01-Aug-2024

Dun & Bradstreet Holdings, Inc. (DNB)

Q2 2024 Earnings Call

CORPORATE PARTICIPANTS

Sean Anthony
Vice President-Corporate FP&A & Investor Relations, Dun & Bradstreet Holdings, Inc.

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

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

OTHER PARTICIPANTS

Andrew C. Steinerman
Analyst, JPMorgan Securities LLC

Wahid Amin
Analyst, BofA Securities, Inc.

Surinder Thind
Analyst, Jefferies LLC

Ashish Sabadra
Analyst, RBC Capital Markets LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to Dun & Bradstreet's Financial Results for the Second Quarter of 2024. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the conference over to Sean Anthony, Vice President of FP&A and Investor Relations. Please go ahead.

Sean Anthony

Vice President-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 second quarter of 2024. On the call today, we have Dun & Bradstreet's CEO, Anthony Jabbour; and CFO, Bryan Hipsher. Anthony will begin with an overview of our second quarter results, and then pass it to Bryan for an in-depth financial review. We will then finish up with Q&A and a few closing remarks.

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 of our company and are therefore forward-looking statements. Our actual results may differ materially from our projections due to a number of risks 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. 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 second quarter earnings call. Overall, we delivered another solid result with both top and bottom lines. Organic revenue growth was 4.3%, up 40 basis points from the first quarter of 2023 and represents our fourth consecutive quarter of reported mid-single digit growth. With 90% of our revenues growing slightly over 6% in the quarter and on a trailing 12-month basis, we saw a continued strong demand for our third-party supply chain risk and master data management solutions in both our North America and International segments.

We've seen continued strength in these two areas of strategic investment and believe there is much more opportunity to grow in the coming years. The remaining 10% of our revenues comprised of credibility and digital marketing solutions, continued to be negatively impacted by a variety of factors, including broader macro conditions. However, we have work underway to reduce their impact on the overall growth rate, and I'll spend some time in my prepared remarks discussing our remediation efforts and the timing thereof.

From a profitability perspective, EBITDA grew 6% in the quarter, driving 60 basis points of margin expansion. We continue to operate more efficiently, and along with lower revenue growth from areas that have below average incremental margins, we were able to deliver strong profitability in the quarter. We continue to focus our capital allocation on sustainable organic growth acceleration, deleveraging the balance sheet, and maintaining our dividend while being opportunistic in both M&A and share buybacks when circumstances allow. And while we continue to execute well, our share price provided an attractive valuation throughout the quarter, and we began to utilize our share repurchase authorization.

Throughout the quarter, we were able to purchase around 960,000 shares at an average price per share of around $9.70. We accomplished this while maintaining our net leverage ratio at 3.7 times with visibility to around 3.5 times by year-end. As we expect capitalized spend and other extraordinary investments to come down in the second half, we continue to expect improved free cash flow conversion for the full year, and we'll look to deploy it efficiently and effectively.

And now turning to what's driving our financial results, I'll start with an update on our Finance and Risk solutions. Across both segments, we saw strong performance in our core Finance and Risk solutions. Finance solutions continues to be a deeply embedded solution set that creates an excellent platform for cross-selling our risk solutions. While our Finance and Risk solutions are a key part of our 96% overall gross retention rate, they are also a key part of our 36% Vitality Index, with third-party risk management delivering another stellar quarter of over 20% growth. We are seeing strong demand for our risk analytics platform and even stronger demand for risk data block solutions, delivered via direct API integrations. While medium to larger size clients prefer a platform approach, we are seeing the largest and mega size clients prefer direct integrations into their core applications.

And while we continue to see growth and expansion with our medium/larger size customers throughout the world, smaller clients are still a great opportunity for us in both North America and internationally. For instance, in Asia, we saw high-single digit growth driven by some of our more localized Finance solutions, as smaller companies throughout the region look to validate themselves as worthy suppliers to large multinational businesses, D&B stands as a trusted provider of authentication and confidence. And while we have continued to transform our SMB businesses in North America, credibility continued to see some softness in the second quarter, largely as expected.

The second quarter was down $2.3 million or a 7% decline versus prior year and $4.1 million or a 6.4% decline year-to-date. The declines up to this point have been solutions that are directly impacted by the consent order and its impact on those renewals throughout last year and into early this year. We still expect the business to be near flat in Q3 and then begin to slightly grow in Q4 and remain positive as we are seeing green shoots in our new solution sales and in particular the improved performance of our credit insights product.

