

Verisk Analytics, Inc.  
Form 10-Q  
October 30, 2018  
Table of Contents

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

---

FORM 10-Q

---

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number: 001-34480

---

VERISK ANALYTICS, INC.  
(Exact name of registrant as specified in its charter)

---

Delaware	26-2994223
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

545 Washington Boulevard	07310-1686
Jersey City, NJ	
(Address of principal executive offices)	(Zip Code)
(201) 469-3000	
(Registrant's telephone number, including area code)	

---

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer    Accelerated filer

Non-accelerated filer    Smaller reporting company

Edgar Filing: Verisk Analytics, Inc. - Form 10-Q

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of October 26, 2018, there were 164,620,141 shares outstanding of the registrant's Common Stock, par value \$.001.

---

Table of Contents

Verisk Analytics, Inc.  
 Index to Form 10-Q  
 Table of Contents

	Page Number
PART I — FINANCIAL INFORMATION	
<u>Item 1. Financial Statements (unaudited)</u>	
<u>Condensed Consolidated Balance Sheets</u>	<u>1</u>
<u>Condensed Consolidated Statements of Operations</u>	<u>2</u>
<u>Condensed Consolidated Statements of Comprehensive Income (Loss)</u>	<u>3</u>
<u>Condensed Consolidated Statements of Changes in Stockholders' Equity</u>	<u>4</u>
<u>Condensed Consolidated Statements of Cash Flows</u>	<u>5</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>6</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>26</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>38</u>
<u>Item 4. Controls and Procedures</u>	<u>38</u>
PART II — OTHER INFORMATION	
<u>Item 1. Legal Proceedings</u>	<u>39</u>
<u>Item 1A. Risk Factors</u>	<u>39</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>39</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>39</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>39</u>
<u>Item 5. Other Information</u>	<u>39</u>
<u>Item 6. Exhibits</u>	<u>40</u>
<u>SIGNATURES</u>	<u>41</u>
 Exhibit 31.1	
 Exhibit 31.2	

Exhibit 32.1

---

Table of Contents

## PART I — FINANCIAL INFORMATION

## Item 1. Financial Statements

## VERISK ANALYTICS, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

As of September 30, 2018 and December 31, 2017

	2018	2017
	(In millions, except for share and per share data)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 147.6	\$ 142.3
Available-for-sale securities	4.0	3.8
Accounts receivable, net of allowance for doubtful accounts of \$5.8 and \$4.6, respectively	324.2	345.5
Prepaid expenses	59.4	38.1
Income taxes receivable	11.9	28.8
Other current assets	46.6	39.1
Total current assets	593.7	597.6
Noncurrent assets:		
Fixed assets, net	518.5	478.3
Intangible assets, net	1,254.4	1,345.3
Goodwill, net	3,339.0	3,368.7
Deferred income tax assets	15.4	15.9
Other assets	130.1	214.5
Total assets	\$5,851.1	\$6,020.3
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$243.7	\$225.4
Short-term debt and current portion of long-term debt	542.3	724.4
Deferred revenues	433.2	384.7
Income taxes payable	—	3.1
Total current liabilities	1,219.2	1,337.6
Noncurrent liabilities:		
Long-term debt	2,044.9	2,284.4
Deferred income tax liabilities	341.6	337.8
Other liabilities	104.2	135.1
Total liabilities	3,709.9	4,094.9
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.001 par value per share; 2,000,000,000 shares authorized; 544,003,038 shares issued and 164,810,578 and 164,878,930 shares outstanding, respectively	0.1	0.1
Additional paid-in capital	2,265.3	2,180.1
Treasury stock, at cost, 379,192,460 and 379,124,108 shares, respectively	(3,411.0)	(3,150.5)
Retained earnings	3,796.4	3,308.0

Edgar Filing: Verisk Analytics, Inc. - Form 10-Q

Accumulated other comprehensive losses	(509.6 )	(412.3 )
Total stockholders' equity	2,141.2	1,925.4
Total liabilities and stockholders' equity	\$5,851.1	\$6,020.3

The accompanying notes are an integral part of these condensed consolidated financial statements.

1

---

Table of Contents

## VERISK ANALYTICS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(In millions, except for share and per share data)			
Revenues	\$598.7	\$549.1	\$1,781.2	\$1,574.9
Operating expenses:				
Cost of revenues (exclusive of items shown separately below)	219.2	198.5	662.2	575.1
Selling, general and administrative	95.7	80.9	281.0	235.6
Depreciation and amortization of fixed assets	39.5	33.8	121.6	99.4
Amortization of intangible assets	33.2	27.5	98.5	73.6
Total operating expenses	387.6	340.7	1,163.3	983.7
Operating income	211.1	208.4	617.9	591.2
Other income (expense):				
Investment income and others, net	14.1	2.6	19.3	7.9
Interest expense	(32.4)	(30.3)	(97.1)	(87.3)
Total other expense, net	(18.3)	(27.7)	(77.8)	(79.4)
Income before income taxes	192.8	180.7	540.1	511.8
Provision for income taxes	(26.8)	(60.0)	(87.6)	(161.3)
Net income	\$166.0	\$120.7	\$452.5	\$350.5
Basic net income per share	\$1.01	\$0.73	\$2.74	\$2.12
Diluted net income per share	\$0.99	\$0.72	\$2.68	\$2.08
Weighted average shares outstanding:				
Basic	164,829,250	164,577,575	164,962,647	165,314,267
Diluted	168,200,766	167,957,058	168,614,835	168,807,405

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

## VERISK ANALYTICS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
	(In millions)			
Net income	\$166.0	\$120.7	\$452.5	\$350.5
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment	(35.7)	82.2	(98.6)	204.9
Available-for-sale securities adjustment	—	—	—	0.2
Pension and postretirement liability adjustment	0.3	0.9	2.0	2.4
Total other comprehensive (loss) income	(35.4)	83.1	(96.6)	207.5
Comprehensive income	\$130.6	\$203.8	\$355.9	\$558.0

The accompanying notes are an integral part of these condensed consolidated financial statements.



Table of Contents

## VERISK ANALYTICS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)

For The Year Ended December 31, 2017 and The Nine Months Ended September 30, 2018

	Common Stock Issued	Par Value	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Losses	Total Stockholders' Equity
(In millions, except for share data)							
Balance, January 1, 2017	544,003,038	\$ 0.1	\$ 2,121.6	\$(2,891.4)	\$ 2,752.9	\$ (650.8 )	\$ 1,332.4
Net income	—	—	—	—	555.1	—	555.1
Other comprehensive income	—	—	—	—	—	238.5	238.5
Treasury stock acquired (3,356,360 shares)	—	—	—	(269.8 )	—	—	(269.8 )
Stock options exercised (1,125,004 shares reissued from treasury stock)	—	—	28.7	9.2	—	—	37.9
Restricted stock lapsed (143,557 shares reissued from treasury stock)	—	—	(1.1 )	1.1	—	—	—
Employee stock purchase plan (29,605 shares reissued from treasury stock)	—	—	2.2	0.2	—	—	2.4
Stock-based compensation	—	—	31.8	—	—	—	31.8
Net share settlement from restricted stock awards (36,067 shares withheld for tax settlement)	—	—	(2.9 )	—	—	—	(2.9 )
Other stock issuances (21,352 shares reissued from treasury stock)	—	—	(0.2 )	0.2	—	—	—
Balance, December 31, 2017	544,003,038	0.1	2,180.1	(3,150.5)	3,308.0	(412.3 )	1,925.4
Adjustments to opening retained earnings related to Topic 606 and ASU 2016-01	—	—	—	—	35.9	(0.7 )	35.2
Net income	—	—	—	—	452.5	—	452.5
Other comprehensive loss	—	—	—	—	—	(96.6 )	(96.6 )
Treasury stock acquired (2,574,123 shares)	—	—	—	(282.2 )	—	—	(282.2 )
Stock options exercised (2,301,868 shares reissued from treasury stock)	—	—	58.0	20.0	—	—	78.0
Restricted stock lapsed (170,833 shares reissued from treasury stock)	—	—	(1.4 )	1.4	—	—	—
Employee stock purchase plan (21,988 shares reissued from treasury stock)	—	—	2.1	0.2	—	—	2.3
Stock-based compensation	—	—	30.1	—	—	—	30.1
Net share settlement from restricted stock awards (33,499 shares withheld for tax settlement)	—	—	(3.5 )	—	—	—	(3.5 )
Other stock issuances (11,082 shares reissued from treasury stock)	—	—	(0.1 )	0.1	—	—	—
Balance, September 30, 2018	544,003,038	\$ 0.1	\$ 2,265.3	\$(3,411.0)	\$ 3,796.4	\$ (509.6 )	\$ 2,141.2

The accompanying notes are an integral part of these condensed consolidated financial statements.

4

---

Table of Contents

## VERISK ANALYTICS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

For The Nine Months Ended September 30, 2018 and 2017

	2018	2017
	(In millions)	
Cash flows from operating activities:		
Net income	\$452.5	\$350.5
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of fixed assets	121.6	99.4
Amortization of intangible assets	98.5	73.6
Amortization of debt issuance costs and original issue discount	3.1	3.1
Provision for doubtful accounts	4.1	1.4
Realized gain on subordinated promissory note	(12.3 )	—
Stock-based compensation	30.1	24.2
Realized gain on available-for-sale securities, net	(0.3 )	(0.1 )
Deferred income taxes	(8.7 )	(4.1 )
Loss on disposal of fixed assets, net	0.2	—
Changes in assets and liabilities, net of effects from acquisitions:		
Accounts receivable	15.7	4.0
Prepaid expenses and other assets	(22.4 )	(26.4 )
Income taxes	13.9	14.1
Accounts payable and accrued liabilities	43.2	21.7
Deferred revenues	51.3	47.2
Other liabilities	(29.5 )	(16.5 )
Net cash provided by operating activities	761.0	592.1
Cash flows from investing activities:		
Acquisitions, net of cash acquired of \$3.1 and \$22.1, respectively	(61.4 )	(674.3)
Purchase of equity method investments in nonpublic companies	—	(5.0 )
Escrow funding associated with acquisitions	(6.3 )	(30.9 )
Proceeds from subordinated promissory note	121.4	—
Capital expenditures	(154.5)	(113.8)
Purchases of available-for-sale securities	(0.1 )	(0.3 )
Proceeds from sales and maturities of available-for-sale securities	0.2	0.4
Other investing activities, net	(3.1 )	—
Net cash used in investing activities	(103.8)	(823.9)
Cash flows from financing activities:		
(Repayments) proceeds of short-term debt, net	(430.0)	40.0
Proceeds from issuance of short-term debt with original maturities greater than three months	—	455.0
Payment of debt issuance costs	—	(0.5 )
Repurchases of common stock	(282.2)	(276.2)
Proceeds from stock options exercised	74.7	26.0
Net share settlement from restricted stock awards	(3.5 )	(2.9 )
Other financing activities, net	(7.5 )	(7.1 )
Net cash (used in) provided by financing activities	(648.5)	234.3
Effect of exchange rate changes	(3.4 )	4.4
Increase in cash and cash equivalents	5.3	6.9

Edgar Filing: Verisk Analytics, Inc. - Form 10-Q

Cash and cash equivalents, beginning of period	142.3	135.1
Cash and cash equivalents, end of period	\$147.6	\$142.0
Supplemental disclosures:		
Income taxes paid	\$81.7	\$150.6
Interest paid	\$81.4	\$68.8
Noncash investing and financing activities:		
Deferred tax liability established on date of acquisition	\$5.1	\$53.2
Tenant improvement allowance	\$0.1	\$—
Capital lease obligations	\$12.8	\$4.2
Fixed assets included in accounts payable and accrued liabilities	\$1.8	\$1.3

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

VERISK ANALYTICS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(Amounts in millions, except for share and per share data, unless otherwise stated)

1. Organization:

Verisk Analytics, Inc. and its consolidated subsidiaries (“Verisk” or the “Company”) is a data analytics provider serving customers in insurance, energy and specialized markets, and financial services. Using various technologies to collect and analyze billions of records, Verisk draws on numerous data assets and domain expertise to provide first-to-market innovations that are integrated into customer workflows. Verisk offers predictive analytics and decision support solutions to customers in rating, underwriting, claims, catastrophe and weather risk, global risk analytics, natural resources intelligence, economic forecasting, and many other fields. Around the world, Verisk helps customers protect people, property, and financial assets.

Verisk was established to serve as the parent holding company of Insurance Services Office, Inc. (“ISO”) upon completion of the initial public offering (“IPO”), which occurred on October 9, 2009. ISO was formed in 1971 as an advisory and rating organization for the property and casualty (“P&C”) insurance industry to provide statistical and actuarial services, to develop insurance programs and to assist insurance companies in meeting state regulatory requirements. Over the past decade, the Company broadened its data assets, entered new markets, placed a greater emphasis on analytics, and pursued strategic acquisitions. Verisk trades under the ticker symbol “VRSK” on the Nasdaq Global Select Market.

2. Basis of Presentation and Summary of Significant Accounting Policies:

The accompanying unaudited condensed consolidated financial statements have been prepared on the basis of accounting principles generally accepted in the U.S. (“U.S. GAAP”). The preparation of financial statements in conformity with these accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant estimates include acquisition purchase price allocations, the fair value of goodwill, the realization of deferred tax assets and liabilities, acquisition related liabilities, fair value of stock-based compensation for stock options granted, and assets and liabilities for pension and postretirement benefits. Actual results may ultimately differ from those estimates. The condensed consolidated financial statements as of September 30, 2018 and for the three and nine months ended September 30, 2018 and 2017, in the opinion of management, include all adjustments, consisting of normal recurring items, to present fairly the Company’s financial position, results of operations and cash flows. The operating results for the three and nine months ended September 30, 2018 are not necessarily indicative of the results to be expected for the full year. Other than adopting Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers (“Topic 606”) and ASU No. 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities (“ASU No. 2016-01”) as of January 1, 2018, the condensed consolidated financial statements and related notes as of and for the three and nine months ended September 30, 2018 have been prepared on the same basis as and should be read in conjunction with the annual report on Form 10-K for the year ended December 31, 2017. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to the rules of the Securities and Exchange Commission (“SEC”). The Company believes the disclosures made are adequate to keep the information presented from being misleading.

Effective the first quarter of 2018, the operating segments of the Company are Insurance, Energy and Specialized Markets, and Financial Services. Previously, its operating segments were Decision Analytics and Risk Assessment. (See Note 13).

(a) Revenue Recognition

The following describes the Company’s primary types of revenues and the applicable revenue recognition policies. The Company recognizes revenues through agreements (generally one to five years) for hosted subscriptions, advisory/consulting services, and on a transactional basis. Each of our reportable segments, Insurance, Energy and Specialized Markets, and Financial Services has a portion of its revenue from more than one of these revenue types. The Company’s revenues are primarily derived from the sales of services and revenue is recognized when control of

the promised services is transferred to the customers, in an amount that reflects the consideration that the Company expects to be entitled to in exchange for those services. Fees for services provided by the Company are nonrefundable. Revenue is recognized net of applicable sales tax withholdings.

