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Dun & Bradstreet Holdings, Inc. (DNB)

Q4 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, good morning and welcome to the Dun & Bradstreet Fourth Quarter and Full Year 2023 Earnings Conference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Mr. Sean Anthony, VP-Corporate FP&A & Investor Relations. Please go ahead, sir.

Sean Anthony

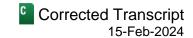
VP-Corporate FP&A & Investor Relations, Dun & Bradstreet Holdings, Inc.

Thank you. Good morning, everyone, and thank you for joining us for Dun & Bradstreet's financial results conference call for the fourth quarter and full year ending December 31, 2023. On the call today, we have Dun & Bradstreet's CEO, Anthony Jabbour; and CFO, Bryan Hipsher.

Before we begin, allow me to provide a disclaimer regarding forward-looking statements. This call, including the Q&A portion of the call, may include forward-looking statements related to the expected future results for our company and are therefore forward-looking statements. Our actual results may differ materially from our projections due to a number of risk and uncertainties. The risk and uncertainties that forward-looking statements are subject to are described in our earnings release and other SEC filings.

Today's remarks will also include references to non-GAAP financial measures. Additional information, including reconciliation between non-GAAP financial information to the GAAP financial information is provided in the press

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release and supplemental slide presentation. This conference call will be available for replay via webcast through Dun & Bradstreet's Investor Relations website at investor.dnb.com.

With that, I'll now turn the call over to Anthony.

Anthony M. Jabbour

Director & Chief Executive Officer, Dun & Bradstreet Holdings, Inc.

Thank you, Sean. Good morning, everyone, and thank you for joining us for our fourth quarter and full year 2023 earnings call. On today's call, I'll start with a brief overview of our fourth quarter and full year results, followed by a look back at some of our most significant accomplishments in 2023, and a brief view into our plans for 2024. After that, I'll pass the call over to Bryan for an in-depth review of our results, and to discuss our guidance expectations for 2024. We'll then open up the call for Q&A and finish up with a few closing comments.

With that, let's get started. We finished off 2023 with not only our strongest quarter of the year, but our strongest quarter since going public. We had organic revenue growth of 5.1%, adjusted EBITDA of \$261 million, and adjusted net earnings of \$140 million or \$0.32 of EPS. We beat our guidance in both revenues and earnings, and we're still able to balance continued investment in our new innovations and product enhancements that help support our 30% Vitality Index in the quarter. Compared to our original guidance back in February, revenue, organic growth, and earnings were all at the high end, and EBITDA came in the middle of our ranges.

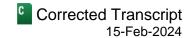
For the full year, we delivered total revenues of \$2,314 million, organic growth of 4.3%, adjusted EBITDA of \$892 million, and adjusted net earnings of \$432 million or \$1 of EPS. Our Vitality Index for the full year finished at 27%, up from 17.5% in 2022 as we continue to deliver new and innovative solutions to clients throughout the world. And whether it was in North America growing 5% with a 29% Vitality Index or international growing 5.3% with a 34% Vitality Index in the quarter, our value proposition is resonating with businesses in need of data, analytics, and workflow to more efficiently and effectively operate in these rapidly changing environments.

Businesses throughout the world are coming to us to solve some of their biggest challenges. The three most common themes we are seeing right now play directly into the areas that we had prioritized for our investment. First and foremost, master data management has always been a foundational component of having a sound data strategy. And its importance is increasing significantly with the advent of GenAI. We believe that we're in a privileged position because of the pervasiveness of the DUNS number, our unparalleled business entity resolution capabilities, and the largest and most robust commercial data cloud in the world to capitalize on these exciting trends.

Master data management continues to be at the core of our growth strategy. And by investing in new, expanded, and alternative datasets, integrating our DUNS cloud into the most prolific data delivery platforms, and collaborating with the top cloud and GenAl companies in the world, we are making a full push throughout 2024 to take advantage of this coming wave of innovation. Secondly, with the launch of our own Al-powered solutions, we're enhancing our existing products with conversational search, generative insights, and improved predictive signals. And we are launching standalone net new capabilities such as AiBE for Hoovers, where clients can utilize conversational search using natural language processing to reduce the friction in helping our clients to more accurately research and target higher propensity prospective companies. Or Ask Procurement, which will be in GA at the end of this quarter, where clients can automate multiple steps in the sourcing and procurement process, saving days of work and potentially millions of dollars.

And while AI is front of mind in our product development prioritization, we aren't ignoring the continued demand for existing solutions. While we continue to have leading revenue retention rates at 96%, we're also seeing a

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continued strong demand for our faster growing solutions, such as those in our third-party and supply chain risk management. We delivered another quarter of strong double-digit growth in that area. And it's no surprise as business leaders, boards, investors, and governments continue to raise the bar on company's understanding of who they are truly doing business with and what the financial, regulatory, cyber, social, and climate risks associated with those third-parties are. Our DUNS cloud now covers 558 million business entities, including UBO data on 352 million shareholders, 270 million businesses with climate risk insights, and detailed data driven ESG ratings on 80 million DUNS.

And not only do we have unparalleled data on the company itself, we have also been able to map nearly 35 billion relationships between Tier 1, Tier 2, and Tier 3 suppliers. We are creating a more real-time predictive performance analytics that continue to create demand in the client verticals we have today, and even more importantly, in new verticals, we are entering like capital markets. Capital markets firms have consumed massive amounts of data over the years to create that last bit of alpha in their evaluation of potential company performance. Through the creation of a new set of capital markets focused solutions, we have launched into the space with an immediate impact.

