01-Nov-2023

Dun & Bradstreet Holdings, Inc. (DNB)

Q3 2023 Earnings Call

CORPORATE PARTICIPANTS

Sean Anthony
Vice President, Corporate FP&A, 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 W. Jeffrey
Analyst, Truist Securities, Inc.

John Mazzoni
Analyst, Wells Fargo Securities LLC

Alexander E.M. Hess
Analyst, JPMorgan Securities LLC

Ronan Kennedy
Analyst, Barclays Capital, Inc.

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

Craig Huber
Analyst, Huber Research Partners LLC

MANAGEMENT DISCUSSION SECTION

Operator: Hello, and welcome to the Dun & Bradstreet Third Quarter 2023 Earnings Conference Call. 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 like now to turn the conference over to Sean Anthony, Vice President, Corporate FP&A. Please go ahead.

Sean Anthony
Vice President, Corporate FP&A, 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 Third 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 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. 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 third quarter 2023 earnings call. On today's call, we'll start with a brief overview of our third quarter results, followed by an update on our operational activities and progress towards our strategic initiatives. After that, I'll pass call over to Bryan for an in-depth review of our financial results and to discuss our expectations for the remainder of 2023. We'll then open up the call up for questions, and then I'll finish up with a few closing comments. With that, let's get started. We delivered a strong third quarter of financial results and operational execution with organic constant currency revenue growth of 4.8%, adjusted EBITDA growth of 5.6%, and 40% EBITDA margins. We continued to show both acceleration and durability in the quarter.

North America and International continued to capitalize on the need for businesses to better leverage data and analytics in driving both financial and operational improvements, which is only being further magnified by the advancements of generative AI solutions. We're at the forefront of the application of GenAI to business, and we are excited about how clients and prospects are coming to us for guidance and support in implementing this groundbreaking technology. With our data as the backbone for some of the largest and most sophisticated companies throughout the world, we are uniquely positioned to help them achieve their goals of increasing revenues, driving down costs and mitigating risk.

As a reminder, we are collaborating with our clients in our D&B.AI Labs, and we'll be launching new products under our AiBE brand. We're also focused internally on ways that this technology can improve our own operational efficiency and act as client zero in the development of future commercial offerings. I don't believe there's been a time in our recent history in which our proprietary data, analytics and platform solutions have had more potential, and I'm very excited about the progress we are making and the pace at which we are operating. With that in mind, let's dig into what we delivered in the third quarter, across both our North American and International segments, and then I'll follow up with the latest on our strategic initiatives.

Beginning with North America, revenues grew 4.5% in the quarter. Our Finance & Risk solutions grew 5%, driven by strong double-digit growth in Risk, consistent growth in Finance Solutions, and this being the first quarter with no year-over-year impact from the GSA. Sales & Marketing also grew 4%, driven by mid single-digit growth in our Master Data Management Solutions. 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 increasingly complex and volatile business environment. Finance Solutions continued its steady growth through delivering incremental value throughout the contract period, as well as providing a great client base to upsell and cross-sell additional capabilities.

We continue to see strong retention rates and are working with our clients to integrate and deliver our solutions even deeper into the most mission-critical applications and processes within our customer's ERP, AR and other finance-related workflows. Our Risk solutions had another excellent quarter as businesses continue to search for ways to automate and optimize the onboarding, monitoring and management of the third-party supplier networks. Whether it's the SEC bringing increased cybersecurity disclosure requirements, the state of California adding incremental ESG and supply chain reporting regulations, or Europe's increased adoption of sustainability requirements, businesses are being forced to understand and report on a more detailed level of who they are partnering and doing business with.