6

---

## Table of Contents

### Hosted Subscriptions

The Company offers two forms of hosted subscriptions. The first and most prevalent form of hosted subscription is where customers access content only through the online portal (the "Hosted Subscription"). The Company grants a license to the customer to enter the online portal. The license is a contractual mechanism that allows the customer to access the online portal for a defined period of time. As the license alone does not provide utility to the customer, the customer has no contractual right to take possession of the online portal at any time, and the customer cannot engage another party to host the online portal and related content, it is not considered a functional license under ASC 606. The Company's promise to the customer is to provide continuous access to the online portal and to update the content throughout the subscription period. Hosted Subscription is a single performance obligation that represents a series of distinct services (daily access to the online portal and related content) that are substantially the same and that have the same pattern of transfer to the customer. The Company recognizes revenue for Hosted Subscriptions ratably over the subscription period on a straight-line basis as services are performed and continuous access to information in the online portal is provided over the entire term of the agreements.

The second form of hosted subscription is where customers have access to the Company's online portals combined with software content that is delivered via disk drive/download to the customer ("Hosted Subscription with Disk Drive/Download") and is offered only on a limited basis. For this form of hosted subscription, the Company also grants the customer a license to enter the online portal and access the software content as needed and acts as the same contractual mechanism as described for Hosted Subscriptions. The Hosted Subscription with Disk Drive/Download works in such a manner that the customer gains significant benefit, functionality and overall utility only when the online portal and the software content are used together. The disk drive/download contains the models and the online portal contains the most up to date data and research which is updated throughout the subscription period. The models within the disk drive/download depend on the data and research contained within the online portal. The data and research within the online portal is only useful when the customer can utilize it within the models (e.g., queries, projections, etc.) so that they may use the most current information and alerts to forecast potential future losses. The software content is only sold together with the online portal to provide a highly interdependent and interrelated promise and therefore represents a single performance obligation. As the customer has no contractual right to take possession of the online portal at any time, and the customer cannot engage another party to host the online portal and related software content, it is not considered a functional license under ASC 606. The Company's promise to the customer is to deliver the disk drive/download, to provide continuous access to the online portal, and to update the software content throughout the subscription period. The Company recognizes revenue for Hosted Subscriptions with Disk Drive/Download ratably over the subscription period on a straight-line basis as services are performed and continuous access to information is provided over the entire term of the agreements.

Subscriptions are generally paid in advance of rendering services either quarterly or annually upon commencement of the subscription period, which is usually for one year and in most instances automatically renewed each year.

### Advisory/Consulting

The Company provides certain discrete project based advisory/consulting services, which are recognized over time by measuring the progress toward complete satisfaction of the performance obligation, based on the input method of consulting hours worked; this aligns with the results achieved and value transferred to the customer. The hours consumed are most reflective of the measure of progress towards satisfying the performance obligation, as the resources hours worked directly tie to the progress of the services to be provided. In general, they are billed over the course of the project.

### Transactional Basis

Certain solutions are also paid for by customers on a transactional basis. The Company recognizes these revenues as the solutions are delivered or services performed at point in time. In general, the customers are billed monthly at the end of each month.

#### Practical Expedient and Exemption

The Company generally recognizes revenues, provided that all other revenue recognition criteria are met, and related costs when incurred in accordance with Topic 606, because the period of recognition would have been one year or less. These costs are recorded within “Cost of revenues” and “Selling, general and administrative” expenses in the condensed consolidated statements of operations.

Accounts Receivables and Allowance for Doubtful Accounts

7

---



## Table of Contents

Accounts receivables are generally recorded at the invoiced amount. The allowance for doubtful accounts is estimated based on an analysis of the aging of the accounts receivable, historical write-offs, customer payment patterns, individual customer credit worthiness, current economic trends, and/or establishment of specific reserves for customers in adverse financial condition. The Company assesses the adequacy of the allowance for doubtful accounts on a quarterly basis.

### Deferred Commissions

The incremental costs of obtaining a contract with a customer, which primarily consist of sales commissions, are deferred and amortized over a useful life of 5 years that is consistent with the transfer to the customer the services to which the asset relates. The Company classifies deferred commissions as current or noncurrent based on the timing of expense recognition. The current and noncurrent portions of deferred commissions are included in prepaid expenses and other assets, respectively, in the condensed consolidated balance sheets as of September 30, 2018. Amortization expense related to deferred commissions is computed on a straight-line basis over its estimated useful lives and included in the condensed consolidated statements of operations.

### Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, Leases ("ASU No. 2016-02"). This guidance amends the existing accounting considerations and treatments for leases through the creation of Topic 842, Leases, to increase transparency and comparability among organizations by requiring the recognition of lease assets and lease liabilities on the balance sheet and the disclosure of key information about lease arrangements. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing and uncertainty of cash flows arising from such leases.

In July 2018, FASB issued ASU No. 2018-10, Codification Improvements to Topic 842, Leases, ("ASU No. 2018-10") to further clarify, correct and consolidate various areas previously discussed in ASU 2016-02. FASB also issued ASU No. 2018-11, Leases: Targeted Improvements ("ASU 2018-11") to provide entities another option for transition and lessors with a practical expedient. The transition option allows entities to not apply ASU No. 2016-02 in comparative periods in the financial statements in the year of adoption. The practical expedient offers lessors an option to not separate non-lease components from the associated lease components when certain criteria are met. The Company established a corporate implementation team, which engages with cross-functional representatives from all of its businesses. The Company is utilizing a bottom-up approach to analyze the impact of the standard on its lease contract portfolio by reviewing current accounting policies and practices to identify potential differences that would result from applying the requirements of the new standard to lease arrangements. In addition, the Company is in the process of identifying and/or implementing the appropriate changes to its business processes, systems and controls to support recognition and disclosure under the new standard.

The amendments in ASU No. 2016-02, ASU No. 2018-10 and ASU No. 2018-11 are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, and allow for modified retrospective adoption with early adoption permitted. The Company has decided not to early adopt the amendments and will adopt on January 1, 2019. The Company is also assessing the impact associated with the adoption of ASU No. 2016-02, ASU No. 2018-10 and ASU No. 2018-11 on the condensed consolidated financial statements, which is expected to be material based upon review of the future contractual obligations.

In June 2018, FASB issued ASU No. 2018-07, Improvements to Nonemployee Share-Based Payment Accounting ("ASU No. 2018-07") intended to reduce cost and complexity and to improve financial reporting for share-based payments issued to nonemployees. This ASU expands the scope of Topic 718, Compensation - Stock Compensation ("Topic 718"), to include share-based payment transactions for acquiring goods and services from nonemployees. An entity should apply the requirements of Topic 718 to nonemployee awards except for specific guidance on inputs to an option pricing model and the attribution of cost. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. Early adoption is permitted. The Company has decided not to early adopt the amendments. The adoption of ASU No. 2018-07 is not expected to have a material impact on the Company's condensed consolidated financial statements.

In August 2018, FASB issued ASU No. 2018-13, Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement ("ASU No. 2018-13"), which eliminates, adds and modifies certain fair value measurement disclosure requirements of Accounting Standards Codification 820, Fair Value Measurement ("ASC 820"). The amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. The Company has decided not to early adopt the amendments. The adoption of ASU No. 2018-13 is not expected to have a material impact on the Company's condensed consolidated financial statements.

Table of Contents

In August 2018, FASB issued ASU No. 2018-14, Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plan ("ASU 2018-14"), which removes, adds and clarifies certain disclosure requirements for employers who sponsor defined benefit pension and other postretirement plans. The amendments in this ASU are effective for fiscal years ending after December 15, 2020. Early adoption is permitted. The Company is evaluating the impact of ASU 2018-14, but does not expect to have a material impact on the Company's condensed consolidated financial statements.

In August 2018, FASB issued ASU No. 2018-15, Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract ("ASU No. 2018-15"). Under the amendments of this guidance, customers will apply the same criteria for capitalizing implementation costs as they would for an arrangement that has a software license. The guidance also prescribes the balance sheet, income statement, and cash flow classification of the capitalized implementation costs and related amortization expense, and requires additional quantitative and qualitative disclosures. The amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. The Company will evaluate the impact of ASU No. 2018-15 for future implementation costs incurred subsequent to the effective date.

## 3. Revenues:

In May 2014, the FASB issued Topic 606, which replaces numerous requirements under Topic 605, Revenue Recognition ("Topic 605"), in U.S. GAAP, including industry-specific requirements, and provides companies with a single revenue recognition model for recognizing revenue from contracts with customers. The core principle of the new standard is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. Revenue is recognized in a five-step model: 1) identify the contract with a customer; 2) identify the performance obligations in the contract; 3) determine the transaction price; 4) allocate the transaction price to the performance obligations in the contract; and 5) recognize revenue when or as the company satisfies a performance obligation. The two permitted transition methods under the new standard are the full retrospective method, in which case the standard would be applied to each prior reporting period presented and the cumulative effect of applying the standard would be recognized at the earliest period shown, or the modified retrospective method, in which case the cumulative effect of applying the standard would be recognized at the date of initial application. Effective January 1, 2018, the Company adopted the requirements of Topic 606 using the modified retrospective method. The results of operations for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with the historic accounting under Topic 605. The accounting policies related to Topic 605 were presented in the Form 10-K for the year ended December 31, 2017, for which the Company recognized revenue when the following four criteria were met: persuasive evidence of an arrangement existed, delivery had occurred or services had been rendered, fees and/or price was fixed or determinable, and collectability was reasonably assured.

The following table shows cumulative effect of the changes made to the January 1, 2018 condensed consolidated balance sheet for the adoption of Topic 606 related to contracts that were entered into prior to and remained in progress subsequent to the adoption:

	December 31, 2017	Adjustments due to Topic 606	January 1, 2018
Accounts receivable	\$ 345.5	\$ 3.0 (1)	\$ 348.5
Prepaid expenses	\$ 38.1	\$ 14.9 (2)	\$ 53.0
Other assets	\$ 214.5	\$ 27.0 (2)	\$ 241.5
Deferred revenues	\$ 384.7	\$ (1.5 )	\$ 383.2
Deferred income tax liabilities	\$ 337.8	\$ 11.2	\$ 349.0
Retained earnings	\$ 3,308.0	\$ 35.2	\$ 3,343.2

(1)Relates to unbilled receivables

(2)Relates to current and non-current deferred commissions, respectively



Table of Contents

In accordance with Topic 606, the disclosure of the impact of adoption on the unaudited condensed consolidated statement of operations and the condensed consolidated balance sheet for and as of the three and nine months ended September 30, 2018 are as follows:

	Three months ended September 30, 2018 under Topic 605	Adjustments due to Topic 606	Three months ended September 30, 2018 under Topic 606
Revenues	\$ 598.2	\$ 0.5	\$ 598.7
Selling, general and administrative <sup>(3)</sup>	\$ 96.8	\$ (1.1 )	\$ 95.7
Provision for income taxes	\$ (26.4 )	\$ (0.4 )	\$ (26.8 )
Net income	\$ 164.8	\$ 1.2	\$ 166.0
	Nine months ended September 30, 2018 under Topic 605	Adjustments due to Topic 606	Nine months ended September 30, 2018 under Topic 606
Revenues	\$ 1,780.3	\$ 0.9	\$ 1,781.2
Selling, general and administrative <sup>(3)</sup>	\$ 285.0	\$ (4.0 )	\$ 281.0
Provision for income taxes	\$ (86.4 )	\$ (1.2 )	\$ (87.6 )
Net income	\$ 448.8	\$ 3.7	\$ 452.5

(3)Includes deferred commission amortization under Topic 606

	As of September 30, 2018 under Topic 605	Adjustments due to Topic 606	As of September 30, 2018 under Topic 606
Accounts receivable	\$ 319.5	\$ 4.7	\$ 324.2
Prepaid expenses	\$ 43.1	\$ 16.3	\$ 59.4
Other assets	\$ 99.7	\$ 30.4	\$ 130.1
Accounts payable and accrued liabilities	\$ 242.9	\$ 0.8	\$ 243.7
Deferred revenues	\$ 433.9	\$ (0.7 )	\$ 433.2
Deferred income tax liabilities	\$ 329.2	\$ 12.4	\$ 341.6
Retained earnings	\$ 3,757.5	\$ 38.9	\$ 3,796.4

Disaggregated revenues by type of service and by country are provided below for the three and nine months ended September 30, 2018 and 2017. No individual country outside of the U.S. accounted for 10.0% or more of the Company's consolidated revenues for the three and nine months ended September 30, 2018 or 2017.

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
Insurance:				
Underwriting & rating	\$285.1	\$261.8	\$854.6	\$777.0
Claims	142.6	134.2	415.1	368.3

Edgar Filing: Verisk Analytics, Inc. - Form 10-Q

Total Insurance	427.7	396.0	1,269.7	1,145.3
Energy and Specialized Markets	127.7	111.4	383.1	328.0
Financial Services	43.3	41.7	128.4	101.6
Total revenues	\$598.7	\$549.1	\$1,781.2	\$1,574.9

10

---

Table of Contents

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues:				
U.S.	\$464.0	\$435.1	\$1,373.9	\$1,240.1
U.K.	36.6	27.8	107.6	77.6
Other countries	98.1	86.2	299.7	257.2
Total revenues	\$598.7	\$549.1	\$1,781.2	\$1,574.9

The Company's remaining performance obligations represent future revenues not yet recorded for services that have not yet been performed. The Company's most significant remaining performance obligations relate to providing customers with the right to use and update the online content over the remaining contract term. Revenues expected to be recognized in the future related to performance obligations, included within our deferred revenue and other liabilities, that are unsatisfied at September 30, 2018 are \$435.5 million. Our disclosure of the timing for satisfying the performance obligation is based on the requirements of contracts with customers. However, from time to time, these contracts may be subject to modifications, impacting the timing of satisfying the performance obligations. These performance obligations, which are expected to be satisfied within one year and greater than one year, comprised 98.0% and 2.0% of the balance at September 30, 2018, respectively.

#### 4. Contract Assets and Contract Liabilities

Contract assets are defined as an entity's right to consideration in exchange for goods or services that the entity has transferred to a customer when that right is conditioned on something other than the passage of time. As of September 30, 2018 and January 1, 2018, the Company had no contract assets. Contract liabilities are defined as an entity's obligation to transfer goods or services to a customer for which the entity has received consideration (an amount of consideration is due) from the customer. As of September 30, 2018 and January 1, 2018, the Company had contract liabilities of \$435.5 million and \$386.7 million, respectively. The \$48.8 million increase in contract liabilities from January 1, 2018 to September 30, 2018 was primarily due to billings of \$484.5 million that were paid in advance, partially offset by \$435.7 million of revenue recognized in the nine months ended September 30, 2018. Contract liabilities are included in "Deferred revenues" and "Other liabilities" in the condensed consolidated balance sheet as of September 30, 2018 and January 1, 2018.

#### 5. Fair Value Measurements:

Certain assets and liabilities of the Company are reported at fair value in the accompanying condensed consolidated balance sheets. To increase consistency and comparability of assets and liabilities recorded at fair value, ASC 820-10, Fair Value Measurements ("ASC 820-10"), established a three-level fair value hierarchy to prioritize the inputs to valuation techniques used to measure fair value. ASC 820-10 requires disclosures detailing the extent to which companies measure assets and liabilities at fair value, the methods and assumptions used to measure fair value and the effect of fair value measurements on earnings. In accordance with ASC 820-10, the Company applied the following fair value hierarchy:

Level 1 - Assets or liabilities for which the identical item is traded on an active exchange, such as publicly-traded instruments.

Level 2 - Assets and liabilities valued based on observable market data for similar instruments.

