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Dun & Bradstreet Holdings, Inc. (DNB)

Q2 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen, and welcome to the Dun & Bradstreet Second Quarter 2023 Earnings Call. At this time, all lines are in listen-only mode. Following the presentation, we will conduct a question-and-answer session. [Operator Instructions] This call is being recorded on Thursday, August 3, 2023.

I would now like to turn the conference over to Sean Anthony, Vice President, Corporate Financial Planning and Analysis. Please go ahead.

Sean Anthony

Vice President-Corporate Financial Planning & Analysis, 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 second quarter of 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 risks 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 the reconciliation between non-GAAP financial information to the GAAP financial information, is provided in the press release and supplemental slide presentation. The 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 second quarter 2023 earnings call. On today's call, I'll start with a brief overview of our second quarter results, followed by an update on our operational activities and progress towards our strategic initiatives. After that, I'll pass the call over to Bryan for an in-depth review of our results and to discuss our expectations for the remainder of 2023. We'll then open up the call for Q&A and I'll finish up with a few closing comments.

With that, let's get started. We're very pleased with our second quarter results, which continued to demonstrate the progress we are making in nearly every facet of our business. We're building upon our strength and resiliency in both our North America and International segments through enhancing and expanding our world-class proprietary data sets, solving new use cases for our clients with modernized solutions, and rapidly and responsibly beginning to leverage the latest generative AI tools to accelerate our already rapid pace of innovation. We delivered 3.9% revenue growth on an organic constant currency basis, along with maintaining best-in-class margins as businesses throughout the world turn to us as a mission-critical partner that can assist them in accelerating growth, expanding margin, and improving their overall risk profiles.

Let's now turn to the progress we're making in our two segments and then I'll follow up with the latest on our AI initiatives. Beginning with North America, we continue to drive strong results across our core solution portfolio. While we delivered 2.8% growth overall, Finance Solutions, third-party and supply chain risk management, and our Sales and Marketing Solutions grew 5.5%. Finance Solutions and Third Party Risk & Compliance offerings continued to deliver resilient growth by offering mission-critical solutions that help clients weave their way through the increasingly complex business environment. Finance Solutions is achieving continued growth through delivering incremental value throughout the contract period, as well as providing a jumping off point for upsell and cross-sell strategies. As we continue to successfully migrate clients to our most modern solutions, we are seeing strong retention rates and deeper integration of our solutions into our clients business and technological workflows.

Our Risk solutions had another great quarter as businesses continue to search for ways to automate and optimize the onboarding, monitoring, and managing of the third-party supplier networks. We continue to be the trusted provider of choice for end-to-end business risk monitoring. We also saw significant interest across our fraud, financial, regulatory, compliance, climate, and sustainability suite of solutions. As businesses are being impacted through local laws, regulations, or overall increased corporate responsibility demands, our Risk analytics platform and related data and analytics solutions are rightly positioned to capitalize on these favorable market dynamics.

And before I move on to our Sales and Marketing Solutions, I want to touch on the latest developments to our own ESG story. At D&B, it has always been a core value of ours to be a trusted and responsible provider. In doing so, we are committed to running a socially responsible business that balances growing shareholder returns with sustainable practices and strong governance principles. We just completed our annual ESG report, and I'm proud of what we are delivering today and what we have in store for the future. We recently formalized our commitments to ESG through a series of environmental, social, and governance pledges, and I'm proud to be part of a company that is focused on doing things the right way.

Turning to our North America Sales and Marketing Solutions, we saw another strong quarter of 5.4% growth, driven by our Master Data Management and Digital Marketing Solutions. Clients and prospects are looking to drive profitable growth through the use of data, analytics, and artificial intelligence-driven workflows. Our product, technology, and data and analytic teams have been working tirelessly to bring high-propensity automated solutions to bear and it's showing through in our expanding pipeline. As we continue to invest and innovate in Sales and Marketing and in Finance and Risk, we see a strong uptake of our new solutions, which further supports our now 25% Vitality Index in North America. Throughout the quarter, we continued to roll out new solutions, deliver significant enhancements to existing platforms, and expand upon our strategic partnerships.

On the new solution side, we launched the D-U-N-S Registered Seal in North America with direct integration into our D&B Business Directory. If you recall, the D-U-N-S Registered Seal is one of our most successful products in the Asian market and allows small businesses to promote themselves as a legitimate entity with a sound financial and regulatory profile. And with millions of businesses throughout North America looking to differentiate themselves as a vendor, supplier, or borrower of capital, we are providing the initial version of the Seal as a way to physically and digitally represent themselves in a manner that both consumers and commercial enterprises can rely upon.

We also enhanced our supply chain risk analytics to include tier N supplier visualization. The tier N visualization allows enhanced ability to map and interpret a multi-tier supply chain through its numerous components and represents a step function change in supply chain management by providing a new level of detail and insight that was simply not possible before. Companies that have this N tier visibility will gain a competitive advantage in terms of cost management, responsiveness, and operational performance.

On the strategic partnership front, we began to open the door for monetization of our data and analytics solutions through data marketplaces. Most recently, we built upon our deepening relationship with Google by making our D&B data sets and products available in the Google Cloud Data Marketplace. I'm proud that we're the first company to populate the Google Data Marketplace, making it easier for our clients to access and utilize these critical solutions, while also helping to provide a frictionless procurement process for clients to consume these valuable assets.