While it took us a little longer to launch than expected, I'm particularly excited about the early results we are seeing from the July 17 launch of our Money Back Guarantee. And that, coupled with the product enhancements we have made, significantly increase the value we are providing to our clients and prospects. These efforts, combined with several others, are transforming the credibility solutions and give us confidence in our ability to turn this part of our negative 10% into a more positive contributor by the end of this year.

And now, turning to our Sales & Marketing solutions, we grew mid-single digits overall, driven by strong performance in master data management and improving performance and sales acceleration. The overall market remained constrained as delayed interest rate cuts persisted throughout the second quarter. But through the mission-critical nature of our MDM solutions and improving sales acceleration offerings, we were able to offset much of the lackluster spending. That being said, the majority of the business was growing nicely. Our transactional volumes in digital marketing solutions remained depressed.

While things didn't deteriorate further from the prior trends, they certainly didn't improve at the rate we had expected. While the vast majority of our revenues are subscription based, our digital marketing solutions are more cyclical in nature and therefore impacted both positively and negatively by volume trends. For context, these solutions were down $4.6 million or 14% in the second quarter and $7.7 million or 12% year-to-date. We anticipate improvement in the back half of this year for three reasons. The first is we expect the Fed to begin to reduce interest rates, driving increased spend. Second, Google will no longer be deprecating cookies, which should help lift traditional volumes. And third, we are expanding into rapidly growing areas such as connected TV, retail media, and further into social media.

Overall, things have largely played out as we expected through the first two quarters of the year. And while we are tweaking our full-year organic revenue guidance to take into account the lower than expected transactional revenues from digital marketing, we are maintaining our previous adjusted EBITDA and adjusted EPS guidance. We will stay close to credibility and digital marketing that comprise the 10% of our revenues that are challenged throughout the remainder of this year and make any changes necessary to be set up to achieve a 2025 growth rate that is within the 5% to 7% range we previously discussed.

Another important element in our growth plan is continued innovation. In the second quarter, we introduced Hoovers Smart Mail, which allows automated messaging and deployment to high targeted contacts for more individualized content creation. And in combination with Smart Search launched in Q1, both now have over 4,000 clients using these new Gen AI capabilities. In addition, we have our new ChatD&B Gen AI assistant. This is a patent pending autonomous AI agent that speaks to all of our data assets. There isn't a question about a business we can't answer, and this new assistant is being used by over 500 internal users and an early adopter testing with our clients. Lastly, our continued partnership with IBM has the new Ask Procurement Assistant in early trials as well. As a reminder, all of our Gen AI solutions are based on AiBE, our foundational architecture for quickly building, testing, and launching new solutions.

Along with the exciting progress in Gen AI, we continue to expand our DUNS in data graphs from the offline world to the online world. Our business-to-person or B2P service, combining specific consumer marketing characteristics to our best-in-class B2B identity graph, creating a uniquely blended offering. Think about the B2P connection as focusing not on the individual as a consumer, but the individual in his or her role within the defined organization. It's still early stages, but we believe this could be a game-changer in the ability to effectively market to key business audiences in an ever-evolving landscape.

And as we continue to develop and execute within our key product lines, I'm also very pleased in our continued progress to finalize our cloud migration project. Our technology team has made huge progress in the first half of this year, upgrading and migrating our solutions to the cloud, and we look forward to completing a majority of the heavy lifting by the end of this year.

Before I update you on some client successes in the quarter, I wanted to provide a quick update on the general buying environment. Similar to the comments you've heard from other industry peers, the general sales environment has stayed relatively stable to the slower one that started late last year. Our belief is that as the Fed begins to take its first actions to reduce interest rates in the late fall, businesses will become more constructive in their spending around new solutions and sales and marketing investments.

And now, turning back to Q2, I want to start off with North America and a five-year renewal and expansion with a Fortune 500 company and one of the world's largest industrial supply companies. This client has been with us for over 25 years and continues to leverage the unparalleled breadth and depth of our data and analytics to create predictive risk scoring and automated credit decision. By leveraging our data and analytics to support over 2 million customers, this company was able to create increased ROI relative to automated upfront credit limits at onboarding and an analytics-driven onboarding process that is helping to streamline the quote-to-cash process.