Level 3 - Assets or liabilities for which significant valuation assumptions are not readily observable in the market; instruments valued based on the best available data, some of which are internally-developed, and considers risk premiums that market participants would require.

The fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and short-term debt approximate their carrying amounts because of the short-term nature of these instruments.





Table of Contents

The following table summarizes fair value measurements by level for registered investment companies that were measured at fair value on a recurring basis:

	Quoted Prices in Active Markets for Identical Assets (Level 1)
September 30, 2018	
Registered investment companies <sup>(1)</sup>	\$ 4.0
December 31, 2017	
Registered investment companies <sup>(1)</sup>	\$ 3.8

<sup>(1)</sup> Registered investment companies are classified as available-for-sale securities and are valued using quoted prices in active markets multiplied by the number of shares owned.

The Company has elected not to carry its subordinated promissory note receivable and long-term debt at fair value. The subordinated promissory note had a face value of \$100.0 million, an interest rate of 9.0% that was paid-in kind and an eight year maturity with a prepayment option without penalty. As of December 31, 2017, the carrying value of the subordinated promissory note receivable was included in "Other assets" in the accompanying condensed consolidated balance sheets. On August 27, 2018, the debtor chose to exercise their prepayment option to settle the subordinated promissory note receivable in full. As a result of the settlement of the note receivable, the Company recorded a gain of \$12.3 million during the three and nine months ended September 30, 2018, which was included under "Investment income and others, net" in the accompanying condensed consolidated statements of operations. The carrying value of the long-term debt represents amortized cost less unamortized discount and debt issuance costs. The Company assesses the fair value of these financial instruments based on an estimate of interest rates available to the Company for financial instruments with similar features, the Company's current credit rating and spreads applicable to the Company. The following table summarizes the carrying value and estimated fair value of these financial instruments as of September 30, 2018 and December 31, 2017, respectively:

	Fair Value Hierarchy	2018		2017	
		Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial instruments not carried at fair value:					
Subordinated promissory note receivable	Level 2	\$—	\$—	\$95.3	\$ 83.3
Long-term debt excluding capitalized leases and credit facility	Level 2	\$2,283.1	\$2,325.9	\$2,280.6	\$2,439.8

The Company received a 10.0% non-participating interest in VCVH Holdings LLC in 2016 with the sale of the Company's healthcare business. As of September 30, 2018, the balance of this investment was \$8.4 million and accounted for as a cost based investment under ASC 323-10-25, The Equity Method of Accounting for Investments in Common Stock ("ASC 323-10-25"), because the interest is currently non-participating, and the Company does not have the ability to exercise significant influence over the investees' operating and financial policies. As of September 30, 2018, the Company also had an investment in a limited partnership of \$7.0 million accounted for in accordance with ASC 323-10-25 as an equity method investment.

## 6. Acquisitions:

### 2018 Acquisitions

On June 20, 2018, the Company acquired 100 percent of the stock of Validus-IVC Limited ("Validus"), a provider of claims management solutions and developer of the subrogation portal in the UK, verify™, for a net cash purchase price of \$46.1 million, of which \$5.9 million represents contingent escrows. Validus has become part of the claims category within the Company's Insurance segment. The integration of Validus' verify™ platform with the Company's global claims analytic services allows insurers to take advantage of enhanced analytic and technology tools to help improve and automate the claims settlement process. The preliminary purchase price allocation of the acquisition is

presented in the table below.

On February 21, 2018, the Company acquired 100 percent of the stock of Business Insight Limited (“Business Insight”), a provider of predictive analytics for insurers in the U.K. and Ireland, for a net cash purchase price of \$17.1 million, including a holdback of \$0.9 million. Business Insight has become part of the underwriting and ratings category within the Insurance segment. Business Insight offers a comprehensive set of peril models to support underwriting and rating for the

12

---

Table of Contents

commercial property and homeowners insurance market. The preliminary purchase price allocation of the acquisition is presented as part of "Others" in the table below.

On January 5, 2018, the Company acquired 100 percent of the stock of Marketview Limited ("Marketview") for a net cash purchase price of \$4.0 million, of which \$0.4 million represents indemnity escrows. Marketview is a provider of consumer spending analysis and insights across the retail, hospitality, property, and government sectors in New Zealand. Marketview has become part of the Financial Services segment. The acquisition helps expand the Company's solutions related to consumer spending analytics across the Australasia and Oceania regions by combining its domain expertise and proprietary data assets with those of Marketview. The preliminary purchase price allocation of the acquisition is presented as part of "Others" in the table below.

The preliminary purchase price allocations of the 2018 acquisitions resulted in the following:

	Validus	Others	Total
Cash and cash equivalents	\$ 0.9	\$ 2.2	\$ 3.1
Accounts receivable	1.5	1.1	2.6
Current assets	6.2	0.3	6.5
Fixed assets	0.4	0.2	0.6
Intangible assets	20.9	8.3	29.2
Goodwill	25.0	15.8	40.8
Other assets	—	0.4	0.4
Total assets acquired	54.9	28.3	83.2
Current liabilities	4.1	1.0	5.1
Deferred revenues	0.1	1.1	1.2
Deferred income taxes, net	3.5	1.6	5.1
Other liabilities	0.2	1.3	1.5
Total liabilities assumed	7.9	5.0	12.9
Net assets acquired	47.0	23.3	70.3
Cash acquired	(0.9 )	(2.2 )	(3.1 )
Net cash purchase price	\$ 46.1	\$ 21.1	\$ 67.2

The preliminary amounts assigned to intangible assets by type for the 2018 acquisitions are summarized in the table below:

	Weighted Average Useful Life	Total
Technology-related	6 years	\$ 12.4
Marketing-related	7 years	1.7
Customer-related	10 years	15.1
Total intangible assets		\$ 29.2

The preliminary allocations of the purchase price for the 2017 and 2018 acquisitions with less than a year ownership are subject to revisions as additional information is obtained about the facts and circumstances that existed as of each acquisition date. The revisions may have a significant impact on the condensed consolidated financial statements. The allocations of the purchase price will be finalized once all information is obtained, but not to exceed one year from the acquisition date. The primary areas of the purchase price allocation that are not yet finalized relate to operating leases, income and non-income taxes, deferred revenues, the valuation of intangible assets acquired, and residual goodwill.

The preliminary amounts assigned to intangible assets by type for these acquisitions were based upon the Company's valuation model and historical experiences with entities with similar business characteristics.

For the nine months ended September 30, 2018, the Company finalized the purchase accounting for the acquisitions of Arium Limited ("Arium"), Healix International Holdings Limited ("Healix"), Emergent Network Intelligence Limited ("ENI"), Fintellix Solutions Private Limited ("Fintellix"), MAKE Consulting A/S ("MAKE"), and the net assets of Blue Skies Consulting, LLC, ControlCam, LLC, Krawietz Aerial Photography, LLC, Richard Crouse & Associates, Inc., Rocky Mountain Aerial Surveys, Inc., Skyview Aerial Photo, Inc., and Valley Air Photos, LLC (collectively referred to as "Aerial Imagery



Table of Contents

acquisitions"), G2 Web Services, LLC ("G2"), Sequel Business Solutions Ltd. ("Sequel") and Lundquist Consulting, Inc. ("LCI") during the measurement periods in accordance with ASC 805, Business Combinations. The impact of finalization of the purchase accounting associated with these acquisitions was not material to the accompanying condensed consolidated statements of operations for the three and nine months ended September 30, 2018 and 2017. For the three and nine months ended September 30, 2018, the Company incurred transaction costs of \$0 and \$1.2 million, respectively, for the 2018 acquisitions. For the three and nine months ended September 30, 2017, the Company incurred transaction costs of \$3.2 million and \$5.9 million, respectively, related to the 2017 acquisitions. The transaction costs were included within "Selling, general and administrative" expenses in the accompanying condensed consolidated statements of operations. For the 2018 acquisitions, the goodwill of \$40.8 million associated with the stock purchases of Marketview, Business Insight and Validus is not deductible for tax purposes. The 2018 acquisitions were immaterial, both individually and in the aggregate, to the Company's condensed consolidated financial statements for the three and nine months ended September 30, 2018 and 2017, and therefore, supplemental information disclosure on an unaudited pro forma basis is not presented.

Acquisition Escrows and Related Liabilities

Pursuant to the related acquisition agreements, the Company has funded various escrow accounts to satisfy pre-acquisition indemnity and tax claims arising subsequent to the acquisition date, as well as a portion of the contingent payments. At September 30, 2018 and December 31, 2017, the current portion of the escrows amounted to \$33.1 million and \$22.9 million, and the noncurrent portion of the escrows amounted to \$0 and \$26.3 million, respectively. The current and noncurrent portions of the escrows have been included in "Other current assets" and "Other assets" in the accompanying condensed consolidated balance sheets, respectively.

The acquisitions of PowerAdvocate and Validus include acquisition related contingencies, for which the sellers of PowerAdvocate and Validus could receive additional payments by achieving the specific predetermined revenue and EBITDA earn-out targets for exceptional performance. As of each respective acquisition date, the Company recorded acquisition related liabilities and goodwill of \$34.2 million associated with PowerAdvocate and \$3.1 million associated with Validus. The Company believes that the liabilities recorded as of September 30, 2018 reflect the best estimate of acquisition contingent payments. The acquisition related liabilities of these acquisitions of \$8.3 million and \$30.5 million have been included in "Accounts payable and accrued liabilities" and "Other liabilities" in the accompanying condensed consolidated balance sheets as of September 30, 2018, respectively.

7. Goodwill and Intangible Assets:

The following is a summary of the change in goodwill from December 31, 2017 through September 30, 2018, both in total and as allocated to the Company's operating segments:

	Insurance	Energy and Specialized Markets	Financial Services	Total
Goodwill, net at December 31, 2017 <sup>(1)</sup>	\$ 749.5	\$ 2,149.6	\$ 469.6	\$ 3,368.7
Current period acquisitions	38.0	—	2.8	40.8
Purchase accounting reclassification	5.1	(10.1 )	1.4	(3.6 )
Foreign currency translation	(11.5 )	(53.7 )	(1.7 )	(66.9 )
Goodwill, net at September 30, 2018 <sup>(1)</sup>	\$ 781.1	\$ 2,085.8	\$ 472.1	\$ 3,339.0

<sup>(1)</sup> These balances are net of accumulated impairment charges of \$3.2 million that occurred prior to December 31, 2017.

Goodwill and intangible assets with indefinite lives are subject to impairment testing annually as of June 30, or whenever events or changes in circumstances indicate that the carrying amount may not be fully recoverable. Goodwill impairment testing compares the carrying value of each reporting unit to its fair value. If the fair value of the reporting unit exceeds the carrying value of the net assets, including goodwill assigned to that reporting unit, goodwill is not impaired. If the carrying value of the reporting unit's net assets including goodwill exceeds the fair value of the reporting unit, then the Company will determine the implied fair value of the reporting unit's goodwill. If the carrying

value of a reporting unit's goodwill exceeds its implied fair value, then an impairment loss is recorded for the difference between the carrying amount and the implied fair value of goodwill. The Company completed the required annual impairment test as of June 30, 2018, and

Table of Contents

concluded that there was no impairment of goodwill. There were no triggering events for the three months ended September 30, 2018 that would impact the results of the impairment test performed as of June 30, 2018.

The Company's intangible assets and related accumulated amortization consisted of the following:

	Weighted Average Useful Life	Cost	Accumulated Amortization	Net
September 30, 2018				
Technology-based	8 years	\$424.4	\$ (247.6 )	\$ 176.8
Marketing-related	16 years	258.2	(74.3 )	183.9
Contract-based	6 years	5.0	(5.0 )	—
Customer-related	14 years	720.4	(212.0 )	508.4
Database-related	19 years	459.9	(74.6 )	385.3
Total intangible assets		\$1,867.9	\$ (613.5 )	\$1,254.4
December 31, 2017				
Technology-based	8 years	\$421.0	\$ (222.9 )	\$198.1
Marketing-related	17 years	263.9	(62.9 )	201.0
Contract-based	6 years	5.0	(5.0 )	—
Customer-related	14 years	704.2	(174.0 )	530.2
Database-related	19 years	474.7	(58.7 )	416.0
Total intangible assets		\$1,868.8	\$ (523.5 )	\$1,345.3

Amortization expense related to intangible assets for the three months ended September 30, 2018 and 2017 was \$33.2 million and \$27.5 million, respectively. Amortization expense related to intangible assets for the nine months ended September 30, 2018 and 2017 was \$98.5 million and \$73.6 million, respectively. Estimated amortization expense for the remainder of 2018 and the years through 2023 and thereafter for intangible assets subject to amortization is as follows:

Year	Amount
2018	\$32.5
2019	129.4
2020	127.2
2021	116.9
2022	105.5
2023 and thereafter	742.9
	\$1,254.4

#### 8. Income Taxes:

The Company's effective tax rate for the three and nine months ended September 30, 2018 was 13.91% and 16.22%, compared to the effective tax rate for the three and nine months ended September 30, 2017 of 33.19% and 31.51%.

The effective tax rate for the three and nine months ended September 30, 2018 is lower than the effective tax rate for the three and nine months ended September 30, 2017 primarily due to the impact of tax reform lowering the U.S. tax rate from 35.0% to 21.0%, as well as the impact of greater tax benefits from equity compensation in the current period versus the prior period. The difference between statutory tax rates and the Company's effective tax rate is primarily due to tax benefits attributable to equity compensation, offset by additional state and local income taxes.

Table of Contents

## 9. Debt:

The following table presents short-term and long-term debt by issuance as of September 30, 2018 and December 31, 2017:

	Issuance Date	Maturity Date	2018	2017
Short-term debt and current portion of long-term debt:				
Syndicated revolving credit facility	Various	Various	\$285.0	\$715.0
Capital lease obligations	Various	Various	7.5	9.4
4.875% senior notes, less unamortized discount and debt issuance costs of \$0.2 in 2018	12/8/2011	1/15/2019	249.8	—
Short-term debt and current portion of long-term debt			542.3	724.4
Long-term debt:				
Senior notes:				
4.000% senior notes, less unamortized discount and debt issuance costs of \$8.2 and \$9.1, respectively	5/15/2015	6/15/2025	891.8	890.9
5.500% senior notes, less unamortized discount and debt issuance costs of \$4.7 and \$4.9, respectively	5/15/2015	6/15/2045	345.3	345.1
4.125% senior notes, less unamortized discount and debt issuance costs of \$2.4 and \$2.9, respectively	9/12/2012	9/12/2022	347.6	347.1
4.875% senior notes, less unamortized discount and debt issuance costs of \$0.7 in 2017	12/8/2011	1/15/2019	—	249.3
5.800% senior notes, less unamortized discount and debt issuance costs of \$1.4 and \$1.8, respectively	4/6/2011	5/1/2021	448.6	448.2
Capital lease obligations	Various	Various	14.8	7.6
Syndicated revolving credit facility debt issuance costs	Various	Various	(3.2 )	(3.8 )
Long-term debt			2,044.9	2,284.4
Total debt			\$2,587.2	\$3,008.8

As of September 30, 2018 and December 31, 2017, the Company had senior notes with an aggregate principal amount of \$2,300.0 million outstanding and was in compliance with their financial debt covenants.