With one of the world's most comprehensive global risk solutions, we're continuing to capitalize on the increasing demand for know your customer, know your supplier, and in general know your third-party solutions and we will continue to invest in accelerating these assets over the coming years. Turning to our Sales & Marketing solutions, we saw another solid quarter of 4% growth driven by our Master Data Management and Sales & Marketing data solution sales. Our Sales & Marketing business is anchored by our MDM solution, and therefore doesn't experience the same dynamics that other sales and marketing providers have out in the market, in both good times and bad, highly curated, organized and rapidly accessible data is critical.

With our ability to deliver economies of scale through the up-sell and cross-sell of our complementary solution sets, we are well positioned to defensively grow our enhanced set of Sales & Marketing solutions through leveraging our unique positioning with our MDM offerings. 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, in the SMB space, we launched the D&B concierge service, which allows for the contribution of other proprietary datasets that provide prospects and existing clients the opportunity to create a more holistic picture of their financial profile, and therefore provide themselves an even better opportunity to access much needed capital to establish or grow their business.

This product was launched ahead of schedule, and is already outselling our legacy concierge product. It is another great example of our ability to be nimble and execute with urgency. We also brought together a bevy of existing solutions in our new Credit Insights product that will allow small businesses to have a unified buying experience of products and services that supports them on each step of their growth journey. We also continued to drive new and modified solutions in our most rapidly growing areas. For example, in Third Party Risk & Compliance we released Compliance Intelligence, a know your third-party monitoring and compliance decision-making solution driven by Dun & Bradstreet's AI-powered data.

In Master Data Management, we continued to expand our new D&B Connect Essentials launch and product that takes the power of MDM, but it simplifies it for mid-market utilization, allowing smaller companies to leverage a simplified user interface with pre-wired algorithms that companies can use right out of the box. As we continue to invest and innovate in Sales & Marketing and in Finance & Risk, we see a strong uptake of our new solutions, which further supports our now 26% Vitality Index in North America. In addition to the GenAI initiatives I mentioned up-front, we also announced at a recent global client conference an expanded partnership with IBM.

Together, we'll be building and launching new products based on the integration of D&B data and IBM watsonx. This new go-to-market will be a part of IBM's consulting engagements to embed these new capabilities directly into the solutions our joint clients use today as part of their daily workflows. As announced at our conference, the first use cases include foundational entity resolution for any commercial use case and a new ask procurement capability for supply chain risk mitigation. We're excited about bringing together the power of watsonx and AiBE to solve business issues that will ultimately unlock significant value for our clients.

Moving on to North American sales. We continue to show resilient growth, which is supportive of our continued acceleration into 2024 and beyond. Overall, our portfolio of solutions is once again proving to not only be mission critical in times of uncertainty, but a strategic path forward so that clients and prospects have the ability to drive a more efficient and effective operation through data and analytic-driven processes improvements and/or automation. We set out on a strategy four years ago to build not only a growing business, but a sustainably growing business. I'm pleased with the durability that we have built in that time, and with 55% of our North American revenues under multi-year contracts, and 53% overall, we continue to progress towards our goal of 60% in the mid-term.

And not only are we increasing our total amount of revenues under multi-year contracts, we're also seeing the tenure increase. For instance, in the third quarter, we saw the number of four-year plus deals increased 16% versus the prior year period. This lengthening of contract is directly proportional to our clients' growing trust and confidence in Dun & Bradstreet as a partner. With over 96% retention rates and a Vitality Index of 26%, we continue to strengthen our base position with existing customers. In addition, with the introduction of innovative new solutions, we're better able to expand with existing clients and convert new prospects as we broaden our addressable market.

On the land and expand front, Coface, a worldwide leader in credit insurance, business information and accounts receivable management extended their nearly 25-year relationship with us through a multiyear deal that migrates them to our modern data block solution and creates an opportunity for them to further increase their volumes, while creating economies of scale throughout their credit insurance underwriting operations. From an SMB perspective, we continue to expand our marketplace with the addition of Enova International's OnDeck. Enova continues to look for new and innovative ways to drive increased small business loan origination. Through a combination of our D&B mobile application and SMB advertising capabilities, we're able to drive a significant increase in leads to OnDeck through the captive audience of millions of businesses that come through the D&B ecosystem each and every year.

