Q2 2017 EARNINGS CONFERENCE CALL

August 3, 2017

Kathy Guinnessey

Good morning everyone, and thank you for joining us today.
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 second 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 in the new format with Sales & Marketing revenue allocated between Sales Acceleration and Advanced Marketing, 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 results for the second quarter. We grew revenue 3 percent, with one point of organic growth, and deferred revenue growth accelerated to 3 percent. Operating income for the quarter was up 4 percent, and we grew EPS 2 percent. We are pleased with our strong earnings growth, as we have been very focused on driving efficiencies in our operations and we've gotten good cost synergies from the Avention acquisition.

Given the traction we are getting on profitability, we no longer see a scenario where operating income declines this year, so we are revising our operating income and EPS guidance ranges. We are now on target to achieve:

- Operating income growth of 0-2 percent, revised up from a range of -2 to +2 percent;
- EPS between -4 and -7 percent, revised from our earlier guidance of -4 to -9 percent;
- Revenue growth remains unchanged with total revenue growth of 3-5 percent and organic revenue growth of 1-3 percent.

Regarding the top line, we had strong organic revenue growth in the Non-Americas portion of our business, particularly in China and our European partnerships, which offset a slight organic revenue decline in the Americas.

Organic revenue in the Americas was down about a point, which was a little light of our expectations. The decline came from a large customer that reduced its data spend in Advanced Marketing partially due to its strategic decision to move away from the B2B part of its business. However, we feel good that we'll get this revenue back, as we are in advanced discussions with this customer to cross sell them into some of our more sophisticated master data solutions later in the year.

As I stand back and look at our execution against the strategy and our business mid-way through the year, there's a lot to feel good about. But there are also some things that aren't quite where we want them to be.

Revenue in the D&B Credit Suite is moving in the right direction but still not where we need to be. While our performance was better than last year, revenue was still down a point in the quarter. I was very pleased to see we are getting improved pricing in the new product, overall retention is improving, and we're bringing a lot of new customers onto the platform, but we've got to move even faster. So, the team is focused on executing better in the second half and finishing the year strong to get D&B Credit revenue to flat for 2017.

In Sales Acceleration, we have extended our quick start with our new D&B Hoovers solution, launched in March. Overall, organic sales of D&B Hoovers and our legacy Hoovers product combined were up in the mid-single digits in the quarter, compared with a low-double digit decline in Hoovers sales for 2016. D&B Hoovers is really resonating with customers, and we are improving on several fronts: pricing and retention are both several points ahead of last year, and we are getting very good growth in new customer acquisition. In fact, more than half of the sales of the new D&B Hoovers solution were to new customers, and the vast majority of those sales were of the more advanced products that can integrate into other applications like CRM.

Now let me talk a little about Advanced Marketing Solutions. The main components of Advanced Marketing are Audience Solutions, which help our customers with programmatic and online marketing, and our Master Data products, including Optimizer and D&B Direct. If you recall, Master Data is a big area of focus for us. It is an area where we help companies deal with the huge volume and velocity of data they are collecting.

Today, we generate more than $300 million a year in Master Data solutions, primarily with customers in our strategic vertical and government channels. These deals are typically large, and the revenue is mostly recognized at the time of sale, so they can cause big quarterly swings in revenue growth, and the fourth quarter is the biggest in terms of both volume and growth.

We expect the same pattern this year with a strong fourth quarter that will deliver growth in the mid-single digit range for the year in Advanced Marketing.

Staying on Sales and Marketing, on July 19th, we announced a new alliance with Microsoft that impacts both Sales Acceleration and Advanced Marketing Solutions, particularly Master Data. Under the new alliance, we will give companies access to our data through Microsoft's Azure cloud and its related services. Specifically, we are partnering with Microsoft in three ways:

First, our data will be made 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, which helps customers power their applications. With our data embedded in the Common Data Service, our joint customers will stay synchronized with the Dun & Bradstreet global business database.

With this data integration, D&B and Microsoft Dynamics 365 customers will benefit from data that can be integrated directly into their CRM, ERP, and internally developed business intelligence solutions, streamlining the process so that they are able to access information in a way that saves a significant amount of time and improves productivity.

This capability is Dun & Bradstreet Master Data and data-as-a-service in action, where customers can access our high quality data, organized around the D-U-N-S® Number and embedded in their workflows, to feed their critical applications.

Second, we will offer D&B Hoovers and build new services on the Microsoft Azure cloud platform. As you know, making our data and insights available through modern delivery, or as-a-service platforms has been a central component of our strategy. For our customers, that means that our data is available in their workflows, across platforms, and updated in real time. For us, modern delivery makes our data more useful and stickier, enhancing the value of the revenue we generate from newer delivery products. I am pleased that nearly a quarter of our total revenue in the Americas over the last 12 months came from our cloud-based and as-a-service solutions, and these modern delivery products are growing at a much faster rate than our legacy businesses.

The third element is that we will reach Microsoft's commercial users and prospects through a joint, co-sell arrangement focused on Dynamics 365, Dun & Bradstreet's core business data, and D&B Hoovers. Under this joint go-to-market arrangement, Microsoft will co-sell both Dun & Bradstreet data offerings in Dynamics 365, as well as D&B Hoovers on Azure. Ultimately Dun & Bradstreet will "paper" these transactions. We will get 100% of the revenue from our offerings and own the customer relationships going forward, giving us future cross-sell opportunities.

We expect these offerings to be available in the U.S. later this year/early next year, and yield new incremental sales opportunities for Dun & Bradstreet and incremental Azure consumption for Microsoft.

