from the line of Andrew Nicholas [ph]. Your line is open.

**Unidentified Analyst**

Hi, Morning. Just wanted to stick with the Genscape acquisition. I was -- I know you guys gave some good color in your remarks and I appreciate that. I was wondering if you could talk a little bit more about the product set, how it's complementary to your existing business potentially with an example. And then any synergies we can think about in pairing that with the Verisk business as it stands today? Thanks.

**Scott Stephenson**

Sure. So first of all just -- I want to make sure everybody understands the breadth of what we do in the energy space. So we work with oil and gas companies on a global basis. We work with those who are producing the alternatives in terms of the renewables and we also work with electric utilities.

So I wanted to sell that -- to say that the way that the Genscape business got built was by creating sensors, which actually talk about real-time flows in those ecosystems. So, for example, there are sensors that are literally measuring the amount of current running through the transmission line. There are sensors, which are literally metering the flow of liquefied natural gas for example.

And these real-time data sets, we think are very complementary to the data sets we've already got. So in what we do with Wood Mackenzie, we have really good granular operating data, for example, from the wellhead. But it's not as real-time as these other data sets that we're talking about.

So now pull those two data sets together and provide even more of a perspective about what's happening commodity by commodity, location by location. And we just know that that's going to be valuable for our customers.

**Operator**

Thank you. Next question comes from the line of Gary Bisbee. Your line is open.

**Gary Bisbee**

Yeah, thanks good morning. So, Scott you've been talking for a while now probably a couple of years about just the work you're doing with your technology infrastructure moving where appropriate to the cloud. You've also alluded to some efficiencies there and obviously, a lot of discussion of innovation. So can you just take a step back for us and talk about how you see the cloud and where you are in the process number one?

Number two, what you see the long-term opportunity? As I'm sure you're aware a number of your information services for have actually proven out meaningful cost saves but also have seen the ability to accelerate their innovation efforts by getting more of their data into the cloud and hooking customers into that. So, are you on that same path? Do you see those same opportunities? And where exactly are you today? Thank you.

**Scott Stephenson**

Yes. So, we -- yes, I mean so you really had there Gary the two categories of benefit that arise from rotating our infrastructure into the cloud. So, one of them has to do with agility and that has to do with we can compute anywhere around the world literally by going to our say AWS dashboard and turning on new servers. It's that easy and it's that fast.

So, the ability to spin up new products I would also say that our customers are increasingly interested in being able to interact with what we provide in a whole variety of ways.

To the extent that what they're interested in is the sort of API on demand kind of approach then being already platforms in the cloud just makes it even that easier for them to attach to it. So, you've got all those benefits and then you've got cost benefits.

And so we're very much in pursuit of both of those. With respect to where we are in the journey, so you're right. We've been talking about it for a couple of years. It's a lot of heavy lifting and it does play out over time.

So, what I said in my remarks earlier is we've reached the first shelf. So, we've seen the first return of efficiency on the investments we've been making in moving to the cloud. There will be several more shelves over the course of the next couple of years. And so we feel very good about where we are.

I'll just say that we have a very close relationship with one of the cloud provider -- convenient to sort of dig in, especially with one of them. And they give us a lot of feedback that says that we're actually in advanced implementation of cloud computing at the scale that we're doing it.

So, we -- there's a -- we still have a good distance to go. Actually I look forward to the next shelves. But in the meantime, I'm very pleased with the work that our team is doing.

**Lee Shavel**

And Gary this is Lee. Just to supplement that a bit. And one thing that I want to make certain that everyone understands is that this is a discipline in a process. It's not a monolithic project where you do every -- a hundreds of individual products that need to be the data sets the applications need to be moved to the cloud. The code needs to be optimized for the cloud and so it is an ongoing process.

What I can assure you is that the economics are very good both from an OpEx standpoint and from a CapEx standpoint. We are taking this with some kind of key projects that we've demonstrated what we can accomplish and that's guiding us in the future projects ahead.

So, we think this will be a very clear uplift for us from a capital efficiency and from a margin perspective that will factor into our ability to further enhance our operating leverage across the business. But I want to make sure that everyone has an appreciation. This is something that you literally have to go product-by-product in order to make sure that you're fully realizing the potential.

**Operator**

Thank you. Next question comes from the line of Jeff Meuler. Your line is open.

**Jeff Meuler**

Yes, thank you. I wanted to ask about Energy and Specialized Markets and just make sure I'm not missing anything but it feels like the phrase solid improvement is underselling how good the numbers look to me. And when you describe it, I hear a lot of positive factors that sound recurring with I guess PowerAdvocate, cross-selling, the improvement in research and consulting and the Lens benefits.

So, is there any significant one-time revenue from consulting? Or I don't know if there's PowerAdvocate success fees or anything like that in the quarter. Or just curious on kind of the way you're characterizing the performance of that business. Thanks.

**Lee Shavel**

Yes. Thank you Jeff. We're obviously pleased with the results. I think I would try to break it down a bit by saying we saw solid improvement in those WoodMac -- in both the subscription and the consulting revenues at WoodMac. So, there was progress there.