Another five-year renewal in the F&R segment was with another Fortune 500 company and one of the world's premier providers of technology products and services for business, government, and education. The client has been with us for 25 years and continues to look for new and innovative ways to automate their credit and risk functions. Through the addition of our new capabilities such as FA Account Manager, we were able to provide them incremental tools to reduce the friction and ultimately time between sales, credit, and close. The team did a great job solutioning with our client and delivering significant value through our latest D&B Finance solutions.

We also continue to see strong expansion within our master data management client base. One of the world's largest technology companies has engaged us to assist in continuing to build out a uniform and structured process for Sales & Marketing programs across their enterprise. The leveraging of our specialized match capabilities, contract management, and support by our unique business-to-person data on the programmatic and social marketing channels, we're able to support them with enhancing their market leading position. They have one of, if not the premier first-party data sets in the world, and by allowing us a trusted third-party provider to add on to those exceptional capabilities, has put them in an even more differentiated position.

And before turning to our International segment, I wanted to finish up with the three-year deal in Sales & Marketing with another Fortune 500 company and one of the largest human resources management software and services providers who's also been a client of ours for 25 years. Through our differentiated data and enhanced match capabilities, we're able to support our clients lead optimization for customer cross-sell through enhancing the foundations of their market research planning and customer segmentation efforts. By testing our data against other providers and focusing on streamlining to a high-quality process, we're able to grow our relationship with this client and create not only significant improvements to their marketing efforts, but reduce cost overall for them by eliminating process inefficient fees, driven by a multi-vendor strategy.

On the international front, we continue to see strong demand across our European and Asian regions. In early Q2, we signed a three-year deal for D&B data blocks for finance with Hapag-Lloyd AG, one of the leading global line of shipping companies to support the credit management automation. Hapag-Lloyd is among the top five largest shipping and container transportation companies in the world, and we are pleased to support their global need to manage financial risk in a more efficient and effective manner.

HDI Global SE, one of the largest insurance companies in Europe, signed a three-year contract with D&B data blocks to organize and manage its master data management, support sales and marketing, and optimize its risk management. This is a great example of how we can help create efficiencies across several use cases by clients leveraging our master data management capabilities.

We also landed new business with a large global energy provider out of Norway to manage their third-party risk management. This is a three-year contract and represents the largest sale to-date of our new RACI or Risk Analytics Compliance Intelligence Solution. RACI is an intelligent KYC/KYB monitoring and assessment solution for compliance risk management. It allows clients to streamline their onboarding processes; quickly identify and verify entities and people the company looks to do business with; defines risk, relevancy, and materiality based on a company-specific risk policies; monitor changes to business partners they can proactively mitigate risk; and regularly screen business partners against sanctions, watchlist, PEP list, and adverse media. We are very excited about how the RACI pipeline is building and the early wins we are seeing with this newly introduced solution.

And finally, in Asia, we expanded our relationship with China Mobile International, with our finance analytics and compliance solutions that allows them global coverage of their oversea client credit risk and also drove new business with Reliance Industries in India, a Fortune 500 company and the largest private sector corporation in India, to support their potential expansion into new locations.

Overall, I'm proud of our team's focused execution against our long-term strategy and the results we are driving. Over the trailing 12 months, 90% of our revenues have grown 6% and with margins close to 40%, putting us in a great position for continued future growth.

With that, I'd now like to turn the call over to Bryan to discuss our financials in more detail and give a quick update on our outlook for the remainder of the year.

Bryan Hipsher

Chief Financial Officer, Dun & Bradstreet Holdings, Inc.

Thank you, Anthony, and good morning, everyone. Turning to slide 1, on a GAAP basis, second quarter revenues were $576 million, an increase of 3.9%, compared to the prior year quarter and an increase of 4.2% before the effect of foreign exchange. Net loss for the second quarter was $16 million or diluted loss per share of $0.04, compared to a net loss of $19 million for the prior-year quarter. The $3 million decrease in net loss for the three months ended June 30, 2024, compared to the prior-year quarter was primarily due to higher operating income, partially offset by a lower tax benefit and the amortization loss related to the interest rate swap amendment completed in the third quarter of 2023.

