Dun & Bradstreet (DNB) Earnings Report: Q1 2015 Conference Call Transcript

The following Dun & Bradstreet conference call took place on May 5, 2015, 08:00 AM ET. This is a transcript of that earnings call:

Company Participants

- Kathy Guinnessey; D&B; Treasurer, IR Officer
- Bob Carrigan; D&B; President, CEO
- Rich Veldran; D&B; CFO
- Josh Peirez; D&B; COO

Other Participants

- Peter Appert; Piper Jaffray; Analyst
- Shlomo Rosenbaum; Stifel Nicolaus; Analyst
- Andrew Steinerman; JPMorgan; Analyst
- Jeff Meuler; Robert W. Baird & Company; Analyst
- Manav Patnaik; Barclays Capital; Analyst
- Andre Benjamin; Goldman Sachs; Analyst
- Bill Warmington; Wells Fargo Securities; Analyst
- James Rutherford; Stephens; Analyst

MANAGEMENT DISCUSSION SECTION

Operator:

Good morning and welcome to Dun & Bradstreet's 2015 first-quarter teleconference. This conference is being recorded at the request of Dun & Bradstreet . If you have any objections, you may disconnect at this time.

(Operator Instructions)

I would now like to turn over the call to Ms. Kathy Guinnessey, Treasurer and Investor Relations Officer. Ms. Guinnessey, you may begin.

Kathy Guinnessey (Treasurer, IR Officer):

Thank you. Good morning, everyone. Thanks for joining us today. With me on the call this morning are Bob Carrigan, our President and Chief Executive Officer; Rich Veldran, our Chief Financial Officer; and Josh Peirez, our Chief Operating Officer.

Following my brief remarks, Bob will talk about our first-quarter results and the acquisition we announced last week. Rich will then take you through the financial performance in the quarter and our outlook for the rest of the year. After that we will open the call for your questions.

As you can see from our press release schedule we've made a few changes to our reporting. We've modified our segments and enhanced our revenue categories to more closely tie to our strategy and how we've been talking about the business for the past 15 months or so. Let me take you through the changes.

First, we're now reporting our segments as Americas, which is the US, Canada and Latin America, and non-Americas, which is the rest of the world. This is not a big change from prior reporting, we've just moved Latin America from the prior Europe and other segments into the Americas and combined Europe and Asia Pacific into one segment. The new Americas segment was approximately 75% of 2014 revenue and non-Americas was the remaining 25%.

Second, below the segment level we continue to report on revenue by the primary use cases of our data and analytics, risk management solutions and sales and marketing solutions, but we've changed the categories below these use cases. Under risk management we're now reporting revenue for trade credit solutions which includes DNBi and all other products that help customers assess payment risks, which has been the biggest part of our risk business historically.

We're also reporting revenue for other enterprise risk management, which includes other use cases including compliance and supply. We believe there's a big untapped market opportunity for other enterprise risk management and you will now be able to track our progress in this space. We will also continue to provide a supplemental schedule with DNBi results.

Under sales and marketing we're now reporting revenues for traditional prospecting solutions, which is Hoover's and our educational marketing business MDR, and advanced marketing solutions which includes our more sophisticated marketing offering like optimizers, NetProspex and our alliances including CRM.

Finally, we'll also provide a supplemental schedule showing you revenue from our direct sales channels and revenue from alliances and other partners, as alliances are becoming a growing part of our results and are key to our strategy. To help you with modeling, the Investor Relations section of our web site has our results in the new format by quarter for 2012 through 2014 which you can download.

To help our analysts and investors understand how we view the business our remarks this morning will include forward-looking statements. Our Form 10-K and 10-Q filings, as well as the earnings release we issued yesterday, highlight a number of important risk factors that could cause our actual results to differ from those forward-looking statements. These documents are available on the Investor Relations section of our web site and we encourage you to review the material. We undertake no obligation to update any forward-looking statements.

During our call today we will be discussing a number of non-GAAP financial measures which we call as adjusted results, as that's how we're managing the business. For example, when we discuss revenue growth, we'll be referring to the non-GAAP measure revenue growth as adjusted, which is revenue adjusted to eliminate the effect on revenue through the purchase accounting fair value adjustments to deferred revenue and before the effect of foreign exchange. When we discuss operating income, operating margin, and EPS, these will all be on a non-GAAP basis, which we call as adjusted.

When we discuss free cash flow, this will be on a non-GAAP basis, excluding the impact of legacy tax matters, potential regulatory fines associated with the ongoing China investigation and potential payments for legal and other matters. You can find a reconciliation between these and other non-GAAP financial measures and the most directly comparable GAAP measures in the schedules to our earnings release. They can also be found in the supplemental reconciliation schedule that we posted on the Investor Relations section of our web site.

We do not provide guidance on a GAAP basis because we are unable to predict with reasonable certainty the future movement of foreign exchange rates or the future impact of non-core gains and charges, acquisition and divestiture related fees, and purchase accounting for fair value adjustments to deferred revenue. These items are uncertain and will depend on several factors including industry conditions that could be material to DNB's results computed in accordance with GAAP. Later today, you will also find a transcript of our prepared remarks on our Investor Relations site.