And PowerAdvocate is clearly contributing and I would say had -- is having an exceptional 2019 as a result from some very good pipeline build at the end of 2018 and into 2019. And so part of driving through, we are seeing that reflected both in some of the implementation revenue as well as the subscription revenue, but over time we will expect to see a higher percentage of that kind of core subscription and recurring revenue within it.

Again, it's still primarily recurring revenue, but we are at the front end of some of their success early in the year in bringing new clients onto their solutions platform.

**Operator**

Thank you. Next question comes from the line of Andrew Jeffrey. Your line is open.

**Andrew Jeffrey**

Hi. Good morning. Appreciate you taking the question. I wonder Mark or Lee, if you could just remind us about the macro exposure and insurance. And I'm thinking about two factors: one, generally a hardening P&C market to the extent we go into that kind of environment, how that might affect the insurance business; and then two, if you could just give us an update on cat modeling. We heard one of your competitors perhaps if the reinsurance market continues to soften. Doesn't seem appearing in your results, but I'm just wondering if you could weigh in sort of at a high level on those items?

**Mark Anquillare**

Sure. So let me try to take those and you already ask them. So first of all, I think the general macro environment has been -- needs to be positive. There is a hardening in the market, especially around some of the commercial lines. Over the years, we have distanced our pricing from the actual premium. So if you have this history, I will tell you we are much more thoughtful about long-term contracts and -- but there is a little bit of a pull associated with more premium and there's more utility of the solutions.

So, there's a little more value on pricing that we would gain. But I think the bigger macro trend is as the markets harden everyone is kind of focused on the top line and growing it profitably. So the use of our solutions, I think continues to expand. People look to go into different lines and grow. And purchase is more easily -- it's easier to get through procurement in an environment where growth is happening.

So those are kind of the general trends that affect us inside the market. I would also tell you from a macro perspective the industry is very much focused on big data analytics. So we're right in the wheelhouse there. They're focused on automation. They're trying to become more efficient. There's a lot of technology projects in search of automation. That works to our advantage as well.

And finally, where we're trying to play more is inside the world of digitization. They're trying to make sure that their digital engagement with their policyholders continues to grow. And we had some solutions that help them.

I don't want to make this too long. On the sort of reinsurance side, we do see an opportunity or at least more consolidation among reinsurers. When that happens, it does cause a little bit of a challenge as we kind of renegotiate with the combined entity.

But generally, we have seen increased engagement with insurers and reinsurers on the extreme event modeling side of things. There has been kind of a little bit of a turn, where people are coming and moving towards our AR models and that is a broad kind of industry trend that we are very happy with and I think they recognize the power of the Touchstone platform that Scott was referring to earlier. I hope that responds to your question.

**Andrew Jeffrey**

Thank you.

**Operator**

Thank you. Next question comes from the line of George Tong. Your line is open.

**George Tong**

Hi. Thanks. Good morning. Scott with respect to the EagleView ruling you've indicated that you're working to adjust the cost structure of Geomni. My understanding is that Geomni is running at a loss. Just to confirm are you planning to taper your breakout investment spend in Geomni? Or are you planning to stay the course but redirect your investments elsewhere in aerial imagery?

**Lee Shavel**

Yeah. So George, thanks for the question. So as we described recognizing that we have this impact on the roof report revenue, our objective is to look for efficiencies that we can achieve in reducing the costs related to that dimension of the business. And again, that's just a part of the business in order to minimize the impact of that revenue -- the revenue loss.

At the same time, as Scott described, our commitment to the technology, our investment in the broader application of that business will continue. So we're trying to accomplish both of those, maintaining that commitment exploring the other applications and developing those dimensions, while at the same time offsetting as much as possible on that loss of revenue.

**George Tong**

Very helpful. Thank you.

**Operator**

Thank you. Next question comes from the line of Christopher Campbell. Your line is open.

**Christopher Campbell**

Yeah. Hi. Good morning. Just kind of a follow-up question on the Geomni question before. Is there -- I'm assuming that the margins are lower in the Geomni roof than your legacy P&C business. So with, like, kind of the rightsizing of this business, would that be accretive for Insurance segment margins?

**Scott Stephenson**

Well, we're not making a forward statement about where the margins are going. But what I will say is, it has been a category of heavy investment on our part. And one of the things I was trying to emphasize in my comments upfront, because we made a lot of investments in image capture. We now have a national image capture capability.

**Lee Shavel**

And I would confirm your assumption that on some of the non-roof report legacy businesses, that those were positive margin businesses and that the -- in development on the roof report, given the scaling up of those expenses, we're -- as we've indicated before, had a negative impact overall to our margins as we were in investment phase. So I think that observation is accurate.

**Christopher Campbell**

Okay. Thanks.

**Operator**

[Operator Instructions] Next question comes from the line of Joseph Foresi. Your line is open.

**Joseph Foresi**

Hi. I was wondering if you could provide a little bit more color on what the second shelf that you're referring to looks like, either from a margin or cash flow perspective. And what are the puts and takes on the margin side as we head into 2020?