And finally, we also had a significant expansion with the Department of Defense. Our client continues to invest in supply chain risk mitigation and foreign investment assessment, enabling further discovery of potential vulnerabilities, identification of industrial base risk and ultimately supporting the administration's objective to fortify and strengthen our nation's security. Whether it's in Sales & Marketing, Finance & Risk, public sector or private, I'm very pleased with the progress we're making across our North American segment, and the team is laser-focused on closing out the year and maintaining our positive momentum as we head into 2024.

Now, turning to our International segment, we saw another quarter of strong organic growth, up 5.8%, as all regions drove positive growth, including high single-digits across UK, Asia and worldwide network markets, while Europe grew greater than 3% and is up 4% year-to-date, a marked improvement from levels when we acquired the business less than three years ago. We continue to focus on the localization of existing solutions and driving new innovations in our own and WWN markets. Most recently, we launched the Compliance Intelligence module in Risk Analytics, expanded our ESG registered seal in additional WWN markets and enhanced the Hoovers platform with Audience Builder and launched in Central Europe.

We continue to see excellent uptake in our new solutions, and our Vitality Index reflected this progress with its rise to 34%. We plan to continue to steadily execute a balance of migrations and the introduction of localized solutions to drive further sustainable growth across our global regions. We are very pleased with the consistent operational execution by our international team. On the sales front, we had another strong quarter. Enterprise accounts remain a key focus of our strategy and sales growth in this channel is up double-digits through the first three quarters. Retention remained healthy in the third quarter at 93%, and we added a few more key names to our growing roster of top tier multinational clients.

Beginning with a significant new business win, we are excited to welcome Munich Re to our D&B client portfolio. We sold a combined solution across both Finance & Risk and Sales & Marketing, in which the value of our end to end solution, connected by the D-U-N-S ecosystem, ended up becoming a very compelling offering. We were also able to support Siemens Energy with an MDM solution that allows them to cleanse and curate data from several of their acquired companies that built up some inconsistencies over time. Another land and expand win in Asia was Hong Kong Export Credit Insurance Corporation. We deepened our relationship with the addition of credit decision data blocks that allowed them to more efficiently manage the financial underwriting of clients they are handling throughout the region.

Again, these are but a handful of examples of strong wins in the quarter, and there were many others that continue to provide additional proof points of the strengthening of our global solutions, data and go-to-market team. Whether it's improving our data quality and coverage, migrating and upgrading our infrastructure and back office systems through cloud migration and system enhancements, adding new clients, or coming to market with leading partners like IBM and Google, we continue on our path of executing against our strategic vision and delivering strong and improving financial results along the way. As we've said before and proven out over time, D&B is a defensible growth asset with significant upside from emerging opportunities such as the GenAI revolution. And we will continue to focus our capital and energy on driving accelerated growth, delighting our clients and delivering significant shareholder value.

With that, I'd now like to turn the call over to Bryan to discuss our financial results for the third 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 third quarter 2023 results and provide an update on our guidance for the remainder of the year. Turning to slide 1, on a GAAP basis, third quarter revenues were $589 million, an increase of $32 million or 6% compared to the prior year, and 5% before the effect of foreign exchange. Net income for the third quarter was $4 million, or a diluted earnings per share of $0.01, compared to net earnings of $8 million for the prior-year quarter. Turning to slide 2, I'll now discuss our adjusted results for the third quarter. Third quarter revenues for the total company were $589 million, an increase of 6% or 4.8% on a constant currency basis, driven by increased growth in the underlying business and the positive impact of foreign exchange.