Turning now to slide 2. I'll now discuss our adjusted results for the second quarter. Second quarter revenues for the total company were $576 million, an increase of 3.9% compared to the prior-year quarter and an increase of 4.2% before the effect of foreign exchange. The increase in revenues was attributable to growth in the underlying business, partially offset by the negative impact of foreign exchange and the impact of the divestiture of a business-to-consumer business in Finland in the fourth quarter of 2023. And therefore, our revenues on an organic constant currency basis were up 4.3%.

Second quarter adjusted EBITDA for the total company was $218 million, an increase of $12 million or 6%. This was primarily due to revenue growth, partially offset by higher costs, driven by cloud infrastructure costs and net personnel expense. Second quarter adjusted EBITDA margin was 38%, an increase of 60 basis points compared to the prior-year quarter. Second quarter adjusted net income was $99 million or adjusted earnings per share of $0.23, compared to $95 million or $0.22 per share in the second quarter of 2023. The increase was primarily attributable to higher adjusted EBITDA and lower interest expense in the current year quarter, partially offset by higher depreciation and amortization and tax expense.

Turning now to slide 3. I'll now discuss the results from our two segments, North America and International. In North America, revenues for the second quarter were $405 million, an increase of 3% from prior year-quarter and 3.4% on an organic constant currency basis. In Finance and Risk revenues were $216 million, an increase of $5 million or 3%. Due to a net increase in revenue across our third-party risk, supply chain management, and finance solutions, partially offset by decreased revenues from our credibility solutions. The Sales & Marketing revenues were $189 million, an increase of $8 million or 4%. Sales & Marketing growth was primarily driven by higher data sales and higher revenues from our master data management solutions, partially offset by decreased revenues from our other digital marketing solutions.

North America second quarter adjusted EBITDA was $178 million, an increase of $5 million or 3% and North America EBITDA margin was 44%, a decrease of 30 basis points from the prior-year quarter. This was primarily due to revenue growth, partially offset by higher costs, driven by cloud infrastructure costs, selling and marketing expenses, as well as personnel costs, supporting our overall solution innovation.

Turning to slide 4. In our International segment, second quarter revenues increased 5% to $172 million or an increase of 6% before the effect of foreign exchange and an increase of 6.4% on an organic constant currency basis. Finance and Risk revenues were $116 million, an increase of 8% or an increase of 9% before the impact of foreign exchange. All markets contributed to the growth, including higher revenue from our API solutions in the United Kingdom. Growth in Europe from third-party risk and compliance, finance analytics, and API solutions and growth in Greater China from finance analytics and API solutions, along with increased revenues from Worldwide Network alliances due to increased cross-border activity. Sales & Marketing revenues were $55 million, a decrease of 0.3% or an increase of 1% before the effect of foreign exchange. On an organic basis, revenues grew 2%, primarily due to higher revenues from the UK, driven by growth in our API solutions.

Second quarter International adjusted EBITDA of $54 million increased $5 million or 9.5%, and adjusted EBITDA margin was 31%, an increase of 120 basis points, compared to the prior-year quarter. The increase in adjusted EBITDA was due to revenue growth from the underlying business, partially offset by higher net personnel costs and foreign exchange loss.

Turning to slide 5. Slide 5 contains the details of our capital structure as of the quarter-end. At the end of June 30, 2024, we had cash and cash equivalents of $263 million and total principal amount of debt of $3,676 million with a weighted average interest rate of 5.8%. Currently, 87% of our debt is either fixed or hedged, and as of June 30, 2024, we had $730 million available on our $850 million revolving credit facility. Our leverage ratio was 3.7 times on a net basis, and the credit facility senior secured net leverage ratio was 3.2 times. We expect to be at around 3.5 times on a net basis by the end of this year as we continue to migrate towards our medium-term range of 3 times to 3.25 times by 2025.

Turning now to our share repurchase program. As Anthony mentioned, during the second quarter, we repurchased 961,360 shares at Dun & Bradstreet common stock for $9.3 million, net of accrued excise tax at an average price of $9.71 per share. We currently have over 9 million shares remaining under our existing buyback authorization.