**Scott Stephenson**

Yes. So maybe, Lee, you'd like to conclude and respond to that. But I'll just open by saying that there are really sort of two discrete things that go on as we hit these shelves. So one of them is -- and I'm pretty sure we've talked about this before, there's been a mainframe intensity to the way that we compute at Verisk.

That's because of our long legacy as an extremely data-rich company. And when this company first got going the mainframe configuration was very definitely the logical way to try to manage large data sets. But that's not true anymore. There has been change there.

So one of the shelf-creating developments is when we retire mainframe capacity and that is an ongoing activity. So that's one. And then, the second is, when we close data centers and that also will contribute shelves at moments in time as we go forward.

There are really no trade-offs, actually. I mean, in -- as I've said before, obviously, we build in a linear way the cost associated with cloud computing. But when I say there are no trade-offs I'm really saying two things. One is, the unit economics of computing in the cloud are just superior, period.

But the second thing is, actually, and Lee mentioned this when he took on the topic before, we actually are taking this opportunity to think about the very nature of our platforms. Literally, how does the calculation work? And as we move things up into the cloud, we're actually sort of peeling open the applications and reconsidering, you do this, you do this, then you do that, are there ways to be more efficient in capacity.

And so, it's actually a very constructive exercise. We just have to continue to be vary in touch with the way that the algorithms tool and the way that the -- the very nature of our data and how we put together our data sets. So there are no trade-offs. Actually, it's constructive microeconomically. It's constructive in terms of responsiveness to customers. And actually, we're just treating it as a journey to tighten up a lot of things about the way that we operate.

**Mark Anquillare**

And the only thing that maybe I'll use, tiers or shelves, there's a lot of investment that's required to do it right, right? You need to make sure you tune the application, so you use the cloud properly, so you don't overuse the processing time and effort. And as you transition, besides kind of this code rewrite, you're also taking advantage of cheaper database management systems and things like that.

So there's a ramp-up of cost before you see the benefit. And some of those are kind of trading off inside of our P&L and CapEx. And I just want to share that perspective with you about the timing of the shelves.

**Joseph Foresi**

From a quantitative perspective on, what the margins -- what this means for margins, going forward? I would assume that, Geomni kind of continuing to be more and more profitable and the data centers shifts going on.

And we're moving towards the second shelf, that the margins would naturally start to improve. But I just don't want to get ahead of myself from a modeling perspective. Thanks.

**Lee Shavel**

Yeah. So let me try to kind of give some context around that. So, I think, what you heard in Scott and Mark's comments are, that yes there certainly is a cost savings in terms of achieving the shelves. But also it is kind of the net effect of taking on the cloud costs, and then also optimizing the business.

And so, there is a complicated dimension to this. I want to underscore one thing. There clearly is a margin opportunity for us. But it consists both of greater OpEx efficiency, but also overall improvement in the operating leverage of the business itself in terms of what the applications can do and their ability to integrate other data and expand that.

And again adding another layer of complexity, we have a large number of products and businesses that we are moving to the cloud of how applicable cloud is to what they do, and with different time lines.

And so, it is impossible to extract what the quantum of that margin improvement is. We're learning as we go with each individual project tackling the biggest ones first. But we will see that positive margin improvement that we manage as part of our overall core objective of increasing margin over time. And then also investing that margin expansion to some level, where we are investing in future growth.

So, there is a lot of that. But it is clearly a very strong component of what will allow us to grow our core operating leverage further. And I know it would be great if we could provide some quantification. But it's just too large a project. And too complex for us to pin that to a specific number.

**Operator**

Thank you. [Operator Instructions] Next question comes from the line of Bill Warmington. Your line is open.

**Bill Warmington**

Good morning, everyone.

**Lee Shavel**

Hi, Bill.

**Bill Warmington**

So a question for you on Financial Services, the -- just wanted to ask about the product push outs, whether those go into Q4 or whether they're going into 2020? Or is it indefinite. And then, sort of along those lines on the EDM transition to more of a subscription model, what inning are we in there?

**Lee Shavel**

Bill on the push outs I think, we had some of the third quarter revenues. And some of them are longer development products that got pushed out into the fourth quarter. There were some that I think they pushed out into 2020. So I think a combination there.

And with regard to EDM, I think it is still a development project for us. We continue to see a very strong response from customers. And we're dealing with really substantiating this as a broader opportunity within the business on a client-by-client basis.

So very early stage, but everything that we have seen and continues to keep us enthusiastic about this as a core service, that is additive to our most important and largest clients.

**Bill Warmington**

Well, thank you very much.

**Lee Shavel**

Thanks, Bill.

**Operator**

Thank you. [Operator Instructions] There are no further questions at this time. Presenters, you may proceed.

**Scott Stephenson**

Yeah. Thank you. So, thanks everybody for joining us. Appreciate the questions, and the dialogue will be following up with several of you. And have a great day.

**Operator**

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect. Have a great day.