Third quarter adjusted EBITDA for the total company was $235 million, an increase of 6% compared to prior year quarter, and an adjusted EBITDA margin of 40%. The increase in adjusted EBITDA was driven by organic revenue growth contribution, higher performance-based incentive compensation, along with the negative impact of foreign exchange. Third quarter adjusted net income was $116 million or adjusted diluted earnings per share of $0.27. The increase in adjusted net income was primarily attributable to higher adjusted EBITDA and higher tax benefit, partially offset by higher depreciation and amortization, higher interest expense and higher foreign exchange loss in the current year quarter.

Turning now to slide 3, I'll now discuss the results for our two segments, North America and International. In North America, revenues for the third quarter were $421 million, an increase of 4% or 4.5% on a constant currency basis. Finance & Risk revenues were $235 million, an increase of 5%. This was primarily due to double-digit growth in our third-party and supply chain risk management, and single-digit growth in Finance Solutions, which were partially offset by lower revenues from our legacy Credibility Solutions. Sales & Marketing revenues were $186 million, an increase of 4%. This increase was primarily driven by 5% growth from our Master Data Management solutions and higher Sales & Marketing data sales.

North America, third quarter adjusted EBITDA was $196 million, an increase of 4%, with an adjusted EBITDA margin of 46%, a decrease of 30 basis points from the prior year. The increase in adjusted EBITDA was primarily due to revenue growth partially offset by higher costs from data acquisition and processing costs related to our revenue growth and the negative impact of foreign exchange associated with our centralized European technology team. Turning to slide 4, in our International segment, third quarter revenues were $167 million, an increase of 9% or 5.8% on a constant-currency basis. Finance & Risk revenues for the third quarter of 2023 were $114 million, an increase of 11% and an increase of 7% before the effect of foreign exchange.

There was positive contribution from all markets, Europe and Asia Pacific growth was driven by Finance Analytics and API solutions. WWN alliances was due to higher cross-border data fees and growth for our UK market came from Third Party Risk & Compliance solutions as well as Finance Analytics. Sales & Marketing revenues for the third quarter of 2023 were $53 million, an increase of 6% and an increase of 2% before the effect of foreign exchange, primarily due to higher revenue from UK and Europe driven by higher data sales delivered via our latest API solutions. International third quarter adjusted EBITDA was $56 million, an increase of 8%, with an adjusted EBITDA margin of 33%, a decrease of 60 basis points from the prior year. The increase in adjusted EBITDA was primarily due to organic revenue growth from the underlying business.

Turning to slide 5, I'll now walk through our capital structure. As of September 30, 2023, we had cash and cash equivalents of $230 million and total principal amount of debt of $3,686 million. The $3,686 million in principal is made up of $460 million of unsecured notes of 5%, which mature in 2029, term loans of $2,659 million at SOFR plus CSA plus 275 basis points that matures in 2026, $453 million at SOFR plus 300 basis points that matures in 2029, and borrowings of $115 million under our revolver. The $2.7 billion term loan has a $1 billion floating to fixed swap, effective through March 2025 at 3.214%, which was extended from the previous maturity date of March 2024, and a $1.5 billion floating to fixed swap, which expires February 2026 at 3.695%.

The $453 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, 87% of our debt is either fixed or hedged, and it will remain that way through 2024. We had $735 million available on our $850 million revolving credit facility as of September 30, 2023. Overall, our weighted average interest rate was 5.87% as of September 30, 2023. Our leverage ratio was 3.9 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 outlook for 2023. We 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 now expected to be in the range of 3.75% to 4.25% for the full year. Adjusted EBITDA is now expected to be in the range of $880 million to $910 million. The adjusted EBITDA range takes into account 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.

And adjusted EPS is now expected to be in the range of $0.95 to $1. 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 $115 million to $120 million, excluding incremental depreciation and amortization expense resulting from purchase accounting; an adjusted effective tax rate of approximately 19% to 20%; 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 $30 million of property, plant and equipment and purchased software.