And along with other strategic partnerships such as IBM, Microsoft, Amazon, Databricks, and Snowflake, we are working across the spectrum of providers to allow our clients an agnostic approach to data access and software tools, including the expanding array of artificial intelligence capabilities at D&B. Unique and proprietary data and analytics sets continue to be the key differentiator in the ability to drive increased performance for our clients. The more user friendly the information is for our clients, the more we are able to land and expand with new clients and prospects.

We are also supporting our clients to create increased transparency and consistency in their onboarding of new suppliers. Another initiative launched in the quarter is that Google now requires businesses coming on to Google Play to have a D-U-N-S number. This requirement has worked very well for some other major technology and retail clients of ours and simultaneously has been a great way for us to further broaden the number of small businesses that come to our front door.

As we continue to progress on the operational and innovation side, we're also seeing strength on the North American sales front. Retention rates were strong, up 60 basis points versus prior year, and new business wins in the software vertical were examples of the continued demand for our solutions across both Finance and Risk and Sales and Marketing. Beginning with Citibank, we're able to take a long-term existing customer and help them solve new and germane use cases in the Finance and Risk space with one of our most recent alternative data assets. Through the delivery of our shipping data assets matched with our global corporate family tree, we're able to drive predictive analytics to solve use cases around supply chain risk assessment, enhanced credit risk insight, and overall global market trend analysis.

I also want to mention how we are supporting Xylem, a water technology provider that supports operations in 150 countries throughout the world. As they look to create a world that is more water secure and sustainable, we're able to help them run their financial operations with greater efficiency and overall effectiveness. Through expanding our existing relationship to a multiyear agreement, we're delivering customer onboarding and global credit risk assessments through Finance Analytics and API solutions and supportive of digital modernization, vendor management, and global integration efforts.

While the Finance and Risk Solutions continue to build strong momentum, the Sales and Marketing side is making excellent strides as well. We are pleased to reignite our relationship with one of the top five software and technology companies in the world who signed a multiyear deal with us to support their initiatives around a data and analytics-driven approach to sales operations and planning. Through a combination of our Data Blocks, Analytics Studio, Hoovers, and API-based solutions, D&B is powering their ability to drive insightful and educated territory analysis and planning alongside a KYC-based approach to ensure that not only is a business a strong opportunity in the pipeline, but they have the financial and operational wherewithal to be a viable and sound client for the years to come.

Another example is our recent multiyear new win with DocuSign, a leader in the e-document and contract lifecycle management software space. Through D&B Connect, Hoovers, and our API solutions, we are supporting the build-out of an enterprise-wide Master Data Management Solution to support their account management and sales efforts. Through our unmatched business data cloud and industry-leading matching capabilities, we offer clients the ongoing cleansing, matching, appending, enhancing, and monitoring they need to make informed decisions at the most critical points in the customer journey. While these are but a handful of examples of what we are doing on the North American sales front, needless to say, I'm very pleased with the progress we're making and the continued strength in landing and expanding upon our exceptional client base.

Now, turning to our International segment, we saw another quarter of strong organic growth at 6.5%. All regions performed well. Our Asian markets grew mid-teens in the quarter with high-single digit performance from the United Kingdom and Worldwide Network and Europe growing 4.5% organically. We continue to see strong penetration of new localized products launched across Europe, including Hoovers, Finance Analytics, and newer APIs. This drove a 500 basis point sequential increase in our Vitality Index to 33%. We saw healthy demand across both Finance and Risk and Sales and Marketing offerings, particularly within Risk and Compliance Solutions, consistent trends that we saw in North America. Through our continued focus on enhancing our customer experience and creating a unified approach across our own networks, I'm very pleased with the continued strength we are showing in our International segment.

On the sales front, we had another strong quarter, including delivering double-digit sales growth from enterprise accounts, which is a key focus of our strategy internationally. Retention remained healthy, improving to 94% and we added a few more key names to our growing roster and successfully cross-sold and upsold solutions to leading multinational clients. Voestalpine, one of the largest steel manufacturers in Europe, signed a multiyear deal for our data block solution to facilitate their Sales and Marketing Master Data Management strategy. MDM continues to be a very hot area in Europe and especially with large industrials and manufacturers trying to get their arms around a highly complex and fragmented supply chain and customer population.

In the UK, we added a multiyear deal with IWG or International Workplace Group, the world's third largest office space provider. Through a third party screening data and monitoring delivered via API, we are supporting their KYC efforts and ensuring that not only the initial underwriting, but the ongoing viability of their suppliers is well instrumented. We also saw a host of large multiyear renewals, including the likes of Bayer, BASF, and the Agriculture Bank of China execute as we continue to provide our mission-critical solutions to them during these trying economic times. And similar to what I said about North America, I am very pleased with the ongoing progress we have made year-to-date and even more so with the basis on which we are setting ourselves up for accelerated growth over the coming years.

And I can't talk about accelerating growth in the coming years without touching on the D&B.AI Labs and AiBE, our framework and platform to leverage generative artificial intelligence to its maximum potential. And that's AiBE, A-i-B-E, named for one of our most esteemed former colleagues, President Abraham Lincoln. We chose AiBE to represent our brand because of what we stand for and what President Lincoln stood for. Honesty, transparency, responsibility, and a forward-thinking mindset. These principles are a perfect fit for how we are approaching this awesome new evolution. And managing through a multi-provider hybrid AI solution manner, we're very excited about what our assets can provide when exponentially enhanced through these significant technological breakthroughs.