As of September 30, 2018, the Company had a borrowing capacity of \$1,500.0 million under the committed senior unsecured Syndicated Revolving Credit Facility (the "Credit Facility") with Bank of America N.A., JP Morgan Chase, N.A., and a syndicate of banks. The Credit Facility may be used for general corporate purposes, including working capital needs and capital expenditures, acquisitions and the share repurchase program (the "Repurchase Program"). The Company was in compliance with all financial debt covenants under the Credit Facility as of September 30, 2018. Subsequent to September 30, 2018, the Company had borrowings of \$35.0 million and repayments of \$25.0 million under the Credit Facility.

## 10. Stockholders' Equity:

The Company's common shares have rights to any dividend declared by the board of directors (the "Board"), subject to any preferential or other rights of any outstanding preferred stock, and voting rights to elect all twelve members of the Board.

The Company has 80,000,000 shares of authorized preferred stock, par value \$0.001 per share. The preferred shares have preferential rights over the common shares with respect to dividends and net distribution upon liquidation. The Company did not issue any preferred shares as of September 30, 2018.





Table of Contents

Share Repurchase Program

Since May 2010, the Company has authorized repurchases of up to \$3,300.0 million of its common stock through its Repurchase Program, including an additional authorization of \$500.0 million approved on May 16, 2018. The Company has repurchased shares with an aggregate value of \$2,716.0 million. The Company repurchased 2,574,123 shares of common stock with an aggregate value of \$282.2 million during the nine months ended September 30, 2018. As of September 30, 2018, the Company had \$584.0 million available to repurchase shares through its Repurchase Program.

On June 15, 2018, the Company entered into an Accelerated Share Repurchase ("ASR") agreement to repurchase shares of its common stock for an aggregate purchase price of \$50.0 million. The ASR agreement is accounted for as an initial treasury stock transaction and a forward stock purchase agreement indexed to the Company's own common stock. The forward stock purchase agreement is classified as an equity instrument under ASC 815-40, Contracts in Entity's Own Equity ("ASC 815-40") and was deemed to have a fair value of zero at the effective date. Upon payment of the aggregate purchase price on July 2, 2018, the Company received an initial delivery of 371,609 shares of its common stock. The aggregate purchase price was recorded as a reduction to stockholders' equity in the Company's condensed consolidated statements of changes in stockholders' equity for the nine months ended September 30, 2018. Upon the final settlement of the ASR agreement in September 2018, the Company received an additional 61,188 shares of the Company's common stock. These 432,797 shares, which were repurchased at an average price of \$115.53 per share, resulted in a reduction of outstanding shares used to calculate the weighted average common shares outstanding for basic and diluted earnings per share ("EPS").

On September 14, 2018, the Company entered into an additional ASR agreement to repurchase shares of its common stock for an aggregate purchase price of \$50.0 million. Upon payment of the aggregate purchase price on October 1, 2018, the Company received an initial delivery of 331,812 shares of its common stock at a price of \$120.55 per share, representing approximately \$40.0 million of the aggregate purchase price. The aggregate purchase price was recorded as a reduction to stockholders' equity, consisting of a \$40.0 million increase in treasury stock and a \$10.0 million decrease in additional paid-in capital, in the Company's condensed consolidated statements of changes in stockholders' equity subsequent to September 30, 2018. Upon the final settlement of the ASR agreement in December 2018, the Company may be entitled to receive additional shares of its common stock or, under certain limited circumstances, be required to deliver shares to the counterparty.

Treasury Stock

As of September 30, 2018, the Company's treasury stock consisted of 379,192,460 shares of common stock. During the nine months ended September 30, 2018, the Company reissued 2,505,771 shares of common stock from the treasury shares at a weighted average price of \$8.62 per share.

Earnings Per Share

Basic EPS is computed by dividing net income by the weighted average number of common shares outstanding during the period. The computation of diluted EPS is similar to the computation of basic EPS except that the denominator is increased to include the number of additional common shares that would have been outstanding, using the treasury stock method, if the dilutive potential common shares, including vested and nonvested stock options, nonvested restricted stock awards, nonvested restricted stock units, and nonvested deferred stock units, had been issued.

Table of Contents

The following is a presentation of the numerators and denominators of the basic and diluted EPS computations for the three and nine months ended September 30, 2018 and 2017:

	Three Months Ended		Nine Months Ended	
	September 30, 2018	2017	September 30, 2018	2017
Numerator used in basic and diluted EPS:				
Net income	\$ 166.0	\$ 120.7	\$ 452.5	\$ 350.5
Denominator:				
Weighted average number of common shares used in basic EPS	164,829,250	164,577,575	164,962,647	165,314,267
Effect of dilutive shares:				
Potential common shares issuable from stock options and stock awards	3,371,516	3,379,483	3,652,188	3,493,138
Weighted average number of common shares and dilutive potential common shares used in diluted EPS	168,200,766	167,957,058	168,614,835	168,807,405

The potential shares of common stock that were excluded from diluted EPS were 956,014 and 2,471,487 for the three months ended September 30, 2018 and 2017, and 622,199 and 2,158,723 for the nine months ended September 30, 2018 and 2017, respectively, because the effect of including these potential shares was anti-dilutive.

## Accumulated Other Comprehensive Losses

The following is a summary of accumulated other comprehensive losses as of September 30, 2018 and December 31, 2017:

	2018	2017
Foreign currency translation adjustment	\$(433.0)	\$(334.4)
Unrealized holding gains on available-for-sale securities, net of tax	— <sup>(1)</sup>	0.7
Pension and postretirement adjustment, net of tax	(76.6 )	(78.6 )
Accumulated other comprehensive losses	\$(509.6)	\$(412.3)

<sup>(1)</sup> Includes an adjustment of \$0.7 million to opening retained earnings related to adoption of ASU 2016-01 at January 1, 2018.

The before tax and after tax amounts of other comprehensive income for the three and nine months ended September 30, 2018 and 2017 are summarized below:

	Before Tax	Tax (Expense) Benefit	After Tax
For the Three Months Ended September 30, 2018			
Foreign currency translation adjustment	\$ (35.7 )	\$ —	\$ (35.7 )
Pension and postretirement adjustment before reclassifications	1.9	(0.8 )	1.1
Amortization of net actuarial loss and prior service benefit reclassified from accumulated other comprehensive losses <sup>(1)</sup>	(0.9 )	0.1	(0.8 )
Pension and postretirement adjustment	1.0	(0.7 )	0.3
Total other comprehensive loss	\$ (34.7 )	\$ (0.7 )	\$ (35.4 )
For the Three Months Ended September 30, 2017			
Foreign currency translation adjustment	\$ 82.2	\$ —	\$ 82.2
Pension and postretirement adjustment before reclassifications	2.4	(0.7 )	1.7
Amortization of net actuarial loss and prior service benefit reclassified from accumulated other comprehensive losses <sup>(1)</sup>	(1.2 )	0.4	(0.8 )
Pension and postretirement adjustment	1.2	(0.3 )	0.9
Total other comprehensive gain	\$ 83.4	\$ (0.3 )	\$ 83.1



Table of Contents

	Before Tax	Tax (Expense) Benefit	After Tax
For the Nine Months Ended September 30, 2018			
Foreign currency translation adjustment	\$ (98.6 )	\$ —	\$ (98.6 )
Pension and postretirement adjustment before reclassifications	5.6	(1.5 )	4.1
Amortization of net actuarial loss and prior service benefit reclassified from accumulated other comprehensive losses <sup>(1)</sup>	(2.7 )	0.6	(2.1 )
Pension and postretirement adjustment	2.9	(0.9 )	2.0
Total other comprehensive loss	\$ (95.7 )	\$ (0.9 )	\$ (96.6 )
For the Nine Months Ended September 30, 2017			
Foreign currency translation adjustment	\$ 204.9	\$ —	\$ 204.9
Unrealized holding gain on available-for-sale securities before reclassifications	0.3	(0.1 )	0.2
Unrealized holding gain on available-for-sale securities	0.3	(0.1 )	0.2
Pension and postretirement adjustment before reclassifications	7.4	(2.7 )	4.7
Amortization of net actuarial loss and prior service benefit reclassified from accumulated other comprehensive losses <sup>(1)</sup>	(3.7 )	1.4	(2.3 )
Pension and postretirement adjustment	3.7	(1.3 )	2.4
Total other comprehensive gain	\$ 208.9	\$ (1.4 )	\$ 207.5

These accumulated other comprehensive loss components, before tax, are included under “Cost of revenues” and <sup>(1)</sup> “Selling, general and administrative” in the accompanying condensed consolidated statements of operations. These components are also included in the computation of net periodic (benefit) cost (see Note 12 Pension and Postretirement Benefits for additional details).

## 11. Equity Compensation Plans:

## Equity Compensation Plans

All of the Company’s outstanding stock options and restricted stock awards are covered under the 2013 Incentive Plan or 2009 Incentive Plan. Awards under the 2013 Incentive Plan may include one or more of the following types: (i) stock options (both nonqualified and incentive stock options), (ii) stock appreciation rights, (iii) restricted stock, (iv) restricted stock units, (v) performance awards, (vi) other share based awards, and (vii) cash. Employees, directors and consultants are eligible for awards under the 2013 Incentive Plan. The Company issued common stock under these plans from the Company’s treasury shares. As of September 30, 2018, there were 5,590,996 shares of common stock reserved and available for future issuance under the 2013 Incentive Plan. Cash received from stock option exercises for the nine months ended September 30, 2018 and 2017 was \$74.7 million and \$26.0 million, respectively. The Company granted equity awards to key employees of the Company. The nonqualified stock options have an exercise price equal to the closing price of the Company’s common stock on the grant date, with a ten-year contractual term. The fair value of the restricted stock is determined using the closing price of the Company’s common stock on the grant date. The restricted stock is not assignable or transferable until it becomes vested. Performance share units (“PSU”) vest at the end of a three-year performance period, subject to the recipient’s continued service. Each PSU represents the right to receive one share of Verisk common stock and the ultimate realization is based on the Company’s achievement of certain market performance criteria and may range from 0% to 200% of the recipient’s target levels established on the grant date. The fair value of performance share units is determined on the grant date using the Monte Carlo Simulation model. The Company recognizes the expense of the equity awards ratably over the vesting period. A summary of the equity awards granted for the nine months ended September 30, 2018 is presented below.

Grant Date	Service Vesting Period	Stock Options	Restricted Stock	Common Stock	Performance Share Units
January 1 to September 30, 2018	Four-year graded vesting	899,492	192,805	—	—
April 1, 2018	Three-year cliff vesting	—	—	—	46,705

Edgar Filing: Verisk Analytics, Inc. - Form 10-Q

July 1, 2018	One-year graded vesting	17,402	11,880	—	—
July 1 to September 30, 2018	Not applicable	19,798	1,858	1,094	—
		936,692	206,543	1,094	46,705

19

---

Table of Contents

The fair value of the stock options granted for the nine months ended September 30, 2018 and 2017 was estimated using a Black-Scholes valuation model that uses the weighted average assumptions noted in the following table:

	2018		2017	
	Black-Scholes		Black-Scholes	
Option pricing model				
Expected volatility	18.51	%	18.72	%
Risk-free interest rate	2.52	%	1.82	%
Expected term in years	4.4		4.5	
Dividend yield	—	%	—	%
Weighted average grant date fair value per stock option	\$21.37		\$15.71	

The expected term for the stock options granted was estimated based on studies of historical experience and projected exercise behavior. However, for certain awards granted, for which no historical exercise pattern exists, the expected term was estimated using the simplified method. The risk-free interest rate is based on the yield of U.S. Treasury zero coupon securities with a maturity equal to the expected term of the equity award. The volatility factor is calculated using historical daily closing prices over the most recent period that is commensurate with the expected term of the stock option award. The expected dividend yield was based on the Company's expected annual dividend rate on the date of grant.

A summary of the stock options outstanding and exercisable as of December 31, 2017 and September 30, 2018 and changes during the interim period are presented below:

	Number of Options	Weighted Average Exercise Price	Aggregate Intrinsic Value
Outstanding at December 31, 2017	8,907,109	\$ 53.31	\$ 380.2
Granted	936,692	\$ 104.24	
Exercised	(2,301,868)	\$ 33.83	\$ 172.5
Cancelled or expired	(269,397 )	\$ 78.53	
Outstanding at September 30, 2018	7,272,536	\$ 65.10	\$ 403.2
Exercisable at September 30, 2018	4,794,316	\$ 53.27	\$ 322.5
Exercisable at December 31, 2017	5,995,339	\$ 41.50	\$ 326.8

Intrinsic value for stock options is calculated based on the exercise price of the underlying awards and the quoted price of Verisk common stock as of the reporting date. Excess tax benefits from exercised stock options were recorded as income tax benefit in the condensed consolidated statements of operations. This tax benefit is calculated as the excess of the intrinsic value of options exercised and restricted stock lapsed in excess of compensation recognized for financial reporting purposes. Stock-based compensation expense for the nine months ended September 30, 2018 and 2017 was \$30.1 million and \$24.2 million, respectively.

The Company estimates expected forfeitures of equity awards at the date of grant and recognizes compensation expense only for those awards that the Company expects to vest. The forfeiture assumption is ultimately adjusted to the actual forfeiture rate. Changes in the forfeiture assumptions may impact the total amount of expense ultimately recognized over the requisite service period and may impact the timing of expense recognized over the requisite service period.

Table of Contents

A summary of the status of the restricted stock and performance share units awarded under the 2013 Incentive Plan as of December 31, 2017 and September 30, 2018 and changes during the interim period are presented below:

	Number of Shares	Weighted Average Grant Date Fair Value Per Share
Outstanding at December 31, 2017	604,464	\$ 78.28
Granted	253,248	\$ 111.04
Vested	(214,320)	\$ 76.02
Forfeited	(53,120 )	\$ 87.38
Outstanding at September 30, 2018	590,272	\$ 92.32

The Company's employee stock purchase plan ("ESPP") offers eligible employees the opportunity to purchase shares of the Company's common stock at a discount of its fair market value at the time of purchase. During the nine months ended September 30, 2018 and 2017, the Company issued 21,988 and 23,391 shares of common stock at a weighted discounted price of \$105.14 and \$78.77 for the ESPP, respectively.

As of September 30, 2018, there was \$81.3 million of total unrecognized compensation costs, exclusive of the impact of vesting upon retirement eligibility, related to nonvested share-based compensation arrangements granted under the 2009 and 2013 Incentive Plans. That cost is expected to be recognized over a weighted average period of 2.62 years.

As of September 30, 2018, there were 2,478,220 and 590,031 nonvested stock options and restricted stock, respectively, of which 2,092,374 and 513,345 are expected to vest. The total grant date fair value of options vested was \$12.4 million and \$12.3 million during the nine months ended September 30, 2018 and 2017, respectively. The total grant date fair value of restricted stock vested during the nine months ended September 30, 2018 and 2017 was \$14.7 million and \$13.1 million, respectively.

#### 12. Pension and Postretirement Benefits:

The Company maintained a frozen qualified defined benefit pension plan for certain of its employees through membership in the Pension Plan for Insurance Organizations (the "Pension Plan"), a multiple-employer trust. The Company has applied a cash balance formula to determine future benefits. Under the cash balance formula, each participant has an account, which is credited annually based on the interest earned on the previous year-end cash balance. The Company also has a frozen non-qualified supplemental cash balance plan ("SERP") for certain employees. The SERP is funded from the general assets of the Company.