With that, I'll now turn the call over to Bob Carrigan. Bob?

Bob Carrigan (President, CEO):

Thank you, Kathy, and good morning. I'm glad you're able to join us this morning as we have lots going on in the business I'm going to talk about. I'm also pleased to announce we are going to hold an Investor Day event on June 15 in New York City, so we can share more details about where we are headed as we execute on our strategy. So save the date, and more details will be coming shortly.

In my comments I'm first going to talk about our results for the quarter and then spend most of my remarks discussing the acquisition we announced last week. Rich will go into more details of the quarter as well as the financial impact of the acquisition in his remarks.

Last night we reported that operating income was down 11% and EPS was down 14%, both as expected. If you remember, when we laid out our expectations for 2015, we said that results in the first half of the year would also be lower than the second half, due to the timing of investments and also due to the timing of revenue growth, which is more back-end weighted.

Our revenue grew 1% in the quarter which was about 1% lower than we expected. We've talked in the past about how the timing of large contracts can skew our quarterly results.

This year, we had a multi-million dollar government contract signed during the first quarter for a six-month term compared with a 12-month term last year. Most of this revenue is recognized at the beginning of the contract term so the shift hurt our first-quarter revenue by about 1 point. We expect to sign the other half of that contract in the third quarter.

Other than this timing issue I'm pleased with where we are against our plans and I'm feeling really good about how things are progressing. Everything I'm seeing makes me feel confident that we are on track to deliver our guidance for the year.

And I'm happy to say we're continuing to make good progress on our key strategic initiatives. During the first quarter, we introduced a new modernized expression of our brand, including a new logo, which you can see on our web site, and our new brand purpose which is -- Dun & Bradstreet grows the most valuable relationships in business by uncovering truth and meaning from data.

This new brand purpose gets to the idea that Dun & Bradstreet's proprietary data enables customers to grow in new ways in a world where data is being used in their critical decision-making every day. Our data helps our customers build their most valuable relationships, whether it's with their customers, prospects, suppliers, or partners. The feedback from our customers to the modernized brand has been fantastic. They really love it.

We're also building out our global accounts team, having now staffed up about three-quarters of the team. We've been able to attract some great talent and we are already establishing new sea-level relationships with some of the largest multinational companies in the world. And we're having constructive discussions about growing our relationships with them, which is critical to our global strategy.

Regarding sales, absent the timing issues we had in the quarter with the large government contract, we are seeing growth from the customer channel we expected. Large strategic customers and verticals are growing and we are building pipeline in our global accounts team.

And alliances also continue to grow. However, we still see a drag in our small business channel. As we said last quarter, small business was the only major channel that did not grow last year, and its decline accelerated a bit in the first quarter of this year. So perhaps now is a good time to talk about the acquisition we announced last week and how we expect it to accelerate a turnaround in our small- to mid-size customer channel.

Last week, we announced an agreement to acquire Dun & Bradstreet Credibility Corporation for $320 million. We are extremely pleased with this transaction which we believe will really help us accelerate our strategy.

Sales in our small business channel, which represent approximately 20% of sales in the Americas segment, declined 4% in 2014 and over 5% in the first quarter of this year. The small business channel has historically been tough for us.

It has seen the most new competitors enter the market in recent years. We've been more successful in our large enterprise and alliances channels with products and an approach tailored for larger customers.

Dun & Bradstreet Credibility Corp., or to shorten it, Credibility, has been very successful in the small to mid or SMB space because they go to market with products that specifically address the needs of SMB customers, needs that are significantly different than those of our larger customers.

For example, large customers are managing a portfolio of risk with thousands of customers. Many small businesses live in a world where one payment default could put them out of business.

With Credibility, we can see what it takes to succeed in this space. Their approach is the same outside-in approach that we took with our larger strategic accounts and verticals, tailoring products and their sales approach to meet the SMB customer needs.

Now, we could have done this ourselves, but we believe that would be a multi-year process and it would require significant investments. And, importantly we believe there's a significant opportunity to help small to mid businesses now. There are almost 28 million small- and mid-sized businesses in the US that are finally beginning to recover from the so-called great recession, and they are gaining access to capital and beginning to grow again and we want to grow with them.

So, we were faced with the classic build or buy decision and we chose to buy. We're making a strategic investment to turn small business around quickly, which helps accelerate our overall strategy for Dun & Bradstreet . And not only does Credibility have the capabilities needed to win with SMB customers, they also share our brand and use our world-class data.

When I said we chose to buy, in fact we are buying back a business we once owned because Credibility is what became of our self-awareness solution, or credit-on-self business, that we sold in 2010. Credit-on-self solutions were designed to help customers understand what their own credit profile looks like, compared with credit on others, which is the core business proposition of Dun & Bradstreet's trade credit solutions.

We sold the credit-on-self business to a private equity firm and became the data supplier to the new company. We are paid a percentage of revenue for the data as well as a royalty for use of the Dun & Bradstreet name. To date we have received over $130 million in connection with that arrangement.

