Q4 2011 EARNINGS CONFERENCE CALL

February 7, 2012

Kathy Guinnessey

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

With me on the call this morning is:

- Sara Mathew, our Chairman and Chief Executive Officer, and
- Rich Veldran, our Chief Financial Officer

In addition,

- Byron Vielehr, our President of North America, and
- Manny Conti, our President of International and Chief Administrative Officer, will be available to handle any questions you have.

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 Web site, and we encourage you to review this material. We undertake no obligation to update any forward-looking statements.

During our call today, we will be discussing a number of non-GAAP financial measures, as that's how we manage the business. For example, when we discuss "revenue growth" we'll be referring to the non-GAAP measure "core revenue growth before the effect of foreign exchange," unless otherwise noted. When we discuss "operating income," "operating margin" and "EPS," these will all be on a non-GAAP basis, before non-core gains and charges.

Reconciliation between these and other non-GAAP financial measures and the most directly comparable GAAP measure can be found 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 Web site.

Later today, you'll also find a transcript of this call on our Investor Relations site.

With that, I'll now turn the call over to Sara Mathew. Sara?

SARA MATHEW

Thank you Kathy and good morning everyone. Since there was a lot of information in our press release last night, let me lay out our agenda for the call this morning.

I'll begin with a brief overview of our 2011 results and our expectations for 2012. Next, I will provide added details on the MaxCV program, including a delay in ***one*** component of the program, and its impact on our financials. Following my remarks, Rich will discuss our 2011 results, including the impact of accounting changes, and the strategic actions we have taken in Asia to improve profitability in that region. After that, we will open up the call for your questions.

Our full year 2011 results improved from 2010 and were mostly in line with expectations. Specifically;

- Core revenue was up 5%, with organic revenue up 2%;
- Operating income grew 4%;
- EPS was up 10%; and
- We generated Free Cash Flow of $252 million

North America was up a modest 1% for the year, with 2% growth in the second half offsetting mostly flat performance in the first half. This 2nd half growth was driven by S&MS and Hoover's, and we expect these businesses to strengthen in 2012.

Hoovers, which was re-platformed in 2010, is already benefitting from the benefits of this new platform. We are seeing an acceleration in ***innovation-driven*** top-line growth in Hoovers. We've migrated our traditional S&MS products to this new platform, and have achieved much higher profit levels than ***<u>before</u>*** this change. When coupled with the opportunities in the market for our Data-as-a-Service (or "DaaS") products, you should know that we are very pleased with the progress in North America *S&MS* and expect stronger performance in 2012. I'll discuss the RMS business momentarily.

International grew 18%; 2% organically, due to the acquisition of D&B Australia. Weakness in Japan throughout 2011 was offset by continued growth in our emerging markets. Our performance in China once again was very strong, and we expect the recent portfolio changes in Asia Pacific to strengthen that business even further.

For 2012, we expect improvement across all financial metrics. Specifically:

- Revenue growth of 3% to 5%, most of which is organic. North America will be at the low end of this range and International at or above the high end;
- Operating income growth of 4% to 7%,
- Margins of around 30%; that is 100 basis points above 2009;
- EPS growth of 8% to 11%, and
- Free cash flow between $310 million and $340 million

Stepping back, you'll note that all metrics ***other than revenue growth*** are in-line with the expectations we laid out early in 2010, when we launched the MaxCV program.

Revenue growth is about a point behind where we said we would be last July, due primarily to a delay in the MaxCV program. Let me update you on where we are with the program and how we expect it to impact our results going forward.

When we first announced the program back in 2010 we discussed the 3 key components:

1) Rationalizing our product portfolio
2) Building a web service layer to enable faster and lower cost new product innovation; and
3) Building a new data supply chain to provide near real time data access for our customers

We have met or exceeded all of our key milestones on all the components of the plan, <u>***except***</u> for the data supply chain.

First - We have made excellent progress rationalizing our product portfolio. As a reminder, in 2011 as we evaluated which products we wanted to map to our new data supply chain we aggressively sunset several legacy applications that had a weak value proposition or poor profitability. These were primarily in our S&MS and supplier risk businesses.

We shut down many of our S&MS traditional list and labels products and migrated customers to the Hoover's platform where possible.

The migration has gone very well, broadening the Hoover's customer base, and allowing us to consolidate all S&MS innovation in our Hoovers development center in Austin. This is benefitting both the top and bottom line across the S&MS business.