Beginning with our decades of vast, proprietary, longitudinal data, analytics, and derived solutions, we are incrementally leveraging machine-learning and large language models to create accurate, timely, and contextualized information to deliver use case tailored solutions for our clients. For instance, with the D&B.AI Labs, we are allowing clients to safely and responsibly co-develop groundbreaking solutions tailored to their specific industry and business process needs. In a recent client webinar, we demoed three solutions where a client could interact, extract, and verify insights from extensive sets of documents through simple questions, contextualized data into human readable form that was not possible before, and see the power of a flexible AI agent in conjunction with our existing match and linkage capabilities to take a highly complex business use case and make it possible for a layman to solve. If you haven't seen the webinar, I highly encourage you to head to our IR site where it is posted in the News section.

With the ability to leverage our proprietary data and analytics coupled with the clients' first party and other third party data powered by AiBE, we believe that this could be the next big step for us in terms of our ability to accelerate value. And while the rush to AI commercialization is one that must be acted upon with urgency, we believe it is one that should be acted upon with responsibility and trust at the same time. Our products and services at D&B are underpinned by unrivaled, structured, and validated proprietary data that is accurate, timely, validated, organized, clean, and ultimately contextualized.

With full interpretability and an expansive data lineage, deep subject matter expertise and analytics and a security, legal, compliance, and ethical framework in place, we can drive exponentially advanced capabilities for our clients that reduce the risk of hallucinations and other misleading outcomes that can arise, if not careful. Through our initial client engagements, including our D&B.AI client webinar from last month, we are engaging with some of the world's largest and most sophisticated businesses to begin commercializing upon this immense opportunity. At D&B, we're excited about our ability to drive opportunities for our clients and prospects to grow revenues, enhance profits, and reduce risk through a combination of our data and analytics powered by AiBE.

Overall, we delivered a strong quarter financial results, disciplined operational execution, and excellent strategic progress. I'm very pleased with the progress year-to-date, and we will continue to focus on sustainable growth, innovating with urgency, and allocating our capital and resources in an efficient and effective manner to continue on our multiyear journey of increased organic growth, enhanced profitability, and a strengthened balance sheet.

And with that, I'd now like to turn the call over to Bryan to discuss our financial results for the second quarter in more detail and the outlook for the remainder of 2023.

Bryan Hipsher

Chief Financial Officer, Dun & Bradstreet Holdings, Inc.

Thank you, Anthony, and good morning, everyone. Today I will discuss our second quarter 2023 results and provide an update on our guidance for the remainder of the year.

Turning to slide 1. On a GAAP basis, second quarter revenues were $555 million, an increase of $17 million or 3% compared to the prior year and 4% before the effect of foreign exchange. Net loss for the quarter was $19 million or a diluted loss per share of $0.04, compared to a net loss of $2 million for the prior year quarter.

Turning to slide 2. I'll now discuss our adjusted results for the second quarter. Second quarter revenues for the total company were $555 million, an increase of 3% or 4% before the effect of foreign exchange. Revenues on an organic constant currency basis were up 3.9%, driven by increased demand in both our North America and International segments. Second quarter adjusted EBITDA for the total company was $206 million, an increase of 3% compared to the prior year quarter and adjusted EBITDA margin was 37.2%. The increase in adjusted EBITDA was primarily due to higher revenue growth on expected contribution margins, partially offset by increased performance incentive compensation in our Corporate segment and a $2 million negative impact of foreign exchange resulting from a strengthening US dollar.

Second quarter adjusted net income was $95 million or adjusted diluted earnings per share of $0.22. The decrease in adjusted net income and adjusted earnings per share was primarily driven by higher interest expense and depreciation and amortization, partially offset by increased adjusted EBITDA and higher tax benefits in the current year quarter.

Turning now to slide 3. I'll now discuss the results of our two segments, North America and International. In North America, revenues for the second quarter were $392 million, an increase of 3% or 2.8% on a constant currency basis. Finance and Risk revenues were $211 million, an increase of 1%. This was primarily due to growth in revenues across our Finance Solutions and Third Party Risk & Supply Chain Management Solutions of 5.5%, partially offset by a decrease in revenues from our legacy credibility and public sector solutions, which contain the impact from the GSA.

Sales and Marketing revenues were $181 million, an increase of 5%. This increase was driven primarily by growth in our Master Data Management and Digital Marketing Solutions. North America second quarter adjusted EBITDA was $173 million and adjusted EBITDA margin was 44%, an increase of 200 basis points from prior year, primarily due to revenue growth and lower costs related to personnel, facilities, and professional fees, partially offset by higher data acquisition and data processing costs.

Turning to slide 4. In our International segment, second quarter revenues were $163 million, an increase of $7 million or 5% and an increase of 6% before the effect of foreign exchange. Organic revenues increased 6.5%. Finance and Risk revenues for the second quarter were $108 million, an increase of $6 million or approximately 6% and an increase of 7% before the effect of foreign exchange. There was positive contribution from all markets.

The Europe and Asia-Pacific growth was driven by Finance Analytics and API solutions. The Worldwide Network alliances was due to higher cross-border data fees and growth in our United Kingdom market came from Third Party Risk & Compliance Solutions as well as Finance Analytics.