Overall, we delivered better than expected results and especially organic revenue growth in Q3 and have tightened and or raised our ranges for the year. Implied in that is a Q4 expected to be at or around the midpoint of our updated guidance for organic revenue growth with excellent EBITDA and better than communicated EPS delivery, which takes into account the two factors we've discussed since the beginning of the year, our ongoing transformation and what we always expected to be a pretty challenging macro environment overall. In the end, our defensible and resilient solutions are allowing us to do what very few are doing, which is delivering in Q3 and raising up the midpoint of our full year revenue guidance.

As Anthony said earlier, we're well positioned to capture the significant growth opportunities in front of us, and we are very pleased with the performance year-to-date. With improving profitability and cash flows, we will continue to prioritize deleveraging the balance sheet further below the 3.9 times we are today, 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: [Operator Instructions] Our first question comes from Andrew Jeffrey of Truist Securities. Please go ahead.

Andrew W. Jeffrey
Analyst, Truist Securities, Inc.

Q

Hi. Good morning. I appreciate you taking the question. Nice to see the improved results. Anthony, lots of good stuff going in the top of the funnel, sounds like new wins and longer contracts and even some new government business. Can you talk a little bit about maybe what's coming out of the bottom end? Because it sounds to me like, given the Vitality Index and accelerated new sales and so forth, we should be looking at pretty nice organic revenue growth acceleration next year, sort of macro notwithstanding. So just trying to understand maybe some of the puts and takes.

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

A

Yeah. Sure, Andrew. Thank you for the question. We're certainly excited about the momentum that we are building. And obviously for next year, we'll get into that in February when we guide for the year, and there are certainly other factors. There's macro factors out there. But really what we're focused on and what I'm trying to ensure my colleagues here are focused on are the things that we control, and we see it across all aspects of the business. We're moving very quickly, I'd say with our clients, the relationships have never been stronger, never been longer. The types of innovations that we're coming out with, I'm constantly impressed with the speed at which we're running at. And so I do feel really good about the things that we control. And like I've always said, there's a macro effect out there that's affecting many companies. And the force of our transformation, the force of the great work by my colleagues is really helping offset that. So that's what's kind of coming out of the bottom I'd say, Andrew, is just, a macro force offsetting against a transformational force here.

Andrew W. Jeffrey
Analyst, Truist Securities, Inc.

Q

Okay. That's really helpful. Look forward to hearing more about 2024 in February. Thanks.

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

A

Thank you, Andrew.

Operator: Our next question comes from John Mazzoni of Wells Fargo. Please go ahead.

John Mazzoni
Analyst, Wells Fargo Securities LLC
Q

Hi. Thanks for taking my question. Maybe just a follow up on that one. Just given the just client demand for longer contracts, I believe more of these kind of four-year plus contracts, could you just talk about really kind of the demand for maybe further sent out, as well as just continued progress to that 60% target on multiyear, and really just, could you speak to kind of the desire for kind of a single source of truth or just the kind of credibility of the DMV data in more uncertain times? Thanks.

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

Yeah. Thank you, John. Yeah. Certainly, we're excited with, number one, that we chose this strategy four years ago. I mean, it takes work, obviously, extending contracts, and obviously building the trust and proving that you're a partner for a long-term contract. And what I take from a client's perspective is, they are very pleased, and the date is mattering more and more. So if you think of Master Data Management, which we're incredibly strong and because our D-U-N-S Number, the linkages, the data coverage that we have, the quality of the data, our Master Data Management skills, all of them, they've never been more important than now, at the beginning of generative AI solutions that are being created.

And so I think that, in addition to the trust – so we focused, before President Biden talked about responsible AI or anyone else, we were first in terms of driving a responsible AI approach. Our clients trust us. We had thousands at our client conference, and it covered a lot around generative AI. And they're looking to us also in terms of how to deploy it. So I think when they look forward and they see all this exciting technology that can really help enable their businesses, they look at us as we've got really high quality data capabilities around generative AI, and we're thoughtful and we're trusted partner. So I think, all those come together, and they're helping us with these longer term contracts, and again, these really strong client relationships.