Second - The build of the new web service layer is substantially complete, and we have launched several new products, primarily in S&MS leveraging this capability. More specifically, we have seen a 3-fold increase in new product introduction in S&MS in 2011 vs. the prior 3 years, and have done so at a much lower cost. This is resulting in a more stable and profitable growth business in S&MS, after years of volatility. We expect the web service layer to be a key driver of S&MS innovation, and as such, we believe S&MS will be the growth driver in North America in 2012.

Moving to RMS, we have just restarted new product innovation after a two year hiatus. As is the case with S&MS, our decisions in RMS are focused on long term growth and sustainable value creation.

As context, we made the strategic decision in 2010 to move RMS innovation to a state-of-the-art application development center in Dublin. This was not a part of our original MaxCV plan. This move increased our MaxCV costs and slowed the pace of innovation on DNBi. However, as a result of this move we have secured significant benefits for D&B.

First, the move of DNBi to Ireland will allow us to expand our capability to innovate, as we have in-sourced RMS application development to Dublin.

An added benefit is substantial tax savings, which you should factor into your models beginning in 2014. More specifically, D&B's tax rate is expected to go down to 32% - 33% in 2014, and 28% - 29% in 2015 and beyond, as we will create a significant portion of our IP, or Intellectual Property, in Ireland.

So, in summary, we expect this move to create new value for shareholders, while also establishing a center of excellence for RMS innovation in Dublin. The benefits of new product innovation are expected to ramp up in the 2nd half of 2012, and, as such, we expect RMS growth to be flat in 2012, and gradually accelerate as the Irish team brings new risk products to market, leveraging the web-service layer of MaxCV.

Now let me move to the one area of MaxCV that needs more attention – our data supply chain. As you saw in our press release last night, we now expect the project to take longer and cost an additional $30 million in 2012. As context, towards the end of 2011, as we were building out the supply chain, we recognized that our design had missed key integration points between the data supply chain and the web service layer. This is disappointing since it was within our control, and we now need to go back and rework this segment of MaxCV. As such, we will not see the full benefits of real time data access until after the cutover is complete in 2013.

Our 2012 revenue guidance reflects this change, and is about a point behind where we envisioned we would be last July. We continue to believe that mid to high single digit growth in North America is sustainable after we complete this project.

To reduce the risk of any further delays, we have developed a less risky sequential project rollout plan. More specifically, we now expect to have a fully functioning data supply chain (up and running) in one key market by the end of 2012 and at a total project cost of about $160 million. This is approximately $30 million above our previous expectations. Of note, we have already spent $100 million on the project, and expect to spend the final $60 million by the end of 2012. Once the supply chain is functional in one market, the subsequent cut-over of all products across geographies to the new data supply chain is expected to occur over the course of 2013.

All expenses incurred on the cutover after 2012, will be absorbed into our core operating expenses, and funded through our ongoing financial flexibility program. Said another way, we will close down the program in 2012, and there will be no additional MaxCV related non-core charges in 2013 and beyond.

Despite this delay, I am confident in our strategic direction and the capabilities we will unleash once MaxCV is complete. Let me highlight my rationale:

1. We have now completed more than two-thirds of the project and are already reaping the benefits of the program
2. The most challenging portions, such as the movement of our data center are complete, and system availability is at all-time highs.
3. We are already building new products (D&B 360 and D&B Direct are just the beginning) leveraging the new web-service layer, and the products are innovative and have been very well received by our customers
4. While our RMS progress is slower than I would like, we expect to systemically lower our tax rates creating real value for our shareholders
5. And, finally, the benefits of MaxCV are surfacing in ways we had not envisioned. This is reflected in the strong free cash flow expectation for 2012, ***despite*** the added project cost and the lower top-line expectations

In summary, we remain committed to our transformation and I am confident in the prospects ahead. In North America, growth will be driven by S&MS, while RMS will remain flat. In International, we expect strong performance in our emerging markets with a gradual acceleration as the year progresses.

To discuss these and other matters in more detail, let me now turn the call over to our CFO - Rich Veldran. Rich?

RICH VELDRAN

Thank you Sara and good morning everyone. As you saw in our press release last night, our fourth quarter results were in line with our expectations, with core and organic revenue both up 3%.

Before I get into the details of the quarter's performance, I want to provide some perspective on a series of transactions announced in our press release last night. These transactions are intended to streamline our business, improve profitability and set us up for continued growth in the years ahead. I'll begin first with the transactions in North America.

As Sara mentioned earlier, in concert with our MaxCV initiative, over the last year, we have sunset several legacy products in order to rationalize our portfolio. In addition, we divested two product lines, Purisma and a small supply management consulting business, both of which have little synergy with the rest of D&B. Together, these businesses generated approximately $5 million of revenue in 2011 and will be removed from our core revenue consistent with past practice.