But the business we are buying in 2015 is very different than the business we sold in 2010. The new owners brought in a new management team with an impressive track record in the small business space and Credibility flourished. The business was declining at a double-digit rate in 2010 and the new team turned the business around in the very first year and it's sustained strong growth ever since.

Credibility's management team, led by CEO Jeff Stibel, has done an outstanding job in transforming what was Dun & Bradstreet's legacy credit-on-self business into a double-digit growth business in the SMB arena. They've also invested heavily in the business since buying it.

These investments were in new platforms and telecenter technologies as well as in sales training and product development, all acutely focused on the needs of the SMB market. We're very excited that Jeff and his team are now eager to bring that expertise to a bigger stage.

So, what's so different about Credibility and why do we want them as part of Dun & Bradstreet ? In addition to a very strong and culturally compatible team, they understand that the SMB customer needs three things.

First, products designed to suit their unique needs. Second, an educational nurturing sales approach that builds a lasting relationship with the customer that grows as they grow. And, third, marketing directed specifically to SMB customers.

They've built technology infrastructure and product development capabilities in the cloud to scale and develop new products to meet the needs of small businesses. In fact, we think we can leverage their platform to accelerate our cloud strategy for small- and mid-sized businesses. In addition, they built an integrated sales and service platform that allows the sales team to help small businesses solve multiple needs and upsell them to new solutions over time as their business grows.

They've also developed new products aimed at the unique needs of SMB customers. For example, they've introduced an online directory with web pages that have details of the US businesses from the Dun & Bradstreet database.

Customers can confirm the information on the web page and pay to have it appear in Credibility's directory. This allows potential new customers to find those companies as they do web searches on services like Yelp, Yahoo and Google thanks to Credibility's directory.

We're excited about leveraging Credibility's platform and products because we will now have more to offer our existing SMB customers. And the opportunity goes both ways. As part of Dun & Bradstreet they will now be able to offer credit on other solutions like DNBi, as well as sales and marketing tools like Hoover's that will help small businesses find new prospects which is a key need of growing businesses.

One of the strong points that Credibility has demonstrated over the last five years is its ability to attract new customers, directly and through partnerships. And they have doubled the size of their business since they took it over from us.

Dun & Bradstreet has world class retention and very loyal customers, but we've struggled to bring in enough new SMB customers so we're naturally excited to see Credibility's successful formula apply to our existing small business sales channel. With this acquisition, we expect to solve two key challenges in our current SMB business -- having a sales and product offering that's 100% focused on the needs of small- and mid-sized customers and bringing new customers into Dun & Bradstreet .

So what will all of this look like? We plan to merge our current small business channel into Credibility's business and create a new division called Dun & Bradstreet Emerging Businesses. To give you some perspective, the new division will represent about 25% of revenue in the Americas segment.

The new division will be run by Jeff and his management team from Credibility who have a proven outstanding track record of growing relationships with SMB customers. This is the same team that put web.com on the map and turned it into an incredibly valuable company.

Dun & Bradstreet emerging Businesses is a new name, but most important, it is a new integrated approach to the SMB market. We're forming a new division to specifically address the needs of small- and mid-sized businesses with sales, marketing and products all focused on that customer segment. As I said, the new division will go beyond credit-on-self products and offer a full suite of products from credit-on-self to credit-on-others to marketing solutions to help them prosper and grow the most valuable relationship.

We are also going to move the Hoover's product under Jeff and his team. Hoover's is predominantly used by small businesses and we believe they can take what's already a good product with strong brand recognition and tailor it to better suit the needs of smaller growing businesses. All-in all, we believe that having Credibility's proven sales engine able to offer our credit and sales and marketing solutions will be a winning combination.

In terms of operations and locations, Jeff and his team will continue to be based in Malibu, California with operations in Arizona, North Carolina, and Pennsylvania. So, we don't expect relocation or real estate-related expenses. We are putting product development, marketing and sales in one integrated division to ensure that we are 100% focused on meeting the needs of SMBs.

With the new Dun & Bradstreet we have clear strategies against alliances, large strategic enterprises, and now, small- and mid-sized companies, all under the same brand, empowered by our world-class data and analytics. The new Emerging Businesses division will report to our Chief Operating Officer, Josh Peirez to insure that we have everything aligned with our broader strategy for data, product development and technology.

In closing, I'd like to leave you with three key takeaways on this acquisition. One, it's a great asset. It has the best technology, sales force and management, all with the experience and focus required to be successful in the SMB space. We're buying a finely-tuned SMB engine.

Two, its growth rate is exceptionally strong. They have shown how to grow rapidly and profitably in the competitive small business channel by understanding and meeting the unique needs of small- to mid-sized businesses.

Three, this acquisition will help accelerate our strategy for Dun & Bradstreet overall in delivering suggest unable growth under one brand umbrella. We believe this acquisition accelerates our growth strategy for about one-quarter of our Americas segment revenue. And given its profitable growth profile, we expect to begin to reap the benefits of the acquisition right away.