The Company also provides certain healthcare and life insurance benefits to certain qualifying active and retired employees. The Postretirement Health and Life Insurance Plan (the "Postretirement Plan"), which has been frozen, is contributory, requiring participants to pay a stated percentage of the premium for coverage. The components of net periodic (benefit) cost for the three and nine months ended September 30, are summarized below:

	Pension Plan and Postretirement Plan For the Three Months Ended September 30,			
	2018	2017	2018	2017
Interest cost	\$3.8	\$4.3	\$ —	\$ 0.1
Expected return on plan assets	(8.2)	(7.8)	—	(0.1 )
Amortization of net actuarial loss	0.8	1.1	0.1	0.1
Net periodic (benefit) cost	\$(3.6)	\$(2.4)	\$ 0.1	\$ 0.1
Employer contributions, net	\$0.2	\$0.3	\$ 0.2	\$ (0.2 )



Table of Contents

	Pension Plan and SERP Retirement Plan			
	For the Nine Months Ended			
	September 30,			
	2018	2017	2018	2017
Interest cost	\$11.4	\$12.9	\$ 0.2	\$ 0.3
Expected return on plan assets	(24.6)	(23.3)	(0.1 )	(0.3 )
Amortization of prior service cost	0.1	0.1	(0.1 )	(0.1 )
Amortization of net actuarial loss	2.4	3.4	0.3	0.3
Net periodic (benefit) cost	\$(10.7)	\$(6.9 )	\$ 0.3	\$ 0.2
Employer contributions, net	\$0.7	\$0.8	\$ (0.1 )	\$ 0.4

The expected contributions to the Pension Plan, SERP and Postretirement Plan for the year ending December 31, 2018 are consistent with the amounts previously disclosed as of December 31, 2017.

## 13. Segment Reporting:

ASC 280-10, Disclosures About Segments of an Enterprise and Related Information (“ASC 280-10”), establishes standards for reporting information about operating segments. ASC 280-10 requires that a public business enterprise reports financial and descriptive information about its operating segments. Operating segments are components of an enterprise for which separate financial information is available that is evaluated regularly by the CODM in deciding how to allocate resources and in assessing performance. The Company’s President and CEO is identified as the CODM as defined by ASC 280-10.

The Company previously reported results based on its two operating segments, Decision Analytics and Risk Assessment. During the first quarter of 2018, the CODM changed how he makes operating decisions, assesses the performance of the business, and allocates resources in a manner that caused its operating segments to change. Consequently, effective as of the first quarter of 2018, the operating segments of the Company are based on three vertical markets it serves: Insurance, Energy and Specialized Markets, and Financial Services. These three operating segments are also the Company's reportable segments, which have been recast to reflect the new segments for the three and nine months ended September 30, 2017.

Each of our reportable segments, Insurance, Energy and Specialized Markets, and Financial Services has a portion of its revenue from more than one of the three revenue types described within our revenue recognition policy described within Note 2. Basis of Presentation and Summary of Significant Accounting Policies. Below is the overview of the solutions offered within each reportable segment.

**Insurance:** The Company is the leading provider of statistical, actuarial and underwriting data for the U.S. P&C insurance industry. The Company’s databases include cleansed and standardized records describing premiums and losses in insurance transactions, casualty and property risk attributes for commercial buildings and their occupants and fire suppression capabilities of municipalities. The Company uses this data to create policy language and proprietary risk classifications that are industry standards and to generate prospective loss cost estimates used to price insurance policies, which are accessed via a hosted platform. The Company also develops solutions that its customers use to analyze key processes in managing risk. The Company’s combination of algorithms and analytic methods incorporates its proprietary data to generate solutions. In most cases, the Company’s customers integrate the solutions into their models, formulas or underwriting criteria in order to predict potential loss events, ranging from hurricanes to earthquakes. The Company develops catastrophe and extreme event models and offers solutions covering natural and man-made risks, including acts of terrorism. The Company further develops solutions that allow customers to quantify costs after loss events occur. The Company's multitier, multispectral terrestrial imagery and data acquisition, processing, analytics, and distribution system using the remote sensing and machine learning technologies help gather, store, process, and deliver geographic and spatially referenced information that supports uses in many markets. Additionally, the Company offers fraud-detection solutions including review of data on claim histories, analysis of claims to find emerging patterns of fraud, and identification of suspicious claims in the insurance sector. The Company’s underwriting & rating, insurance anti-fraud claims, catastrophe modeling, loss quantification and aerial imagery solutions are included in this segment.

Energy and Specialized Markets: The Company is a leading provider of data analytics via hosted platform for the global energy, chemicals, and metals and mining industries. Its research and consulting solutions focus on exploration strategies and screening, asset development and acquisition, commodity markets, and corporate analysis in the areas of business environment, business improvement, business strategies, commercial advisory, and transaction support. The Company gathers and manages proprietary information, insight, and analysis on oil and gas fields, mines, refineries and other assets across the interconnected global energy sectors to advise customers in making asset investment and portfolio allocation decisions. The Company also helps businesses and governments better anticipate and manage climate and weather-related risks. The

Table of Contents

Company's analytical tools measure and observe environmental properties and translate those measurements into actionable information based on customer needs. The Company further offers a suite of data and information services that enable improved compliance with global Environmental Health and Safety requirements related to the safe manufacturing, distribution, transportation, usage, and disposal of chemicals and products. The Company's energy business, environmental health and safety services and, weather risk solutions are included in this segment.

Financial Services: The Company maintains a bank account consortia to provide competitive benchmarking, decisioning algorithms, business intelligence, and customized analytic services that help financial institutions, payment networks and processors, alternative lenders, regulators and merchants make better strategy, marketing, and risk decisions. Customers apply the Company's solutions in the areas of tailored data management and media effectiveness that include business intelligence platforms, profile views, mobile data solutions, enterprise database services, and fraud risk scoring algorithms for marketing, fraud, and risk mitigation. In addition, the Company's bankruptcy management solutions assist creditors, debt servicing businesses and credit services to enhance regulatory compliance by eliminating stay violation and portfolio valuation risk. The Company's financial services and retail analytics solutions are included in this segment.

The three aforementioned operating segments represent the segments for which discrete financial information is available and upon which operating results are regularly evaluated by the CODM in order to assess performance and allocate resources. The Company uses EBITDA as the profitability measure for making decisions regarding ongoing operations. EBITDA is net income before interest expense, provision for income taxes, depreciation and amortization of fixed and intangible assets. EBITDA is the measure of operating results used to assess corporate performance and optimal utilization of debt and acquisitions. Operating expenses consist of direct and indirect costs principally related to personnel, facilities, software license fees, consulting, travel, and third-party information services. Indirect costs are generally allocated to the segments using fixed rates established by management based upon estimated expense contribution levels and other assumptions that management considers reasonable. The Company does not allocate interest expense and provision for income taxes, since these items are not considered in evaluating the segment's overall operating performance. In addition, the CODM does not evaluate the financial performance of each segment based on assets. See Note 3 Revenues for information on disaggregated revenues by type of service and by country. The following table provides the Company's revenue and EBITDA by reportable segment for the three and nine months ended September 30, 2018 and 2017, and the reconciliation of EBITDA to operating income as shown in the accompanying condensed consolidated statements of operations:

	For the Three Months Ended September 30, 2018				September 30, 2017			
	Insurance	Energy and Specialized Markets	Financial Services	Total	Insurance	Energy and Specialized Markets	Financial Services	Total
Revenues	\$427.7	\$ 127.7	\$ 43.3	\$598.7	\$396.0	\$ 111.4	\$ 41.7	\$549.1
Expenses:								
Cost of revenues (exclusive of items shown separately below)	(142.1)	(53.2 )	(23.9 )	(219.2)	(129.3)	(49.0 )	(20.2 )	(198.5)
Selling, general and administrative	(57.5 )	(34.1 )	(4.1 )	(95.7 )	(48.6 )	(28.3 )	(4.0 )	(80.9 )
Investment income and others, net	12.0	0.8	1.3	14.1	3.3	(0.8 )	0.1	2.6
EBITDA	240.1	41.2	16.6	297.9	221.4	33.3	17.6	272.3
Depreciation and amortization of fixed assets	(25.2 )	(10.2 )	(4.1 )	(39.5 )	(22.6 )	(9.0 )	(2.2 )	(33.8 )
	(5.9 )	(21.4 )	(5.9 )	(33.2 )	(4.4 )	(18.0 )	(5.1 )	(27.5 )

Edgar Filing: Verisk Analytics, Inc. - Form 10-Q

Amortization of intangible assets								
Less: Investment income and others, net	(12.0 )	(0.8 )	(1.3 )	(14.1 )	(3.3 )	0.8	(0.1 )	(2.6 )
Operating income	\$197.0	\$ 8.8	\$ 5.3	211.1	\$191.1	\$ 7.1	\$ 10.2	208.4
Investment income and others, net				14.1				2.6
Interest expense				(32.4 )				(30.3 )
Income before income taxes				\$192.8				\$180.7

23

---

Table of Contents

	For the Nine Months Ended September 30, 2018				September 30, 2017			
	Insurance	Energy and Specialized Markets	Financial Services	Total	Insurance	Energy and Specialized Markets	Financial Services	Total
Revenues	\$1,269.7	\$ 383.1	\$ 128.4	\$1,781.2	\$1,145.3	\$ 328.0	\$ 101.6	\$1,574.9
Expenses:								
Cost of revenues (exclusive of items shown separately below)	(422.2 )	(164.7 )	(75.3 )	(662.2 )	(375.4 )	(143.5 )	(56.2 )	(575.1 )
Selling, general and administrative	(163.3 )	(103.6 )	(14.1 )	(281.0 )	(143.1 )	(84.1 )	(8.4 )	(235.6 )
Investment income and others, net	16.2	1.2	1.9	19.3	8.9	(1.3 )	0.3	7.9
EBITDA	700.4	116.0	40.9	857.3	635.7	99.1	37.3	772.1
Depreciation and amortization of fixed assets	(77.6 )	(32.2 )	(11.8 )	(121.6 )	(68.0 )	(26.1 )	(5.3 )	(99.4 )
Amortization of intangible assets	(16.8 )	(64.2 )	(17.5 )	(98.5 )	(9.4 )	(52.1 )	(12.1 )	(73.6 )
Less: Investment income and others, net	(16.2 )	(1.2 )	(1.9 )	(19.3 )	(8.9 )	1.3	(0.3 )	(7.9 )
Operating income	\$589.8	\$ 18.4	\$ 9.7	617.9	\$549.4	\$ 22.2	\$ 19.6	591.2
Investment income and others, net				19.3				7.9
Interest expense				(97.1 )				(87.3 )
Income before income taxes				\$540.1				\$511.8

Long-lived assets by country are provided below:

	September 30, 2018	December 31, 2017
Long-lived assets:		
U.S.	\$ 2,360.3	\$ 2,438.6
U.K.	2,575.0	2,656.6
Other countries	322.1	327.5
Total long-lived assets	\$ 5,257.4	\$ 5,422.7

#### 14. Related Parties:

The Company considers its stockholders that own more than 5.0% of the outstanding common stock to be related parties as defined within ASC 850, Related Party Disclosures. As of September 30, 2018 and December 31, 2017, the Company had no material transactions with related parties.

#### 15. Commitments and Contingencies:

The Company is a party to legal proceedings with respect to a variety of matters in the ordinary course of business, including the matter described below. With respect to the ongoing matter, the Company is unable, at the present time, to determine the ultimate resolution of or provide a reasonable estimate of the range of possible loss attributable to this matter or the impact it may have on the Company's results of operations, financial position or cash flows. Although the Company believes it has strong defenses and intends to vigorously defend this matter, the Company could in the future incur judgments or enter into settlements of claims that could have a material adverse effect on its results of

operations, financial position or cash flows.

24

---

Table of Contents

Xactware Solutions, Inc. Patent Litigation

On October 8, 2015, the Company was served with a summons and complaint in an action titled Eagle View Technologies, Inc. and Pictometry International Group, Inc. v. Xactware Solutions, Inc. and Verisk Analytics, Inc. filed in the United States District Court for the District of New Jersey. The complaint alleges that the Company's Roof InSight (now known as Geomni Roof), Property InSight product (now known as Geomni Property) and Aerial Sketch product in combination with the Company's Xactimate product infringe seven patents owned by Eagle View and Pictometry namely, Patent Nos. 436, 840, 152, 880, 770, 732 and 454. On November 30, 2015, plaintiffs filed a First Amended Complaint adding Patent Nos. 376 and 737 to the lawsuit. The First Amended Complaint seeks an entry of judgment by the Court that defendants have and continue to directly infringe and/or indirectly infringe, including by way of inducement the Patents-in-Suit, permanent injunctive relief, damages, costs and attorney's fees. On May 19, 2017, the District Court so ordered a Joint Stipulated Order of Partial Dismissal with Prejudice dismissing all claims or assertions pertaining to Pictometry Patents Nos. 880 and 732 and certain asserted claims of the Eagle View Patents Nos. 436, 840, 152, 770, 454, 376 and 737 (collectively the "Patents in Suit"). Eagle View further reduced the number of asserted claims pertaining to the Patents in Suit to 18 asserted claims. Fact discovery and expert discovery are now closed and defendants' summary judgment motion was fully submitted on October 26, 2018. At this time, it is not reasonably possible to determine the ultimate resolution of, or estimate the liability related to, this matter.

\*\*\*\*\*

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with our historical financial statements and the related notes included in our annual report on Form 10-K, or 2017 10-K, dated and filed with the Securities and Exchange Commission on February 20, 2018. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in or implied by any of the forward-looking statements as a result of various factors, including but not limited to those listed under "Risk Factors" and "Special Note Regarding Forward Looking Statements" in our 2017 10-K.

Verisk is a leading data analytics provider serving customers in insurance, energy and specialized markets, and financial services. Using advanced technologies to collect and analyze billions of records, we draw on unique data assets and deep domain expertise to provide innovations that may be integrated into customer workflows. We offer predictive analytics and decision support solutions to customers in rating, underwriting, claims, catastrophe and weather risk, natural resources intelligence, economic forecasting, and many other fields. In the United States, or U.S., and around the world, we help customers protect people, property, and financial assets.

Our customers use our solutions to make better decisions about risk and opportunities with greater efficiency and discipline. We refer to these products and services as solutions due to the integration among our services and the flexibility that enables our customers to purchase components or a comprehensive package. These solutions take various forms, including data, expert insight, statistical models and tailored analytics all designed to allow our customers to make more logical decisions. We believe our solutions for analyzing risk positively impact our customers' revenues and help them better manage their costs.

We previously reported results based on two operating segments, Decision Analytics and Risk Assessment. During the first quarter of 2018, the CODM changed how he makes operating decisions, assesses the performance of the business, and allocates resources in a manner that caused the Company's operating segments to change. Consequently, effective as of the first quarter of 2018, our operating segments are based on three vertical markets we serve: Insurance, Energy and Specialized Markets, and Financial Services. These three operating segments are also our reportable segments, which have been recast to reflect the new segments for the three and nine months ended September 30, 2017.

Our Insurance segment provides underwriting and ratings, and claims insurance data for the U.S. P&C insurance industry. This segment's revenues represented approximately 71.3% and 72.7% of our revenues for the nine months ended September 30, 2018 and 2017, respectively. Our Energy and Specialized Markets segment provides research and consulting data analytics for the global energy, chemicals, and metals and mining industries. Our Energy and Specialized Markets segment's revenues represented 21.5% and 20.8% of our revenues for the nine months ended September 30, 2018 and 2017, respectively. Our Financial Services segment provides competitive benchmarking, decisioning algorithms, business intelligence, and customized analytic services to financial institutions, payment networks and processors, alternative lenders, regulators and merchants. Our Financial Services segment's revenues represented 7.2% and 6.5% of our revenues for the nine months ended September 30, 2018 and 2017, respectively.