Sales and Marketing revenues for the second quarter of 2023 were $55 million, an increase of $1 million or 2% and an increase of 4% before the effect of foreign exchange. Excluding the impact of the divestiture of our German business-to-consumer business in the second quarter of 2022, organic revenues increased 5%, primarily due to higher revenues from the United Kingdom and Europe, including strong growth from new and localized solutions like Dun & Bradstreet Hoovers.

International second quarter adjusted EBITDA was $49 million, an increase of $3 million or 6%, primarily due to revenue growth from the underlying business, partially offset by higher personnel costs and foreign exchange losses resulting from a strengthening US dollar. Adjusted EBITDA margin was 30%, an increase of 30 basis points compared to the prior year.

Turning to slide 5. I'll now walk through our capital structure. As of June 30, 2023, we had cash and cash equivalents of $261 million and total principal amount of debt of $3,699 million. The $3,699 million in principal is made up of $460 million of unsecured notes at 5%, which mature in 2029. Term loans of $2,666 million at SOFR plus CSA plus 325 bps that matures in 2026 subsequently repriced to SOFR plus CSA plus 300 bps as of July 25, 2023 and then repriced again on July 31, 2023 to SOFR plus CSA plus 275 bps in conjunction with the pricing stepdown associated with our Moody's Corporate Family Rating upgrade to B1. $454 million at SOFR plus 325 bps that matures in 2029 that also repriced to SOFR plus 300 bps as of July 31, 2023, in association with the Moody's upgrade and borrowings of $119 million under our revolver.

The $2.7 billion term loan has $1 billion floating to fixed swap effective through March 2024 at 0.4% and a $1.5 billion floating to fixed swap, which expires February 2026 at 3.695%. The $454 million term loan has $250 million swapped from floating to fixed through February 2025 at 1.629%. We also have three cross-currency swaps at $125 million each that settle in July of 2024, 2025, and 2026. Currently, we are 87% of our debt is either fixed or hedged. We had $731 million available on our $850 million revolving credit facility as of June 30, 2023. And overall, our weighted average interest rate was 5.66% as of June 30, 2023. Our leverage ratio was 4.0 times on a net basis, and the credit facility senior secured net leverage ratio was 3.4 times.

Turning now to slide 6. I'll now walk through our updated outlook for 2023. We now expect total revenues after the effect of foreign currency to be in the range of $2,280 million to $2,320 million or an increase of approximate 2.5% to 4.3%. This includes an updated assumption related to the effect of foreign currency and the expected variances between the US dollar, euro, British pound, and Swedish krona. Revenues on an organic constant currency basis are still expected to be in the range of 3% to 4.5% for the full year. As previously discussed, it's important to note that the total and organic growth rates take into account the conclusion of the existing GSA contract at the end of April 2022. The net impact to organic growth for the full year is a headwind of 30 basis points. Adjusted EBITDA is now expected to be in the range of $875 million to $915 million. The adjusted EBITDA range also takes into account the conclusion that GSA contract and a $5 million negative impact from the strengthening of the euro versus the US dollar in comparison to the relative flatness of the British pound and Swedish krona. Adjusted EPS is now expected to be in the range of $0.92 to $1.01.

Additional modeling details underlying our outlook are as follows. We now expect adjusted interest expense to be approximately $230 million; depreciation and amortization expense of approximately $110 million to $115 million, excluding incremental depreciation and amortization expense resulting from purchase accounting; an adjusted effective tax rate of approximately 22.5%; weighted average diluted shares outstanding of approximately 433 million; and for CapEx, we still expect approximately $130 million to $150 million of internally developed software and around $30 million of property, plant, and equipment and other purchased software. Overall, while the second quarter was a bit stronger than planned, we expect the remaining quarters to be consistent with our original guidance and perform as previously communicated.

In conclusion, we are well positioned to capture the significant growth opportunities in front of us and we are pleased with the performance through the first half of the year, with improving profitability and cash flows. We will continue to prioritize deleveraging the balance sheet and focusing capital allocation strategies on driving increased shareholder returns.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. Ladies and gentlemen, we'll now begin the question-and-answer session. [Operator Instructions] One moment please for your first question. Your first question comes from John Mazzoni from Wells Fargo. Please go ahead.

John Mazzoni
Analyst, Wells Fargo Securities LLC

Q

John filling in for Seth. Just a quick question. It seems like there's been kind of a reacceleration in growth. Could you just explain what you're seeing in terms of the current selling environment, especially on the Sales and Marketing side? It seems like you had a broader base pickup in both kind of Master Data Management as well as the Digital Solutions, but just with the backdrop of a potential ad recession in the back half of the year, how are you seeing the current? Thanks.

Anthony M. Jabbour
Director & Chief Executive Officer, Dun & Bradstreet Holdings, Inc.

A

Thank you, John. First of all, I'd say that things are looking pretty much like we thought they would at the beginning of the year when we guided. Two forces going on here. There's one the macro force and the other one is our transformational force of the business as we continue to improve it. And when I say from a sales cycle, it lengthens a couple of days, contracts a couple of days. For the most part, it's been pretty steady for us and we expect it to be pretty consistent to the back half of the year as well. But certainly, the solutions that we're offering are very mission critical in the Sales and Marketing space. And so, they're stickier than you might expect and I think that also helps with the consistent growth that we're seeing in that business.