With our ability to link and enrich the capital markets client data through the DUNS hierarchy had deeply correlated performance insights from our alternative datasets on public companies and deliver unparalleled insight into over 500 million private companies throughout the world. We have just begun to scratch the surface on what is possible in this space.

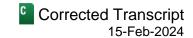
Underpinning these results and the ones to come is a significant progress we continue to make in our back office and cloud migration efforts. We have made significant progress in the completion of our modern quote-to-cash project which will ultimately allow our go-to-market delivery and finance functions to operate at an even higher level of efficiency and effectiveness. Through the use of best-in-class processes, modern software platforms, and artificial intelligence, we will not only save operating expenses but expand revenues through more efficiently closing deals through shortening the time from quote to final signature. We also continue to make large strides in our cloud migration in 2023 and plan to complete even more in 2024.

Overall, I am very proud of our team's execution across the company in both the quarter and the full year. With organic growth approaching 5%, adjusted EBITDA of nearly \$900 million, a strengthened balance sheet through improving operating free cash flow and the refinancing of our secured debt layer last month, I'm very pleased with the progress we are making towards our medium-term targets of organic revenue growth acceleration, expanded profitability, deleveraging, and enhanced free cash flow conversion.

In the quarter and throughout the year, we engaged our clients with urgency, delivered our data and analytics with precision and created new and innovative solutions to satisfy prospects' growing needs. And by doing these three things, we're also able to finish off the year with some really exciting wins and renewals in the quarter.

Beginning with North America, where we had a 95% revenue retention for the quarter and 97% retention for the year, I want to start off with the first win to come in the capital markets space. It was with one of the world's largest multi-national alternative asset management, private equity and financial services companies. Through our structured data, corporate linkage, and business signals, we are supporting their efforts in merging and mastering their internal data cloud. And also, helping to predict viable acquisition targets for investment. These uses cases along with several others such as private credit evaluation are common for private equity firms throughout the globe and we see this as a huge opportunity for us going forward.

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On the more traditional finance solutions use case, we are pleased to announce the expansion of our relationship with Johnson Controls. Johnson Controls is a world leader in smart buildings, creating safe, healthy, and sustainable spaces. We expanded our relationship through the addition of a global finance risk solution that was able to eliminate multiple vendors, ultimately demonstrating the scale and value of our integrated solutions.

Another great example of a retained and expand win was with a leading global aerospace company. This client was rolling off a multi-year agreement and we worked closely with them to execute another multi-year agreement of the same tenure with an expanded set of solutions that includes supply chain risk management, master data management, and global trade controls. And we look forward to continuing to help them navigate the increasing global complexities around supply chain and third-party risk management.

Speaking of supply chain and global risk management, our international segment which had 94% revenue retention for the quarter and 93% revenue retention for the year, expanded the relationship with one of the leading ERP providers in the UK, SAGE. SAGE added RACI, or risk analytics compliance and intelligence, that supports enhanced workflow in the managing and monitoring of supply chain risk and compliance. We also expanded our relationship with Siemens in Germany, a multinational technology conglomerate who added our sales acceleration tools through Hoovers and a Direct+ API integration. We have seen excellent wallet share growth with Siemens over the past few years as we continue our strategy of landing and expanding the biggest and best companies globally.

We signed another multi-year deal with KION, a multinational manufacturer of materials handling equipment. They are using our data blocks integrated directly through their ERP system to manage their global credit risk decisioning. And finally, SEB, a leading Swedish bank added our master data management solutions to support their overall data transformation efforts. SEB is a great example of how companies throughout the world are accelerating their transformation efforts and using D&B as the backbone of their data management strategy.

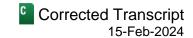
As I said before, if you want to leverage the true power of AI, it starts with rich, reliable, trusted, and timely (sic) [curated] data. And while we have what we believe to be the premier commercial data cloud in the world, we want to continue to strengthen our position through investments in data, cloud capabilities, and our most recent GenAI initiatives.

Coming off a strong year of financial sales and operational performance, we are excited about 2024 and continuing the momentum we have been building. We will continue focusing on innovating with urgency, delighting our clients, expanding strategic relationships with key partners, driving a disciplined investment strategy, and turning the vast amounts of opportunities in front of us into enhanced results. We plan to build on our areas of strength in third-party and supply chain risk management and master data management, capitalize on new opportunities such as capital markets and GenAI, and extract the appropriate amount of value from the investments and enhancements we have made to our existing solutions.

We expect another year of accelerated organic growth, increased earnings, and continued deleveraging through enhanced profitability and improving free cash flow, while balancing near-term financial performance with the proper level of investment and new solution development, enhancements to existing solutions, back office upgrades, and GenAl initiatives. In summary, we are on track with achieving the medium-term guidance we set forth at our Investor Day, and we are excited about the opportunities ahead of us in 2024.

With that, I'd now like to turn the call over to Bryan to discuss our financial results for 2023 and outlook for 2024.

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Bryan Hipsher

Chief Financial Officer, Dun & Bradstreet Holdings, Inc.

