Q3 2017 EARNINGS CONFERENCE CALL

November 2, 2017

Kathy Guinnessey

Good morning everyone, and thank you for joining us this morning.

With me on the call this morning are:

Bob Carrigan, our Chairman and Chief Executive Officer

Rich Veldran, our Chief Financial Officer, and

Josh Peirez, our President and Chief Operating Officer

Here's what you can expect on the call today. Following my brief remarks, Bob will provide a brief overview of our third quarter results and an update on our strategy. Rich will then take you through the highlights of the quarter. After that we will open the call for your questions.

To help our analysts and investors understand how we view the business, our remarks this morning will include forward-looking statements. Our Form 10-K and 10-Q filings – as well as the earnings release we issued yesterday – highlight a number of important risk factors that could cause our actual results to differ from these forward-looking statements.

These documents are available on the Investor Relations section of our website. We undertake no obligation to update any forward-looking statements.

From time to time we may refer to “sales” which we define as the annual value of committed customer contracts. In addition, we speak from time to time about deferred revenue. When we refer to the change in deferred revenue, we mean before foreign exchange, dispositions, acquisitions and the impact of the write-down of deferred revenue due to purchase accounting unless otherwise noted.

During our call today, we will be discussing a number of non-GAAP financial measures which we call “as adjusted” results, as that’s how we manage the business. Unless otherwise noted, all metrics on the call will be presented on an “as adjusted” and non-GAAP basis, as further described in our earnings release.

You can find the reconciliation between non-GAAP financial measures, and the most directly comparable GAAP measures, in the schedules to our earnings release. They can also be found in a supplemental reconciliation schedule that we post on the Investor Relations section of our website.

Where appropriate, we have reclassified certain prior year amounts to conform to the current year presentation.

Later today, you'll also find a transcript of our prepared remarks as well as a financial model with historical results, on our Investor Relations site. With that, I'll now turn the call over to Bob Carrigan.

Bob Carrigan

Thank you, Kathy, and good morning everyone.

Last night we reported our third quarter results, which came in a little ahead of our expectations. Revenue for the quarter was up 4 percent, with 2 percent organic revenue growth. Operating income was up 6 percent, and EPS was flat. About a point of top line growth was due to a timing shift from the fourth quarter, and our earnings results benefited from both the higher-than-expected revenue in the quarter and ongoing expense efficiencies, which have been a focus for us this year. In fact, because of the progress we have made on expenses thus far, we are again revising our operating income and EPS guidance upward for 2017. We now expect:

- Operating income growth between 1 and 3 percent, revised up from a range of 0 to 2 percent; and
- EPS between -1 and -4 percent, revised up from a range of -4 to -7 percent.

While our reported third quarter results were good, we were disappointed in our underlying sales, and year-over-year organic deferred revenue for the quarter was flat. The flat deferred revenue, combined with the timing shift that benefitted third quarter revenue, will result in fourth quarter revenue still growing, but at a slower rate than in the past few years. We now expect to end 2017 at the lower end of our revenue guidance range of:

- 3 to 5 percent total revenue growth, with 1 to 3 percent organic.

Staying on underlying sales, our performance in the non-Americas was about as planned, but our Americas business lagged due in part to slower than expected progress in the combined D&B Credit suite (that is, old DNBi plus new D&B Credit). Revenue performance from the D&B Credit suite in the Americas year-to-date is about two points better than last year, which is a significant improvement for a subscription product, but it is still running a little behind where we want to be at this point in the year.

The improvement in the overall D&B Credit Suite is due to our new D&B Credit solution. Today, almost 35 percent of the customers in the combined D&B Credit suite are on the new solution. Let me break it down for you by our three customer segments by size.

We've made substantial progress in growing D&B Credit with our smaller customers, both through conversions from DNBi and through new customer acquisition. As a reminder, our initial rollout plans were focused on the small business segment, and we're having success there. Customer feedback on the upgrade has been terrific.

However, underlying DNBi sales among our mid-size customers have declined a little faster than we expected, so we are taking steps to accelerate conversion of these customers from DNBi to D&B Credit.

Among our large customers, we have seen about a half a point of drag on growth in the D&B Credit suite this year from a higher-than-normal number of corporate events, including M&A and regulatory changes, that affected their contracts with us. So, while we are moving in the right direction, we are probably not going to get the D&B Credit suite to flat this year, as we had hoped. However, given the improvement we have seen this year, the product suite should be at least flat next year.

Turning to profitability, we have made good progress in improving the bottom line. We are very pleased with our ability to deliver strong earnings relative to our original expectations year-to-date. In general, we have had very good cost discipline and have reengineered processes to deliver savings. This will remain a priority as we look ahead to next year.