I hope you share our enthusiasm for the acquisition and I welcome the 650 people of Credibility to Dun & Bradstreet's Emerging Businesses. I look forward to telling you more about this and our broader strategy at the Dun & Bradstreet Investor Day on June 15.

I will now turn the call over to Rich who will discuss our first-quarter results in further detail. Rich?

Rich Veldran (CFO):

Thank you, Bob, and good morning, everyone. I'm going to take you through three things today. First, I'll discuss our results for the quarter. Second, I will talk about the new acquisition and what it adds to our financial results. And, third, I'll update you on our guidance for the rest of the year.

Total Company revenue for the quarter was $376.8 million, up 1%. The Americas segment represented about 75% of our revenue at $281.5 million in the quarter and was roughly flat to last year.

The timing shift of the large government deal that Bob discussed hurt the Americas by about 1 point in the quarter and shows up in both risk product categories. This timing shift was responsible for half of the 3% decline in risk overall and the rest was primarily due to DNBi.

DNBi was down 1% during the quarter, a 2.5 point improvement over the 4% rate of decline that we saw in 2014. Pricing continued to be in the low single digits but overall sales and retention picked up a bit.

We also had one large customer convert from another RMS product to DNBi in order to take advantage of the advanced functionality that DNBi offers, adding almost 1 point to DNBi's growth in the quarter. We're encouraged with the improvement in DNBi and expect its performance to be better than last year, although still down for the year.

Other enterprise risk management was down 1%. As we've noted in the past, the revenue and other enterprise risk includes usage-based products and some project spending and could be lumpy from quarter to quarter. Compliance and supply showed good growth in the quarter but that was offset by timing including the government contract that I discussed a moment ago.

Sales and marketing revenue increased 5% in the quarter. Traditional prospecting represented about one- quarter of S&MS revenue and was down 5% due to declines in Hoover's.

Advanced marketing solution, the remaining three-quarters of SMS, was up a strong 9%. A little more than half of this growth was from NetProspex, which we acquired in early January. The rest of the increase was due to continued strong growth in our DAS CRM alliances.

We also saw nice growth in our other marketing products that are aimed at helping our customers identify the best new prospects to help their businesses grow. However, that growth was offset by declines in other third-party alliances.

If you recall, in addition to our newer CRM alliances we have relationships with other third-party providers, and one of our alliance partners lost a customer which in turn lowered our revenue from that partner by about $2 million in the quarter. We knew about this going into the year and its factored into our 2015 guidance but it did cause a drag in advanced marketing solutions in the quarter.

Deferred revenue in the Americas was down about 1% in the quarter before the effect of foreign exchange. This does not reflect committed sales through alliances that would have added about 2 points to the total balance. Overall, we're pleased with how we're progressing against our plans for the year in the Americas segment.

We expect to recover the lost revenue from the government timing shift later in the year. And we're getting growth from the key strategic products that we expect to drive growth as we progress on our strategy, including compliance, supply, and our DAS solutions including our CRM alliances and our new professional contact solution that came with the NetProspex acquisition. These strategic products in total contributed over 3 points of growth to the Americas in the quarter.

In the non-Americas segment we had revenue of $95.3 million which represented 25% of our revenue in the quarter. Non-Americas revenue increased 3% which was consistent with our expectation and also with our recent performance.

Turning to profitability, operating income was down 11% in the quarter, which was in line with our expectations. As expected, foreign exchange hurt operating income by about 2 points in the quarter.

EPS was down 14%, again in line with expectations. EPS declined more than operating income because our tax rate was very low last year. We had a large tax benefit a year ago due to the release reserves related to closed audit periods.

Now let me talk about the financial aspects of the Credibility acquisition and how we expect it to impact our results in 2015. As Bob said, Credibility has doubled their revenue since 2010 reaching $135 million last year.

Their 2014 sales growth was in the mid to high single digits and we're excited to bring their expertise to Dun & Bradstreet to help accelerate our strategy. They've also been profitable with an EBITDA margin approaching 20%.

In 2015, we expect the addition of Credibility to add about 4 points to our revenue guidance assuming that the transaction closes in mid May. The 4-point contribution represents 7.5 months of revenue and is net of the $20 million annualized royalty revenue that we would have received when Credibility was independent.

We expect the acquisition to add 3 points of growth to our operating income in 2015 but we expect about 1 point of integration expense. So net-net, the acquisition is expected to contribute 2 points to operating income.

Finally, we expect eps and free cash flow to be neutral since the increased operating income is offset by higher interest expense to fund the acquisition. Our plan is to use cash on hand and a revolving credit facility to fund the acquisition once we close and then to access the capital markets to issue longer-term debt shortly thereafter. We've been clear that we're committed to maintaining an investment grade rating and that is still the case.

We have very strong free cash flow generation which we will use to reduce debt in the near term. We're targeting total debt to EBITDA at a level that will insure at a minimum that we maintain our current debt rating.

In closing, I want to reiterate we're an track to deliver our original guidance on the underlying business. If the Credibility acquisition closes as expected in mid May, we will adjust our full-year guidance for 2015 as follows.