And now, turning to slide 6. Our outlook for 2024 is as follows: total revenues after the effect of foreign currency are expected to be at the low end of our previously communicated 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 modestly increased 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 at the low end of our previously communicated range of 4.1% to 5.1% for the full year. Adjusted EBITDA is expected to continue to be in the range of $930 million to $950 million, and adjusted EPS is expected to continue 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 around $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; adjusted effective tax rate of approximately 22% to 23%; weighted average diluted shares outstanding of approximately 436 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 as capitalized spend begins to moderate in the second half of this year.

With the exception of some lower transactional revenues in North America, the first two quarters played out largely as expected. And as we head into the second half of the year, our expectations for the cadence of the remaining quarters remains unchanged, with third quarter below the low end of the range and fourth quarter being slightly above the high end of the range. And finally, with the heightened level of investment beginning to abate, we continue to anticipate operating free cash flow conversion as a percentage of adjusted net income, excluding the impact of the AR securitization to improve versus the prior year as previously discussed.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] And the first question will be from Andrew Steinerman from JPMorgan. Please go ahead.

Andrew C. Steinerman
Analyst, JPMorgan Securities LLC

Q

Hi. Anthony, I wanted to hear more about the D&B Credit Insights launch, and I'm looking through the product on the website. But if you could just help us understand why you feel like this will help revenue for the credibility section and how it differs really from the existing products within the credibility suite?

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

A

Sure, Andrew. So, a couple of points. The first is on the product itself. We've updated it in a significant way in terms of consolidating it, making it easier for our clients to navigate. And as part of that, we've also implemented different sales techniques around engagement with the clients. And what we've seen so far is a material improvement in our attrition in that base, so hanging on to clients and keeping them close.

The second that we talk about with the Money Back Guarantee is a really powerful one. It took a little longer because, like I said, with compliance [ph] won the dot all the Is, cross all the Ts (00:29:50) around the Money Back Guarantee. But essentially, what they're saying to clients is if we can't help you improve it, then you don't pay. So, it creates a really simple value proposition compared to, say, the consent order that we have to read with clients at the time. So, I think for those reasons and like I said, we launched that July 17 and in the later part of July, we saw a nice improvement versus July last year on the sales side.

So, I'd say from a product improvement perspective, the Money Back Guarantee perspective, our sales go-to-market changes that we've put in place and also that we're adding some of our sales and marketing capabilities like Hoovers and if these businesses are trying to improve their credit, let's also try and help them improve the business through sales and marketing capability. So, it's the combination of all of that, Andrew, is why we feel good about this.

Andrew C. Steinerman
Analyst, JPMorgan Securities LLC

Q

And is the product priced above or below, let's say, the legacy credibility products?

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

A

Sorry, can you repeat that question?

Andrew C. Steinerman
Analyst, JPMorgan Securities LLC

Q

Just pricing for the D&B Credit Insights. Is it priced higher than the legacy products within credibility or is it a more attractive price point to customers?

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

No. Andrew, I'd say it's a pretty consistent from a pricing perspective. And so, as Anthony said, obviously with the guarantee we're putting is a net benefit from that perspective and then opening the aperture as we have in a lot of areas for alternative data assets, the utilization of things outside of just manual trades. So, we're bringing in financial statements, utility account payments, other broader business credit card usage, et cetera, that gives a more holistic picture of a firm and allows them to continue to drive incremental benefit. But, again, from a cost perspective, it'll be on par with where we were before.

Andrew C. Steinerman
Analyst, JPMorgan Securities LLC
Q

Got it. Thank you.

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

And the only thing I'll add on to that is with the additional data that will be required for the Money Back Guarantee access to a credit card statement, bank accounts, et cetera, what we're seeing in our alliance is a 20% lift in credit when we have the additional data. And so, from our perspective, we got confidence that we can help improve credit for small business, which is great for the industry, for the country. And also in the instances where we can't, we'll also have more data adding on to the lead that we have in terms of data quality.

Andrew C. Steinerman
Analyst, JPMorgan Securities LLC
Q

Got it. Thank you. Appreciate it.

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

Thank you.

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

Thanks, Andrew.

Operator: And the next question will be from Heather Balsky from Bank of America. Please go ahead.

Wahid Amin
Analyst, BofA Securities, Inc.
Q

Hi, good morning. It's Wahid Amin on for Heather. Just wanted to touch on the digital marketing solutions, the issues more external macro related. Can you discuss what you and the team are doing internally so you can offshore these macro challenges as things potentially get worse?