John Mazzoni
Analyst, Wells Fargo Securities LLC

Q

That's great. Thank you. And then maybe just following up on the mission criticality point, I believe you had 25% Vitality in North America and 33% internationally. But how should we think about those kind of translating into higher growth as well as potentially higher structural pricing? Thanks.

Anthony M. Jabbour
Director & Chief Executive Officer, Dun & Bradstreet Holdings, Inc.

A

Yeah. No, it's a great question, and I appreciate you asking it on the Vitality side because, like I said on calls previously, it takes a tremendous amount of work from our team in terms of, number one, building the new modern solution. There have been many initiatives across the industry where the new modern solution never sees the light of day or if it does, the migration suffer to some degree and companies are stranded with multiple products versus one go forward one.

So, I'm very proud of the work our team has done in building the capability and working with clients and migrating them. And like I said again previously, there's not a lot of immediate revenue tied to migrating to more modern solutions. But the power is and you're heading in the right direction, John, is that by having your clients on your most modern solutions, it creates for a stronger relationship and ability to sell add-on modules and certainly add strength to our pricing capability. So, we're in great shape that way and we're going to continue staying the course.

John Mazzoni Q
Analyst, Wells Fargo Securities LLC

Great color. Thanks, again.

Anthony M. Jabbour A
Director & Chief Executive Officer, Dun & Bradstreet Holdings, Inc.

Thank you, John.

Operator: Thank you. Your next question comes from Kyle Peterson from Needham. Please go ahead.

Kyle Peterson Q
Analyst, Needham & Co. LLC

Great. Thanks, guys. Good morning. I wanted to touch a little bit on the guide, particularly the FX neutral revenue growth, maybe some of the different drivers that could push you either towards the higher or the lower end. The outlook, I mean, it seems like you guys were a little bit closer to the higher end this quarter despite still having about a month of the GSA headwinds. So, just wanted to get a little more color on how much conservatism you guys have baked in there for the second half and what are some of the puts and takes.

Bryan Hipsher A
Chief Financial Officer, Dun & Bradstreet Holdings, Inc.

Yeah, Kyle, thanks. Ultimately, as Anthony said, we're really pleased with the year-to-date performance from that perspective. As we've talked about, right, the overall year as it shapes up having that second and third quarter looking relatively in line and consistent from more towards the middle range of the guide and then the fourth quarter starting to guide towards the higher end from that perspective. So, again, first quarter very much in line and second quarter a little bit better than expected, but we just want to make sure we're being thoughtful, right, with the range that we've laid out. And look, we know that things that could drive us towards the higher end of the range are going to be more sales coming in a little sooner than expected, the usage right picking up and going over and above. But, again, they're all around the fringes and why we give a range versus a point estimate.

Kyle Peterson Q
Analyst, Needham & Co. LLC

On the AI opportunity, some good color you guys gave in the prepared remarks. But just wanted to see how you guys are thinking about some of these opportunities in the near to medium term, whether it's on the revenue side or the efficiency and cost side. I guess, where do you see the biggest near-term applications in terms of having a potential financial impact on the business?

Anthony M. Jabbour
Director & Chief Executive Officer, Dun & Bradstreet Holdings, Inc.

A

Well, Kyle, with the launch of D&B.AI Labs, we've been working with generative AI previously. And so, certain aspects of our data collection we've been bringing in and leveraging some of that already. But our focus right now [audio gap] (00:37:41) is with our clients and the commercial aspects for it. And that's why we want to set up a lab environment where we can both come in to a safe place. You'll hear us over and over hitting on the responsible part and even in choosing the name AiBE of being responsible. Our clients are really excited about the opportunities of generative AI and large language models and at the same time cautious and concerned, right, like many are. And so, we want to create a safe place where we can collaborate together in a responsible way. That's the trusted brand that we have at Dun & Bradstreet and where we're going to be focusing on initially.

You're right, there will be opportunities to drive revenue acceleration as we find ways to help our clients more. And there'll also be ways for us to be more efficient and we'll be focusing on both of them. What we wanted to get out of the gates first was an external focus with our clients to engage them, for them to start working with us on these important initiatives because we just thought that was more important to be out in front of this and really helping leading our clients through it.

Kyle Peterson
Analyst, Needham & Co. LLC

Q

That's helpful. Thanks, guys.

Anthony M. Jabbour
Director & Chief Executive Officer, Dun & Bradstreet Holdings, Inc.

A

Thanks, Kyle.

Operator: Thank you. Your next question comes from Heather Balsky from Bank of America. Please go ahead. I'm sorry, it looks like Heather is not any more here. So, next question comes from Stephanie Moore from Jefferies. Please go ahead. Ms. Moore...

[indiscernible] (00:39:50)

Stephanie Moore
Analyst, Jefferies LLC

Q

Oh, I'm sorry. I apologize. Can you hear me now?

Anthony M. Jabbour
Director & Chief Executive Officer, Dun & Bradstreet Holdings, Inc.

A

Yeah. We can hear you now, Stephanie.

Stephanie Moore
Analyst, Jefferies LLC

Q

I'm sorry. Good morning. While on mute, you'd think I'd be – I'd have [indiscernible] (00:40:01) by now. But you continue to see nice strength in international markets, particularly in Europe too though it doesn't seem like it in your results. But are you seeing any macro pressures in any of these markets?

Anthony M. Jabbour
Director & Chief Executive Officer, Dun & Bradstreet Holdings, Inc.

A

In the International segment specifically?