Thank, Anthony, and good morning, everyone. Today, I will discuss our fourth quarter and full year 2023 results and then our outlook for 2024. Turning to slide 1. On a GAAP basis, fourth quarter revenues were \$630 million, an increase of 6% compared to the prior year quarter and an increase of 5% before the effect of foreign exchange. Net income for the fourth quarter was \$2 million or a diluted earnings per share of less than \$0.01 compared to a net income of \$23 million from the prior year quarter. The \$21 million decrease in net income for the three months ended December 31, 2023 compared to the prior year quarter was primarily due to a higher tax provision in the current year quarter. For full year 2023, revenues were \$2,314 million, an increase of 4% compared to the prior year and an increase of 4% before the effect of foreign exchange. On a full year basis, net loss was \$47 million or a diluted loss per share of \$0.11 compared to a net loss of \$2 million from the prior year.

Turning to slide 2. I'll now discuss our adjusted results for the fourth quarter. Fourth quarter adjusted revenues for the total company were \$630 million, an increase of 6% or an increase of 5% before the effect of foreign exchange. The increase in adjusted revenues was attributable to balanced growth in our segments along with the positive impact of foreign exchange. Revenues on an organic constant currency basis were up 5.1%.

Fourth quarter adjusted EBITDA for the total company was \$261 million, an increase of \$10 million or 4% primarily due to organic revenue growth, partially offset by associated data and data processing cost and higher benefit expenses as we returned to a more normalized run rate as employees begin to use their healthcare benefits more than in the prior years. Fourth quarter adjusted EBITDA margin was 41%, a decrease of 80 basis points compared to the prior year quarter, which included 140 basis point negative impact from the increased healthcare cost I just mentioned.

Fourth quarter adjusted net income was \$140 million or adjusted earnings per share of \$0.32 compared to \$131 million or \$0.30 in the fourth quarter of 2022. This was primarily attributable to higher adjusted EBITDA and higher tax benefits in the current year quarter, partially offset by higher depreciation and amortization, higher interest expense, and higher non-operating expenses.

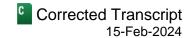
Full year adjusted revenues for the total company were \$2,314 million, an increase of 4% or 4% before the effect of foreign exchange compared to 2022. The increase was attributable to growth in the underlying business, partially offset by the negative impact of foreign exchange and the impact of the divestiture of our business to consumer business, in Germany in the second quarter of 2022. Revenues on an organic constant currency basis were up 4.3%.

Full year adjusted EBITDA for the total company was \$892 million, an increase of 3%. Higher adjusted EBITDA was primarily due to revenue growth and lower cost related to professional fees and facilities, partially offset by associated data and data processing costs, higher healthcare, and management incentive plan expenses, as well as the negative impact of foreign exchange. Excluding the impact of foreign exchange, EBITDA increased 4%.

Full year adjusted EBITDA margin was 39%, a decrease of 20 basis points compared to the prior year, which included \$16 million of increased healthcare and incentive compensation or negative impact of 30 basis points. Full year 2023 adjusted net income was \$432 million or adjusted diluted earnings per share of \$1 compared to 2022 adjusted net income of \$440 million or \$1.02 per share.

Turning now to slide 3. I will now discuss the results for our two segments, North America and international. In North America, revenues for the fourth quarter were \$457 million, an increase of approximately 5% from prior year quarter and also 5% on an organic constant currency basis. In finance and risk, revenues were \$241 million, an

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increase of \$10 million or 4% due to a net increase in revenue across our third-party and supply chain risk management and finance solutions. For sales and marketing, revenues were \$215 million, an increase of \$12 million or 6%. Sales and marketing growth was primarily driven by our master data management solutions. North America fourth quarter adjusted EBITDA was \$224 million, an increase of \$9 million or 4%, primarily due to revenue growth in associated data and data processing costs. Adjusted EBITDA margin for North America was 49%, a decrease of 40 bps from the prior year quarter.

Turning now to slide 4. I will now discuss the full year results for North America. In North America, revenues for 2023 were \$1,644 million, an increase of \$57 million or 4% from the prior year. North America revenues on an organic constant currency basis increased 3.7%. North America finance and risk full year revenues were \$888 million, an increase of \$21 million or 2%, primarily attributable to a net increase in revenues across our third-party risk, supply chain management, and finance solutions, partially offset by decreased revenue from our credibility solutions and from the public sector, primarily as a result of the expiration of a government contract in April 2022.

North America sales and marketing full year revenues increased \$36 million or 5% to \$756 million. This was primarily driven by growth from our master data management solutions. Full year adjusted EBITDA for North America increased \$25 million or 4% to \$743 million. The increase was primarily due to revenue growth in associated data and data processing costs, lower net personnel costs, and lower costs related to professional fees and facilities, partially offset by the negative impact of foreign exchange associated with our offshore technology team. Full year adjusted EBITDA margin for North America was 45% flat to the prior year.

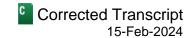
Turning to slide 5. In our international segment, fourth quarter revenues increased 8% to \$174 million, an increase of 5% before the effect of foreign exchange, and organic revenues on a constant currency basis increased 5.3%. Finance and risk revenues were \$116 million, an increase of 10% or an increase of 7% before the effect of foreign exchange. This was attributable to growth across all markets, including increased revenues from our UK market attributable to growth in our third-party risk and compliance solutions, as well as finance analytics, higher revenues from worldwide network alliances related to increased cross-border data fees, and higher revenues from Europe driven by growth in finance analytics and our latest API solutions.

Sales and marketing revenues were \$57 million, an increase of 6% or an increase of 3% before the effect of foreign exchange. This was primarily due to higher revenues from United Kingdom in European markets driven by higher data sales delivered via our latest API solutions. Fourth quarter international adjusted EBITDA was \$55 million, an increase of \$6 million or 13%. The increase was driven primarily due to revenue growth from the underlying business, partially offset by higher personnel and data processing costs. Adjusted EBITDA margin was 32%, an increase of 120 basis points compared to the prior year quarter.

