

1 **Q3 10 EARNINGS CONFERENCE CALL**

2 **October 27, 2010**

3

4 **KATHY GUINNESSEY**

5

6 Good morning, everyone, and thanks for joining us today.

7 In a moment, we will hear commentary on our third quarter 2010
8 performance as well as our outlook for the remainder of the year and our
9 Strategic Technology Investment. Today you will hear from:

- 10
- 11 • Sara Mathew, our Chief Executive Officer,
 - 12 • Tasos Konidaris, our Chief Financial Officer and
 - 13 • Manny Conti, our chief Administration Officer
- 14

15 To help our analysts and investors understand how we view the business,
16 our remarks this morning will include forward-looking statements.

17 Our Form 10-K and 10-Q filings – as well as the earnings release we
18 issued yesterday – highlight a number of important risk factors that could
19 cause our actual results to differ from these forward-looking statements.

20 These documents are available on the Investor Relations section of our
21 Web site, and we encourage you to review this material. We undertake no
22 obligation to update any forward-looking statements.

1

2 During our call today, we will be discussing a number of non-GAAP
3 financial measures, as that's how we manage the business.

4

5 For example, when we discuss "revenue growth" we'll be referring to the
6 non-GAAP measure "core revenue growth before the effect of foreign
7 exchange," unless otherwise noted. When we discuss "operating income,"
8 "operating margin" and "EPS," these will all be on a non-GAAP basis,
9 before non-core gains and charges.

10 A reconciliation between these and other non-GAAP financial measures
11 and the most directly comparable GAAP measure can be found in the
12 schedules to our earnings release.

13

14 They can also be found in a supplemental reconciliation schedule that we
15 post on the Investor Relations section of our Web site. Later today, you'll
16 also find a transcript of this call on our Investor Relations site.

17

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

19

1 **SARA MATHEW**

2

3 Good morning everyone. Thank you for joining us today.

4

5 In addition to Tasos and Kathy who are always on the call with me, I'd like
6 to take a moment and introduce Manny Conti who was recently appointed
7 to the new role of Chief Administrative Officer of D&B. In this position,
8 Manny has responsibility for Finance and Investor Relations, as well as
9 other corporate functions such as Strategy, HR and our Worldwide
10 Network. Some of you had the opportunity to meet Manny at Investor Day
11 earlier this year; for others, you can expect to see and hear a lot more from
12 Manny in the months ahead.

13

14 With that, let me provide an overview of what you can expect on the call
15 today. I will begin with an assessment of the state of the business. I'll
16 share progress on the strategic replatform and the new products that will be
17 introduced to the marketplace, beginning in the fourth quarter. Tasos will
18 follow with a commentary on our third quarter financials, and I will close
19 with a high level summary of expectations for 2010 and 2011. We will then
20 open the call for your questions. Our goal today is to ensure you have the
21 clarity you need on our results, our strategy and our prospects as we get
22 ready to close 2010 and enter a new year.

23

1 I'll begin with a quick re-cap of our third quarter earnings

- 2 • Core revenue was up 4%, before the effect of foreign exchange
- 3 • Operating income was down 1%
- 4 • EPS was up 7%
- 5 • And we've delivered Year-to-date free cash flow of \$226 million

6

7 Stepping back, 2010 is playing out largely as we expected, with a second
8 half recovery following a weak first half. All key financial metrics showed
9 improvement, and we are on track to deliver our guidance for 2010.

10

11 Let me provide more detail by geography. International, which represents
12 about 25% of our core revenue, was up 11% in the quarter and in line with
13 the results reported in Q2. Importantly and as expected, organic revenue
14 grew 6%, an acceleration from the 3% growth reported last quarter.

15

16 Both Asia Pacific and Europe contributed to the improvement in organic
17 revenue growth. As momentum from cross border products and continued
18 high exposure to high growth markets in Asia fueled these strong results.

19

20 Looking ahead, we expect to maintain this momentum into 2011, aided by
21 the expansion of DNBi in Europe.

1 The DNBi rollout while still early is progressing well. We have signed over
2 two dozen deals, a third of which were competitive wins. We expect DNBi
3 Europe to mostly follow the US trajectory in terms of penetration, price lifts
4 and customer adoption, and we expect DNBi to be an important contributor
5 to sustained organic revenue growth in Europe in the years ahead.

6

7 As we discussed in the last call, we experienced difficulties in Japan, which
8 currently represents a little less than 20% of our International revenue. Our
9 performance in Japan improved in the third quarter; however, given the
10 challenging macroeconomic environment, we expect Japan to be down
11 slightly in 2010, unchanged from the expectations we shared with you in
12 July.