Stephanie Moore
Analyst, Jefferies LLC

Q

Yes.

Anthony M. Jabbour
Director & Chief Executive Officer, Dun & Bradstreet Holdings, Inc.

A

No. I think for the most part we're – we've got a really seasoned team leading our International business and I'd say for the most part we see the opportunities are in front. We've been thoughtful in terms of any of the headwinds. But some of the core like we just – again, that's why I talk often about what are macro forces affecting everything and then what are Dun & Bradstreet transformational forces affecting because it's powerful.

So, if you think of our International business, we've launched 100 products localized in our international markets, which is really helping offset any headwinds that we'd see. And some of the areas like Master Data Management and Third Party Risk, they're really global strong demand from our travels over there as well meeting with clients internationally. They're really red hot priorities there as well. So, I'd say for the most part that every business has headwinds, tailwinds in the international space. We've got a lot more opportunity, I'd say, than we have downside risk.

Stephanie Moore
Analyst, Jefferies LLC

Q

Great. No, I really appreciate the color. And then, kind of looking at your almost 4% organic growth for the quarter, could you just break out what the split was between pricing, cross-selling, new logos and how you kind of expect that to play out for the balance of the year? Maybe any additional pricing commentary as you think out over the next 12 months. Thank you.

Bryan Hipsher
Chief Financial Officer, Dun & Bradstreet Holdings, Inc.

A

Yeah, sure. I think one part even start with is we continue to have a really strong gross retention. I think in North America it was actually up about 50 bps, 60 bps in the quarter. And so, Anthony has talked for a long time the first thing you do is, is close the back door. And that's the Vitality Index reflection, that's the investments we've been making, the continued engagement from our sales force. And so, that piece, again, is really solid.

And then when you think about the steps-ups, you're absolutely right. Price previously was something that wasn't a big impact. We're now talking it approaching 2-plus percent and starting to accelerate as we stack these renewals on and growth on throughout the year. And then, the remainder is really a mix of, I'd say, cross-sell and upsell with a little bit of new product. But certainly, when we look at the Vitality Index, when we look at the migrations, these are all the components, both North America and International, that are contributing to the accelerated growth.

Stephanie Moore
Analyst, Jefferies LLC

Q

Got it. Really appreciate it. Thank you.

Anthony M. Jabbour
Director & Chief Executive Officer, Dun & Bradstreet Holdings, Inc.

A

Thank you, Stephanie.

Bryan Hipsher
Chief Financial Officer, Dun & Bradstreet Holdings, Inc.

A

Thanks, Steph.

Operator: Thank you. Your next question comes from Heather Balsky from Bank of America. Please go ahead.

Heather Balsky
Analyst, BofA Securities, Inc.

Q

Hey, I'm back and sorry about that before. I was hoping you could talk about your North America Finance and Risk segment. Stripping out GSA, you called out strength in Third Party Risk & Supply Chain, but you also talked about some softness in public sector and small business solutions. Can you talk about where you're seeing areas of strength and some of the softness as well and kind of your expectations for how the year is going to progress?

Anthony M. Jabbour
Director & Chief Executive Officer, Dun & Bradstreet Holdings, Inc.

A

Sure, Heather. I'd say overall from the core businesses that we have in North America are performing well, right? So and oftentimes we try and be very transparent with you as to what the underlying engine is, is producing. And so, our core Finance and our Third Party Risk & Supply Chain Risk, our Sales and Marketing is growing about 5.5%. And so, that's where we've been very pleased with it. And similar to what I shared, I think it was on our Q4 earnings call, about the two areas where it's pulling back the growth and it's in public sector and it's in the legacy credibility business. And in both of them, we're very focused on turning around those businesses. We've made a, I'd say a lot of progress on the public sector side and we expect to see a turnaround overall in that business in the coming quarters. And on the credibility side, we've got a pretty aggressive transformation in place, really following the consent order that we inherited when we took over the company.

We've got a pretty aggressive transformation underway that we're looking to launch later this year, which is a very different approach to the space and we're very excited about what it can do for us. So, at a high level, that's really what's going on. We're seeing a lot of great growth in the core parts of our business. Like I said, 90-plus percent of the business is growing in the range that we guided to mid-term at our Investor Day six months ago. And as we focus on these two businesses, in addition to a lot of the other work we have going on with innovations, migrations, and now the new generative AI initiatives on top of it, that's really what our focus is here.

Heather Balsky
Analyst, BofA Securities, Inc.

Q

Thank you. And then as a follow-up with regards to the margin outlook, can you just help us think through potential cadence for the back half 3Q versus 4Q?

Bryan Hipsher
Chief Financial Officer, Dun & Bradstreet Holdings, Inc.
A

Yeah. Heather, if we kind of look at it, you'll see continued EBITDA growth in both the third quarter and fourth quarter. I'd say on the margin side that the fourth quarter from just a percentage basis will be where you see a little bit more expansion than where we would see in the third quarter. And some of this is coming in – we add about $2 million of headwind from the FX side in the second quarter. We also had the mix of the GSA revenues coming off and some of the other newer revenues coming on at a strong contribution margin, but just not as high as what the GSA was previously. And then, the final, if you look in the Corporate segment, we had a little bit higher performance-based incentive comp in the second quarter than we did in the previous year. And so, those things start to normalize right as the year progresses and that's the way we would think about the fourth quarter stepping up from the third quarter and again the third being even better than what the second quarter was.