Turning now to slide 6. In our international segment, full year 2023 revenues increased 5% to \$670 million or an increase of 5% before the effect of foreign exchange, and organic revenues on a constant currency basis increased 5.8%. International finance and risk full year revenues of \$449 million increased 7%, both after and before the effect of foreign exchange. All markets contributed to growth with strong demand for finance analytics and API solutions in the United Kingdom and Europe, and higher revenues from worldwide network alliances related to increased cross-border data fees.

International sales and marketing full year revenues of \$221 million increased 1% or an increase of 2% before the effect of foreign exchange. Excluding the negative impact of foreign exchange of \$2 million and the impact of the divestiture in 2022 of our business to consumer business in Germany of \$1.8 million, organic revenues increased 3%. Growth was primarily driven by higher revenues from the UK and Europe driven by new to market and localized solutions such as Hoovers, as well as higher data sales delivered via our latest API solutions.

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Full Year 2023 international adjusted EBITDA was \$215 million, an increase of \$13 million or 7%. The improvement in adjusted EBITDA was primarily due to revenue growth from the underlying business, partially offset by higher cost related to personnel and data processing costs. Adjusted EBITDA margin was 32%, an increase of 50 basis points. Adjusted EBITDA for the corporate segment was a loss of \$66 million, an additional loss of \$10 million primarily attributable to higher healthcare and performance-based incentive plan costs.

Turning to slide 7. I'll now walk through our capital structure as of year end and then will discuss on a pro forma basis taking into effect the debt transactions we recently executed. At the end of December 31, 2023, we had cash and cash equivalents of \$188 million in total principal amount of debt of \$3,589 million. The \$3,589 million in principal was made up of \$460 million of unsecured notes at 5%, which mature in 2029, term loans of \$2,652 million at SOFR plus CSA plus 275 that matures in 2026, \$452 million at SOFR plus 300 that matures in 2029, and borrowings of \$25 million under our revolver.

Turning to slide 8. On January 29, 2024, we successfully refinanced our term loan and revolving credit facilities in a leverage neutral transaction, which repriced and extended maturities on the entire secured layer of our capital structure. On a pro forma basis, the \$3,589 million in principal is made up of \$460 million of unsecured notes at 5%, which mature in 2029, a single term loan tranche of \$3,104 million repriced at SOFR plus 275 that matures in 2029, and borrowings of \$25 million under our revolver repriced at SOFR plus 250 and subject to a leverage-based pricing grid.

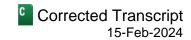
The revolver maturity was also extended to February 2029. We have a total of \$2,750 million floating to fixed interest rate swaps, \$250 million effective to February 2025 at 1.629%, \$1 billion effective to March 2025 at 3.214%, and \$1.5 billion to February 2026 at 3.695%. We also have three cross-currency swaps at \$125 million each that settle in July of 2024, 2025, and 2026. Currently, 89% of our debt is either fixed or hedged.

As of December 31, 2023, we had \$825 million available on our \$850 million revolving credit facility, and our weighted average interest rate was 6.3%. Our leverage ratio was 3.8 times on a net basis, and the credit facility senior secured net leverage ratio was 3.3 times. We are pleased with our efforts throughout 2023 and in early 2024 to take advantage of favorable market opportunities to proactively address our capital structures maturities and reduce the cost of our debt.

Turning to slide 9. I'll now walk through our outlook for 2024. Total revenues after the effect of foreign currency are expected to be in the range of \$2,400 million to \$2,440 million or an increase of approximately 3.7% to 5.4%. This includes an assumption of a modest headwind in the first three quarters of the year, partially offset by a modest tailwind in the fourth quarter due to the effect of foreign currency related to the expected variances between the US dollar, euro, British pound, and Swedish krona. Revenues on an organic constant currency basis are expected to be in the range of 4.1% to 5.1% for the full year. Adjusted EBITDA is expected to be in the range of \$930 million to \$950 million. Adjusted EPS is expected to be in the range of \$1 to \$1.04.

Additional modeling details underlying our outlook are as follows. We expect interest expense to be approximately \$220 million, depreciation and amortization expense to be in the range of \$125 million to \$135 million, excluding incremental depreciation and amortization expense resulting from purchase accounting, and adjusted effective tax rate of approximately 22% to 23%. Our effective tax rate takes into account the introduction of the Pillar 2 minimum tax rate throughout Europe, and most significantly in Ireland where our prior rate was approximately 9%, weighted average diluted shares outstanding of approximately 433 million, and for CapEx, we expect approximately \$150 million to \$160 million of internally developed software and \$45 million of property, plant and equipment and purchased software.

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While we don't give quarterly guidance, I did want to provide some color on how we expect the year to progress. We expect the first quarter to be closer to the midpoint of our range, second quarter to be around the high end, third to be below the low end, and fourth to be around the high end of our range. The lower growth in the third quarter is due to some of our revenues shifting from on delivery to more ratable recognition throughout the year. We expect margins to be flat in the first quarter and then move relative to the revenue growth for the remaining quarters.