Revenue growth guidance will go from 2% to 5% to our new expectation of 6% to 9%, including the 4 points of contributions from Credibility. Operating income guidance would go from minus 2% to plus 2% to flat to 4%. And, as I said, EPS guidance would remain at minus 3% to plus 1%. And free cash flow is also unchanged at $255 million to $285 million.

With that, we'll now open up the call for your questions.

QUESTIONS & ANSWERS

Operator:

(Operator Instructions)

The first question comes from Peter Appert from Piper Jaffrey.

Peter Appert (Analyst - Piper Jaffray):

Thanks, good morning. Bob, this is more big picture rather than specifically about the quarter. But you've talked about, I think, getting back to mid single-digit revenue growth over the next couple of years. And it's difficult for us outsiders to see the progress in the context of the lumpiness quarter to quarter. So I'm wondering how you're feeling about that target and time frame to get there.

Bob Carrigan (President, CEO):

Thanks, Peter. I'm feeling pretty good about the strategy overall. Obviously, a lot of our revenue this year is back-end weighted. But when I look at all elements of the strategy, we're making great progress.

And I'm particularly excited about addressing what was the single biggest drag on our revenue in our desire to get to that mid single-digit growth, and that was our performance in the small business channel, which has been a challenge for us. And with the Credibility acquisition we feel that we're bringing in the capabilities to help us get to that objective.

We've addressed alliances, our large strategic strategy, and then of course our small business now with this acquisition. So, I'm really excited about where we are going and the progress we are making.

Peter Appert (Analyst - Piper Jaffray):

Do you think therefore, with the addition of DBCC, we could anticipate something close to mid single-digit revenue growth in 2016?

Bob Carrigan (President, CEO):

Yes, we are absolutely on track for that and all of this is intended to help us get there.

Operator:

The next question comes from Shlomo Rosenbaum with Stifel Nicolaus.

Shlomo Rosenbaum (Analyst - Stifel Nicolaus):

Hi, good morning. Thank you very much for taking my questions. I'm familiar with the management team of Credibility, and they are a very good management team and very good product set. It seems to me that just the business on its own would lead this acquisition to be a solid hit. And if you retain the management team for an extended period of time this would be a home run. Do you have any thoughts as to ability to retain them?

And then, also, a follow-up, I want to talk about if there's any ability for the acquisition to help with the DNBi sales, as well?

Bob Carrigan (President, CEO):

Thanks for the question. I'm really excited about bringing this new team in. As you said, they are a fantastic team with a proven track record in the SMB space.

We have an earnout that's built into the agreement, a $30 million, with sales and profitability targets that would really help us create lots of tremendous value for us and for the Credibility team that will be running the business. The earnout is one of the reasons why I think they're going to be very excited to help us execute on the strategy.

Secondly, we are combining the entirety of our small business assets of Dun & Bradstreet into this emerging business and division which Jeff Stibel and his team will oversee. So, that's a pretty exciting proposition for them. They get to continue to run the business that they've done very well but now have access to lots of other products to be able to offer a broader suite of solutions to customers.

The other thing is, as we've gotten to know these guys, we have lots of similarities in our culture. Obviously, they know and love our brand, and we love the innovation mind set of that team. And we're really excited about having them as part of our business and I'm very optimistic about a long-term relationship with these guys.

Operator:

Next question comes from Andrew Steinerman with JPMorgan.

Andrew Steinerman (Analyst - JPMorgan):

Hi. It's Andrew. I wanted to ask about a comment that was made last conference call about first-half profitability on an operating income basis being down about 10% because of strategic investments. Before the Credibility acquisition, Rich, is this still the case?

Rich Veldran (CFO):

Yes, it is still the case. Obviously, we lost a little bit of revenue on the government deal. That's moved to the second half. So, I'd call it more in the 10% to 12% range but, yes, it's still around there.

Andrew Steinerman (Analyst - JPMorgan):

And could you give us the level of strategic investment in 2015? We know that builds on top of the $80 million that was spent in 2014.

Rich Veldran (CFO):

Yes, and I'll frame it for you. It gets somewhat difficult to continue to track year over year but let me give you it in the high level numbers. Overall, we've got an additional about, I'll call it, a net $40 million increase year over year and it's comprised of two pieces.

There's about $60 million of new investment, and then there will be $80 million from last year. Only about $60 million stayed in the base so about $20 million of it was non-recurring. So, net-net it's up about $40 million from investments. And it's pretty much in the same type of buckets that we talked about last year, all of the things that are driving the strategy.

Andrew Steinerman (Analyst - JPMorgan):

Perfect, thank you.

Operator:

Next question comes from Jeff Meuler with Baird.

Jeff Meuler (Analyst - Robert W. Baird & Company):

Yes, thank you. I wanted to ask a follow-up on Peter's question. I believe that you said mid single-digit organic growth in 2016 on the last call, so I just want to verify that was based on the assets that you had at the time. It was not contemplated on buying faster growing assets like Credibility Corp. or others, and that would be additive to that prior target. Is that correct?