Heather Balsky
Analyst, BofA Securities, Inc.
Q

Great. Thank you. That's helpful.

Anthony M. Jabbour
Director & Chief Executive Officer, Dun & Bradstreet Holdings, Inc.
A

Thank you, Heather.

Operator: Thank you. Your next question comes from Andrew Steinerman from JPMorgan. Please go ahead.

Andrew C. Steinerman
Analyst, JPMorgan Securities LLC
Q

Hi, Anthony. I'd like to know how Hoovers did in the second quarter and that product has been revitalized and wanted to know how you feel like Hoovers is doing competitively with B2B professional contacts versus other providers out there?

Anthony M. Jabbour
Director & Chief Executive Officer, Dun & Bradstreet Holdings, Inc.
A

Sure. Thank you, Andrew. Yeah. Our Hoovers business, like I said, that was an area that was in radiation and declining quite a bit. And we've got it to, I'd say, a more breakeven pace where it's not a headwind on the business and we're still seeing it operate at that level right now. We saw some minor pullback of licenses. But for the most part, the business is performing like it has for the last couple quarters.

Bryan Hipsher
Chief Financial Officer, Dun & Bradstreet Holdings, Inc.
A

And Anthony, I would add too and Andrew, the balance between North America and International. And so, in International where it's being brought to bear as a net new solution...

Anthony M. Jabbour
Director & Chief Executive Officer, Dun & Bradstreet Holdings, Inc.
A

Yeah.

Bryan Hipsher
Chief Financial Officer, Dun & Bradstreet Holdings, Inc.

A

...we're seeing nice growth and acceleration from that perspective, too. So, overall, I think we're really pleased with the progress we're making in that Hoovers space and how we're aggressively going to market there.

Andrew C. Steinerman
Analyst, JPMorgan Securities LLC

Q

Thank you.

Operator: Thank you. Your next question comes from Manav Patnaik from Barclays. Please go ahead.

Manav Patnaik
Analyst, Barclays Capital, Inc.

Q

Thank you. I just want to follow up on that, the second half expectations, particularly the fourth quarter, that's typically your biggest quarter, I know you've tried to kind of reduce the reliance there. But just talk a little bit about the visibility there and just remind us how much of that business day ends up being transactional versus typically recurring.

Bryan Hipsher
Chief Financial Officer, Dun & Bradstreet Holdings, Inc.

A

Yeah. So, Manav, it is the largest. We kind of have those bookends right and certainly have moderated the magnitude of them, meaning that first quarter from a magnitude is generally the smallest right, second to third relative with somewhere, and then the fourth is a little bit higher just due to the nature of some of the deliveries that take place and some of the activity that takes place during the quarter. You remember last year we had a little bit around the fringes on some of the delivery timing of Master Data Management and we'll be comping that, obviously, as we go into the fourth quarter of this year. But the visibility for this business is quite high, right? And so, when we think about the amount of daily ratable subscription revenues, you're talking 75-plus percent on deliveries, right, which can be kind of semi-annual quarterly, right or annual deliveries, they're guaranteed right in that time period. And then, you have some usage on the fringes again where maybe pulldown in different months, right? But in a 12-month period, all of that is captured. So, when I think about this business and even then in the fourth quarter, visibility is quite strong and quite high.

Manav Patnaik
Analyst, Barclays Capital, Inc.

Q

Got it. And then just one quick follow-up, like competitively, have you seen any changes across your segments, but more in particular on the Finance and Risk side?

Anthony M. Jabbour
Director & Chief Executive Officer, Dun & Bradstreet Holdings, Inc.

A

Not really, Manav. Like I said, a lot of competitors out there, obviously it's very competitive marketplace. But as we really focus on our game plan and executing well against it, that's really our best strategy and what's proving to be most effective for us. We're working with our clients closely, we're listening, we're servicing them well, getting great ideas, our teams are working really well together in terms of building new capabilities and servicing client. And that's what we think is obviously really important from that perspective. So, look, there certainly is a lot of competition out there and we all have to work hard for the business that we have and again, I'd say like the rest of our business, most of our future is in our control versus in a macro environment or versus what other competitors are doing. I feel strongly that it's in our control and if we work hard, stay focused, we can have a great outcome.

Manav Patnaik
Analyst, Barclays Capital, Inc.

Q

Got it. Thank you.

Anthony M. Jabbour
Director & Chief Executive Officer, Dun & Bradstreet Holdings, Inc.

A

Thank you.

Operator: Thank you. Your next question comes from George Tong from Goldman Sachs. Please go ahead.

George K. Tong
Analyst, Goldman Sachs & Co. LLC

Q

Hi. Thanks. Good morning. In the North America Finance and Risk business, you talked about the public sector and SMB trends. Can you elaborate on how those trends progressed over the course of the quarter and what you're assuming in the second half, whether those trends should be stable or whether we should see some improvement?

Bryan Hipsher
Chief Financial Officer, Dun & Bradstreet Holdings, Inc.

A

Hey, George, it's Bryan. So, when we think about those, I mean, certainly on the government side, right, we've gotten out of the headwind from the GSA and so that was a component of what we saw in the second quarter. In terms of then continuing to turn sales into revenue, as Anthony said, we would expect that the public sector to gradually start to improve through the second half.