We are also anticipating operating free cash flow conversion as a percentage of adjusted net income, excluding the impact of the AR securitization to improve versus the 51% we had in 2023, and make progress towards our target of 80% over the medium-term. Overall, we expect 2024 to be another year of stronger financial results with accelerated growth in organic revenues, EBITDA, net earnings, free cash flow, and a net leverage metric of around 3.5 times by year end. The team is focused on delivering against our operational and financial objectives, and we look forward to updating you on all the progress in our upcoming calls.

With that, we're now happy to open the call for your questions. Operator, will you please open up the line for Q&A?

QUESTION AND ANSWER SECTION

Operator: Thank you. Ladies and gentlemen, we will now be conducting a question-and-answer session. [Operator Instructions] Our first question is from the line of Kyle Peterson with Needham & Company. Please go ahead.

Kyle Peterson

Analyst, Needham & Co. LLC

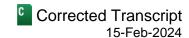
Great. Thanks, guys, for taking the questions and good morning. Just wanted to touch a little bit on the building blocks for organic growth here. Good to see that kind of 4% to 5% range. But maybe if you could break down a little bit between whether it's pricing, upsell, cross-sell, and new logos, that'd be really helpful.

Anthony M. Jabbour

Director & Chief Executive Officer, Dun & Bradstreet Holdings, Inc.

Sure. Good morning, Kyle, and thanks for the question. As we said, we see about 2% of our growth coming from pricing and incrementally from new logos, upselling of existing solutions, cross-selling of existing solutions to clients. And as we see what incrementally has increased, I'd say on the MDM side, the master data management side, and the third-party risk and supply chain management side has been more current. As I said in my prepared remarks on the MDM side, it's the precursor to AI. And I think more clients are seeing that. There's more of a focus on that. And we have a, I'd say, a right to win in that market and are in a privileged position. And similarly, on the supply chain side, we've been doing a lot of great work mapping that out. As I said, we have mapped out 35 billion relationships. So for example, work we're doing with one of the big three automotive companies, we've mapped 40% of their entire supply chain is what we currently have. And I just don't know if there's anyone that's close to that in this space. So in these areas in which you hear a lot about, we've been investing in some pretty impressive capabilities. And in the case of master data management, that's one where we've always been focused on. And now the market is coming to us because of the Generative AI movement.

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Bryan Hipsher

Chief Financial Officer, Dun & Bradstreet Holdings, Inc.

And, Anthony, if I could add on too, as you said, price [ph] has (00:36:05) traditionally been in that 2% range, raising up to something north of that kind of [ph] less than 0.5% (00:36:11) raise this year as a contribution to revenue. And then on the new logo side, I know you mentioned the capital markets win that we had in the fourth quarter. Kyle, those are certainly, I think, a big pool of potential new logos for us to go after as we've released the new solutions around our capital markets and continued impact, I would say, almost immediately as we brought those solutions in the fourth quarter, and how the pipeline is building throughout the early first quarter of this year.

Kyle Peterson

Analyst, Needham & Co. LLC

Got it. That's really helpful. And then I knew you guys touched a bit on improving cash flow conversion and kind of working to maybe have some more kind of shareholder-friendly capital return policies. But maybe if you guys could just kind of rank order and remind us what would be some of the priorities for some of the cash flow as that continues to improve here.

Anthony M. Jabbour

Director & Chief Executive Officer, Dun & Bradstreet Holdings, Inc.

Yeah. So the first, Kyle, is investing in the business and driving organic growth. We're committed to the dividend obviously and really debt paydown. So we think about M&A. I'll tell you the bar – you can see we haven't done anything in the M&A space, relied more on partnerships over this last year. The bar is very high for us to do something in the M&A space. We'd have to have extreme conviction on that. The team knows that. So it really is, like I said, focusing on our accelerated organic growth and being very thoughtful about that. So we are increasing it. We've also pulled back in some areas where products where we don't have a lot of growth. I don't see the immediate need for it. So it's not all additive. We're being very thoughtful about where we invest that way, and also obviously being very focused as you see our continuous reduction in our leverage ratio.

Kyle Peterson

Analyst, Needham & Co. LLC

Great. That's helpful. Thanks, guys.

Anthony M. Jabbour

Director & Chief Executive Officer, Dun & Bradstreet Holdings, Inc.

Thank you, Kyle.

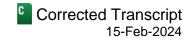
Operator: Thank you. Our next question is from Seth Weber with Wells Fargo. Please go ahead.

Seth Weber

Analyst, Wells Fargo Securities LLC

Hey, guys. Good morning. Thanks for taking the question. I wanted to just try to drill in a little bit on the EBITDA margin forecast for 2024. And just if it's possible for you to maybe just aggregate the guide a little bit, how much of that if there's more of this healthcare pressure that we saw in the fourth quarter, if that's going to continue versus how much of it is spending on new programs or just more broadly just kind of typical cost inflation, labor, etcetera? I think you called that data and processing costs and things like that. If you could give us any help just to how to think about the lack of expansion in 2024. Thanks.

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Bryan Hipsher

Chief Financial Officer, Dun & Bradstreet Holdings, Inc.

Yes, Seth. And so when you look at our organic growth and what we expect from, call it, the midpoint of the guide, it's roughly 30 bps of expansion from that perspective. I think we're balancing obviously being mindful and continuing to invest in data and in GenAl and continue to accelerate our organic growth rate, add a couple of those puts and takes, as you said. In 2023, and especially even in the fourth quarter, the healthcare benefits, right, were increased \$6 million for the year in our incentive compensation, which we have paid down about 80%-ish across the company in 2022, was up closer to target in 2023.