We are right in the middle of our 2018 planning process. As always, we will issue guidance early next year after finalizing our plan. However, even if organic revenue growth were to be in the low single digits again next year, we expect to start expanding margins in 2018, while still investing in the strategy to drive higher levels of growth.

I'm confident in saying that we expect to begin expanding margin next year even before we've finished our planning process, because improving profitability is not a new initiative for us - we've been doing it all this year.

Based on our performance over the last three quarters, you can see that we have control over our cost base and can improve profit while still investing in our strategy. As I mentioned, that has enabled upward revisions of our operating income and EPS guidance for 2017. We have been purposeful in our approach to improving profitability. We have let our investments run, and the areas where we have invested are growing rapidly. So, we are sharpening our pencils to generate even more value for shareholders. We can do that as we continue to invest in the strategy and execute on our path to mid-single-digit growth.

Now, as we've said in the past, at its core, our strategy is about two things: having indispensable content, and delivering it in modern ways. We have indispensable content because we invest heavily in making sure we have the best commercial data. And we are achieving modern delivery by delivering data *as-a-service*. We've chosen this strategy because the business world is rapidly moving to an as-a-service environment. Be it infrastructure, platform, or software. As-a-service is driving growth for some of the biggest companies in the world, evidenced by strong earnings results in the technology sector announced over the past few weeks. Data as-a-service is a logical extension of this shift in the marketplace. In the last 12 months, Dun & Bradstreet generated more than 25 percent of our revenue in the Americas from products delivered as-a-service, and that portion of the business is growing at a much faster rate than revenue from the rest of the business.

There are three legs to the stool of our data-as-a-service strategy: We deliver our data through (1) our own solutions, like D&B Credit and D&B Hoovers, (2) through other companies' solutions, like Salesforce and now Microsoft, and (3) through APIs, as with D&B Direct. Providing our content through modern, as-a-service delivery makes our data more useful and stickier, enhancing the value of the revenue we generate from newer delivery products. For our customers, it means more of our content is available in their workflows, across platforms, and updated in real time. It means they have the most up-to-date and accurate data every time they access it.

D&B Hoovers is a great example. As you know, we launched D&B Hoovers in the first quarter, and we got it to sales growth immediately. Organic sales of D&B Hoovers and our legacy Hoovers product combined are up low single digits year-to-date, and we only launched the new product in March. This represents a significant turnaround from last year when we experienced a sharp downturn on legacy Hoovers.

The product is really resonating with *new* customers. In fact, almost half of the sales of D&B Hoovers this year were to new customers, and the majority of those sales were of the more advanced products that can integrate into other applications like CRM. Given that it is a subscription product, our improvement in the category bodes well for next year's revenue.

D&B Hoovers is an important component of our overall Sales Acceleration strategy. It is also an important part of our go-to-market strategy with our alliance partners, including Salesforce and Microsoft. Let me take a moment to update you on both of those relationships, starting with Salesforce.

Earlier this year, we told you that our relationship with Salesforce is evolving, and Salesforce is no longer selling new subscriptions of data.com. Today, Salesforce's first priority is to continue to renew existing customers on data.com. But that revenue will fall off over time through natural attrition as they are no longer selling new data.com subscriptions. I'm pleased to say we've signed a new agreement with Salesforce on how to handle customers when they eventually migrate off data.com. We will work together to smoothly transition those customers onto our newer solutions: D&B Hoovers and our brand new D&B Optimizer for Salesforce. Let me say more about this.

Today, data.com has two offerings: Prospector and Clean. Prospector makes Dun & Bradstreet company data and Salesforce's data on contacts available in the Salesforce CRM so that customers can identify new prospects. Clean uses Dun & Bradstreet's matching capabilities to keep customers' CRM records accurate and organized. D&B Hoovers replaces the Prospector component of data.com, giving customers the added benefit of having access to both Dun & Bradstreet's company data *and* Dun & Bradstreet's contact data which customers of data.com did not previously have, integrated in the Salesforce CRM.

To replace the Clean component of data.com, we are launching D&B Optimizer for Salesforce, which will bring our world-class match and cleanse capabilities to the platform. We will launch the product next week at Dreamforce, Salesforce’s annual event for its customers and partners. We will have an even more significant presence at Dreamforce this year than in past years to showcase our offerings on the Salesforce platform.

For prospective new customers that don’t already use data.com, our sales team will continue to focus on getting them onto D&B Hoovers and now D&B Optimizer for Salesforce as well. And since Salesforce is no longer selling to new customers, they will help funnel new prospects interested in data.com over to us. Moreover, we will recognize 100 percent of this revenue and own the customer relationship going forward.

