# Q1 2018 EARNINGS CONFERENCE CALL

## May 10, 2018

**Kathy Guinnessey**

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

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.

Effective January 1, 2018 we adopted the new accounting standard ASC 606. As you can see in the schedules accompanying our press release issued last night, our first quarter 2018 GAAP results are reported under the new standard. For ease of comparison, we provided supplemental schedules with results reported under ASC 605. We will continue to provide results under both the new standard, ASC 606, and the prior standard, ASC 605 for the remainder of 2018. Beginning in 2019 we will report under ASC 606 only.

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, and based on the prior accounting standard, ASC 605.

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.

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

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.

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.

Now, turning to our call this morning, I'm pleased to be joined on the call by:

Rich Veldran, our Chief Financial Officer, and
Tom Manning, our Chairman of the Board, and interim CEO.

During the call, Tom will provide an update on our strategy, and then Rich will review our first quarter results.

I'd now like to hand the call over to Tom Manning.  Tom?

**Thomas Manning**

Thank you, Kathy. Good morning everyone, and thank you for joining us on the call today.

As you know, this is a time of transition for Dun & Bradstreet. Before Rich takes you through our first quarter results, I'm going to use my time this morning to update you on the changes we announced on our last call in February. Let's start with the CEO search.

As we said earlier this year, the board is acting with urgency to find a permanent CEO. We engaged a top search firm in early March to assist us in the process. We fully spec'd out the job and began identifying candidates with experience accelerating top and bottom-line growth. The Nominating and Governance committee of the Board is interviewing candidates now, focusing on finding someone who is a strong leader and can continue the progress we've made improving our data and analytics, developing solutions and capabilities to meet new customer use cases, and modernizing our products and platforms. I can't tell you when we'll have the role filled, but I can assure you that this is a top priority for the Board.

At the same time, we are not waiting for a new CEO to implement the important changes that will help get the company to sustainable growth on both the top and bottom lines. We've been working with McKinsey & Company to review our strategy and operations.

The Board is looking beyond incremental operating leverage and seeking a real step change in the earnings and cash flow this company can deliver.

As I said on our last call, we completed Phase One of our review, having validated our strategy. In that phase, we confirmed that the markets we play in are attractive, and we have strong competitive positions in them. A key pillar of the strategy we launched back in 2014 was to expand our advantage in data, which is paying off. Thus far, our review has confirmed that our unique data assets continue to have differentiated value and customers are willing to pay for that value. We have twice the data of our nearest competitor, and our data is 40 percent more predictive than that of our competitors. Furthermore, we have found that an overwhelming majority of our customers expect to stay with Dun & Bradstreet, as they trust us, have familiarity with our brand, and have confidence in the accuracy of our data. In addition, our focus on moving our business to as-a-service aligns closely with growing customer needs in the market.

With Phase One of our work complete, we are now engaged in Phase Two. Specifically, we are conducting a Full Potential Analysis, which is a bottoms-up approach to identifying specific barriers to realizing our potential, sizing the opportunities, and identifying actions to take.

We are about 80 percent of the way through this work and have confirmed the board’s belief that our earnings potential is far beyond where we are today.

The Full Potential Analysis has uncovered areas where our complexity has been a barrier to unlocking value. In a sense, we are standing in our own way. As our customers' need for data has broadened and become more sophisticated, our solutions have become highly customized, taxing the organization across the board. This complexity has made for a slow, cumbersome process for contracting, customizing pricing, onboarding, and issue resolution that requires a great deal of manual intervention, all of which translates into delays for our customers. Our pricing is too complex, with thousands of products each priced separately and hundreds of product bundle combinations. This customization has left us with a large product portfolio without clear sunset plans.

Beyond complexity, we have seen insufficient hunting within our sales organization. For example, while we do cross-sell today, 90 percent of those deals are in just one part of a customer's overall business – either risk management solutions or sales and marketing solutions. And, by focusing on select strategic verticals where we have long established customer relationships with the top players, we've limited where we hunt. For example, we are not focusing on 20 percent of the Fortune 1000 today.

Part of the issue is having the right talent, and part is structural, as our matrix product, sales, and service organization has led to duplicative roles and lack of role clarity.

We have a great opportunity to further penetrate existing customers across both the risk management and sales and marketing areas by creating enterprise-wide solutions with uniform pricing and clear roles within the organization.