In International, we took several steps to streamline our Asia Pacific operations and drive improved profitability.

First, during the fourth quarter we made two strategic moves to strengthen our S&MS business in China.

As context, our revenue in China is approximately 60% S&MS and 40% RMS, and the services we provide to our customers enable us to collect data and enhance our database at the same time. This is important given the difficulties of acquiring data in China.

At the end of 2011, we acquired MicroMarketing, a provider of both traditional database and online interactive marketing solutions in China, for approximately $14 million. This transaction enables us to grow our Chinese database by 2.5 million records, and scale our operations in this market. Micromarketing had approximately $11 million of revenue in 2011 and will be fully integrated into our existing S&MS business in China in 2012. Due to the integration, we will not be able to separate the inorganic contribution from the acquisition from our core revenue going forward. For modeling purposes, you can take the 2011 revenue and spread it evenly over 2012.

Concurrently, we sold our market research business in China. While this was a fast growing business, with 2011 revenue of $16 million, it was low margin and not scalable.

Finally, we made the decision to partner our Japanese business, similar to our arrangements in Europe. As you may recall, the challenging macro conditions in Japan have caused reductions in customer spend driving declining revenue and profits.

We do not see our performance in the domestic market improving; accordingly, we have reached an agreement to sell our share of the high cost domestic business in Japan to our partner, TSR, while we retain the high margin cross border segment. We expect to close this deal by the end of February.

As a result of this transaction, we will lose roughly $64 million of annual revenue. For 2012, despite the lost revenue, the operating income contribution from Japan will be higher, as the royalty stream under the terms of the commercial agreements is expected to exceed our current operating profit level.

I recognize that there are a lot of moving pieces here, so to help you model the impact of these divestitures we have provided a new supplemental schedule 7 to our earnings press release that reconciles the impact by geography and product segment.

Now, moving to our fourth quarter results, North America, revenue grew 3% for the quarter and 1% for the year. As a reminder, as we discussed at the beginning of 2011, we adopted the new accounting standard, ASU2009-13 that impacts the timing of revenue recognition on bundled contracts. While the impact on our results was immaterial in the first 3 quarters of 2011, it was responsible for about 2 points of revenue growth in the fourth quarter, in line with our expectations.

This is a matter of timing, which will be offset by about a point of drag on revenue growth in 2012, all of which is reflected in our guidance.

Risk Management, which represents 53% of North America revenue, was flat in the fourth quarter and for the full year. Excluding the impact of the accounting change, RMS would have been down a point in the fourth quarter, consistent with what we saw in the third quarter.

DNBi grew slightly in the quarter, which was in line with our expectations in the aggregate. Retention increased by 2 points, but price lifts on renewals of DNBi dropped to 2% as we focused on retaining customers in anticipation of the new product– Portfolio Risk Manager that was not available as an upsell to customers until late December.

Looking forward, we expect RMS growth to bottom out in Q1, as its current -1% trajectory is exacerbated by the drag from the accounting change discussed a moment ago. We then expect gradual improvement in the subsequent quarters as our new products gain traction in the marketplace, and that will get us to about flat for the year.

Sales & Marketing, which represents 39% of North American revenue, was up 5% in the quarter (or 1% before the adoption of the new accounting guidance I mentioned earlier). For 2011, growth from our Value Added solutions, up 11%, offset declines in our traditional products, which were down 14%.

Within S&MS, we began to see the benefit of our new DaaS products, which contributed about a point of growth in the fourth quarter. These products were just released last year, and their revenue is recognized ratably, so we expect this category to drive increased growth in 2012, and will build as the year progresses.

Internet solutions, which represents 8% of North America revenue, grew 9% in the quarter. This is the fourth consecutive quarter of high single digit growth. As Sara mentioned earlier, we re-platformed the Hoovers site and it is resonating well with customers, validating our belief that innovation leads to better market performance.

The deferred revenue balance for North America declined 2% at year-end largely due to the impact of ASU2009-13. Excluding the accounting change, North America deferred revenue would have been up about a point, slightly better than Q3. This low rate of growth in our deferred revenue balance reflects a shift in product mix towards S&MS, the primary growth driver in North America in 2011. As a reminder, S&MS products have mostly up front revenue recognition, versus RMS, which is mostly ratable.

Let me now turn to International, which represents 28% of our core revenue. Core revenue grew 3% in the fourth quarter, both in total and organically.