So those things are really starting to run right into 2024 where they certainly impacted 2023 more. But outside of that, again, as I said when we talked about kind of more of that getting towards 50 to 100 bps of margin expansion, 30 bps is kind of on the edge there. Another \$5 million or \$10 million is something that we're just, again, trying to be mindful around, making sure that we're investing and continuing to accelerate the business, because I know we're excited about MDM, I know we're excited about third-party risk clients, our opportunities on the GenAl side, maybe Anthony can talk a little bit more from that perspective, we have a lot of that that's in front of us. And so trying to be that kind of not pennywise and [indiscernible] (00:40:58) is the approach we took this year.

Anthony M. Jabbour

Director & Chief Executive Officer, Dun & Bradstreet Holdings, Inc.

Yeah, Seth, just to add on to Bryan's point, our typical margin expansion, probably another \$5 million, \$10 million, which is a relatively small number when you're doing about \$960 million of EBITDA. And in particular, in the moment that we're in, where we see a lot of this opportunity in front of us, the biggest regret would be if we didn't achieve as much as possible in this growing wave of innovation with Generative AI. So again, we're being very thoughtful about it. We're expanding margins, 30 basis points in 2024. We got a great growth guide that way, which again we'll continue to build into 2025. We feel really good about what that looks like. So again, these are the things that we think are really important and balancing our short-term immediate results, but also our medium to long-term full opportunities here.

Bryan Hipsher

Chief Financial Officer, Dun & Bradstreet Holdings, Inc.

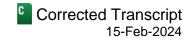
And Seth, just one more piece is here, bridging items here in 2024, we continue to look at the portfolio, and there was a small [ph] finish, we call it voice of the customer (00:42:13) solution, Seth, that was about \$2.5 million of revenue, \$2.5 million of expenses. And we ended up — we're finishing the sale of that from that perspective too. So again, that's just something from a modeling perspective. But I think not overly material, but just something to consider that as we see these opportunities to get low margin, no margin businesses such as those, we want to get them out of the portfolio so you can kind of see what the true results are really provided.

Seth Weber

Analyst, Wells Fargo Securities LLC

Yeah, makes sense. Thanks for that. And then just a follow-up just on – international growth continues to be, I think, better than what we would have thought. Can you – there are some growing concerns around Europe lately. I mean, can you just kind of catch us up on what you're seeing in some of the international markets and how comfortable you are with the outlook for international business in 2024? Thanks.

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Anthony M. Jabbour

Director & Chief Executive Officer, Dun & Bradstreet Holdings, Inc.

Sure. Yeah. We've got a lot of confidence in our international franchise overall and the momentum that we built there. So there's been a lot of great work taking D&B products localizing from the markets. It's been a great tailwind for us. There has been the creation of new capabilities, the one I mentioned in my prepared remarks, RACI, which is – added workflow monitoring to risk and compliance intelligence. And that's one where we started it internationally and we're bringing that one back to the US. But overall, like I said, with Europe specific to your question, we see that mid-single-digit growth in 2024. And so again, as you look at – I'm very proud of our team and of the caliber, the performance, how hard everyone works and is committed. With [indiscernible] (00:44:11) when we acquired it, it was a decliner. We got it back to neutral. From there, we've got it growing a few percent and I think we'll be about mid-single-digits this year. And so by having more direct control of the client like we do in Europe right now, by owning [indiscernible] (00:44:30) we're able to get to these large companies. We've had a real nice growth of penetrating larger enterprise clients that are based in Europe. So again, I'm really proud of the team there. They're very focused. And we do have confidence in 2024.

Seth Weber

Analyst, Wells Fargo Securities LLC

Appreciate the color, guys. Thank you.

Anthony M. Jabbour

Director & Chief Executive Officer, Dun & Bradstreet Holdings, Inc.

Thanks. Seth.

Operator: Thank you. Our next question is from Andrew Jeffrey with Truist Securities. Please go ahead.

Andrew W. Jeffrey

Analyst, Truist Securities, Inc.

Hi. Good morning. Appreciate you taking the questions. Anthony, definitely hearing a lot and have been about MDM and supply chain management, and that seems to be driving a lot of the growth. And Bryan, you mentioned portfolio review. Just high level, if you step back, are there products or solutions or areas of the market perhaps that are sort of utilizing resources without generating comparable returns to some of your growth areas, and would D&B or has D&B or will D&B think about reviewing the portfolio in a more holistic way and maybe getting a little more targeted and focused? How do you think about the portfolio overall, I guess?

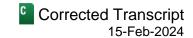
Anthony M. Jabbour

Director & Chief Executive Officer, Dun & Bradstreet Holdings, Inc.

Yeah. Great question, Andrew. It's something that we focus on all the time. Bryan mentioned just a Finnish business that we're going to divest of. And we did a small B2C business in Europe last year as well. So we're constantly looking at that, but we're also — we're looking at it — because there are certainly parts of where we are investing, I'd say, in the business not getting the return that we would in other parts, but those parts are really critical to us. So if we think of the credibility business, which has been a headwind and a decliner for us in previous years, we think this year that it will not decline. We'll get it to the even or low single-digit growth.

The value of the data that we get from that business is really valuable for other parts of our business which are growing well and driving insights for us, which help us in other parts of our business. And overall, when I look at the return that we're getting, by line of business, we certainly are, I'd say, consolidating a number of products,

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right. So that's going to be a key area where we're going to continue to drive efficiencies. So I think in – we shut down seven product lines last year alone where we've migrated, we've had a lot of success migrating our clients to our more modern solutions. And we talked about the importance of that.