John Mazzoni
Analyst, Wells Fargo Securities LLC
Q

That's great color. Thank you. Maybe just a quick follow up. Looking at kind of the 4Q jumping off point, it's kind of assuming the fourth handle on the actual OCC growth. How should we think about kind of 2024 as we break it down into kind of pricing versus penetration and new logos, just kind of high level thoughts will be appreciated, if possible. Thanks.

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

Yeah. Sure. And as Anthony said, we're looking to obviously finish out the year strong and build the momentum into 2024, which we'll get on and go through in detail in February. One of the key components and why we set out on this strategy of pushing towards multi-year contract, again, John, I think you remember, we were less than 20% of our revenues were under multi-year contract when we started. Now, it's up over 53%. Embedded in that, too, is natural price escalators. And so when you look at this year being closer to roughly 2% of price contributing from that perspective, stepping up north of that as we head into 2024, that kind of base book of business, those base price increases are really one of the things that give us continued confidence and really allow us to set on that path of continued acceleration of organic growth that we've been on.

John Mazzoni
Analyst, Wells Fargo Securities LLC
Q

Great color. Thanks again.

Operator: The next question comes from Andrew Steinerman of JPMorgan. Please go ahead.

Alexander E.M. Hess
Analyst, JPMorgan Securities LLC

Q

Hi. This is Alex Hess on for Andrew Steinerman. Want to turn to the balance sheet real quick, and maybe what your adjusted interest expense implies. Can you remind us, is that an adjusted net interest expense guidance of $230 million or gross, and should we take the interest rate that's implied for 4Q as sort of what you'll be going forward now that you've refinanced the rate swap? Thank you so much.

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

A

Yeah. Sure, Alex. So it is adjusted on a net basis. And so from that perspective, I think, that is a pretty good run rate. We did the blend and expand on the $1 billion hedge in the quarter, which pushed that down from what was originally March 2024 date to a March 2025. And so when you think about heading through next year, what kind of rates where they're projected to be, that's going to leave us in a pretty consistent position from that perspective.

Alexander E.M. Hess
Analyst, JPMorgan Securities LLC

Q

Thank you.

Operator: The next question comes from Manav Patnaik of Barclays.

Ronan Kennedy
Analyst, Barclays Capital, Inc.

Q

Hi. Good morning. This is Ronan Kennedy on for Manav. Thank you for taking my questions. One of your Sales & Marketing competitors talked about a still challenged environment with sales in the new cycle zone until 1Q, 2024 is likely to remain tough. Could you please expand upon what you're seeing in S&M in addition to the prepared remarks, but also overall? And how much of your renewals occur in 4Q, 1Q, and how have your new sales in these quarters do as well, please?

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

A

Sure. What I'd say overall is, from a Sales & Marketing perspective, a large portion of that is our Master Data Management, which is less impacted by macro conditions. And so I'm not sure, which of the competitors. It was probably on the sales acceleration side were softer market, and we've seen some of that as well on our sales acceleration business where, again, larger enterprise clients shrinking their sales force had less seats. But again, that business is less than $100 million in annual revenues. So it's a smaller part of our Sales & Marketing business compared to our Master Data Management. And so I'm not sure if that answers your question, Ronan.

Ronan Kennedy
Analyst, Barclays Capital, Inc.

Q

Yes. Okay. Thank you. And then as a follow up, please, a lot of commentary, obviously, on GenAI and the potential there in addition to the recently hosted GenAI Day. Could you help us quantify or give some context when and how we should see some benefits of the strategy in the numbers from a revenue and a cost standpoint? And then any further commentary on when we should expect to see benefits from the IBM partnership?