D&B Hoovers and a specialized version of D&B Optimizer will also fuel our new Microsoft alliance. As we announced during the summer, we have partnered with Microsoft to provide companies with access to our data through Microsoft’s Azure cloud and its related services. We are making our data available within Microsoft Dynamics 365, Microsoft’s business application services such as ERP and CRM. The D-U-N-S® Number and our core business data will be integrated into Microsoft’s Common Data Service, through our D&B Optimizer for Microsoft solution. With our data embedded in the Common Data Service, our joint customers will be able to clean and match data across the Microsoft cloud application environment.

We will reach Microsoft's commercial users and prospects through a joint co-sell arrangement focused on D&B Hoovers and our brand new D&B Optimizer for Microsoft. Under this joint go-to-market arrangement, Microsoft will co-sell D&B Hoovers and D&B Optimizer for Microsoft with our sales teams, and the value of Dun & Bradstreet data will become part of Azure customer conversations.

I was very excited to participate at Microsoft's annual Envision conference this September where Dun & Bradstreet and Microsoft senior leadership jointly discussed all elements of our partnership with potential customers and company employees. Feedback from both groups was very positive, and I'm excited to work closely with the Microsoft team to build on this momentum.

Now let me turn to Audience Solutions, where our alliance strategy is also helping drive strong growth, specifically within our programmatic advertising offerings. We are working with leading Data Management Platforms and agency trading desks, as well as direct to customer, to distribute our targeted customer segments. Our unparalleled data on businesses and key decision makers enables us to provide advertisers a wide swath of potential buyers, based on curated, deterministic content. We are also seeing traction on our new Visitor Intelligence offering, which enables customers to identify visitors coming to their website and to customize content on their site for the specific user.

Audience Solutions was a key driver of the growth we saw in our Americas Advanced Marketing category in the third quarter. I'm excited about our progress in Audience Solutions as this is really all about making Dun & Bradstreet data available to marketers in the digital world. This is a capability that our customers appreciate and expect as they increase their digital marketing efforts, and it is an integral component of our sales and marketing solutions strategy.

Before I close, I'll update you quickly on our suite of Supply and Compliance solutions, where we are also getting good traction. Customers are leveraging our crown jewel assets, including our global business database and corporate linkage, to comply with various regulatory requirements, such as FCPA and know-your-customer obligations, and manage their global supply chains. These products are driving the strong growth we are seeing in our Other Enterprise Risk category, which is up high single digits in the Americas year-to-date.

So, we've got a lot of positive momentum in our newer use cases and our as-a-service offerings that will help drive future revenue growth. At the same time, we are still dealing with some challenges in other parts of the business. Among them, we need to get mid-market customers in D&B Credit to the same level of success we've had with our small customers. And we need to manage the run-off of revenue from data.com while we accelerate sales of D&B Hoovers.

As we look to 2018, we are focused on positioning ourselves to deliver sustained revenue growth while also being disciplined with respect to profitability. We expect to grow operating income in 2017 and to drive margin expansion, beginning in 2018.

With that, I'll turn the call over to Rich. Rich?

Rich Veldran

Thanks Bob, and good morning everyone. Today I'm going to take you through the details of our third quarter results, and then I'm going to spend a few minutes on the new accounting rule, ASC 606, that goes into effect next year, before we open the call for your questions.

As Bob said, third quarter results were a little ahead of expectations, as a large customer contract shifted from the fourth quarter last year to the third quarter this year. We've talked a lot about how products like Optimizer can be lumpy quarter to quarter, and this is another example. This shift was worth about a point to third quarter growth.

Total revenue for the Company was $430 million and grew 4% for the quarter, with organic growth of 2%. As Bob mentioned, given the timing shift as well as our deferred revenue balance at the end of the third quarter, we expect fourth quarter revenue to grow, but at a slower rate than it has in the last few years.

Let me take you through the details of our performance by segment. The Americas had third quarter revenue of $353.7 million, which represented 82% of our revenue in the quarter. Total revenue was up 4%, and organic was up about a point and a half.

Within the Americas, Risk Management, representing 57% of Americas revenue, was down 1% in the quarter and organic revenue was about flat. As a reminder, we divested our Latin America business last year.

Within Risk Management, Other Enterprise Risk grew 6% in the quarter, driven by strength in Compliance and Supply, as well as D&B Direct.

Trade credit was down 4% in the quarter. The D&B Credit suite, which represented about three quarters of Trade Credit revenue, was down 2%. Bob already discussed D&B Credit, so I'll move on to Other Trade Credit, which was about a quarter of Trade Credit revenue and was down 10% in the quarter. As we have mentioned on previous calls, this category has been impacted by shifts out of trade credit products into other D&B solutions. After adjusting for shifts within D&B, other trade credit was down slightly.