But in the meantime, we've also been able to shut down the legacy systems there. And there's a lot of work that way where I'd say we have probably the most focused, Andrew, is there is opportunities. We continue to completely migrate off a system to shut it down and it requires no investment. And while some of the legacy systems exist, they still do require investment, obviously, right. And it could be a low level of investment, obviously, right, from a security perspective, for example, but they still require investment. And that's really where we're focusing our attention in addition, like I said, to the portfolio review.

Andrew W. Jeffrey

Analyst, Truist Securities, Inc.

Okay. I appreciate that. And I guess my other question is from a data ingestion or data cost standpoint, can you talk a little bit about sort of timeline to the extent you're acquiring new datasets? And that's part of the cost structure and maybe one of the things that's limiting what otherwise would have been stronger margin expansion. Can you talk about the path from sort of data ingestion to new product introduction or revenue generation?

Anthony M. Jabbour

Director & Chief Executive Officer, Dun & Bradstreet Holdings, Inc.

Yeah. I'll start, then Bryan you could tack on from a margin perspective. I think – look, it's certainly an area where – as we look at the lead that we have in master data management, and we've talked about – we've got the Dun's number, which is pervasive everywhere, right. And it's a privileged position. Our entity resolution is best-in-class. And obviously, the commercial data that we have in the database, we believe, is the best in the world, and have a lot of proof points around that.

So the idea with bringing on additional data is, how do we continue to drive enhanced value in that space? And so if we think of some alternative data sources, we're finding real value from them in combination with what we already have and in combination with working with our clients. So with the capital markets win that we discussed in the fourth quarter, again, a very, very large player in the space, through this new alternative data that we're having, some of it is really driving the most incremental value, right, on top of all the other data and insights that we have. So that's why it continues to be a really important driver for us and a momentum builder, I'd say. And similarly, from an ingestion perspective, the team is doing a great job, obviously, and shrinking the timeline of when we ingest it, when it's available for clients, and really simplifying the data supply chain on a steady basis.

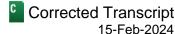
Bryan, over to you.

Bryan Hipsher

Chief Financial Officer, Dun & Bradstreet Holdings, Inc.

Yeah. And, Andrew, what I would say is, like, one of the things that we've done a good job of is we continue to invest in data and we're going to have data processing. That's pretty normal route to support the business. This year in 2023, really, the component that was kind of abnormal was the \$10 million of incentive compensation as we reset from roughly 80% payout in 2022, as I said earlier, to 2023. And then the healthcare benefits were up about \$6 million on a year-over-year basis. And that's, frankly, people going back more to the doctor, people increasing from a usage of their overall benefits where that had been a little bit, I think, lower certainly coming out of the pandemic and initially from the work from home. So those are two things that are back towards more run

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rate, but certainly you add another \$16 million on to the \$892 million and you see the expansion from that perspective. Andrew W. Jeffrey Analyst, Truist Securities, Inc. All right. Thank you. Operator: Thank you. Our next question comes from the line of Andrew Steinerman with JPMorgan. Please go ahead. Andrew C. Steinerman Analyst, JPMorgan Securities LLC Hi, Bryan. Just a little bit more on the data processing cost. I think you called it data processing, but is it thirdparty data purchasing or also third-party processing purchasing? And do you feel like we're going to have to continue to talk about this subject from a margin perspective? Or do you feel like you'll be able to realize enough value with the customers that it's not going to be an ongoing subject? Bryan Hipsher Chief Financial Officer, Dun & Bradstreet Holdings, Inc. Yeah. So, Andrew, again, I think we're always going to have obviously our data and data processing, right. So this is the, for instance, cloud charges, right. This is the processing charges that we have to support our overall revenue streams. And so it's not necessarily that these things are incrementally are over and above where they should be, right. You're going to have that level of cost embedded within the overall margin structure. And so like I said, really when we think about the typical data costs and processing costs, a lot of those costs are internal in our data supply chain, in our cloud infrastructure. But again, that's normal, right, in terms of us driving the contribution margins that we would expect. Really, as I said, again, in 2023, for instance, the abnormal piece was more around some of these kind of resetting of incentive-based compensation across the company and some of the elevated healthcare benefits. As we're heading into 2024, again, we'll expect normal data and data processing fees, right, that run through. But it's more along the lines of us continuing to drive organic revenue growth, and then it's just being mindful of the environment and where we want to make the investments and push forward, and some of the GenAl investments, some of the investments we're making around capital markets, which is where we're expanding margins, but just not pushing them towards the higher end of our expansion ranges. Andrew C. Steinerman Analyst, JPMorgan Securities LLC Okay. Thanks, Bryan.

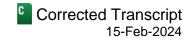
Operator: Thank you. Our next question is from Manav Patnaik with Barclays. Please go ahead.

Manay Patnaik

Analyst, Barclays Capital, Inc.

Thank you. I just wanted to touch on I think you said it was 27% was the Vitality Index. Just hoping a little bit more color on just some more quantification around how you calculate that maybe the base and how is that going to contribute to 2024 guidance?

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Anthony M. Jabbour

Director & Chief Executive Officer, Dun & Bradstreet Holdings, Inc.

