Q1 2016 EARNINGS CONFERENCE CALL

May 10, 2016

Kathy Guinnessey

Thank you. Good morning everyone, and thank you for joining us today.
With me on the call this morning are:
Bob Carrigan, our 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 an overview of our first quarter results and an update on our strategy. Then Rich will come on and 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, and we encourage you to review this material. We undertake no obligation to update any forward-looking statements.

From time to time we speak from time to time about deferred revenue. As a reminder, deferred revenue is a liability that refers to revenue that has not yet been earned, and represents products or services that are owed to our customers. As the products or services are delivered over time, it is recognized as revenue on the income statement. Deferred revenue is important to management because it provides insight into the health of our future revenues. When we refer to the change in deferred revenue, we mean before foreign exchange and acquisitions 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. For example, when we discuss “revenue growth” we’ll be referring to the non-GAAP measure “revenue growth, as adjusted” which is revenue adjusted to eliminate the effect on revenue due to purchase accounting for fair value adjustments to deferred revenue, and also before the effect of foreign exchange.

When we discuss “operating income,” “operating margin” and “EPS,” these will all be on a non-GAAP basis, which we call “as adjusted”. Additionally, our “as adjusted” results exclude the results of Discontinued Operations. When we discuss “free cash flow” this will be on a non-GAAP basis, excluding the impact of any legacy tax matters, potential regulatory fines associated with the ongoing China investigation and potential payments for legal and other matters.

You can find the reconciliation between these and other 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.

We do not provide guidance on a GAAP basis because we are unable to predict, with reasonable certainty, the future movement of foreign exchange rates or the future impact of: (i) non-core gains and charges, (ii) acquisition and divestiture-related expenses; and (iii) purchase accounting fair value adjustments to deferred revenue. These items are uncertain and will depend on several factors, including industry conditions, and could be material to Dun & Bradstreet's results computed in accordance with GAAP.

Later today, you will find a transcript of our prepared remarks on our Investor Relations site. With that, I'll now turn the call over to Bob Carrigan.

Bob Carrigan

Good morning everyone, and thank you, Kathy. This morning I'm going to address our first quarter results and provide an update on our overall business.

I'm pleased to report that our first quarter results were a little better than we expected. On our call in February, we told you that we expected organic revenue to be slightly down to flat for the quarter due to the timing of several large contracts that shifted to later in the year. In fact, organic revenue for the first quarter was flat, which was at the high end of our expectations, and overall company revenue was up seven percent.

You might recall that we said that operating income could be down by as much as the mid-teens as we continue to invest in our strategy. Instead, operating income came in much better than expected – down four percent. This improved performance was due to the organic revenue performance and some costs shifting between the first and second quarters.

So we feel good about the first quarter, and 2016 is starting out about as we expected. We are on track to deliver our guidance for the year:

- Revenue growth between 4 and 6 percent;
- Operating income between flat and up 4 percent;
- EPS between -3 and +2 percent; and
- Free cash flow of $255 to $285 million.

With that, I'll give you an update about what's been going on in the business at Dun & Bradstreet.

Last quarter I spoke with you at length about all of the execution changes we undertook toward the end of 2015 and early this year to improve sales performance. Specifically, we elevated Josh Peirez to the role of President and Chief Operating Officer last fall, and we put all customer facing operations under him to unlock the full potential of our multi-channel sales organization. Coming into this year, we changed the compensation structure in our salesforce to incent new business development for every sales rep. We also restructured the organization to reduce friction and to make sure our sales people and alliance partners are all selling the same way, leaving the option of <u>how to buy</u> up to our customers. We made some key personnel changes to upgrade our salesforce, and we made structural changes to remove layers and align incentives to drive new growth.

This represents a lot of change in a short amount of time, and I'm pleased to say that we are starting to see a higher level of cooperation between our Direct, Alliances and Emerging Businesses channels and customers are benefiting from our multi-channel approach to the market.

We are also seeing successes in product areas where we have focused our strategy. Let me talk to you a little bit about a few key areas.

Back in January we launched our new cloud-based credit decisioning tool, D&B Credit, and early reception has been good. We are seeing customers begin to upgrade to the new platform from DNBi, and we are getting nice pricing lifts on those conversions. We have also started to bring in new customers. It is still very early, and as we said on our last call, we don't expect to see any real movement on the revenue line until late in the year.

One of the key benefits of launching a cloud-based platform was our ability to upgrade the product easily. We are adding new functionality and putting out new releases every few weeks. The other big benefit of the cloud is our ability to have a truly global platform. D&B Credit is currently available in the US and Canada, and we are on track to bring it to Europe this summer.