For the full-year 2011, total and core revenue were up 18%, with organic up 2%. As a reminder, we acquired D&B Australia at the end of the third quarter of 2010, and it is now part of our organic base.

Europe & Other, which represented 48% of total international revenue, declined 2% in the fourth quarter and was flat for the year. As we mentioned on our third quarter call, the early completion of several UK customer projects during the third quarter created a headwind to our fourth quarter results.

Asia Pacific, representing 52% of our total international revenue, grew 9% during the quarter and 8% organically. Asia Pacific benefitted from strong organic growth in China and India, which combined grew more than 20% year-over-year, as well as growth in D&B Australia.

Looking forward, we expect our total International business to benefit from continued strength in Asia Pacific. This strength will be driven by the scaling of our emerging markets, continued growth in D&B Australia and our partnering of Japan. While the macro environment in Europe is expected to remain challenging, we expect a modest pick-up from better sales execution and the continued expansion of DNBi. As such, for 2012 our total international revenues are expected to grow in the mid to high single digits.

Now let me turn to our total company profitability. During the fourth quarter, operating income increased 1%, which was in line with our expectations.

North America's operating income grew 3% in the fourth quarter, and included increased investments in product and marketing to drive top line growth in 2012. International operating income, was also up 3%.

For the full year, our total operating income grew 4%. Looking ahead to 2012, we expect operating income to be up 4% to 7%. This growth is a testament to the strength of our scalable business model and the benefits we are already seeing from MaxCV on our cost structure.

We are especially pleased with our bottom line expectation for 2012, since we face about $10 million incremental pension expense and another $4 million of headwinds from foreign exchange. Combined, these factors represent a 3 point drag on operating income growth in 2012, which means that excluding these items, our operating income guidance would have been for 7% to 10%. The growth will be lower in the first half of the year and higher towards the back half, due to a greater amount of marketing and investment activity in the first half of the year to support new products in North America.

We are extremely pleased with our expected operating margin of 30% in 2012. While we are not seeing the revenue growth we had expected in 2012, we expect to achieve our margin target through a combination of lower technology costs and financial flexibility.

Our 2012 reengineering program is expected to generate savings of $80 to $90 million before any reinvestment in the business. To drive the program, we will incur restructuring charges of $29 to $37 million including approximately $9 million to $12 million related to the restructuring of our Japanese business.

All of these costs, as well as the final $60 million of spend on MaxCV that Sara mentioned earlier, are included in our free cash flow guidance of $310 to $340 million, which is a significant increase over the $252 million delivered in 2011. You can see that our free cash flow is growing faster than our operating income in 2012. About 2/3 of the growth is from higher operating income adjusted for non-cash expenses like pension expense and equity compensation. The other third is split between one-time items in 2011such as early pay discounts that we took advantage of in the fourth quarter and higher collections in the second half of 2012 due to the ramp up in sales.

In 2011, we returned approximately $200 million of cash to shareholders in 2011, through dividends and share buybacks. For the full-year, we paid dividends totaling $70 million and repurchased $126 million of stock under our discretionary share repurchase program, which was about $50 million more than our original plans going into the year.

During 2012 we expect to return a higher level of cash to shareholders. We've increased our Q1 quarterly dividend from $0.36 per share to $0.38 per share, and we expect to repurchase about $150 million to $175 million of our shares through our discretionary share repurchase program. As in the past we will be opportunistic about the actual repurchases.

Turning to the balance sheet, we ended the year with $84 million of cash and gross debt of $965 million. We remain comfortable with our gross debt level in the billion dollar range.

With that, I'd now like to turn the call back to Sara.

Sara Mathew

Thank you Rich . . .

So to summarize, our 2011 performance was in line with our expectations. Our North America Sales and Marketing businesses, including Hoovers, are performing well, fuelled by the strength in our value added products, innovation from MaxCV and the re-platformed Hoovers business. RMS is flat due to the lack of innovation on our flagship DNBi product as we moved application development to Ireland. We expect to see gradual improvement in RMS as we benefit from a return to innovation on DNBi, and anniversary the headwinds from the sunset of legacy applications. International is expected to grow behind investments in Asia Pacific.

Looking ahead to 2012, we have an achievable plan and remain confident in our strategic direction. We are already seeing the early benefits from MaxCV, and customer feedback on our DaaS products is extremely positive. Our 2012 performance is an improvement over 2011, with a step-up in organic revenue growth, operating income and free cash flow, despite the higher investment behind MaxCV. This is a testament to the operating leverage of our business model, and provides a view into the potential for further acceleration in shareholder value as our top line improves.

With that, let me now open the call for questions. Operator ?