We've talked about some of these issues in the past, but our efforts to fix them have been somewhat piecemeal. The work we are engaged in today is giving us a clear end-to-end process to make significant change. And we are putting concrete, measurable actions in place. We are engaging customers to make sure that we have a full, rounded view of the issues, and we are enrolling the organization behind the process.

As we look forward to finding ways to unlock growth, we are excited about the opportunities we've identified. We have made some important progress in the last few years that will help set us up for long-term growth. We've introduced new, fast growing use cases and modernized delivery of our solutions. We've also enhanced our data processing, which sped up innovation and doubled the throughput of our database.

But to unlock the value we're capable of, we need to make systemic changes across our organization to simplify our processes and accelerate execution, and that is what we are focusing our energy on right now. However, consistent with what we said on the last call, we are simultaneously open to considering all options for maximizing shareholder value.

Internally, we are developing our own “private equity playbook” to unlock value. A PE playbook includes taking out costs, paring the portfolio, and focusing on growth opportunities to increase the value of a company. We are taking a look at our business through that lens. We are putting plans in place that we believe will generate PE-type returns for shareholders over time.

The path we’ve identified to remove complexity in order to accelerate growth and realize our full potential, has three main cross-functional components:

1. Strengthening and focusing product management and pricing – which means establishing a defined framework for customization, detailed product sunset plans, and a defined approach to product packaging and pricing,
2. De-stacking the go-to-market and post-sales model – where we will establish a scalable hunter/farmer model with clearer role definitions, overhaul redundant processes and minimize activity duplication for customer-facing roles, and
3. Streamlining and automating our Quote-to-Cash process – which means reducing administrative costs, lost selling time and unnecessary complexity.

And, as any PE firm would do, we are taking costs out of the business to help fund our strategic initiatives. As part of this strategic and operational review, we've done a deep dive into 90 percent of our cost base, including cost/benefit process analyses and benchmarking support functions. We have identified both short-term and long-term opportunities. While we are in the midst of our CEO search, and we don't want to box in our new leader, there are some actions that we can take right away. We are already implementing plans to take significant costs out of our base over the next year. At the same time, we are beginning the work to streamline and automate our back-office systems that enable our quote to cash processes to address complexity.

I've given you a lot of information, so let me pause here and recap. Our strategic and operational review, which we are conducting with the help of McKinsey, has three parts:

- The first was validating the strategy, which we have completed.
- The second is conducting a Full Potential Analysis, which is nearly complete.
- The third is putting together an action plan to realize that potential.

The third part is in progress. We, in concert with the Board, are working through a number of options to execute our playbook.

We are taking actions immediately in selected areas, including the cost reductions and quote to cash system enhancements I just mentioned, and we are weighing speed, investment requirements and payback to determine how we put our playbook into action. Over the next few months we will finalize those plans.

So, with the CEO search still in process, and the work on the PE playbook not complete, I am not in a position to provide 2018 guidance at this time. However, I can assure you, as you can see in the first quarter, the underlying business is stable and continues to perform reasonably well, although obviously still not where we want it to be.

With that said, as I sit here today in my role as interim CEO and as Chairman of the Board, I'm excited about the company's future. Our customers highly value our data, our brand, our accuracy, and our reputation. Businesses like working with Dun & Bradstreet because we're the best at what we do. We look forward to seizing opportunities to continue to improve, and we're taking the steps now to grow and drive value for shareholders.

With that, I'll turn the call over to Rich, who will discuss our first quarter results.

**Rich Veldran**

Thanks Tom, and good morning everyone.

Last night we issued our press release with first quarter results. In the quarter, both total and organic revenue decreased 1 percent. We grew operating income 6 percent, and EPS was up 31 percent, including 18 points from the benefits of tax reform. We also generated $106.7 million of free cash flow.

Let me take you through the revenue results by segment in more detail. Total revenue for the company was $384.7 million. Americas revenue was $311.5 million and represented 81 percent of total company revenue, and Non-Americas revenue was $73.2 million and 19 percent of the total.

Revenue in the Americas segment was down 2 percent in the quarter. Risk Management revenue in the Americas was down 4 percent, as our Trade Credit business declined 6 percent, while Other Enterprise Risk grew 1 percent.

Within Trade Credit, revenue from the D&B Credit suite was down about 2 and a half percent. However, this decline is not indicative of the underlying progress we are making getting the D&B Credit Suite performance back to growth.