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

Sure, Wahid. So, a couple things. We certainly think and you see it broadly in the sales and marketing industry in terms of the reduction in spend in the space. And as there's more certainty on interest rate cuts coming, we believe that will free up the spend and that will help not just us, but the industry more generally. But also, there's a number of things that are going on. So, recently Google announced that they're not going to deprecate the cookie any longer and that will drive more traditional volume for us and other players, which will be positive. The other new channels that we're starting and what was going to be just a cookieless world around connected TV and retail media and social, we're penetrating those very well. We've got very nice growth rates in those, albeit the small businesses and not contributing, but the growth rate is very significant in those.

So, we feel good about it from that perspective as well. And also going more directly to our clients that where we've got broader relationships with and bringing this additional capability versus more traditionally leveraging agencies and broader industry approach in the space, we've got a great client relationship. There's lots of ways that we can bring additional data and capability to those clients. And probably the last is, we had very strong comps in the space last year, at the beginning of the year. And so, the comps become more favorable at the back half of this year.

Wahid Amin
Analyst, BofA Securities, Inc. Q

Got it. Thank you. And then, on Sales & Marketing, there was quite a bit of a stepdown sequentially internationally. Can you talk about what's going on there differently compared to North America?

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

Yeah, sure. I think there, like I said, our revenues aren't consistently flowing quarter-to-quarter all the time. We've seen that in the business – in a number of parts of our business domestically and internationally. I think the better approach in terms of the normalized for the timing of certain deliveries, for example, or client usages, looking at a broader range versus just a quarter and so, we feel pretty confident about how that business is growing.

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

And Wahid, that one's, obviously, a smaller business, right? And as we went through some of the major migrations on the Finance and Risk from last year, there are some smaller ones that we're working through this year. And so, again, quarter-to-quarter, as Anthony said, you could have a little bit of movement. But if you look at the consistency throughout the year, I think you'll see that ultimately play out.

Wahid Amin
Analyst, BofA Securities, Inc. Q

Thank you.

Operator: And our next question will be from Surinder Thind from Jefferies. Please go ahead.

Surinder Thind
Analyst, Jefferies LLC Q

Thank you. First question I'd like to just follow up on is, I believe on the prepared remarks, I heard about a willingness to make any changes to some of the revenues that are challenged. Can you expand upon that comment? It sounds like perhaps strategic options or maybe I misheard.

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

A

Yeah, Surinder. I'd say everything is on the table for us. We've been working hard in terms of transforming this business. We're really proud of it. We look at 90% of our revenues growing 6%, that's in the sweet spot, and the margins near 40%, the sweet spot of the best players right now in the industry. And so, with the remaining 10%, we'll do whatever we need to do in terms of addressing those. And as you could see from my answers on SMB and digital marketing, we have a number of initiatives underway in terms of turning those around. But we're open to, I'd say, everything's on the table from strategic partnerships, different sort of licensing agreements, et cetera, to other strategic options.

Surinder Thind
Analyst, Jefferies LLC

Q

Understood. And then, how integrated are those into the business or the ability to separate those? How should we think about that or maybe some data dependencies between the various business lines?

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

A

I'd say on the digital marketing side it's not as integrated. And on the SMB side, like I said, the data that we collect is valuable in terms of it's what enriches the strong data quality that we have, that we're known for and our clients benefit. And so, there's ways to solve for, I'd say for both of those on a go-forward basis. But clearly, our data – if we were to pursue strategic options, there would need to be ongoing licensing agreements, et cetera.

Surinder Thind
Analyst, Jefferies LLC

Q

That's helpful. And then, in terms of just investment back in the business, obviously some color around the tech transformation and where we are moving from the products to the cloud. But as we think about other products and technologies that you're exploring, let's say, within AI, how should we think about the rapid changes that are going on there and your ability to kind of invest at the pace that you want? I mean, would accelerated investments help or how do you think about balancing that?

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

A

Yeah. That's a great question. And it's one that we're obviously very focused on. The beauty is we're seeing some of our projects roll off, which are helping us with our efficiency, right? So, number one, that in and of itself is great. But also, just we continue to build confidence internally in terms of hills that we want to take, we take and I'm really proud of the team and all their efforts that way. We've made investments. I shared the AI initiatives that we've got underway. The ChatGPT one, for example, that also has a lot of internal use for it in terms of efficiency that we can say with our own customer service and own internal processes that we had today to create more efficiency.