Executive Summary

Key Performance Metrics

We believe our business' ability to generate recurring revenue and positive cash flow is the key indicator of the successful execution of our business strategy. We use year-over-year revenue growth and EBITDA margin as metrics to measure our performance. EBITDA and EBITDA margin are non-GAAP financial measures (See footnote 1 within the Condensed Consolidated Results of Operations section of Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations). The respective GAAP financial measures are net income and net income margin.

Revenue growth. We use year-over-year revenue growth as a key performance metric. We assess revenue growth based on our ability to generate increased revenue through increased sales to existing customers, sales to new customers, sales of new or expanded solutions to existing and new customers, and strategic acquisitions of new businesses.

EBITDA growth. We use EBITDA growth as a proxy for the cash generated by the business and as an indicator of segment performance. EBITDA growth serves as a measure of our ability to balance the size of revenue growth with



cost management and investing for future growth.

EBITDA margin. We use EBITDA margin as a metric to assess segment performance and scalability of our business. We assess EBITDA margin based on our ability to increase revenues while controlling expense growth.

## Table of Contents

### Revenues

We recognize revenues through long-term agreements for hosted subscriptions, advisory/consulting services and on a transactional basis, recurring and non-recurring. Hosted subscriptions for our solutions are generally paid in advance of rendering services either quarterly or annually commencement of the subscription period, which is usually for one year and automatically renewed each year. As a result, the timing of our cash flows generally precedes our recognition of revenues and income and our cash flow from operations tends to be higher in the first quarter as we receive subscription payments. Examples of these arrangements include subscriptions that allow our customers to access our standardized coverage language, our claims fraud database or our actuarial services throughout the subscription period. In general, we experience minimal revenue seasonality within the business. Our long-term agreements are generally for periods of three to five years. We recognize revenue from subscriptions ratably over the term of the long-term agreements.

Approximately 81.0% of the revenues in our Insurance segment for the nine months ended September 30, 2018 and 2017 were derived from hosted subscriptions with long-term agreements for our solutions. Our customers in this segment include most of the P&C insurance providers in the U.S. Approximately 78.0% and 83.0% of the revenues in our Energy and Specialized Markets segment for the nine months ended September 30, 2018 and 2017, respectively, were derived from hosted subscriptions with long-term agreements for our solutions. Our customers in this segment include most of the top 10 global energy providers around the world. Approximately 72.0% and 69.0% of the revenues in our Financial Services segment for the nine months ended September 30, 2018 and 2017, respectively, were derived from subscriptions with long-term agreements for our solutions, respectively. Our customers in this segment include all of the top 30 credit card issuers in North America, the United Kingdom, and Australia.

We also provide advisory/consulting services, which help our customers get more value out of our analytics and their subscriptions. In addition, certain of our solutions are paid for by our customers on a transactional basis, recurring and non-recurring. For example, we have solutions that allow our customers to access property-specific rating and underwriting information to price a policy on a commercial building, or compare a P&C insurance or workers' compensation claim with information in our databases, or use our repair cost estimation solutions on a case-by-case basis. For the nine months ended September 30, 2018 and 2017, approximately 20.0% and 19.0%, respectively, of our revenues were derived from providing transactional recurring and non-recurring solutions.

### Principal Operating Costs and Expenses

Personnel expenses are the major component of both our cost of revenues and selling, general and administrative expenses. Personnel expenses, which represented 58.3% and 59.5% of our total operating expenses for the nine months ended September 30, 2018 and 2017, respectively, include salaries, benefits, incentive compensation, equity compensation costs, sales commissions, employment taxes, recruiting costs, and outsourced temporary agency costs. We assign personnel expenses between two categories, cost of revenues and selling, general and administrative expense, based on the actual costs associated with each employee. We categorize employees who maintain our solutions as cost of revenues, and all other personnel, including executive managers, sales people, marketing, business development, finance, legal, human resources, and administrative services, as selling, general and administrative expenses. A significant portion of our other operating costs, such as facilities and communications, is also either captured within cost of revenues or selling, general and administrative expenses based on the nature of the work being performed.

While we expect to grow our headcount over time to take advantage of our market opportunities, we believe that the economies of scale in our operating model will allow us to grow our personnel expenses at a lower rate than revenues. Historically, our EBITDA margin has improved because we have been able to increase revenues without a proportionate corresponding increase in expenses. However, part of our corporate strategy is to invest in new solutions and new businesses which may offset margin expansion.

Cost of Revenues. Our cost of revenues consists primarily of personnel expenses. Cost of revenues also includes the expenses associated with the acquisition and verification of data, the maintenance of our existing solutions and the development and enhancement of our next-generation solutions. Our cost of revenues excludes depreciation and amortization.

Selling, General and Administrative Expenses. Our selling, general and administrative expenses consist primarily of personnel costs. A portion of the other costs such as facilities, insurance and communications is also allocated to selling, general and administrative expenses based on the nature of the work being performed by the employee. Our selling, general and administrative expenses exclude depreciation and amortization.

Table of Contents

## Condensed Consolidated Results of Operations

	Three Months Ended		Percentage Change	Nine Months Ended		Percentage Change		
	September 30, 2018	2017		September 30, 2018	2017			
(In millions, except for share and per share data)								
Statement of income data:								
Revenues:								
Insurance	\$427.7	\$396.0	8.0	%	\$1,269.7	\$1,145.3	10.9	%
Energy and Specialized Markets	127.7	111.4	14.6	%	383.1	328.0	16.8	%
Financial Services Revenues	43.3	41.7	4.0	%	128.4	101.6	26.3	%
	598.7	549.1	9.0	%	1,781.2	1,574.9	13.1	%
Operating expenses:								
Cost of revenues (exclusive of items shown separately below)	219.2	198.5	10.4	%	662.2	575.1	15.1	%
Selling, general and administrative	95.7	80.9	18.3	%	281.0	235.6	19.3	%
Depreciation and amortization of fixed assets	39.5	33.8	16.9	%	121.6	99.4	22.3	%
Amortization of intangible assets	33.2	27.5	21.0	%	98.5	73.6	33.7	%
Total operating expenses	387.6	340.7	13.8	%	1,163.3	983.7	18.2	%
Operating income	211.1	208.4	1.3	%	617.9	591.2	4.5	%
Other income (expense):								
Investment income and others, net	14.1	2.6	438.0	%	19.3	7.9	144.0	%
Interest expense	(32.4	) (30.3	) 6.6	%	(97.1	) (87.3	) 11.2	%
Total other expense, net	(18.3	) (27.7	) (34.1	)%	(77.8	) (79.4	) (2.0	)%
Income before income taxes	192.8	180.7	6.7	%	540.1	511.8	5.5	%
Provision for income taxes	(26.8	) (60.0	) (55.3	)%	(87.6	) (161.3	) (45.7	)%
Net Income	\$166.0	\$120.7	37.5	%	\$452.5	\$350.5	29.1	%
Basic net income per share:	\$1.01	\$0.73	38.4	%	\$2.74	\$2.12	29.2	%
Diluted net income per share:	\$0.99	\$0.72	37.5	%	\$2.68	\$2.08	28.8	%
Weighted average shares outstanding:								
Basic	164,829,250	164,577,575	0.2	%	164,962,647	165,314,267	(0.2	)%
Diluted	168,200,766	167,957,058	0.1	%	168,614,835	168,807,405	(0.1	)%

The financial operating data below sets forth the information we believe is useful for investors in evaluating our overall financial performance:

## Other data:

EBITDA <sup>(1)</sup>:

Insurance EBITDA	\$240.1	\$221.4	8.4	%	\$700.4	\$635.7	10.2	%
Energy and Specialized Markets EBITDA	41.2	33.3	24.0	%	116.0	99.1	17.2	%
Financial Services EBITDA	16.6	17.6	(5.7	)%	40.9	37.3	9.2	%
EBITDA	\$297.9	\$272.3	9.4	%	\$857.3	\$772.1	11.0	%

The following is a reconciliation of net income to EBITDA:

Net income	\$ 166.0	\$ 120.7	37.5	%	\$ 452.5	\$ 350.5	29.1	%
Depreciation and amortization of fixed assets and intangible assets	72.7	61.3	18.7	%	220.1	173.0	27.1	%
Interest expense	32.4	30.3	6.6	%	97.1	87.3	11.2	%
Provision for income taxes	26.8	60.0	(55.3)	)%	87.6	161.3	(45.7)	)%
EBITDA	\$ 297.9	\$ 272.3	9.4	%	\$ 857.3	\$ 772.1	11.0	%

EBITDA is a financial measure that management uses to evaluate the performance of our Company. "EBITDA" is defined as net income before interest expense, provision for income taxes, and depreciation and amortization of fixed and intangible assets. In addition, this Management's Discussion and Analysis of Financial Condition and Results of Operations includes references to EBITDA margin, which is computed as EBITDA divided by revenues.

- (1) See Note 13 of our condensed consolidated financial statements included in this Form 10-Q filing. Although EBITDA is a non-GAAP financial measure, EBITDA is frequently used by securities analysts, lenders and others in their evaluation of companies. EBITDA has limitations as an analytical tool, and should not be considered in isolation, or as a substitute for an analysis of our results of operations or cash flows from operating activities reported under GAAP. Management uses EBITDA in conjunction with GAAP operating performance measures as part of its overall assessment of company performance. Some of these limitations are:

Table of Contents

EBITDA does not reflect our cash expenditures, or future requirements for capital expenditures or contractual commitments;

EBITDA does not reflect changes in, or cash requirements for, our working capital needs;

Although depreciation and amortization are noncash charges, the assets being depreciated and amortized often will have to be replaced in the future and EBITDA does not reflect any cash requirements for such replacements; and

Other companies in our industry may calculate EBITDA differently than we do, limiting its usefulness as a comparative measure.

Consolidated Results of Operations

Three Months Ended September 30, 2018 Compared to Three Months Ended September 30, 2017

Revenues

Revenues were \$598.7 million for the three months ended September 30, 2018 compared to \$549.1 million for the three months ended September 30, 2017, an increase of \$49.6 million or 9.0%. Excluding revenues of \$24.1 million from Sequel, Rebmark, Service Software, Business Insight, and Validus, our recent acquisitions within the Insurance segment, PowerAdvocate, our recent acquisition within the Energy and Specialized Markets segment, and G2, LCI, and Marketview, our recent acquisitions within the Financial Services segment, all collectively referred to as our recent acquisitions, our consolidated revenue increased \$25.5 million or 4.7%. Revenues within our Insurance segment, excluding our recent acquisitions named above, increased \$21.7 million or 5.5%. Revenues within our Energy and Specialized Markets segment, excluding our recent acquisitions named above, increased \$7.3 million or 6.6%. Revenues within our Financial Services segment, excluding our recent acquisitions named above, decreased \$3.5 million or 9.8%. Refer to the Results of Operations by Segment within this section for more information regarding our revenues.

	Three Months Ended September 30,		Percentage change		Percentage change excluding recent acquisitions	
	2018	2017				
	(In millions)					
Insurance	\$427.7	\$396.0	8.0	%	5.5	%
Energy and Specialized Markets	127.7	111.4	14.6	%	6.6	%
Financial Services	43.3	41.7	4.0	%	(9.8)	%
Total Revenues	\$598.7	\$549.1	9.0	%	4.7	%

Cost of Revenues

Cost of revenues was \$219.2 million for the three months ended September 30, 2018 compared to \$198.5 million for the three months ended September 30, 2017, an increase of \$20.7 million or 10.4%. Our recent acquisitions accounted for an increase of \$7.5 million in cost of revenues, primarily related to salaries and employee benefits. Excluding the impact of our recent acquisitions, our cost of revenues increased \$13.2 million or 6.8%. The increase was primarily due to increases in salaries and employee benefits of \$7.8 million, rent and facilities expenses of \$1.6 million, data costs of \$1.6 million, information technology expenses of \$0.6 million, and other operating expenses of \$1.6 million.

Selling, General and Administrative Expenses

Selling, general and administrative expenses, or SGA, were \$95.7 million for the three months ended September 30, 2018 compared to \$80.9 million for the three months ended September 30, 2017, an increase of \$14.8 million or 18.3%. Our recent acquisitions accounted for an increase of \$7.6 million in SGA, primarily related to salaries and employee benefits. Excluding costs associated with our recent acquisitions, our SGA increased \$7.2 million or 9.4%. The increase was primarily due to increases in salaries and employee benefits of \$4.7 million, information technology expenses of \$1.3 million, professional consulting costs of \$0.9 million and other general expenses of \$0.3 million.

Table of Contents

Depreciation and Amortization of Fixed Assets

Depreciation and amortization of fixed assets was \$39.5 million for the three months ended September 30, 2018 compared to \$33.8 million for the three months ended September 30, 2017, an increase of \$5.7 million or 16.9%. The increase in depreciation and amortization of fixed assets related to the capital expenditures was \$4.8 million and related to fixed assets associated with recent acquisitions was \$0.9 million.

Amortization of Intangible Assets

Amortization of intangible assets was \$33.2 million for the three months ended September 30, 2018 compared to \$27.5 million for the three months ended September 30, 2017, an increase of \$5.7 million or 21.0%. The increase was primarily due to amortization related to our recent acquisitions of \$6.2 million and currency fluctuations impacting amortization denominated in currencies other than U.S. dollars.

Investment Income and Others, net

Investment income and others, net was a gain of \$14.1 million for the three months ended September 30, 2018, compared to a gain of \$2.6 million for the three months ended September 30, 2017. The increase of \$11.5 million was primarily due to a realized gain of \$12.3 million on the repayment of subordinated promissory note receivable prior to its maturity, partially offset by a reduction in interest income, associated with its payoff in August 2018.

Interest Expense

Interest expense was \$32.4 million for the three months ended September 30, 2018, compared to \$30.3 million for the three months ended September 30, 2017, an increase of \$2.1 million or 6.6%. The increase was due to our higher average outstanding borrowings for the three months ended September 30, 2018 related to the credit facility. These higher average outstanding borrowings in 2018 were primarily associated with the funding of the acquisitions of G2, LCI and Sequel, which occurred in August of 2017, and PowerAdvocate, which occurred in December of 2017, as well as borrowings used to fund our share repurchase program.

Provision for Income Taxes

The provision for income taxes was \$26.8 million for the three months ended September 30, 2018 compared to \$60.0 million for the three months ended September 30, 2017, a decrease of \$33.2 million or 55.3%. The effective tax rate was 13.9% for the three months ended September 30, 2018 compared to 33.2% for the three months ended September 30, 2017. The effective rate for the three months ended September 30, 2018 was lower than the September 30, 2017 effective tax rate primarily due to the impact of tax reform lowering the U.S. tax rate from 35.0% to 21.0%, as well as the impact of greater tax benefits from equity compensation in the current period versus the prior period.

Net Income Margin

The net income margin for our consolidated results was 27.7% for the three months ended September 30, 2018 compared to 22.0% for the three months ended September 30, 2017.

EBITDA Margin

The EBITDA margin for our consolidated results was 49.8% for the three months ended September 30, 2018 as compared to 49.6% for the three months ended September 30, 2017.