13

14 Moving to inorganic growth, we generated a total of 5 points from the
15 acquisitions of Roadway in China and ICC in Ireland, both of which are
16 performing well. As we look to the fourth quarter, we expect to add about
17 \$18-\$20M of revenue from D&B Australia. With just over one month
18 behind us, the business is performing better than expected and we remain
19 optimistic about the potential ahead.

20

21 Moving to the bottom line, International operating income declined \$3.3
22 million, or 19% in the third quarter, in line with expectations, and due to 3
23 key factors:

24

- 1 1) Deal costs related to the acquisition of D&B Australia
- 2 2) Headwinds from Foreign Exchange, and finally
- 3 3) Investments to launch DNBi in Europe, and improve data
- 4 quality in Asia

5 Excluding these items, operating income would have shown growth

6

7 So to summarize, we feel very good about our performance in International
8 and expect to close 2010 with another year of double digit revenue growth.

9

10 Turning to North America, our revenue trajectory turned positive after 6
11 consecutive quarters of decline. There were 4 key factors that were
12 responsible for this shift in trajectory.

13

14 First, we are benefitting from strengthened leadership and stronger
15 execution across all our sales channels. Let me discuss this in more detail.

16 In July I said that channels representing about 55% of our business were
17 performing well, with sales growth in the mid single digit range. I cited
18 weakness in our Strategic and Small business channels, and committed to
19 improved performance in the second half. In the third quarter, both these
20 channels improved their performance.

1 Beyond this, there are 3 additional factors that drove growth:

2 1) we are finally getting past the overhang of lower demand from 2009

3 2) we eliminated a drag on our results when we divested the
4 underperforming Self Awareness business, and finally

5 3) we benefitted from some contract timing shifts between the third and
6 fourth quarter

7

8 Tasos will discuss each of these items in more detail.

9

10 Turning to profitability, North America operating income was up 2%, a
11 meaningful shift after being down 10% in the first half of the year. Our
12 improved revenue trends, scalable business model, and the sustainable
13 nature of our reengineering efforts contributed to this positive outcome. In
14 addition, North America margins expanded 110 basis points, reflecting the
15 growth in operating income, and benefitting from the self-awareness
16 divestiture earlier in the quarter. Looking ahead, we expect to sustain this
17 improvement into the fourth quarter of the year.

18

19 Now, let me give you a brief update on the progress we are making on our
20 Strategic Technology Investment. As a reminder, at Investor Day we
21 outlined 3 critical milestones we expected to reach in 2010.

22

1 First, we expected our global database to reach 175 million records by the
2 end of the year. As of the end of September, we have exceeded this target
3 with 177 million records. As a reminder, data is our foundational asset and
4 increasing the number of records improves customer insight through better
5 matching and scoring. At this juncture, you can expect us to meet all of our
6 data commitments by the end of 2010.

7

8 Second, regarding our data center, last quarter we said that we were about
9 80% complete with the migration and expected to conclude this effort in
10 October. We made a conscious decision to slow down the last portion of
11 this migration to accommodate the close of the International fiscal year in
12 November. We now expect to be out of our New Jersey facility by year
13 end. Since this was not a critical path item, there will be no impact to the
14 overall project as a result of this change.

15

16 Finally, we said we would launch two new products built in Ireland, in the
17 fourth quarter – DNB.com and web services. As discussed previously, both
18 products are on track. Beyond this, we expect three new products to be
19 launched over the next 3-4months, mostly built in Ireland. Let me provide a
20 quick update on our progress here.

21

22 The first web-service product - D&B360 has already been launched with a
23 small test group, and a full-scale roll out is planned in 2011. We discussed
24 D&B360 at length on the last call, so I will focus on what's new this quarter.

1 The concept of Data as a Service or DaaS solutions is rapidly gaining
2 momentum. As context, Forrester Research recently reported that there is
3 increasing interest in Data as a Service, as companies embrace cloud
4 computing in order to reduce complexity and lower cost.

5

6 D&B360 is designed to leverage the cloud and easily integrate with any
7 software solution that requires commercial information. This includes CRM
8 software systems, business intelligence and even marketing automation.

9 In this scenario, our data will live in the cloud – and it will be always
10 available to seamlessly embed in customer applications. The single
11 biggest advantage to D&B in this new world is greater market penetration,
12 without the need for costly IT support by our customers. Said another way,
13 we can deliver immediate customer value and insight, leveraging the power
14 of our DUNSRight value proposition in an easy to consume, seamless
15 fashion. In other words, leveraging the cloud.

