

# Mossberg's Investor Digest

## Best Idea Profile

## Verisk Analytics (Nasdaq: VRSK)

### DESCRIPTION:

Headquartered in New Jersey, Verisk Analytics is the largest aggregator and provider of detailed actuarial and underwriting data pertaining to U.S. property and casualty (P&C) insurance. Its solutions allow U.S. P&C insurance, healthcare and mortgage industries to detect fraud and predict and quantify potential losses such as those from natural catastrophes. VRSK's largest P&C database includes over 14 billion records and, in each of the past three years, the company has updated the database with over 2 billion validated new records. The company's unique data sets include over 600 million P&C insurance claims, historic natural catastrophe data covering more than 50 countries, data from more than 13 million applications for mortgage loans and over 312 million U.S. criminal records. In 2008, the company's U.S. customers included all of the top 100 P&C insurance providers, four of the 10 largest Blue Cross Blue Shield plans, four of the six leading mortgage insurers, 14 of the top 20 mortgage lenders, and the 10 largest global reinsurers.

### KEY INVESTMENT CONSIDERATIONS:

**Prepaid and recurring revenue model with low capital intensity provides stability, predictability and high returns** – 76% of the company's services are sold through annual subscriptions or long-term contracts, which are typically pre-paid. The company's return on investment has averaged 35% for the last five years.

**Sticky Customers with 97% 5-year retention rate** – The company's solutions allow customers to generate more revenue, better manage costs and are critical to their operations. Customers actually embed VRSK's solutions into their critical decision processes to assess risk and pricing. As such, 97% of the company's top 100 customers in 2008 have been customers for each of the last five years.

**Huge competitive moat** – To recreate the size of the company's proprietary data set and analytical horsepower would be very cost prohibitive, if it could even be done. Much of the information VRSK provides is not available from any other source.

**Stable growth** – For the five year period ending December 2008, revenue and income have grown at CAGR of 13% and 12% respectively. Going forward, management expects growth rates to be 10-12%.

**Smart people with incentives to create continuous improvement** – The company employs over 575 people with advanced degrees and certifications in the fields of actuarial science, data management, mathematics, statistics, etc. Employees are incentivized with pay for performance bonuses that include equity participation. 25% of the company is owned by employees.

### VALUATION:

Verisk came public in early October. The motivation of the offering appears to be to provide liquidity for its insurance industry holders, which include A.I.G., Hartford, Travelers, and others. Selling shareholders sold 85 million shares to the market at \$22, raising \$1.9 billion. Among the holders who did not sell, was Berkshire Hathaway, which owns 7.2 million shares. The company did not offer any new shares in the offering and therefore did not receive any proceeds. On a comparable basis, VRSK shares trade at 15x EV/EBITDA, which is in line with companies MSCI (NYSE:MXB) and IHS (NYSE:HIS), which trade at 16.4x and 15.4x, respectively. VRSK shares should trade at a premium to these comparables as it delivers greater returns and enjoys a very large competitive moat.

### (Nasdaq: VRSK)

Investment Data (as of 10/23/09)

<b>Recent Price</b>	<b>\$28.37</b>
52-Week Range	26.10 - 28.97
Fiscal Year End	December
Shares Outstanding	178 MM
Average Trading Volume (3 mos)	2.6 MM
Market Capitalization	5.1 B
Cash	51 MM
Long Term Debt	690 MM
Enterprise Value (EV)	5.7 B
LT Debt/ Equity	0.02
BV/ Share	0.36
TTM Revenue	960 MM
P/ Revenue	5x
TTM EPS	0.92
P/ EPS	31x
TTM EBITDA	390 MM
EV/ EBITDA	15x

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