Now let me shift over to Sales and Marketing, which represented 43% of total revenue in the Americas in the third quarter. Total revenue was up 12% in the quarter, and organic grew in the mid-single digits. Advanced Marketing, which was 53% of Sales & Marketing revenue, was up 11% in the quarter, all of which was organic. As I said earlier, Advanced Marketing benefited from the shift of a large contract from the fourth quarter. Adjusting for that, Advanced Marketing was still up in the mid-single digits due to strength in Master Data, including Optimizer, as well as Audience Solutions.

Sales Acceleration, which was 47% of Sales & Marketing revenue, was up 12% due entirely to the acquisition of Avention. Organic revenue was down in the mid-single digits.

As a reminder, Sales Acceleration includes the D&B Hoovers suite, which is made up of old Hoovers, the new D&B Hoovers, Avention, and data.com. The category also includes our educational marketing business and revenue from other analytics and sales prospecting solutions. Revenue in the Americas for Sales Acceleration was $210.8 million through the third quarter, and the D&B Hoovers suite was $129.6 million of that total.

The decline in organic revenue was driven by weak sales of the old Hoovers product in 2016. While we need to get through the drag on revenue this year, we are very pleased with the early success we've had with D&B Hoovers. We are seeing improvement across all metrics: retention is up, we are getting a strong lift in average selling price on conversions, and we are generating strong new business growth as well. We expect 2017 sales to help revenue in the D&B Hoovers suite next year. However, as Bob mentioned, the D&B Hoovers suite also includes revenue from data.com, which will be stepping down over the next few years due to normal attrition.

Shifting to Non-Americas, revenue was $76.3 million in the third quarter, which represented 18% of revenue for the company. Total revenue was up 1%, and organic revenue grew mid-single digits.

Total revenue growth was behind organic revenue growth primarily due to the divesture of our Benelux business last year. The organic revenue growth was due to a strong performance in our Worldwide Network partnerships in Europe, and continued strength in Asia.

Total company deferred revenue was flat before M&A activity and the impact of foreign exchange. Americas deferred revenue was down 1%, and Non-Americas was up 4%.

Now let me turn to profitability. Operating income in the quarter was up 6%, which was much better than we expected due to better performance on the top line, given the contract shift I just talked about, and our focus on streamlining our expenses. Early in the year we started focusing on finding efficiencies in our cost base. We've reduced discretionary spending, renegotiated outsourcing contracts and pushed to get M&A synergies ahead of schedule.

As a result, our operating income growth will be better than originally planned for 2017. And we will continue to drive efficiencies to deliver higher margin next year. One of the great things about a data company is the ability to expand margins with organic revenue growth. Over the past few years, while we have delivered organic revenue growth, we have not expanded margins, as we've invested in our strategy. We've now gotten to steady growth and are focused on driving it higher.

And we are now on pace where we can continue to invest to get that growth and begin expanding margins at the same time.

EPS was flat in the third quarter, at $1.79 per share, and we now expect full year EPS to be between -1% and -4%. The decline in EPS, despite growth in operating income, is primarily due to higher interest expense, and, to a lesser extent, a higher tax rate this year.

Turning to the balance sheet, we ended the quarter with $1.7 billion of debt, including about $1 billion of fixed rate senior notes, and $700 million floating rate debt. Our cash balance was $431 million, for net debt of $1.3 billion.

Before I close, let me just touch on accounting changes that will affect our 2018 reported financials. In May of 2014, the FASB issued ASC 606, a new accounting standard aimed at standardizing revenue recognition and related practices across businesses and conforming US GAAP with IFRS (the International Financial Reporting Standards).

The standard covers various areas of financial accounting including revenue recognition principles, deferral and amortization of costs to acquire contracts, and the presentation of certain balance sheet line items. ASC 606 goes into effect for most companies on January 1, so beginning with first quarter 2018 results, companies will be reporting under the new standard.

Now, there has been a lot of press recently about companies not being ready to meet the deadline for the new reporting, given how complicated this transition is. We have been working with our auditors and outside advisors for quite some time and will be ready for the new standard.

We, like most companies, will be transitioning to the new reporting on a go forward basis, called the Modified Retrospective method. As such, in 2018 our GAAP reporting will be under the new accounting standard, but we will also report results under the standard in effect today: ASC 605. Under the new standard, certain of our revenues that are currently recognized at the time of sale may now be recognized on a more ratable basis. In addition, certain costs to acquire a contract may be deferred and amortized over time. The new standard will also impact the presentation of deferred revenue and accounts receivable on our balance sheet.

Converting to the new standard is literally a contract by contract analysis, so I cannot say what the impact will be on our reported results at this time. The important thing is that nothing about our underlying business changes. Our free cash flow will be on the same basis as it has been historically, and as I said, we will report under both the old and new standards next year so you’ll have a full transparent apples-to-apples comparison of 2018 results with our historic results. I expect to be able to give you more insight on the potential impact on our 2018 reported results on our next call.

With that, we’ll now open the call for your questions. Operator?