16

17 Early customer feedback on D&B 360 is very positive, and our partnership
18 with Salesforce.com is the first in what could be a new, untapped market
19 opportunity for us.

20

21 The second product - DNBI Pro is the entry level risk application which I
22 briefly discussed on our last call. This product will be targeted at smaller
23 businesses that need the critical insight we provide, but are not

1 sophisticated enough to leverage the full functionality of the current DNBi
2 platform.

3 As such, we have developed a scaled down risk application which will be
4 provided at a lower price point than DNBi to close a critical gap we have in
5 the small business segment.

6

7 We believe DNBi Pro product will resonate with new customers who are not
8 currently part of the D&B franchise today. Our plan is to use DNBi Pro to
9 penetrate the small customer segment with an easy- to-use product, once
10 again powered by the strength of the DUNSRight value proposition.

11 Finally, the retail version of DNB.com allowing the purchase of individual
12 credit reports is also planned for an early 2011 launch.

13

14 So in summary, 2010 is unfolding as we expected. We are pleased with our
15 performance in International and the shift in the trajectory of the North
16 America business. We are making good progress on our strategic
17 technology investment and are excited about the prospects ahead.

18

19 And with that, let me turn the call over to Tasos for a financial review.

20 Tasos

21

1 **TASOS KONIDARIS**

2 Thank you, Sara.

3 Sara already covered the key drivers of our International performance, so I
4 will focus on providing more details on our North America revenue and
5 overall earnings.

6

7 Let me start with North America, where revenue increased 2% in the 3rd
8 quarter and all three of our product lines grew for the first time since the 3rd
9 quarter of 2008.

10

11 Risk Management Solutions, or RMS, which represents about 60% of our
12 North America revenue, grew 1% and ahead of our expectations, after
13 being down 5% last quarter.

14

15 There were 3 key factors that drove this shift in trajectory versus Q2, and
16 each one of them contributed two points of growth.

17 First, we benefitted from timing; 2nd: The divestiture of our Self Awareness
18 Solutions, and 3rd: Getting past the overhang from 2009.

19

20 Let me say a little bit more about each.

21 First, regarding timing; at a customer's request we renewed in the 3rd
22 quarter of 2010 a contract that was originally signed in the 4th quarter of last

1 year. This event had a favorable two point impact on our Q3 RMS growth
2 and a one point impact to our Q3 total NA revenue growth.

3

4 Second, last July we divested our Self Awareness business. As a reminder,
5 Self Awareness Solutions helps micro-businesses monitor their own credit.
6 We made the decision to partner with Great Hill in this space as it did not fit
7 with our existing customer base. As we discussed last quarter, we believe
8 partnering offered the best option to create value for our customers and
9 shareholders. Divesting this declining business and transferring this asset
10 to Great Hill Partners, who plan to invest for growth, had a favorable two
11 point impact to our Q3 RMS revenue growth.

12

13 Finally, our results in the first half of the year were affected by lower
14 demand for our products in 2009. As expected, we are now getting past
15 that overhang. The improved underlying demand we have seen through
16 the first 3 quarters of this year is now reflected in our revenue results and in
17 the North America deferred revenue balance which is up 5% in the 3rd
18 quarter, compared to a 3% increase last quarter.

19

20 Beyond this, DNBI continues to perform well. Retention is strong, we are
21 continuing to deliver price lifts in the mid-to-high single digit range, and we
22 expect penetration to stabilize at around 60 - 65%, after taking into account
23 the divestment of the Self Awareness business.

24

1 Let me now move to Sales and Marketing Solutions, or S&MS, which
2 represents about 30% of NA revenue. S&MS was up 5% in the 3rd quarter,
3 and in line with our expectations, after an uneven performance in the first
4 half of the year. There are two primary reasons for this improvement.

5

6 First: we had better sales execution. As we said last quarter, we have been
7 focusing on entering multi year contracts, which reduce retention risk.
8 There were more of these contracts in the second half relative to the first
9 half of the year.

10

11 Second: we had better performance in our strategic sales channel. As a
12 reminder, Strategic had a very tough second quarter as customers scaled
13 back their marketing spend.

14

15 This quarter we saw a change in customer behavior and early signs of
16 customers' appetite to resume marketing. This is reflected in the strength of
17 our Optimizer product, which in turn drove 15% growth in our value added
18 products. As context, Optimizer enables our customers to cleanse their
19 own marketing databases and fill in critical gaps allowing them to improve
20 the effectiveness of their marketing campaigns.