Almost 2 points of the decline was due to a couple of one-time items. The biggest part was a shift of revenue from customers accessing certain International reports. Under the old DNBi subscription, these reports were accessed on a transactional basis, where the revenue was recognized at the time of sale. Under the new D&B Credit solution, International reports are generally part of the overall subscription. The value for that International access is priced into the solution, but the revenue is now recognized ratably over the life of the subscription. The rest of the decline was due to a few one-time items last year that did not repeat in 2018.

The important thing is that we are continuing to drive the D&B Credit Suite back toward growth. Underlying sales in the category were flat for the full year 2017, and down slightly in the first quarter of 2018, so revenue should be flattening out over the course of the year, and we still expect to get the D&B Credit Suite to at least flat this year.

The decline in other trade credit was primarily due to customer shifts to other D&B products as well as the timing of certain worldwide network partnership fees. Adjusting for those, other trade credit was down mid-single digits.

Other Enterprise Risk benefited from continued strength in our Supply and Compliance solutions, as well as D&B Direct. This was largely offset by weakness in Credit on Self solutions.

As we mentioned on our last call, we had some staffing issues last year that impacted sales. That will play out in revenue over the next few quarters.

Sales and Marketing revenue in the Americas was up 1 percent for the quarter. We continued to see strong growth in Advanced Marketing Solutions, where revenue grew 7 percent during the quarter. Advanced marketing includes both our Master Data solutions, which were up high single digits, and our newer Audience Solutions, where revenue is continuing to build at a very strong pace.

This growth was partially offset by a decline in Sales Acceleration of 3 percent. Revenue from the D&B Hoovers Suite, which includes traditional Hoovers and Avention products, data.com, and the new D&B Hoovers product, was down 7 percent. More than half of the decline was due to data.com. As a reminder, we said that we expected data.com revenue to decline this year due to normal attrition, which would impact the total company growth rate by about a point. We believe we are making headway penetrating the customer base of Salesforce with sales of new D&B Hoovers, as the overwhelming majority of new customers buy the premium offering with CRM integration.

To summarize the performance in our Americas segment, we are continuing to see strong growth in our newer use cases in Advanced Marketing, including Master Data and Audience Solutions, and supply and compliance solutions in Other Enterprise Risk. And we are making progress getting our legacy use cases in trade credit and sales acceleration back to growth.

As we look at the rest of the year in the Americas, while we are not yet providing full year guidance, I do want to let you know about some timing shifts that we expect to play out during the year. There are several very large contracts in the Americas where revenue that was realized in the second quarter of 2017 will be recognized in the fourth quarter of 2018. As a result, there will be a 3 point drag on second quarter revenue growth, offset by an expected 3 point gain in the fourth quarter.

Shifting to Non-Americas, first quarter revenue was up 2 percent, and organic revenue grew 3 percent. The organic revenue growth was primarily due to a strong performance in the UK and Ireland. We are pleased with the performance in non-Americas, which was up against a tough comparison to last year, where organic revenue was up over 10 percent.

Deferred revenue, was up 3 percent for the company, before M&A activity and the impact of foreign exchange. Deferred revenue in the Americas was up 4 percent, and Non-Americas deferred revenue declined 2 percent.

Now let me turn to profitability. Operating income was up 6 percent in the first quarter. Included in this are one-time benefits from equity forfeitures related to the senior management changes in the first quarter, which offset the increased costs from our strategic and operational review. So, despite these items, we still had healthy growth in operating income, which reflects the benefit of the actions we are taking this year, that Tom referred to earlier, as well as costs we took out over the course of last year. And we are doing this while continuing to invest in the business.

EPS was $1.24 for the first quarter, up 31 percent over last year. As I said earlier, about 18 points of this growth came from the change in the US tax rate due to tax reform. As we said on the last call, as a result of tax reform, we expect our go forward annual tax rate to be in the mid 20 percent range. The remainder is primarily due to growth in operating income.

Turning to the balance sheet, we ended the quarter with $1.3 billion of debt. Our cash balance at the end of the quarter was $188.1 million, for net debt of $1.1 billion. We repatriated almost $300 million of cash in March, which we used to pay down debt. At the end of the quarter, our debt included about $600 million of fixed rate senior notes and about $700 million of floating rate debt.

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