Q2 2011 EARNINGS CONFERENCE CALL

July 29, 2011

Kathy Guinnessey

Good morning, everyone, and thank you for joining us today.
With me on the call this morning are:

- 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.

Here's what you can expect on the call this morning. In a moment, Sara will open the call with a brief overview of our second quarter results and an update on our Strategic Technology Investment. Next, Rich will discuss our second quarter performance in more detail and then Sara will close with a review of our outlook for the remainder of the year. Then Sara, Rich, Byron, Manny and I will take 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 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

Thanks Kathy and good morning everyone. Thank you for joining us.

Before I begin, I'd like to take a moment and welcome Rich, Byron and Manny who are with me on the call today in their new roles. As a reminder, we announced several management changes last month. Byron and Manny now lead execution in North America and International, and Josh Peirez has assumed responsibility for Global Product Marketing and Innovation. These changes are designed to strengthen execution, accelerate innovation and drive sustainable top-line growth and shareholder value.

With that let me quickly cover our Q2 results:

- Core Revenue grew 6%,
- Operating income grew 2%,
- EPS was up 10%, and
- We generated $188 million of free cash flow, in the first half of the year

Overall, the second quarter played out mostly as expected. International was in line with expectations, and North America was slightly below, due primarily to the sunsetting of legacy products which I will discuss in a moment. We remain on pace to meet guidance for 2011, and Rich will take you through the details on the quarter in just a moment.

With that, let me provide an update on our Strategic Technology Investment, which we began early in 2010.

We are now about half way through this project, and we continue to make excellent progress. As a reminder, there are three key components of this program:

- First, a rebuild of the data supply chain to achieve near real time data
- Second, a web service layer to facilitate easy access to this data and a much lower cost to innovate,
- And finally, the migration of customers to newer, higher performing platforms, while shutting down our legacy systems

Regarding the data supply chain, we made the decision late in 2010 to in-source the build, which is proving to be a very good call. The project is on schedule and we currently have an unannounced test of real time data in a couple of products, to test the scalability and stability of our supply chain. The test confirms our ability to deliver real time data on demand and we are on track for a mid-2012 cutover to 100% real time data access across all D&B products.

In addition, our proprietary data collection process has vastly accelerated the identification of new businesses, and we achieved an important milestone in July. We now have 200 million records in our database, as compared to 158 million when we started the project in 2010, that is an increase of 27%.

Customers are noticing these improvements, and we expect further improvement when we deliver real-time data, across the board in 2012.

The second component, our web services layer, is also proceeding well and is on track for completion in the first half of 2012. The new products we have released thus far like DNBi Pro for small customers in RMS and D&B360 our data as a service offering in S&MS, have been well received in the market, and we will be bringing additional CRM partners on line with D&B360 later in the year.

The third workstream, migrating customers to new product and shutting down legacy systems is also underway. As we said last quarter, we have begun migrating customers to our new platforms with little or no disruption. We are now aggressively sunsetting old products that have a weak value proposition and poor profitability.

The most significant impact from these sunsets is in product lines in our S&MS and Supply businesses. As we evaluated which products would be mapped to our new data supply chain, we made the decision to exit additional legacy products this year. While this creates about a one-point drag on the North America top line in 2011, we expect our profitability to improve as we exit these declining businesses. The remaining products will be migrated to other D&B solutions over time.

Finally, we expect to be on budget at $130 million, and to complete the project by the second half of 2012.

So in summary, we are pleased with our progress on this important initiative. We have brought new product to market faster than expected and we are cleaning out legacy product more aggressively than originally planned. Given the quality of our pipeline, and positive customer reaction to our new products, we expect stronger top-line growth as we exit the year and enter 2012. We continue to expect to deliver low single digit revenue growth in North America in 2011, and an acceleration as we enter 2012

With that, let me now turn the call over to Rich Veldran for a more detailed review of the quarter. Rich?

Rich Veldran

Thank you, Sara, and good morning, everyone.

Let me take you through our results in more detail.

- Core revenue for the quarter was $417 million, and that's up 6% from last year
- North America, representing 69% of revenue, was flat
- And International, representing 31% of revenue, was up 24%.

Starting with North America…our second quarter revenue was slightly lower than expected due to the sunset of low value and legacy products that Sara already mentioned. We continue to expect North America revenue growth to improve modestly in the second half, with gradual sequential improvement from the third to fourth quarters. The fourth quarter is seasonally our largest quarter for us, and will be our strongest in terms of growth.

Risk Management Solutions, representing 62% of North America revenue, was down 1% compared to prior year -- a sequential decline from the first quarter when revenue was flat. The second quarter decline was due to the exit of an unprofitable product line in Supply Management. This is reflected in SMS results, which were down 7, or roughly $1 million. Core RMS revenue, excluding Supply Management, was flat to last year.

DNBi continued to show solid performance and now represents 61% of RMS revenue. Retention is improving and we continue to see price lifts on renewals in the mid single digit range.

DNBi Pro, our offering for small customers, is also off to a good start. We now have over 500 customers in a little over 3 months from the launch, and we have just added the ability to purchase the product online. Over 90% of DNBi Pro revenue is from customers that are new to D&B, and those customers are committing for higher average prices than we originally anticipated. Given this is a lower dollar product, it will take a little time to generate meaningful top line growth for North America, but we are pleased with our ability to penetrate the previously untapped small customer base.

The growth in DNBi was offset by a decline in non-subscription RMS project spend, as customer spending remains cautious in 2011. As context, we have had very little innovation in RMS VAP's in 2011, as we are focused on completing our new platform, before bringing new innovation to market.