Bob Carrigan (President, CEO):

Yes, I can confirm that.

Jeff Meuler (Analyst - Robert W. Baird & Company):

Okay. And then can you maybe talk about the drivers of Optimizer growth and how big of a market that can be. And I know layering on the NetProspex data can help you create new similar products. But how much of this is new customers, how much of this is better hits on your databases? Just if you could help us understand the growth drivers of Optimizer and how big that product could be for you?

Josh Peirez (COO):

Hey, Jeff, it's Josh. I'll start and then Rich can give you some of the specifics on the numbers. Optimizer's growth drivers are primarily around new customers and growth with existing customers, both. When we get growth with an existing customer, you may look at it as a price lift but really what's happening is we're able to deliver them more data, both in terms of numbers of records they're requesting as well as the number of data elements that we're providing to them.

So, when you think about the core Optimizer product, it provides the ability to match somebody's data against the Dun & Bradstreet database to provide them with good cleansing service against the data they have that might be wrong relative to information we have in our database, as well as for us to append additional data fields that they may not have at the time they provide their file to us.

So, when we're able to provide additional fields of value, more records back to them and higher match rates, that naturally improves the ability to get revenue from individual customer. And it is an area where we do have the ability to sell to many more customers. It's not as high a penetration rate as, for example, DNBi might be.

And then, as you mentioned, the Optimizer for contacts products is something we really have just launched this quarter more broadly within our sales force, where we have the opportunity now to take that same proposition for the people who run businesses and allow that type of a cleansing matching and appending service.

And we're very bullish on the potential there because the people at businesses is actually a data element that churns more quickly, which gives us real value to give to customers because they do see that data becoming accurate on a much more rapid rate than they would underlying information about companies.

Jeff Meuler (Analyst - Robert W. Baird & Company):

Thanks, Josh. And then one more for me. Could you just help reconcile the comment about the accelerating declines in the small business channel with the improved rate of contraction in DNBi? Is this all Hoover's or was DNBi better for medium-sized businesses, softer for small businesses, or are there other products?

Rich Veldran (CFO):

Overall, yes, DNBi did get a little bit better, as you know. Some of it was really just a shift. We did have a customer do a conversion. But we do feel better about the underlying retention and sales rate, so that's good.

Where we see the biggest strength with DNBi is in larger customers that use it because, remember, it crosses a spectrum. There's a big chunk of small customers who use it but there are also mid-sized and larger customers that actually use it. That tends to be stronger. The weakness in DNBi has really been in the small business arena and that's where we are actually hoping that we'll start to get a turn over time.

Bob Carrigan (President, CEO):

And just to jump on to that, Jeff, and also linked to Shlomo's question, we do expect Jeff and his team, as they join, to be responsible for the sales of the DNBi product to the SMB segment. And we are expecting them to be able to help turn that performance.

Jeff Meuler (Analyst - Robert W. Baird & Company):

Got it. Thank you, guys.

Operator:

Next question comes from Manav Patnaik with Barclays.

Manav Patnaik (Analyst - Barclays Capital):

Good morning, guys. I just had a question around the M&A strategy. I think earlier on you guys talked about doing small tech capability type deals, now you have done two fairly large deals for D&B. So, just wondering going forward what we should be expecting. And then just specific to Credibility Corp. just wondering if you could give us the history of how long you were looking at buying back the assets and whether the lawsuit had any influence to this.

Bob Carrigan (President, CEO):

Yes, this is Bob. With regard to our overall M&A strategy, we've been consistent in saying that we're looking at acquisitions that will accelerate our strategy and help us generate sustained organic growth. And we think that Credibility acquisition will do just that. That is the lens through which we look at this.

When I announced the strategy about 15 months ago I said that we would need an integrated sales and service approach to address the needs of all of our customers. When I look at the SMB market that's exactly what Credibility brings. They have the expertise. And combining our assets together with what they bring gives us a great opportunity to serve this segment. I think it really rounds out the strategy and is very consistent with everything we've said about M&A.

Then the second question, I believe, was you asked about the lawsuit. Obviously, this will put the legal disputes between our companies behind us. But, again, that wasn't the reason why we did this. The driving factor was to improve our performance in the SMB channel as part of our overall growth strategy. And, again, we think this deal will accelerate our efforts.

Manav Patnaik (Analyst - Barclays Capital):

Okay, fair enough. And just real quickly for Rich, what percentage of your revenues is government? What exposure do you have there? Is this something we should expect regularly? Could you give some disclosure there?

Rich Veldran (CFO):

We definitely don't disclose the business we do with the government. But I will say it's sizeable enough that in any given quarter you can see some lumpiness. As you've followed us for awhile you've seen many quarters that bounce around. We typically sign the contract, but we're not always in control over the timing of when they happen.

Manav Patnaik (Analyst - Barclays Capital):

Okay, thank you, guys.

Operator:

Next question comes from Andre Benjamin with Goldman Sachs.