Table of Contents

## Nine Months Ended September 30, 2018 Compared to Nine Months Ended September 30, 2017

## Revenues

Revenues were \$1,781.2 million for the nine months ended September 30, 2018 compared to \$1,574.9 million for the nine months ended September 30, 2017, an increase of \$206.3 million or 13.1%. Excluding revenues of \$96.0 from Arium, Healix, ENI, Aerial Imagery, Sequel, Rebmark, Service Software, Business Insight, and Validus, our recent acquisitions within the Insurance segment, MAKE and PowerAdvocate, our recent acquisitions within the Energy and Specialized Markets segment, and Fintellix, G2, LCI, and Marketview, our recent acquisitions within the Financial Services segment, all collectively referred to as our recent acquisitions, our consolidated revenue increased \$110.3 million or 7.0%. Revenues within our Insurance segment, excluding our recent acquisitions named above, increased \$86.1 million or 7.5%. Revenues within our Energy and Specialized Markets segment, excluding our recent acquisitions named above, increased \$25.8 million or 7.9%. Revenues within our Financial Services segment, excluding our recent acquisitions named above, decreased \$1.6 million or 1.6%. Refer to the Results of Operations by Segment within this section for more information regarding our revenues.

	Nine Months Ended September 30,		Percentage change		Percentage change excluding recent acquisitions	
	2018	2017				
	(In millions)					
Insurance	\$1,269.7	\$1,145.3	10.9	%	7.5	%
Energy and Specialized Markets	383.1	328.0	16.8	%	7.9	%
Financial Services	128.4	101.6	26.3	%	(1.6)	)%
Total Revenues	\$1,781.2	\$1,574.9	13.1	%	7.0	%

## Cost of Revenues

Cost of revenues was \$662.2 million for the nine months ended September 30, 2018 compared to \$575.1 million for the nine months ended September 30, 2017, an increase of \$87.1 million or 15.1%. Our recent acquisitions accounted for an increase of \$51.1 million in cost of revenues, primarily related to salaries and employee benefits. Excluding the impact of our recent acquisitions, our cost of revenues increased \$36.0 million or 6.3%. The increase was primarily due to increases in salaries and employee benefits of \$25.3 million, data costs of \$3.9 million, rent and facilities expenses of \$3.3 million, information technology expenses of \$1.7 million, and other operating costs of \$1.8 million.

## Selling, General and Administrative Expenses

Selling, general and administrative expenses, or SGA, were \$281.0 million for the nine months ended September 30, 2018 compared to \$235.6 million for the nine months ended September 30, 2017, an increase of \$45.4 million or 19.3%. Our recent acquisitions accounted for an increase of \$22.0 million in SGA, primarily related to salaries and employee benefits, and transaction costs of \$1.2 million. Excluding costs associated with our recent acquisitions, our SGA increased \$23.4 million or 10.2%. The increase was primarily due to increases in salaries and employee benefits of \$15.6 million, information technology expenses of \$2.8 million, professional consulting costs of \$2.3 million, and other general expenses of \$2.7 million.

## Depreciation and Amortization of Fixed Assets

Depreciation and amortization of fixed assets was \$121.6 million for the nine months ended September 30, 2018 compared to \$99.4 million for the nine months ended September 30, 2017, an increase of \$22.2 million or 22.3%. The increase in depreciation and amortization related to our capital expenditures was \$13.1 million and related to fixed assets associated with recent acquisitions was \$9.1 million.

## Amortization of Intangible Assets

Amortization of intangible assets was \$98.5 million for the nine months ended September 30, 2018 compared to \$73.6 million for the nine months ended September 30, 2017, an increase of \$24.9 million or 33.7%. The increase was primarily due to amortization related to our recent acquisitions of \$22.0 million and currency fluctuations impacting amortization denominated in currencies other than U.S. dollars.





Table of Contents

## Investment Income and Others, net

Investment income and others, net was a gain of \$19.3 million for the nine months ended September 30, 2018, compared to a gain of \$7.9 million for the nine months ended September 30, 2017. The increase of \$11.4 million was primarily due to a realized gain of \$12.3 million on the repayment of subordinated promissory note receivable prior to its maturity, partially offset by a reduction in interest income, associated with its payoff in August 2018.

## Interest Expense

Interest expense was \$97.1 million for the nine months ended September 30, 2018, compared to \$87.3 million for the nine months ended September 30, 2017, an increase of \$9.8 million or 11.2%. The increase was due to our higher average outstanding borrowings for the nine months ended September 30, 2018 related to the credit facility. These higher average outstanding borrowings in 2018 were primarily associated with the funding of the acquisitions of G2, LCI and Sequel, which occurred in August of 2017 and PowerAdvocate, which occurred in December of 2017, as well as borrowings used to fund our share repurchase program.

## Provision for Income Taxes

The provision for income taxes was \$87.6 million for the nine months ended September 30, 2018 compared to \$161.3 million for the nine months ended September 30, 2017, a decrease of \$73.7 million or 45.7%. The effective tax rate was 16.2% for the nine months ended September 30, 2018 compared to 31.5% for the nine months ended September 30, 2017. The effective rate for the nine months ended September 30, 2018 was lower than the September 30, 2017 effective tax rate primarily due to the impact of tax reform lowering the U.S. tax rate from 35.0% to 21.0%, as well as the impact of greater tax benefits from equity compensation in the current period versus the prior period.

## Net Income Margin

The net income margin for our consolidated results was 25.4% for the nine months ended September 30, 2018 compared to 22.3% for the nine months ended September 30, 2017.

## EBITDA Margin

The EBITDA margin for our consolidated results was 48.1% for the nine months ended September 30, 2018 as compared to 49.0% for the nine months ended September 30, 2017. The decrease in EBITDA margin was primarily related to our recent acquisitions including an acquisition contingent consideration of \$4.2 million.

## Results of Operations by Segment

## Insurance

## Revenues

Revenues for our Insurance segment were \$427.7 million for the three months ended September 30, 2018 compared to \$396.0 million for the three months ended September 30, 2017, an increase of \$31.7 million or 8.0%. Excluding revenue of \$10.0 million from our recent acquisitions, Insurance revenue increased \$21.7 million or 5.5%.

Our revenue by category for the periods presented is set forth below:

	For the Three		Percentage	
	Months Ended	Percentage	change	
	September 30,	September 30,	excluding	
	2018	2017	Change	recent
				acquisitions
	(In millions)			
Underwriting & Rating	\$285.1	\$261.8	8.9 %	6.3 %
Claims	142.6	134.2	6.3 %	4.0 %
Total Insurance	\$427.7	\$396.0	8.0 %	5.5 %

Our underwriting & rating revenue increased \$23.3 million or 8.9%; excluding revenues from recent acquisitions of \$7.0 million, our underwriting & rating revenue increased \$16.3 million or 6.3%, primarily due to increases within our underwriting & rating solutions and catastrophe modeling services revenue.

Our claims revenue increased \$8.4 million or 6.3%; excluding revenues from recent acquisitions of \$3.0 million, our claims revenue increased \$5.4 million or 4.0%, primarily due to growth in our claims analytics and repair cost estimating



Table of Contents

solutions revenue, which was partially offset by a decline in our aerial imagery solutions revenue. The severe storm-related repair costs estimating and aerial imagery-based solutions contributed approximately \$8.0 million for the three months ended September 30, 2017, which did not reoccur in 2018.

Revenues for our Insurance segment were \$1,269.7 million for the nine months ended September 30, 2018 compared to \$1,145.3 million for the nine months ended September 30, 2017, an increase of \$124.4 million or 10.9%. Excluding revenue of \$38.3 million from our recent acquisitions, Insurance revenue increased \$86.1 million or 7.5%.

Our revenue by category for the periods presented is set forth below:

	For the Nine Months Ended September 30,		Percentage change excluding recent acquisitions			
	2018	2017	Change			

(In millions)

Underwriting & Rating	\$854.6	\$777.0	10.0	%	6.5	%
Claims	415.1	368.3	12.7	%	9.8	%
Total Insurance	\$1,269.7	\$1,145.3	10.9	%	7.5	%

Our underwriting & rating revenue increased \$77.6 million or 10.0%; excluding revenues from recent acquisitions of \$27.5 million, our underwriting & rating revenue increased \$50.1 million or 6.5%, primarily due to increases within our underwriting & rating solutions and catastrophe modeling services revenue.

Our claims revenue increased \$46.8 million or 12.7%; excluding revenues from recent acquisitions of \$10.8 million, our claims revenue increased \$36.0 million or 9.8%, primarily due to growth in our repair cost estimating solutions, claims analytics and aerial imagery solutions revenue. The severe storm-related repair costs estimating and aerial imagery-based solutions contributed approximately \$8.0 million for the nine months ended September 30, 2017, which did not reoccur in 2018.

#### Cost of Revenues

Cost of revenues for our Insurance segment was \$142.1 million for the three months ended September 30, 2018 compared to \$129.3 million for the three months ended September 30, 2017, an increase of \$12.8 million or 9.9%. Our recent acquisitions within the Insurance segment, represented an increase of \$1.0 million in cost of revenues, which was primarily related to salaries and employee benefits. Excluding the impact of our recent acquisitions, our cost of revenues increased \$11.8 million or 9.3%. The increase was primarily due to increases in salaries and employee benefits of \$6.4 million, rent and facilities expenses of \$1.6 million, data costs of \$1.2 million, information technology expenses of \$0.5 million, and other operating expenses of \$2.1 million.

Cost of revenues for our Insurance segment was \$422.2 million for the nine months ended September 30, 2018 compared to \$375.4 million for the nine months ended September 30, 2017, an increase of \$46.8 million or 12.5%. Our recent acquisitions within the Insurance segment, represented an increase of \$21.2 million in cost of revenues, which was primarily related to salaries and employee benefits. Excluding the impact of our recent acquisitions, our cost of revenues increased \$25.6 million or 6.9%. The increase was primarily due to increases in salaries and employee benefits of \$17.1 million, data costs of \$4.1 million, rent and facilities expenses of \$2.9 million, information technology expenses of \$1.1 million, and other operating costs of \$0.4 million.

#### Selling, General and Administrative Expenses

Selling, general and administrative expenses for our Insurance segment were \$57.5 million for the three months ended September 30, 2018 compared to \$48.6 million for the three months ended September 30, 2017, an increase of \$8.9 million or 18.3%. Our recent acquisitions within the Insurance segment accounted for an increase of \$4.6 million in SGA, primarily related to salaries and employee benefits. Excluding costs associated with our recent acquisitions, SGA increased \$4.3 million or 9.2%. The increase was primarily due to increases in salaries and employee benefits of \$2.2 million, information technology expenses of \$1.0 million, professional consulting costs of \$0.8 million, and other general expenses of \$0.3 million.



Table of Contents

Selling, general and administrative expenses for our Insurance segment were \$163.3 million for the nine months ended September 30, 2018 compared to \$143.1 million for the nine months ended September 30, 2017, an increase of \$20.2 million or 14.1%. Our recent acquisitions within the Insurance segment accounted for an increase of \$7.7 million in SGA, primarily related to salaries and employee benefits and transaction costs. Excluding costs associated with our recent acquisitions, SGA increased \$12.5 million or 9.0%. The increase was primarily due to increases in salaries and employee benefits of \$7.9 million, information technology expenses of \$2.1 million, professional consulting costs of \$1.6 million, and other general expenses of \$0.9 million.

## EBITDA Margin

EBITDA for our Insurance segment was \$700.4 million for the nine months ended September 30, 2018 compared to \$635.7 million for the nine months ended September 30, 2017. The EBITDA margin for our Insurance segment was 55.2% for the nine months ended September 30, 2018 compared to 55.5% for the nine months ended September 30, 2017.

## Energy and Specialized Markets

## Revenues

Revenues for our Energy and Specialized Markets segment were \$127.7 million for the three months ended September 30, 2018 compared to \$111.4 million for the three months ended September 30, 2017, an increase of \$16.3 million or 14.6%. Excluding revenue of \$9.0 million from our recent acquisitions, Energy and Specialized Markets revenue increased \$7.3 million or 6.6% for the three months ended September 30, 2018. The increase within this segment primarily resulted from continuing end-market improvements in the energy sector and growth in our environmental health and safety services revenue.

Revenues for our Energy and Specialized Markets segment were \$383.1 million for the nine months ended September 30, 2018 compared to \$328.0 million for the nine months ended September 30, 2017, an increase of \$55.1 million or 16.8%. Excluding revenue of \$29.3 million from our recent acquisitions, Energy and Specialized Markets revenue increased \$25.8 million or 7.9% for the nine months ended September 30, 2018. The increase within this segment primarily resulted from continuing end-market improvements in the energy sector, favorable currency fluctuations in the energy business and growth in our environmental health and safety services revenue.

## Cost of Revenues

Cost of revenues for our Energy and Specialized Markets segment was \$53.2 million for the three months ended September 30, 2018 compared to \$49.0 million for the three months ended September 30, 2017, an increase of \$4.2 million or 8.3%. Our recent acquisitions within the Energy and Specialized Markets segment represented an increase of \$3.3 million in cost of revenues, which was primarily related to salaries and employee benefits. Excluding the impact of our recent acquisitions, our cost of revenues increased \$0.9 million or 1.9%. The increase was primarily due to increases in salaries and employee benefits costs of \$0.4 million, and other operating costs of \$0.5 million.

Cost of revenues for our Energy and Specialized Markets segment was \$164.7 million for the nine months ended September 30, 2018 compared to \$143.5 million for the nine months ended September 30, 2017, an increase of \$21.2 million or 14.7%. Our recent acquisitions within the Energy and Specialized Markets segment represented an increase of \$11.3 million in cost of revenues, which was primarily related to salaries and employee benefits. Excluding the impact of our recent acquisitions, our cost of revenues increased \$9.9 million or 6.9%. The increase was primarily due to increases in salaries and employee benefits costs of \$6.6 million, information technology expenses of \$0.5 million, rent and facilities expenses of \$0.4 million, and other operating costs of \$2.6 million. These increases were partially offset by a decrease in data costs of \$0.2 million.

## Selling, General and Administrative Expenses

Selling, general and administrative expenses for our Energy and Specialized Markets segment were \$34.1 million for the three months ended September 30, 2018 compared to \$28.3 million for the three months ended September 30, 2017, an increase of \$5.8 million or 20.4%. Our recent acquisitions within the Energy and Specialized Markets segment accounted for an increase of \$3.4 million in SGA, primarily related to salaries and employee benefits and transaction costs. Excluding costs associated with our recent acquisitions, SGA increased \$2.4 million or 8.6%. The increase was primarily due to increases in salaries and employee benefits of \$1.9 million, information technology expenses of \$0.3 million, professional consulting costs of \$0.1 million, and other general expenses of \$0.1 million.



Table of Contents

Selling, general and administrative expenses for our Energy and Specialized Markets segment were \$103.6 million for the nine months ended September 30, 2018 compared to \$84.1 million for the nine months ended September 30, 2017, an increase of \$19.5 million or 23.1%. Our recent acquisitions within the Energy and Specialized Markets segment accounted for an increase of \$10.5 million in SGA, primarily related to salaries and employee benefits and transaction costs. Excluding costs associated with our recent acquisitions, SGA increased \$9.0 million or 10.7%. The increase was primarily due to increases in salaries and employee benefits of \$6.5 million, information technology expenses of \$0.7 million, and other general expenses of \$1.8 million.