As such, we expect RMS to be about flat in 2011 -- unchanged from our expectations earlier in the year -- as growth from DNBi and Pro are offset in the short term by a drag from legacy product sunset and slower project business.

Let me turn now to Sales and Marketing, which represents 28% of North America revenue. For the quarter, revenue was up 1% -- a sequential improvement from a 2% decline in the first quarter. Strong growth in our value added solutions was offset by continued declines in our Traditional products, consisting primarily of low end lists and labels business.

Value added solutions represents three-quarters of our Sales and Marketing business, and the growth continues to be driven by our flagship Optimizer product.

One of the key benefits of our Strategic Technology Investment has been the growth of our database. This has improved match rates, which in turn are driving revenue growth for Optimizer and our other value added products, such as Market Insight and Integration Manager.

We are just beginning to see the revenue impact from the launch of D&B360, and our pipeline continues to grow. In fact, the pipeline is up around 80% from the first quarter. Due to the ratable recognition of D&B360, the positive impact from revenue from new sales will be felt late in 2011 and into 2012.

The decline of our traditional S&MS business, which represents about a quarter of total S&MS revenue, was magnified as we stopped selling legacy products that we will be sunsetting, and instead directed new customers to Hoover's. In addition, we are migrating existing customers, where possible, to Hoovers.

Finally, Internet solutions, representing 10% of North America revenue, grew 6% in the second quarter, off of a small base.

Looking ahead, we continue to expect North America revenue to show modest improvement as the year progresses, gradually stepping up from the third to fourth quarter, primarily due to:

1) continued strength in S&MS value added solutions, and
2) traction from new products such as D&B360 and DNBi Pro

Turning now to International…revenue in the second quarter was up 24%, and was flat organically – both in line with our expectations.

International is comprised of 2 segments. The first, Asia Pacific, representing 52% of International revenue, was up 69%, benefiting from the acquisition of D&B Australia as well as organic revenue growth of 7%.

The organic growth was primarily due to continued strength in China, which has now grown at a double-digit clip for the past several quarters.

Let me give you a quick update on Japan. Our second quarter results cover the 3 month period March through May, and as such include the initial impact from the earthquake and tsunami. As expected, underlying demand is down double digits and this will be reflected in our revenue as the year progresses. As we said last quarter, we continue to expect the total impact of the natural disasters on 2011 operating income to be approximately $5 million, and as a result, there is no impact to our guidance.

Let me move on to Europe & Other International markets, which represents 48% of International revenue. As expected, revenue was down 4% in the second quarter due to continued weakness in the UK. However, our business continued to grow in the rest of Europe behind our cross border value proposition.

The weakness in the UK primarily reflects the difficult macro-economic environment. As we said last quarter, we are strengthening sales execution particularly in DNBi, where sales have started off slower than expected. Our UK sales force is now implementing best practices from Benelux where DNBi growth has been strong.

As we look at the remainder of the year in International, we continue to expect revenue growth to be driven by:

1) the benefit of the Australian acquisition
2) continued double digit growth in China
3) improving sales execution in the UK

Let me now turn to profitability. Total company operating income increased 2% in the second quarter, which was in line with our expectations. The increase was due to the addition of D&B Australia as well as the benefits of our ongoing financial flexibility programs, where the impact was primarily in Corporate expenses this quarter.

North America operating income was flat year over year and International was down 10%, primarily due to the revenue decline in the UK, as well as the impact of investments in Europe to drive growth. We expect operating income growth to accelerate in the second half of the year in both International and North America, as revenue improves and we realize the full benefits from reengineering actions taken in the first half.

Our total company EPS was $1.35 per share, which was up 10% over last year, primarily due to higher operating income, and a lower tax rate in the second quarter this year.

For the full year we continue to expect our 2011 tax rate to be between 33% and 34%, compared with 34% for the full year 2010.

Turning to free cash flow and uses of cash, we generated $188 million of free cash flow in the first half of the year compared with $173 million last year. Our free cash flow in the first half of 2011 includes $18 million of spend on the Strategic Technology Investment, and we continue to expect to spend a total of $55 to $65 million in 2011.

Finally, year to date, we repurchased 475 thousand shares of D&B stock for $38.4 million under our discretionary share repurchase program.

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

Sara Mathew

Thank you, Rich.

In summary, we are on track to meet our full year guidance. We expect our performance to improve in the second half of the year, with double digit revenue growth in International and low single digit growth in North America. We also expect an improvement in operating income in the second half of the year, and we are reconfirming guidance for the full year. Specifically:

- Core revenue growth of 5% to 8%,
- Operating income growth of 2% to 6%
- EPS growth of 6% to 10%, and
- Free cash flow between $240 and $270 million.

With just 6 months to go in the year, I wanted to get one question out of the way. Many of you have asked us about our expectations for 2012. Let me address this question right now.

When we announced our Strategic Technology Investment last year, we had 2 key goals for 2012: Delivering top-line growth in the mid-to-high single digit range in North America. And improving total company margins 100 bps above 2009 to about 30%.

You should know that we remain committed to those goals. Our very early planning suggests a path to the mid-single digit revenue range, and we are working to improve it as we enter our Fall Planning process.

Regarding margins, we see a path to the 100 bps improvement, and we will be taking actions to secure it over the coming months.

With that, Rich, Byron, Mann and I would be happy to take your questions questions. Operator, can we open the lines pls?