In other areas of risk management, we saw nice growth in our supplier risk solutions. Supplier risk is an area where the global reach of our data gives us a unique advantage in meeting new customer needs. By leveraging our core capabilities like linkage and identity resolution, we help companies monitor downstream supplier risk.

The job of a Chief Procurement Officer is changing significantly. Their responsibilities were historically focused on optimizing their supplier base, and we help them monitor financial risk and supplier diversity.

We provide a deeper understanding of who their suppliers are, and give them negotiating leverage. And we help manage the multiple layers of their supply chain to identify concentration risk.

But the CPO's role has expanded to managing larger strategic risks, including preventing business interruption and protecting and enhancing their company's brand and values. Our supply risk solutions help customers manage this full spectrum of risks. Today, CPOs have a fast growing need in what we call "Responsible Business Analytics" to help them guard against regulatory and reputational risks. We help them as they comply with Government diversity requirements and monitor global banned entity lists, as well as meeting their social responsibility commitments like funding suppliers with sustainable business practices and meeting best in class ethics standards.

Further, the nature of a globalizing economy has magnified newer risks throughout the supply process. One area where we have recently focused is human trafficking. Nearly 21 million people are victims of forced labor around the world, generating an estimated $150 billion in illegal profits every year, according to the International Labour Organization. Millions of businesses around the world have accepted the responsibility to shine a bright light on human trafficking and ensure the ethical procurement of goods and services. But doing this is a challenge.

To help companies address the risk, we have taken our existing global proprietary content and leveraged public data from the U.S. State Department and Labor Department to create an index to assess a company's risk of being associated with goods and services potentially tied to human trafficking. Dun & Bradstreet's Human Trafficking Index is an innovative new use case for our data that fills a need for our customers to address supply chain risk while also helping them to be responsible corporate citizens. And it is a great example of how we leverage our company linkage capabilities through the D-U-N-S Number to create an integrated view of companies and how they're all connected, which is really important to understand for a modern procurement manager.

Now let me shift over to sales and marketing, and, specifically, the digital advertising market. I've spoken in the past about the trends we are seeing in this marketplace – where marketers are employing more science than art to engage with new and existing customers. We are seeing companies leveraging digital capabilities and data to drive sales and marketing effectiveness. In fact, the B2B digital ad targeting and real time personalization market has grown to about $10 billion. Within this area is programmatic advertising. Marketers are using data to target their audience more effectively, and this is a trend that's moving quite aggressively in the B2B arena.

Dun & Bradstreet's products in this space – which we call Dun & Bradstreet Audience Solutions – are really starting to gain traction as global businesses turn to programmatic advertising to attract new customers.

Marketers have long relied on Dun & Bradstreet for the best company data to manage their customer information and to target prospects. As marketing moves to digital, marketers need company data optimized for the digital world. But <u>company</u> data alone is not enough.

That's because <u>"companies"</u> don't surf the internet, read an email or answer a sales call; <u>people</u> do. We are working to make sure that our customers can access data that tells them what companies to target, and, just as importantly, the right people at those companies to engage with. That's where our professional contact data comes in. Our acquisition of NetProspex is paying off in this area, allowing us to meet a clear need in the marketplace. We are working to onboard our data – to move it from offline sources to online solutions, to deliver our data in new ways to help our customers identify online target companies most likely to buy their products and services.

Our contact data, coupled with our company data, onboarded for the digital world and matched to online cookies, helps our customers get their advertising in front of the right target, and the right decision maker <u>at that target</u>, at the right time. And, by organizing around the D-U-N-S Number, our customers can finally connect their offline customer management data with their online advertising campaigns, creating that vital bridge between ad tech and marketing tech.

Armed with this complementary company and contact data, we have built nearly 300 unique audiences, or "segments," that our customers can use to target their sales and marketing programs. These segments are built off a variety of anonymized attributes from basic data, such as company size, revenue, industry or job function, to more advanced insight such as propensity to buy certain products, or even viability to qualify for a loan or company credit card.

Our multi-channel sales strategy is a real advantage in reaching customers with Dun & Bradstreet Audience Solutions. Through our alliances channel, we've made our standard customer segments available on the most popular ad tech and data management platforms from Oracle, Adobe, Google, Xaxis and Nielsen. Our customers can access the data through the platforms that they are accustomed to using, without any need for direct involvement from our sales team. And we also offer our customers the ability to create bespoke segments through our global direct sales channel for more specific, customized targeting.

Our supplier risk and audience targeting solutions are great examples of our strategy in action. We are taking our crown jewel assets and core capabilities and bringing new use cases to market to help our customers deal with new challenges in the rapidly changing global marketplace.