EBITDA Margin

EBITDA for our Energy and Specialized Markets segment was \$116.0 million for the nine months ended September 30, 2018 compared to \$99.1 million for the nine months ended September 30, 2017. EBITDA margin for our Energy and Specialized Markets segment was 30.3% for the nine months ended September 30, 2018 compared to 30.2% for the nine months ended September 30, 2017.

Financial Services

Revenues

Revenues for our Financial Services segment were \$43.3 million for the three months ended September 30, 2018 compared to \$41.7 million for the three months ended September 30, 2017, an increase of \$1.6 million or 4.0%. Excluding revenue of \$5.1 million from our recent acquisitions, Financial Services revenue decreased \$3.5 million or 9.8% for the three months ended September 30, 2018. The decrease within this segment primarily resulted from a \$6.0 million nonrecurring project revenue that occurred during the three months ended September 30, 2017 and did not reoccur in 2018.

Revenues for our Financial Services segment were \$128.4 million for the nine months ended September 30, 2018 compared to \$101.6 million for the nine months ended September 30, 2017, an increase of \$26.8 million or 26.3%. Excluding revenue of \$28.4 million from our recent acquisitions, Financial Services revenue decreased \$1.6 million or 1.6% for the nine months ended September 30, 2018. The decrease within this segment primarily resulted from a \$6.0 million nonrecurring project revenue earned in the third quarter of 2017 and did not reoccur in 2018, partially offset by the growing demand for our enterprise data management and portfolio management solutions revenue.

Cost of Revenues

Cost of revenues for our Financial Services segment was \$23.9 million for the three months ended September 30, 2018 compared to \$20.2 million for the three months ended September 30, 2017, an increase of \$3.7 million or 18.8%. Our recent acquisitions within the Financial Services segment represented an increase of \$3.2 million in cost of revenues, which was primarily related to salaries and employee benefits. Excluding the impact of our recent acquisitions, our cost of revenues increased \$0.5 million or 2.9%. The increase was primarily due to increases in salaries and employee benefits costs of \$1.0 million, data costs of \$0.4 million, and information technology expenses of \$0.1 million. These increases were partially offset by a decrease in other operating costs of \$1.0 million.

Cost of revenues for our Financial Services segment was \$75.3 million for the nine months ended September 30, 2018 compared to \$56.2 million for the nine months ended September 30, 2017, an increase of \$19.1 million or 33.9%. Our recent acquisitions within the Financial Services segment represented an increase of \$18.6 million in cost of revenues, which was primarily related to salaries and employee benefits and an acquisition contingent payment. Excluding the impact of our recent acquisitions, our cost of revenues increased \$0.5 million or 0.9%. The increase was primarily due to increases in salaries and employee benefits costs of \$1.6 million and information technology expenses of \$0.1 million. These increases were partially offset by a decrease in other operating costs of \$1.2 million.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for our Financial Services segment were \$4.1 million for the three months ended September 30, 2018 compared to \$4.0 million for the three months ended September 30, 2017, an increase of \$0.1 million or 3.3%. Excluding costs associated with our recent acquisitions, SGA increased \$0.5 million or 21.8%. The increase was primarily due to an increase in salaries and employee benefits of \$0.6 million, partially offset by a decrease in other general expenses of \$0.1 million. Our recent acquisitions within the Financial Services segment accounted for a decrease of \$0.4 million in SGA, primarily related to lower acquisition related fees.





## Table of Contents

Selling, general and administrative expenses for our Financial Services segment were \$14.1 million for the nine months ended September 30, 2018 compared to \$8.4 million for the nine months ended September 30, 2017, an increase of \$5.7 million or 69.5%. Our recent acquisitions within the Financial Services segment accounted for an increase of \$3.8 million in SGA, primarily related to salaries and employee benefits, and transaction costs. Excluding costs associated with our recent acquisitions, SGA increased \$1.9 million or 30.7%. The increase was primarily due to increases in salaries and employee benefits of \$1.2 million and professional consulting costs of \$0.7 million.

### EBITDA Margin

EBITDA for our Financial Services segment was \$40.9 million for the nine months ended September 30, 2018 compared to \$37.3 million for the nine months ended September 30, 2017. EBITDA margin for our Financial Services segment was 31.8% for the nine months ended September 30, 2018 compared to 36.8% for the nine months ended September 30, 2017. The decrease in EBITDA margin was primarily due to an acquisition contingent payment of \$3.5 million related to the Fintellix acquisition that negatively impacted our margin for the nine months ended September 30, 2018.

### Liquidity and Capital Resources

As of September 30, 2018 and December 31, 2017, we had cash and cash equivalents and available-for-sale securities of \$151.6 million and \$146.1 million, respectively. Subscriptions for our solutions are billed and generally paid in advance of rendering services either quarterly or upon commencement of the annual or multi-year subscription period in annual amounts. Most of our subscriptions are automatically renewed at the beginning of each calendar year. We have historically generated significant cash flows from operations. As a result of this factor, as well as the availability of funds under our \$1,500.0 million Syndicated Revolving Credit Facility, or the Credit Facility, we believe that we will have sufficient cash to meet our working capital and capital expenditure needs, and to fuel our future growth plans.

We have historically managed the business with a working capital deficit due to the fact that, as described above, we offer our solutions and services primarily through annual subscriptions or long-term contracts, which are generally prepaid quarterly or annually in advance of the services being rendered. When cash is received for prepayment of invoices, we record an asset (cash and cash equivalents) on our balance sheet with the offset recorded as a current liability (deferred revenues). This current liability is deferred revenue that does not require a direct cash outflow since our customers have prepaid and are obligated to purchase the services. In most businesses, growth in revenue typically leads to an increase in the accounts receivable balance causing a use of cash as a company grows. Unlike those businesses, our cash position is favorably affected by revenue growth, which results in a source of cash due to our customers prepaying for most of our services.

Our capital expenditures as a percentage of consolidated revenues for the nine months ended September 30, 2018 and 2017, were 8.7% and 7.2%, respectively. Expenditures related to developing and enhancing our solutions are predominately related to internal use software and are capitalized and amortized over a period of three to seven years in accordance with ASC 350-40, "Accounting for Costs of Computer Software Developed or Obtained for Internal Use." We also capitalize amounts in accordance with ASC 985-20, "Software to be Sold, Leased or Otherwise Marketed."

We have also historically used a portion of our cash for repurchases of our common stock from our stockholders. During the nine months ended September 30, 2018 and 2017, we repurchased \$282.2 million and \$276.2 million of our common stock, respectively.

### Financing and Financing Capacity

We had total short-term and long-term debt, excluding capital lease obligations and the discounts and debt issuance costs on our senior notes and credit facility, of \$2,585.0 million and \$3,015.0 million at September 30, 2018 and December 31, 2017, respectively. As of September 30, 2018, we were in compliance with our financial debt covenants.

As of September 30, 2018, we had a borrowing capacity of \$1,500.0 million, of which \$1,208.3 million, net of outstanding letters of credit, was available for borrowings under the Credit Facility with Bank of America N.A., JP Morgan Chase, N.A., and a syndicate of banks. The Credit Facility may be used for general corporate purposes, including working capital needs and capital expenditures, acquisitions, and the share repurchase program.

The Credit Facility contains certain financial and other covenants that, among other things, impose certain restrictions on indebtedness, liens, investments, and capital expenditures. These covenants also place restrictions on mergers, asset sales, sale/leaseback transactions, payments between us and our subsidiaries, and certain transactions with affiliates. The financial covenants require that, at the end of any fiscal quarter, we have a consolidated interest coverage ratio of at least 3.0 to 1.0 and that we maintain, during any period of four fiscal quarters, a consolidated funded debt leverage ratio of 3.5 to 1.0. We were in compliance with all financial debt covenants under the Credit Facility as of September 30, 2018. Interest on borrowings under

Table of Contents

the Credit Facility is payable at an interest rate of LIBOR plus 1.125% to 1.625%, depending upon the consolidated funded debt leverage ratio. A commitment fee on any unused balance is payable periodically and will range from 12.5 to 25.0 basis points based upon the consolidated funded debt leverage ratio. As of September 30, 2018 and December 31, 2017, we had outstanding borrowings under the Credit Facility of \$285.0 million and \$715.0 million, respectively. During the nine months ended September 30, 2018, we had borrowings of \$145.0 million and repayments of \$575.0 million under the Credit Facility. Subsequent to September 30, 2018, we had borrowings of \$35.0 million and repayments of \$25.0 million under the Credit Facility.

**Cash Flow**

The following table summarizes our cash flow data for the nine months ended September 30, 2018 and 2017:

	Nine Months		Percentage	Change
	Ended September 30, 2018	2017		
	(In millions)			
Net cash provided by operating activities	\$761.0	\$592.1	28.5	%
Net cash used in investing activities	\$(103.8)	\$(823.9)	(87.4)	%
Net cash (used in) provided by financing activities	\$(648.5)	\$234.3	(376.8)	%

**Operating Activities**

Net cash provided by operating activities was \$761.0 million for the nine months ended September 30, 2018 compared to \$592.1 million for the nine months ended September 30, 2017. The increase in net cash provided by operating activities was primarily related to an increase in cash receipts from customers driven by an increase in revenues and operating profit, as well as a decrease in tax payments due to tax reform passed in 2017, partially offset by an increase in interest payments.

**Investing Activities**

Net cash used in investing activities of \$103.8 million for the nine months ended September 30, 2018 was primarily related to current year acquisitions, including escrow payments, of \$67.7 million and capital expenditures of \$154.5 million, partially offset by proceeds from the repayment of subordinated promissory note receivable of \$121.4 million. Net cash used in investing activities of \$823.9 million for the nine months ended September 30, 2017 was primarily related to prior year acquisitions, including escrow payments, of \$705.2 million and capital expenditures of \$113.8 million. The \$40.7 million increase in capital expenditures for the for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 was primarily related to the purchase of aircraft, sensors, and software development for our aerial imagery business.

**Financing Activities**

Net cash used in financing activities of \$648.5 million for the nine months ended September 30, 2018 was primarily driven by net debt repayments on our Credit Facility of \$430.0 million and repurchases of common stock of \$282.2 million, partially offset by proceeds from stock option exercises of \$74.7 million. Net cash provided by financing activities of \$234.3 million for the nine months ended September 30, 2017 was primarily related to borrowings, net of payments, from our Credit Facility of \$495.0 million and proceeds from stock options exercises of \$26.0 million, partially offset by repurchases of common stock of \$276.2 million.

**Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements.

**Contractual Obligations**

There have been no material changes to our contractual obligations outside the ordinary course of our business from those reported in our annual report on Form 10-K and filed with the Securities and Exchange Commission on February 20, 2018.



Table of Contents

Critical Accounting Policies and Estimates

Our management's discussion and analysis of financial condition and results of operations are based on our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the U.S. The preparation of these financial statements require management to make estimates and judgments that affect reported amounts of assets and liabilities and related disclosures of contingent assets and liabilities at the dates of the financial statements and revenue and expenses during the reporting periods. These estimates are based on historical experience and on other assumptions that are believed to be reasonable under the circumstances. On an ongoing basis, management evaluates its estimates, including those related to acquisition purchase price allocations, revenue recognition, goodwill and intangible assets, pension and other post retirement benefits, stock-based compensation, income taxes and allowance for doubtful accounts. Actual results may differ from these assumptions or conditions. Some of the judgments that management makes in applying its accounting estimates in these areas are discussed under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our annual report on Form 10-K dated and filed with the Securities and Exchange Commission on February 20, 2018. Since the date of our annual report on Form 10-K, there have been no material changes to our critical accounting policies and estimates other than the items noted below.

Effective January 1, 2018, we adopted the requirements of Topic 606 using the modified retrospective method. The related critical accounting policies and disclosures were presented in Part I Item 1. Note 2 and Note 3 to our condensed consolidated financial statements for the three and nine months ended September 30, 2018.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market risks at September 30, 2018 have not materially changed from those discussed under Item 7A in our annual report on Form 10-K dated and filed with the Securities and Exchange Commission on February 20, 2018.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

We are required to maintain disclosure controls and procedures (as that term is defined in Rules 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) that are designed to ensure that information required to be disclosed in our reports under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives at the reasonable assurance level.

Our management, with the participation of the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this quarterly report on Form 10-Q. Based upon the foregoing assessments, our Chief Executive Officer and Chief Financial Officer have concluded that, as of September 30, 2018, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

During the nine months ended September 30, 2018, there has been no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

## PART II — OTHER INFORMATION

## Item 1. Legal Proceedings

We are party to legal proceedings with respect to a variety of matters in the ordinary course of business. See Part I Item 1. Note 15 to our condensed consolidated financial statements for the nine months ended September 30, 2018 for a description of our significant current legal proceedings, which is incorporated by reference herein.

## Item 1A. Risk Factors

There has been no material change in the information provided under the heading “Risk Factors” in our annual report on Form 10-K dated and filed with the Securities and Exchange Commission on February 20, 2018.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

## Recent Sales of Unregistered Securities

There were no unregistered sales of equity securities by the Company during the period covered by this report.

## Issuer Purchases of Equity Securities

As of September 30, 2018, we had \$584.0 million available to repurchase shares, which included the authorization of \$500.0 million approved on May 16, 2018. These authorizations have no expiration dates and may be suspended or terminated at any time. On September 14, 2018, the Company entered into an Accelerated Share Repurchase (“ASR”) agreement to repurchase shares of its common stock for an aggregate purchase price of \$50.0 million. The ASR will be effective October 1, 2018. Since the introduction of share repurchase as a feature of our capital management strategies in 2010, we have repurchased shares with an aggregate value of \$2,716.0 million. Our share repurchases for the quarter ended September 30, 2018 are set forth below:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in millions)
July 1, 2018 through July 31, 2018	371,609	\$ 107.64	371,609	\$ 645.8
August 1, 2018 through August 31, 2018	135,436	\$ 118.88	135,436	\$ 629.7
September 1, 2018 through September 30, 2018	355,912	\$ 128.40	355,912	\$ 584.0
	862,957		862,957	

## Item 3. Defaults Upon Senior Securities

None.

## Item 4. Mine Safety Disclosures

None.

## Item 5. Other Information

None.

Table of Contents

Item 6. Exhibits  
See Exhibit Index.

40

---



Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Verisk Analytics, Inc.  
(Registrant)

Date: October 30, 2018 By: /s/ Lee M. Shavel  
Lee M. Shavel  
Executive Vice President and Chief Financial Officer  
(Principal Financial Officer and Duly Authorized Officer)

Table of Contents

EXHIBIT INDEX

Exhibit Number	Description
<u>31.1</u>	Certification of the Chief Executive Officer of Verisk Analytics, Inc. pursuant to Rule 13a-14 under the Securities Exchange Act of 1934.*
<u>31.2</u>	Certification of the Chief Financial Officer of Verisk Analytics, Inc. pursuant to Rule 13a-14 under the Securities Exchange Act of 1934.*
<u>32.1</u>	Certification of the Chief Executive Officer and Chief Financial Officer of Verisk Analytics, Inc. pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002.*
101.INS	XBRL Instance Document.*
101.SCH	XBRL Taxonomy Extension Schema.*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.*
101.DEF	XBRL Taxonomy Definition Linkbase.*
101.LAB	XBRL Taxonomy Extension Label Linkbase.*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.*

\*Filed herewith.