We feel good about the potential for this alliance as we will lean in to our multi-channel sales strategy, where we serve customers through Alliances, Emerging Businesses, and our global direct salesforce. As I noted earlier, we are building momentum with strong sales of D&B Hoovers through our own sales channels, and we will now be positioned to drive additional growth with D&B Hoovers on Azure, enabling us to grow faster and really own the Sales Acceleration space.

This co-sell arrangement also addresses one of our key learnings from past alliances: that we have to work together with our alliance partners to ensure both parties are working to generate sales. As the data experts in the alliance, we need to bring our expertise to the sales process and control our destiny with these customers. At the same time, this joint go-to-market arrangement taps into the Microsoft sales and partner channel. With tens of thousands of field sellers and hundreds of thousands of channel partners, Dun & Bradstreet will become part of everyday Microsoft seller conversations with business leaders.

What excites me most about this new strategic relationship with Microsoft is that it highlights the core components of our strategy. Perhaps most of all, it really speaks to the importance of what we mean to customers: the importance of the D-U-N-S® Number and the power of Dun & Bradstreet data.

In closing, we are pleased with our earnings performance in the quarter, and our outlook for the year, and we're excited about the new things we have going on at Dun & Bradstreet, especially in the area of cloud and as-a-service delivery of our content. We are confident that we are laying the groundwork for future revenue growth. In the near term, we have our heads down focusing on sales execution and profitability to make sure we drive results in the second half of the year, particularly in the fourth quarter.

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

Rich Veldran

Thanks Bob, and good morning everyone.

As Bob described, we are pleased with our earnings results in the quarter, which I'll get to in a moment. But first, let me start with revenue. Total revenue for the Company was $408.4 million and grew 3% for the quarter, with organic growth of 1%.

The Americas segment had second quarter revenue of $336.8 million, which represented 82% of our revenue in the second quarter. Total revenue was up 2%, due to the acquisition of Avention, and organic was down a point.

Within the Americas, Risk Management, representing 54% of Americas revenue, was flat for the quarter. Strong growth in Other Enterprise Risk offset declines in Trade Credit.

Other Enterprise Risk, which was about a third of Risk Management revenue in the Americas, grew 6% in the quarter. The strong growth was spread across the product mix. We have been very pleased with our performance in Other Enterprise Risk, especially in the compliance space.

Our compliance offerings cover customer needs from the initial onboarding of new vendors with basic validation, to more sophisticated deep due diligence. Our customers really value the enhanced screening we can provide with the breadth and depth of our global database. Customers benefit from our ability to integrate third party data, organized around the D-U-N-S® Number, to provide a more complete picture of who they are dealing with around the globe.

The other two thirds of Risk Management revenue was in trade credit, which was down 3% in the quarter. The D&B Credit suite, which includes DNBi and represented three quarters of trade credit revenue, was down a point, which Bob just talked about.

Other Trade Credit was about a quarter of Trade Credit revenue and was down 9% in the quarter. As we have seen over the past few quarters, there were several deals that shifted out of Other Trade Credit to other areas of D&B, and without the impact of those shifts, Other Trade Credit would have been down in the low single digits.

Now let me shift over to Sales and Marketing, where revenue in the Americas was up 6% in the quarter. Sales Acceleration, which was 45% of Sales & Marketing revenue, was up 14% due to the acquisition of Avention. Organic revenue was down in the low to mid-single digits. The decline in organic revenue was due to weak sales of the old Hoovers product in 2016.

As Bob mentioned, Hoovers sales were down in the low-double digits last year, and, since it is a subscription-based product, it will take a while for the strong sales performance we are seeing this year to flow through to revenue.

Advanced Marketing, which was 55% of Sales & Marketing revenue, was down 1% in the quarter, entirely due to the reduction in spend from the large customer that Bob just talked about. Otherwise, Advanced Marketing revenue growth was strong across all product areas.

We are particularly pleased with our strength in Audience Solutions, which is really starting to get traction in the programmatic advertising world. Our sales efforts in advertising agencies and our presence on the major platforms and exchanges are building recognition of Dun & Bradstreet data in this space. And we've just launched a new product, Visitor Intelligence, which allows customers to see relevant Dun & Bradstreet business data about visitors to their websites, allowing them to engage digitally in a more personal way.

Shifting to Non-Americas, revenue was $71.6 million in the second quarter, which represented 18% of revenue for the company. Total revenue was up 7%, and organic revenue grew in the low teens. The organic revenue growth was due to a strong performance in our Worldwide Network partnerships in Europe and very strong performance in China.

In China, we are benefiting from sales of the Duns Registered Seal, a service where our customers can display our seal as validation that they have a Dun & Bradstreet profile. This helps potential new business partners to know they are dealing with a real company.

Deferred revenue was up 3% for the company, before M&A activity and the impact of foreign exchange. Americas deferred revenue was also up 3%, and Non-Americas was up over 2%.

Now let me turn to profitability. Operating income in the quarter was up 4%, thanks to a tight focus on cost, as well as the timing of some spend that shifted to the second half of the year. We are pleased with our expense controls overall, and have improved our full-year operating income guidance range. As we look forward the second half of the year, we expect third quarter operating income to be down in the mid-single digits due to the costs that shifted out of the first half of the year, before rebounding in the fourth quarter when we have our biggest revenue quarter.

EPS grew 2% in the second quarter, to $1.40 per share, due to the higher operating income, partially offset by a higher tax rate in the quarter. We've generated free cash flow of $143.2 million in the first six months of the year, and are on track to deliver our full year guidance of $215 to $245 million.

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 of floating rate debt. Our cash balance was $400 million, for net debt of $1.3 billion.

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