Andre Benjamin (Analyst - Goldman Sachs):

Hi, good morning. I first wanted to ask about the beta testing of the DNBi cloud solution. I wanted to hear a little bit of how it's going and reconfirm that the plans to roll that out internationally at the end of the year is still on track.

Josh Peirez (COO):

Sure, Andre, it's Josh. We're testing the prototype solution with customers and we remain on track for a staged launch outside of the US later this year. We've not provided a timetable on the US rollout. I know you didn't ask about that.

In the meantime we are continuing to enhance the existing solution through incremental features that we've previously discussed, like mobile alerts, online applications, automated approval functionality for sales folks within our CRM system. And we feel good that the underlying performance of DNBi is showing some slight improvement over 2014. Obviously we have our sights set much higher and we think the addition of the Emerging Businesses team focused on an integrated sales and service model can help. And we also believe the rollout of the global DNBi solution will help.

Andre Benjamin (Analyst - Goldman Sachs):

Thanks. I don't believe you've announced anything but any updated color on how you're thinking about the prospects for additional alliances in the risk management space? I know the KPMG one announced last quarter was the first.

Josh Peirez (COO):

Yes, thanks, Andre. We have not announced any and obviously we will be happy to tell you about them when we have them to announce. We do expect to be able to give you a more detailed description of our alliance strategy and where we are going at Investor Day. And the pipeline is very strong for these partnerships.

Manav Patnaik (Analyst - Barclays Capital):

Thank you.

Operator:

Next question comes from Bill Warmington with Wells Fargo.

Bill Warmington (Analyst - Wells Fargo Securities):

Good morning, everyone. A question for you on how much contribution there was in the quarter from NetProspex. Just trying to get to the organic constant currency growth.

Rich Veldran (CFO):

It was about 1 point of overall growth was from the NetProspex acquisition, so round about $4 million.

Bill Warmington (Analyst - Wells Fargo Securities):

Okay, excellent. And then you talked about issuing some new long-term debt. Just wanted to get a sense, what's the leverage going to be on the close of the deal, assuming it happens as expected? And then the target leverage you have and the time frame to reach it afterwards?

Rich Veldran (CFO):

There's a couple things. Obviously, each of the rating agencies calculate the debt to EBITDA differently, so we factored that in as we think about it. But if you just strictly go on our debt to our core EBITDA, today we're a little over 3. We'll move into the high 3s after the deal. We've obviously talked to the rating agencies and they understand the plan.

Our target is to get down to below 3. Again, we think that's a good comfortable place to be. With increasing EBITDA as well as with the amount of cash that we've generated with the Company, we're comfortable that we can do that in relatively short- to intermediate-term order, and then have some flexibility again.

Bill Warmington (Analyst - Wells Fargo Securities):

Like 12 to 18 months?

Rich Veldran (CFO):

Think about it -- we generate almost $300 million a year in cash, right? And we're expecting to grow. So, yes, we will get there in a quick enough order.

Bill Warmington (Analyst - Wells Fargo Securities):

On Credibility, they've had obvious success in terms of selling the credit-on-self product. With DNB, though, on the credit-to-others product, it seems like one of the biggest challenges in that lower segment of the market is high price sensitivity. And guys like Experion and Credit Risk Monitor and Cortera have been under-pricing and that's been able to pull some of that volume. How do you address that issue?

Josh Peirez (COO):

Hi, Bill, it's Josh. First it's important to note the deal hasn't closed yet. So, we're continuing to move forward with everything we've laid out in our current plans and our current guidance.

But post close, Jeff and his team running the emerging businesses division, will be responsible for the sales of all our products to that customer segment. And I want to note that they've made a lot of investment in their technology, their product development organization, and they've built their products on cloud-based systems.

So, our expectation is that they will be able to deliver the credit-on-self solution through this platform, and there could be opportunities for them to also develop new credit-based offerings on the platform to serve the SMB customer segment.

We also think their base of credit-on-self and Credibility customers is an attractive prospect universe for upgrades to broader credit solutions like a DNBi. so, when we look at the opportunity here, it's not about being able to necessarily compete or price within the same prospect universe that we're playing in. We actually see them having the ability to really generate NCA with the customer set they have. And they've shown a great track record in being an NCA engine and that's where we expect them to be able to have growth in other credit solutions.

Bill Warmington (Analyst - Wells Fargo Securities):

Got it. And then on the positive side with Credibility, they've been growing at double digits or near double digits. On the negative side there have been some complaints about Credibility's aggressive sales tactics. So my question is, can you sustain that double-digit growth rate with the operation now back in DNB?

Bob Carrigan (President, CEO):

This is Bob. They've been able to generate lots of new customers. They've basically doubled the business. And, so, they've got many happy customers.

When we look at how they've approached dealing with small business customers with products that are tuned to their needs, and then their selling approach which is more of an education first, kind of a nurturing sales approach, when you layer that in also with the other solutions we'll be able to offer in sales and marketing and credit-on-others, they're going to really have a terrific proposition for small business customers. We're really excited about the potential to get on a growth path with their approach, their integrated approach, the way they market to customers, and the way that they help educate and then bring them into buying more and more solutions. So, feeling really good about that.