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

A

Sure. I think I'd probably cover them off at the same, GenAI in general and IBM. And I say, it's always is the case. The hype always comes before the revenue. And we're all certainly dealing with the hype right now. It's everywhere that you turn and it's very much on everyone's mind. That being said, we do believe that this is more than hype, and that it is going to materialize. And we've been determined to be first and moving very quickly, whether it's with reaching out to our clients first and having web access with live demos, showing them examples of it, leading them, teaching them, obviously working with many of the industry partners in this space. It's one that we have a high degree of confidence in, that it's going to be material to our revenues and earnings as well as our clients' abilities. And so, I'd say, if you look at what we're doing with some of the examples, they're real.

Like I said, there's a massive amount of opportunity, but it's difficult at this stage, I say, to quantify what the contributions will be. Other than, I'd say, we have a team of highly expert and skilled executives who've been in the industry for a while, and we all share a high degree of confidence that it will be material. We work very closely with our clients. They're, like I said, leaning in with us, looking to us. And we look at the advantage that we have with really the proprietary nature of our data. And think of it, we all talk about generative AI. It tends to be around ChatGPT and writing an essay for a student. There's no money in that. It's money when it gets to businesses, and we have to identify those businesses. That's just, space, it's our absolute sweet spot. And I think the industry really recognizes us being very strong there. So I'm sorry, I can't give you specifics at this stage, other than, specifics and the confidence level that we all have here, that it's going to be material.

Ronan Kennedy
Analyst, Barclays Capital, Inc.

Q

Got it. Helpful nonetheless. Thank you.

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

A

Thank you.

Operator: The 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 International Sales & Marketing business, organic revenue growth is currently in the low single-digits. It's a little bit slower than some of the other segments and geographies. Can you talk a little bit about what you're seeing there and if the lower growth is structural in nature or whether you see it as really cyclically driven?

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

A

Yeah. Hey, George. Thanks for the question. I think, as you've seen overall, our Sales & Marketing business has continued to perform very well. In International, in particular, we've gone through a kind of a series of some pretty big product migrations from that side. And so you saw us first focus on the Finance & Risk component, which is the much bigger from a magnitude perspective. As we're working through the Sales & Marketing, for instance, in the third quarter, there are some legacy solutions. For instance, in the Scandinavian regions that we're a little bit more, I would say, challenged from that perspective. But that being said, as we're working through the migrations, we're working through the upgrade, we're seeing nice uptake, for instance, in Hoovers, we're starting to roll out some MDM solutions in those regions. We actually expect the Sales & Marketing internationally to pick up in the fourth quarter and certainly into 2024. So it's a little bit of that continued evolution there, but certainly see some good momentum going forward.

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

Q

Got it. That's helpful. And then, you mentioned seeing higher data costs in the quarter and having that impact margin performance. Can you talk a little bit about some of the trends with data costs and how current pricing within D&B is helping to offset that?

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

A

Sure. And George, if we step back and kind of look at the quarter, the first thing I would say is, when you axe out the impact of foreign exchange, we actually increased about 40 bps on a quarter-over-quarter basis from an EBITDA margin perspective. The other side we had really playing in there was, because of our incentive-based, performance-based compensation, we had a little bit higher, it's about, $3 million higher in the quarter this year versus last, which I think, Anthony and I would agree, is a good thing from that perspective. Really, those data costs are just a function of some of the revenue growth on the COGS side. And so nothing out of the ordinary there. Like I said, we frankly expanded margins when you hold currency constant. And then it was a little bit of performance-based incentive comp that was included in the quarter also.

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

Q

Got it. Very helpful. Thank you.

Operator: [Operator Instructions] Our next question comes from Craig Huber of Huber Research Partners. Please go ahead.

Craig Huber
Analyst, Huber Research Partners LLC

Q

Yes. Good morning. Thanks for taking my questions. You guys have obviously done a herculean job the last four years with all the transformation stuff you guys have put in place. My question to you is, in your two segments, North America and International, can you sort of give me a sense of how much revenue in each segment is left to fix in your mind? Just sort of ballpark in each segment. That's my first question.