Sure. The way we calculate the Vitality Index is revenues from newer products that we have. And really, what we're trying to measure with that is, do we have a lot of our clients on older products, older solutions. So if you think about that renewal time, do you have your best foot forward with the client or are they on an older solution? So for us, with our Vitality Index being so high – and it won't always be this high because, like I said, it cycles. And it will probably be in the 20% range, I imagine, which, again, is I think exceptionally high. But what it will do is it will allow us to be in a position of strength on renewals with our clients, number one. Number two, it will – the way they're architected facilitates us to sell add-on capability because it's built into that infrastructure on our more modern platforms versus what's possible today with some of the legacy ones. So from that perspective, Manav, that's why it's important to us. We're driving higher client satisfaction. We're seeing a lot of great operational results from that and from our renewal rate. But it also puts us in a great position from a cross-sell, upsell perspective as we continue [ph] to abate (00:55:52) small bundles, analytics, etcetera, that we can plug in easily and clients can buy easily and they can implement easily.

Bryan Hipsher

Chief Financial Officer, Dun & Bradstreet Holdings, Inc.

Yeah, Manav, I think to Anthony's point, one, we want to make sure like one of the vintages from early on is falling off, right, as we head into 2024. So don't be surprised when that Vitality Index number starts to migrate down this year. But I think when you think about how does that impact guidance, right, it's helping us from a pricing perspective, right. It's helping us, obviously, from a cross-sell and upsell perspective. Our retention rates, right, continue to be industry highs from that perspective. So it was really important for us to not only invest and upgrade materially solutions that we had. But as we bring on capital markets, right, as we do things like, Anthony mentioned mass procurement in [indiscernible] (00:56:48), these are all things that ultimately fall into supporting the Vitality Index as we go forward.

Manay Patnaik

Analyst, Barclays Capital, Inc.

Got it. Thank you. And Bryan, maybe just a quick follow-up, relative to EPS, anything to keep in mind in terms of conversion for free cash flow and stuff?

Bryan Hipsher

Chief Financial Officer, Dun & Bradstreet Holdings, Inc.

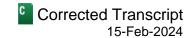
Yeah. So, Manav, this year in particular on EPS, I think the president of Ireland signed into effect Pillar 2 on December 18th, so late last year. So that had a pretty big obviously impact on a year-over-year basis from that perspective, the tax rates going from roughly 18% to 23%. You're talking probably in the range of \$0.06 from that side. When we think about the conversion component, free cash flow going into adjusted net income, a couple of things that are driving that improvement, one, D&A and CapEx are starting to diverge. CapEx has come down off of its peak back in that 2021-2022 timeframe. And so as those two start to converge, that was always a big component of the GAAP. And then while we have some of these cloud migrations going on, some of the back office work, as those wind down and some of those duplicative costs come off, that also helps the [ph] cubes (00:58:08) converge from that perspective.

Manav Patnaik

Analyst, Barclays Capital, Inc.

All right. Thank you very much.

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Operator: Thank you. Ladies and gentlemen, in the interest of time, we take the last question from Heather Balsky with Bank of America. Please go ahead.

Heather Balsky

Analyst, Bank of America

Hi. Thank you for taking my question. I appreciate it. I wanted to go back to the question earlier with regards to investment spend and margin and how you think about it philosophically going forward. I appreciate that right now GenAl is a meaningful opportunity. But given that we kind of operate in a world where there's a lot of innovation going on and technology seems to be advancing very fast, kind of, how do you think about balancing your margin target, your midterm margin target with the opportunities that you see today and the potential for additional opportunities in the future? Thanks.

Anthony M. Jabbour

Director & Chief Executive Officer, Dun & Bradstreet Holdings, Inc.

Thank you, Heather. No, it's a good question. Look, and we're very focused operationally. I mean, what I'd say, again, is looking back at 2023, we had the core margin expansion that you'd expect with this type of business when you adjust for the [ph] unusual (00:59:30) healthcare and the incentive benefit costs, right. So in terms of the core engine, how it's producing revenues and how the margins are expanding, we see that we have confidence in it. And when we look to 2024 and having margin expansion of 30%, we guided [ph] 50 to 100 (00:59:48). And like we said, there's about a \$5 million to \$10 million difference there of investment where I think the number would be much greater typically with the opportunity that's in front of us, in front of many in this market with the advent of Generative AI, but it's a testament to where we have pulled back spend and how efficiently I say we are spending it and where we are investing. So this isn't something that I look at on any given year and look at 2024-2025 as any given year. I really look at them as inflection points in this industry. I'll say in the data and analytics industry, there's potential here. And those that really understand that, I think, are really doubling down their investments to take advantage of that space. It'd be foolish for us not to do that. And like I said, it's a relatively small investment that we're making that precludes us from being in the typical margin range that we would be. But like I said, we feel really good and that the juice is worth the squeeze.

Heather Balsky
Analyst, Bank of America

Thank you. Appreciate it.

Anthony M. Jabbour

Director & Chief Executive Officer, Dun & Bradstreet Holdings, Inc.

Thank you, Heather.

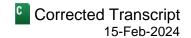
Operator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Anthony Jabbour for his closing comments.

Anthony M. Jabbour

Director & Chief Executive Officer, Dun & Bradstreet Holdings, Inc.

Thank you, Ryan. As always, I'd like to thank my Dun & Bradstreet colleagues for their exceptional efforts to sustainably grow our business for the years to come, and to our great clients for the partnership and guidance. I'd also like to thank you for your interest in Dun & Bradstreet. Hope you have a wonderful rest of your day.

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Operator: Thank you. The conference of Dun & Bradstreet has now concluded. Thank you for your participation. You may now disconnect your lines.

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