Bill Warmington (Analyst - Wells Fargo Securities):

Thank you for the insight.

Operator:

Next question comes from Brett Huff with Stephens.

James Rutherford (Analyst - Stephens):

Hi this is James Rutherford in for Brett. I was just curious on the Hoover's business, what benefit do you expect from the addition of Credibility Corp.? And will that business grow this year. What will Jeff and his team do to reinvigorate that business? Thanks.

Josh Peirez (COO):

Sure, it's Josh. We haven't given specific expectations for Hoover's for the year. However, what we've done is given Jeff's team responsibility for the overall Hoover's product. It's a product where we've had very little investment planned for this year as well as last year. We put very little investment into the product.

We think that Jeff and his team can really invest, much in the way they did when they purchased the business from us almost five years ago, in really revamping the product, the go-to-market approach for the SMB customer segment, how they actually market and sell those solutions to customers. We think that it's a wonderful opportunity with a real focus and understanding of customers in this segment to provide them with a tool that will help them to find their best new customers to grow their business. And it's something that Jeff and his team are really excited to own.

The product does service some of our enterprise customers, as well, so we will, of course, make sure that they are serviced well. But the primary reasons for Hoover's decline over the last couple of years has been driven by the SMB customer churn.

And we think that, again, the ability to get more new customer acquisition, as Jeff and his team have proven to be very skilled at doing, as well as to improve the churn rates, and the ARPU, the amount per customer, are really three levers that we expect his team to be able to drive on Hoover's. And as Bob said in his prepared remarks, we expect them to have a very quick near-term impact on the overall business. And the two biggest products in that channel are Hoover's and DNBi, so we obviously expect them to be able to impact those in short order.

James Rutherford (Analyst - Stephens):

Okay, thanks. And then on the other enterprise risk management subsegment, just digging in on that quickly, it declined just a little bit. I understand it's a lumpy business but I was wondering how much of the government contract affected that and what growth would have been excluding that.

Rich Veldran (CFO):

Yes, the government contract was a bit of it. It was only around 1 point or so in that. It was more in the other arena. It tends to be lumpy, as we mentioned, so it was more the timing of the other revenues in that segment.

The compliance and supply actually were pretty nice growers in the quarter. They were just offset by the lumpiness.

James Rutherford (Analyst - Stephens):

Great, thank you.

Operator:

(Operator Instructions)

Next question comes from Shlomo Rosenbaum with Stifel Nicolaus.

Shlomo Rosenbaum (Analyst - Stifel Nicolaus):

Hi,, thanks for letting me back in for a few more questions. Can you, Rich, talk a little bit about the alliances and partners revenue in the Americas? It was down almost 3%. What's going on behind that? That's typically more of the growth area for you guys.

Rich Veldran (CFO):

Yes, the biggest thing was really the anomaly of that one deal that we lost through our more legacy part of the business. That was about 7 points overall, so actually you would have been into the mid single-digit growth without it. We actually expect that to be a really strong grower over the year, probably in the double-digit range is what we're looking at.

Shlomo Rosenbaum (Analyst - Stifel Nicolaus):

And then this is a question for Bob. Just as an operational standpoint, can you a little bit about maybe a guidepost or something that you could point to during the quarter where you can point to some of the incremental progress on the turnaround? We have the acquisitions, we have some of the qualitative, but is there something you can point to straight out and say -- we made improvement in these areas indicating that the turnaround is happening or progressing?

Bob Carrigan (President, CEO):

I think the most direct and obvious thing is that we had about 3 points of growth from new products that we've introduced. We modernized our brand, which was a very big event here with our customers. We continue to bring in top talent and promote some of our stars internally. We're doing a lot in the talent development area building out our global accounts team. We have about 75% of our global business directors hired.

And we're seeing really nice growth among our large strategic customers. We're making lots of progress against new products, talent, our brand. There's definitely a new spring in our step over here.

And, look, we've been busy with bringing in some capabilities through M&A with NetProspex and Credibility that will really help round out our overall strategy. So, lots going on and I'm very pleased with where we are.

And I'm really looking forward to June 15th. This will be a chance, during our Investor Day, for me and my team to give you much more of an update, and to show you a bit more about what we've been up to and allow for a lot more interaction and questions. So, I'm excited about June 15 so save the date.

Shlomo Rosenbaum (Analyst - Stifel Nicolaus):

Okay, thanks. If I could just sneak in a housekeeping, what was the $1.4 million of other income? Is it primarily interest expense or was there anything else in there?

Rich Veldran (CFO):

No actually, we have a partner, that we have about a 10% ownership stake in, that sold the business. And that was our share of the business that showed up in other income. That was the primary piece.

Shlomo Rosenbaum (Analyst - Stifel Nicolaus):

Okay, great. Thanks.

Operator:

We have no further questions.

Kathy Guinnessey (Treasurer, IR Officer):

All right, great. Thank you, everyone, for joining us this morning. And we really look forward to seeing you on June 15 at our Investor Day.

Operator:

Thank you for your participation in today's conference.