So, I'd say from an investment perspective we've been very consistent in making the right long-term decisions for our company versus short term, and we'll continue to do that in terms of making sure we are in a position to always be successful in putting our clients in a similar position. So, we feel really confident with the amount of investment that we have today based on where we see the market and the needs. And I'm excited with the capabilities that we're coming up with they're candidly faster and better than I thought they would be by this stage, if you'd asked me a year ago.

Surinder Thind
Analyst, Jefferies LLC

Q

Thank you.

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

A

Thank you.

Operator: [Operator Instructions] The next question will be from Ashish Sabadra from RBC Capital Markets. Please go ahead.

Ashish Sabadra
Analyst, RBC Capital Markets LLC

Q

Thanks for taking my question. It's good to see the third-party risk management continuing to grow at such a robust 20% plus pace. I was wondering – you obviously mentioned a couple of quick wins there and some of the new technology innovation that you're putting in place, which are gaining traction. I was thinking, as you think about, are you seeing any kind of slowdown from a macro challenge perspective, but also anything from a regulatory perspective, which is driving it? How are you thinking about cross-selling into the existing customer base versus winning new clients there as well? So, any incremental color there will be helpful. Thanks.

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

A

Yeah, Ashish. Great questions. Excuse me. I think from a slowdown perspective, your first one, we're seeing what the industry is seeing. You've seen on other calls that you've been on, it's been pretty consistent since Q4 of last year with the industry and the spend has been – I'd say we've – we published a global optimism report where we surveyed clients and see how they're feeling and the majority of the indices that we track, it's positive, right? So, they – so, the future looks brighter. But I'd say currently where the industry is at have been pretty consistent since Q4 of last year.

I'd say from our perspective we don't really see anything coming from a regulatory perspective that could hurt. Typically, when regulatory creeps in, it creates more burden for clients. Therefore, more opportunity for us to help solve the pain for our clients. So, as we talk about regulatory – new regulatory requirements create pain for our clients. And if we could sell painkillers, those are easy to sell, right? Because, obviously, our clients want the pain to go away as quickly as possible.

I'd say on the cross-sell side, we're constantly looking at ways to cross-sell. We've been cross-selling very nicely into our Finance solutions base, which is great. But also, we're looking at cross-selling everything that we have to all of our existing clients. The one example I gave in my prepared remarks about a client who was leveraging us for their onboarding, what they had discovered was when they provided a credit limit to a client at the time of onboarding, there was an increased ROI on those clients. And so, as we find examples like that simple one, for example, we're going to take that to all of our existing clients and cross-sell that use case and find ways to help them grow and cross-sell more capability. So, I'd say as I look to the future, I believe the budgets will grow, businesses feel more optimistic, and I'd say that I feel that the success that we're having will continue or accelerate. So, that's why I said we feel very good about the upcoming years and building on the 90% that we have of this business growing at 6%.

Ashish Sabadra
Analyst, RBC Capital Markets LLC

Q

That's very helpful color. And again, it is very encouraging to see the steps that have been taken to turnaround credibility and the marketing solution, digital marketing. I was just wondering, other than that, are there any other legacy products, which may be a drag on growth and any strategic plan to either divest or turn them around? Thanks.

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

A

I think from a focus perspective, our focus is on the 10% right now, right? We get that solved. We're looking very strong. And so, that's what our focus is. So, I don't see others popping up. What we have done, we've migrated thousands and thousands of clients from legacy solutions to our most modern solution. So – and that's helped us in so many ways from cross-sell capabilities, from a retention perspective, multi-year contracts, expense reductions on our side. So, we've done a lot of that work. But like I said, our real focus is the 10%.

Ashish Sabadra
Analyst, RBC Capital Markets LLC

Q

That's very helpful color. Thanks.

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

A

Thanks, Ashish.

Operator: And ladies and gentlemen, this concludes our question-and-answer session. I would like to turn the conference back over to Anthony Jabbour for any closing remarks.

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

Thank you. 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 for joining us on this call, and I hope you enjoy the rest of your summer.

Operator: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.