21

22 Finally, our Internet Solutions were up 4% in the quarter. We have seen
23 improvement in underlying demand since we replatformed Hoovers in the

1 beginning of the year, and these results are now reflected in our reported
2 revenue. Retention on our subscription products is up over 10 points since
3 the beginning of the year and, in addition, online advertising was unusually
4 strong this quarter.

5 As a reminder, Internet solutions, represents about 10% of revenue, and
6 our results can be lumpy from quarter to quarter.

7

8 So to summarize, we are on track to finish 2010 with NA revenue down
9 slightly which is better than 2009, and in line with the expectations we
10 shared with you at the start of the year.

11

12 Let me now discuss our overall profitability. From a total company
13 perspective, we generated \$104 million dollars of operating income in the
14 3rd quarter. While this was down 1%, it represents a significant
15 improvement from the 9% decline in the first half of the year.

16

17 The change in trajectory was primarily driven by North America and
18 partially offset by International.

19

20 The NA increase was driven by better revenue performance than the first
21 half of the year, most of which dropped to the bottom line as a result of our
22 scalable business model and our financial flexibility actions.

23

1 Looking ahead to Q4, we expect the same drivers to continue to fuel North
2 America operating income growth while International Operating Income will
3 be down slightly, partially due to continued investments in DNBI and foreign
4 exchange headwinds. All of these items have been factored into our full
5 year guidance.

6

7 Moving on to earnings per share, our diluted EPS was up 7% in the third
8 quarter. This result reflects our improved operating income, as well as
9 accretion from our share repurchase program, and lower taxes. Looking
10 ahead, we expect our Q4 tax rate to be higher than that of Q3. This is
11 typical for us and reflects the seasonality of higher profitability in NA. Our
12 overall expectations for our full year tax rate are unchanged at about 35%.

13

14 Let me just touch on a couple of items that impacted our GAAP EPS this
15 quarter which was up 10%.

16

17 First, we recorded a \$13.6 million non cash charge to write off the software
18 and intangible assets of our Purisma business. This reflects our decision to
19 restructure this business and focus our efforts on a limited number of
20 mostly existing customers. Our decision was largely driven by our ability to
21 satisfy customer needs through our web services and DNB360. We believe
22 this approach will be more cost effective for our shareholders & robust for
23 our customers.

24

1 Second, in the current quarter we recorded a \$23.1 million gain, related to
2 the sale of our Self Awareness business to Great Hill Partners.

3

4 Beyond this, we had a couple smaller items which are detailed on schedule
5 3 of our press release.

6

7 Finally, we generated \$226 million of free cash flow in the first nine months
8 of the year compared with \$244 million in the same period last year. The
9 decline is primarily due to approximately \$15 million of cash related to the
10 strategic technology investment.

11

12 Let me now turn the call back over to Sara.

13

1 **SARA MATHEW**

2

3 Thank you, Tasos.

4

5 So to summarize, the year is playing out as we expected, and we feel good
6 about our progress in 2010. International is continuing its trajectory of
7 double-digit growth and North America is performing as expected with
8 growth in the second half.

9

10 As a result, we are on track to meet our full year 2010 guidance of

- 11 - Revenue growth of 1-3%
- 12 - Operating income of (2%) to +2%
- 13 - EPS growth of 1-6%
- 14 - Free Cash flow in the range of \$240 to \$270 million

15

16 Looking ahead, we expect our growth trajectory to build, with our
17 performance in 2011 better than 2010, just as 2010 will be better than
18 2009.

19

20 We expect International to stay on its double digit growth pace, while North
21 America gradually improves.

1 We have only begun our strategic transformation, so in many ways we
2 believe the best is yet to come. Said another way, we remain committed to
3 achieving the 2012 expectations we outlined at Investor Day earlier this
4 year. Specifically, returning NA to mid to high single digit growth, low
5 double digits in International and a 100 bps margin improvement over
6 2009.

7

8 I'll close with a message to my D&B team many of whom are in the call
9 today. Words cannot fully express the deep sense of pride I feel to lead
10 our company at this critical juncture. Your focus, passion and commitment
11 have returned the North American business to growth, while significantly
12 advancing our strategic transformation.

13

14 Thank you for the level of engagement and support in what has been an
15 exceptionally tough business environment. I know I can count on you to
16 finish strong in 2010, even as we transform our business from just a data
17 company, to one that is more insightful and innovative in the market place.
18 Thank you all for your leadership.

19

20 And, that concludes my prepared remarks. At this point, Manny, Tasos,
21 Kathy and I would be happy to take any questions you may have.

22 Operator, could you open the lines please?

23