On the credibility side, that's one where we're lapping that consent order. There's a bit of tail right from some of the impacts on the revenue side. So, again, as I would expect that to improve that's probably going to start to improve more in maybe the fourth quarter, right and certainly into 2024 as we're launching our new strategy and solidified vision in terms of what we're going to be doing in that space.

George K. Tong
Analyst, Goldman Sachs & Co. LLC

Q

Got it. That's helpful. On the International Finance and Risk side, you're continuing to see pretty healthy demand despite the uncertain macro environment. What would you say is driving that demand? Is it competitive share wins, wallet share penetration, new client wins, perhaps pricing or upsell? What are some of the details there?

Bryan Hipsher
Chief Financial Officer, Dun & Bradstreet Holdings, Inc.

A

George, maybe I'll start and then Anthony, yeah. And both of us have spent time with Neeraj and team in strategy sessions and then, as Anthony said, connecting with customers. But some of this macro environment and that uncertainty and these evolutions, right and kind of global view are really driving this view of Master Data Management, right, understanding who you're doing business with, how you're doing business with them. When you think about that same theme applied on the Risk side of the equation, the Third Party, the Supply Chain Risk Management, it's really critical. And it's critical from so many different components, right, financial stability, regulatory and compliance stability, just, overall, I would say ESG and sustainable practices, right? All of these are creating this broader view of the types of companies that you're using as vendor suppliers and the types of companies that you're going out to sell to. So, both of those thematics, I would say, are partially driven by an evolution and there's overall macro uncertainty.

Anthony M. Jabbour
Director & Chief Executive Officer, Dun & Bradstreet Holdings, Inc.

A

Yeah. And the one thing...

George K. Tong
Analyst, Goldman Sachs & Co. LLC

Q

Very helpful.

Anthony M. Jabbour
Director & Chief Executive Officer, Dun & Bradstreet Holdings, Inc.

A

...I'd add to that is, yeah, we continue to penetrate enterprise accounts, work well, listen to them, offer a lot more capability that we now have in markets and that's really I'd say the cause for the greater lift there versus just price increase or something like that.

George K. Tong
Analyst, Goldman Sachs & Co. LLC

Q

Got it. Very helpful. Thank you.

Anthony M. Jabbour
Director & Chief Executive Officer, Dun & Bradstreet Holdings, Inc.

A

Thank you, George.

Operator: Thank you. [Operator Instructions] Your next question comes from Craig Huber from Huber Research Partners. Please go ahead.

Craig Huber
Analyst, Huber Research Partners LLC

Q

Great. Thank you. I've got a broad question here for you. Since the take-private transaction early 2019, you guys obviously moved heaven and earth here to help transform the company here. And so, I'm curious versus your original five-year plan for the company, what inning do you guys think you're in right now between what you were originally planning to do here?

Anthony M. Jabbour
Director & Chief Executive Officer, Dun & Bradstreet Holdings, Inc.

A

Craig, thanks for the question. It's interesting from the take-private and even the IPO, which was just three years ago, it seems like a long time ago. I'd say we're very much on track and we're very confident with where we're headed. So, initially, in the IPO, we talked about growing from 0% to 3% for a period of time and then from 3% to 6%. And three years later, we're above the first range, into the second one, and six months ago at our Investor Day, we guided a mid-term range of 5% to 7% where the company is heading.

And so, I'd say we're very confident of being where we thought we would be. And again, when we talk about the durability of this business, that's through a global pandemic, conflict in Ukraine, hyperinflation, rising rates, currency volatility, like so much other macro effects out there that, again, it just continues to give me and our team confidence in the quality of this business and the march that we're on in terms of really getting all the growth that we possibly can with this business.

Craig Huber
Analyst, Huber Research Partners LLC

Q

And my last question, if I could ask. You guys had a pretty cautious view I recall coming into the year on the macro environment and stuff. I'm just curious how that sort of played out in your mind here. Is it feel better out there the macro environment like in North America versus where you might have thought coming into the year it's about the same or worse?

Anthony M. Jabbour
Director & Chief Executive Officer, Dun & Bradstreet Holdings, Inc.

A

Yeah. It's always hard at the beginning of the year to talk about the macro environment is going to be for the coming year. And what I said, we looked at it in two buckets, right? What would the macro do and what will our ongoing transformation provide us to fight any negative macro headwinds? And to a large degree, I feel like macro is sort of operating in the range that we thought it would.

Bryan, do you have any other comments you'd add on macro?

Bryan Hipsher
Chief Financial Officer, Dun & Bradstreet Holdings, Inc.

A

No. I think, Craig, it's we've talked about, right? It's pretty consistent with our original expectations and played out that way and I think that continues to be our view for the remainder of the year. But it's one of the benefits of having the connectivity of the customers, the insights that we have, the data, right, informs our thinking, right and how we plan. And so, certainly, we always think about where you say drinking your own champagne, right? And so, that was certainly something that's played out and allowed us to plan and execute appropriately.

Craig Huber
Analyst, Huber Research Partners LLC

Q

Great. Thanks for your thoughts.

Operator: Thank you. There are no further questions at this time. I'll now turn the call over to Anthony Jabbour. Mr. Jabbour, you can continue.

Anthony M. Jabbour
Director & Chief Executive Officer, Dun & Bradstreet Holdings, Inc.

Thank you, Sergio. 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 their partnership and guidance. Thank you for your interest in Dun & Bradstreet and have a wonderful rest of your day.

Operator: Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your lines. Thank you.