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

A

Thanks for the question, Craig. What I'd say, I don't know if I'd categorize it that way, I'd mentioned on previous call, when we excluded a couple of businesses, public sector, and our credibility business, that the overall growth rate of our company was 5.8%. And I think, right now, if we looked at our results today, and public sector obviously had improved and turned, and we're aggressively working on credibility like we shared with the new launches of our new capabilities there, but looking at that headwind, we'd be around the same 5.8% overall as a company. So it's really, I'd say, our focus overall as a company is our credibility business. So if I was to, maybe to quantify it, I'd say, it's kind of in that range. Bryan, would you add anything?

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

Yeah. No, I think that's right, Craig. As we've gotten through a lot of the transformation efforts, et cetera, these last four years, it's really the legacy credibility solutions that were a bit of a drag in the quarter. And as Anthony said, we're doing things differently. We're bringing new solutions to bear there. But that's certainly something that we're looking to work through the coming quarters and as we head into 2024. And then on the International side, again, Neeraj and [ph] Ginny (44:53) have done a herculean effort there, with what we did with the [indiscernible] (44:57) markets, but also the integration of Bisnode from that respect. So there's still, I would say, some revenues in that portfolio that are legacy, and we'll look to upgrade and evolve. But again, that's pretty common within a portfolio. You're constantly growing, innovating, [indiscernible] (45:17) down, and so we're going through that cycle. But really probably the biggest component that Anthony mentioned is [indiscernible] (45:25) that small business credibility in North America on track.

Craig Huber
Analyst, Huber Research Partners LLC
Q

Then a bigger picture question, when you guys think about the macro environment here in the US, do you feel like it's getting better, worse or about the same? I realized something in the Middle East has happened recent weeks, so might come up any answer, but how do you sort of feel the macro is doing now, better, worse or about the same?

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

Well, it's interesting, Craig. We survey our clients in a very official way. And in September, the business optimism was higher. And so what's interesting as we look at October, tends to be not a great month for our stocks. And how a company's stock is performing affects their optimism in some ways. But when you look at the underlying data – and so from our perspective at D&B, we have phenomenal insight into businesses because it's the core of what we do. And overall, like I said, there is a bump up in optimism as early as September. And I know it doesn't feel that way right now. So again, as we look at the macro environment, again, I keep pointing back to our team. We don't spend a lot of time on that candidly. We really try and spend all our time on, what can we do, what do we control. We control the speed at which we're improving our company, helping our clients. And so I just want to add that element to it as well, which is, the macro will be the macro. Our job is to grow the company, grow our earnings.

Craig Huber
Analyst, Huber Research Partners LLC
Q

If I could ask one more, please. Your small and medium business clients, what percent roughly of your overall revenues do they represent? What's the growth rate there, just ballpark?

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

Yeah. So Craig, I think we [indiscernible] (47:21) in some of the Investor Day decks, but if you look at it on the North America side, it's somewhere roughly around, call it, $130-ish million of revenue. And that's primarily on credibility side. We have a mix, when you get into the International component. And one of the key, I would say, strategic components for the team over there is to continue to expand with the enterprise clients. So if you look at a business like Munich Re, look at obviously, Siemens, et cetera, we've done a really nice job of continuing to expand our base of customers, not only from a size perspective, but from a diversity perspective on industry verticals. And so part of the reason I think you see the durability of the business is, we're not overweighted to sectors, we're not overweighted to sizes of client. And certainly, I think that comes through in defensible growth that we've continued to show.

Craig Huber
Analyst, Huber Research Partners LLC

Q

Great. Thank you.

Operator: This concludes our question-and-answer session. I would like to turn the conference back over to Mr. Anthony Jabbour for any closing remarks.

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

Thank you. As always, I 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. I hope you have a wonderful rest of your day.

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