While we are pleased with the traction we are building in these areas, there are areas where we want to do better. Specifically, our business in Europe was weaker than expected in the quarter. Over the past few quarters, we have talked about the positive momentum we are getting in the Compliance space in Europe, and that continues. Our pipeline is strong and considerably higher than at this time last year. However, the sales cycle for Compliance products is proving to be longer than we anticipated.

In most of these cases, we have essentially sold the product and the commercial terms; it's the regulatory and legal issues our customers face internally that is taking the extra time. As you know, the regulatory environment in financial institutions has become much more complex. Ultimately, we expect to get these deals closed, as the end user is anxious to get rolling, but getting through their internal approval process is causing near-term delay.

So in summary, when I look at the entirety of our business, we had a good quarter relative to our expectations, and we're starting the year off on the right foot. More importantly, I'm pleased with the changes we've made to our organizational structure and the early traction on innovative new use cases for our data. The decisions we've made have us on course to deliver our full year guidance. I will now turn the call over to Rich Veldran, who will discuss our first quarter results in further detail. Rich?

Rich Veldran

Thanks Bob, and good morning everyone.

As Bob said, our first quarter results were at the high end of our expectations. As we said on our last call, we expected first quarter organic revenue to be flat to slightly down due to the timing of some large contracts. We delivered flat organic revenue and 7% growth in total revenue.

Our Americas segment had revenue of $310 million, which represented 82% of revenue in the quarter. Total revenue was up 10%, and organic revenue was up 1%.

Within the Americas, Risk Management, was up 13% in the first quarter, due to the inorganic contribution from Credibility Corp. *Organic* RMS revenue was down slightly, as strong revenue growth in Other Enterprise Risk was offset by declines in Trade Credit.

Other Enterprise Risk grew 77% in the quarter. As a reminder, the inorganic credit-on-self revenue from Credibility Corp. is in this category. *Organic revenue* in Other Enterprise Risk was also strong with growth in the low teens.

The organic performance was driven by supply management solutions and our data-as-a-service solution D&B Direct for Risk.

Trade Credit was down 1% in the quarter. DNBi declined 3%, which was a little worse than last year, although the primary reason for this difference was some shift in customer spending between DNBi and Other Trade Credit solutions. The results in the overall Trade Credit category were consistent with our performance last year.

Sales and Marketing revenue was up 7% in the quarter with more than half of that growth *organic*. Advanced Marketing Solutions was up 5%, both on an organic and a total basis. As a reminder, we acquired NetProspex in the beginning of January last year, so results are now in the organic base. Revenue from NetProspex, Alliances, and Audience Solutions drove the growth.

Prospecting Solutions grew 13% during the quarter, due to the inorganic contribution from Credibility Corp. Organic revenue in Prospecting was down slightly primarily due to declines in Hoovers and MDR.

Shifting to Non-Americas, revenue was $68 million in the first quarter, which represented 18% of revenue for the company. Non-Americas revenue declined 5% in the quarter. There were 2 primary reasons for the decline. First, we decided to end our relationship with a competitor in Europe who was buying our data.

As we've talked about before, we have some long standing contracts with companies that have become competitors over time, and we have decided not to continue to sell data to one of them.

The second reason for the decline was due to a few large projects that helped drive growth in the quarter last year that were not repeated this year. Project revenue can be lumpy and, due to the size of these contracts, can swing results from quarter to quarter.

Deferred revenue was up 1% for the company before acquisitions and the impact of foreign exchange. In the Americas, deferred revenue increased 2%, and that does not include committed sales with our alliances partners that would have added another point to the balance.

Turning to profitability, operating income in the quarter was down 4%, which was better than we expected, due to the organic revenue coming in at the high end of our expected range and the timing of some spending that shifted between the first and second quarters.

EPS declined 9% in the quarter, to $1.18 per share. EPS was impacted by lower operating income and higher interest expense, partially offset by a lower tax rate in the quarter. In 2015, our full year tax rate was 31.7%, and we expect the rate in 2016 to be about the same.

We generated free cash flow of $115 million during the quarter. Free cash flow was impacted by higher cash restructuring payments during the quarter related to actions we took in the second half of 2015, as well as higher interest expense and capex, all of which was factored into our full year guidance.

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 $366 million, for net debt of approximately $1.4 billion.

So, overall we have started the year pretty much as expected, with some shifts between first and second quarter operating expenses. As with previous years, we expect the second half of the year to be stronger than the first. For the second quarter, we expect the growth rate for organic revenue and operating income to be about the same as the first quarter, before a nice acceleration in the second half. And as Bob said, we are on track to deliver our full year guidance.

We will now open the call for your questions, Operator?