TheStreet

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TheStreet Transcript

Dun & Bradstreet (DNB) Earnings Report: Q2 2015 Conference Call Transcript

The following Dun & Bradstreet conference call took place on August 6, 2015, 08:00 AM ET. This is a transcript of that earnings call:

Company Participants

- Kathy Guinnessey; Dun & Bradstreet Corporation; Treasurer, IR Officer
- Bob Carrigan; Dun & Bradstreet Corporation; President, CEO
- Rich Veldran; Dun & Bradstreet Corporation; CFO
- Josh Peirez; Dun & Bradstreet Corporation; COO

Other Participants

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

MANAGEMENT DISCUSSION SECTION

Operator:

Welcome to Dun & Bradstreet's 2015 second-quarter teleconference.

This conference is being recorded at the request of Dun & Bradstreet . If you have any objections, you may disconnect at this time.

All participants will be in a listen-only mode until the question and answer session of the call. Should you experience any disturbance on the line, please press star zero on your keypad for immediate assistance.

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

Kathy Guinnessey (Treasurer, IR Officer):

Thank you. Good morning, everyone, and 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. Here's what you can expect today. Following my brief remarks, Bob will provide an overview of our second-quarter results, and an update on the post acquisition integration of NetProspex and Credibility Corp. Then Rich will come on to take you through the highlights of the second quarter, and after that we'll open the call for your questions.

One housekeeping item to share, as you know we sold our business in Australia on June 30, and converted to a partner model. The Australia business is classified in our financials as discontinued operations. And as such, the results of Australia have been removed from our Company's as-adjusted results for both the current period and all prior periods. This will be reflected in the updated financial models that will be posted on our website later today.

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 these forward-looking statements.

These documents are available on the Investor Relations section of our website, 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 manage 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 due to 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. Additionally, our as-adjusted results excludes the results of discontinued operations.

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 the 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 with found in a supplemental reconciliation schedule that we post on the Investor Relations section of our website.

We do not provide guidance on a GAAP basis because we're 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 fair value adjustments to deferred revenue.

These items are uncertain, and will depend on several factors including industry conditions, and could be material to D&B's results computed in accordance with GAAP. Later today, you will also find a transcript of our prepared remarks on our Investor Relations website. With that, I'll now turn the call over to Bob Carrigan. Bob?

Bob Carrigan (President, CEO):

Well, thank you, Kathy, and thank you everyone for joining us for today's call. It's good to talk to you today about Dun & Bradstreet's second quarter, and how we've been executing against our strategy for growth. We've had quite a lot going on in the second quarter to advance our strategy.

We completed the acquisition of Credibility Corp and formed our new division, Dun & Bradstreet Emerging Businesses, to bring new capabilities to the important small- and medium-business space. We also converted our Australia business into a partner model, issued new bonds to finance our acquisitions, made great progress integrating both Credibility Corp and NetProspex, and held an Investor Day in June. So like I said, it's been a busy quarter.

It was great to see and hear from so many of you directly at our Investor Day event. I had the opportunity to speak with a lot of you, both before and after our presentation, during which we updated you on our strategy for growth, and my Team spoke specifically about how we will grow each of our sales channels.

As I mentioned then, I feel good about where Dun & Bradstreet is today, but I feel great about where we're headed. We see an ever-growing market for our data and solutions. Our addressable market has grown 20 percent in just the last year to $24 billion.

Dun & Bradstreet is positioned to grow beyond trade credit and traditional sales and marketing to where the market is growing, in data services, digital marketing, and new commercial-risk categories. As I talked about during Investor Day, we have launched a strategy to take advantage of the enormous market available to Dun & Bradstreet . I won't go into detail on each component of our strategy today, because I know many of you were at Investor Day.

And for those who weren't able to come, I urge you to go to the Investor Relations section of our website at dnb.com, so you can watch the presentation or read the transcript. You will be able to see for yourself the path we've laid out to achieve sustainable growth with expanding margins over the next few years.

Today we're here to talk about the second quarter, and last night we announced our second-quarter earnings. Total Company revenue for the quarter was up 6 percent, largely due to the acquisitions of NetProspex and Credibility whose revenues were slightly above our expectations. Organic revenue was up about 1 percent in the quarter. Organic revenue growth has gotten off to a slower start than we would have liked in the first half of the year, and we're about 1 point behind our expectations.

Now let me give you some insight into our results. We've got two things going on that are impacting our numbers. First, underlying sales growth in the Americas accelerated in the second quarter, and we're moving in the right direction. Sales are growing faster than revenue, because we're selling more products where revenue is recognized over time. Like our newer products, D&B Direct and Optimizer for Contacts which we created from the acquisition of NetProspex.

And you can see the evidence of our progress in the growth in our Americas deferred revenue. Americas deferred revenue excluding the impact of acquisitions was up slightly year over year, which was the first time we've been in positive territory in the last eight quarters, and a significant uplift over the first quarter where our Americas deferred revenue was down a little more than 1 point. So while organic revenue is a little behind at this point in the year, improving deferred revenue means we will see more revenue in the future.

Our revenue growth continues to come from the areas we expect to drive our strategy, alliances and large strategic customers, both of which were up in the quarter. Furthermore, we have seen additional evidence that DNBi is stabilizing, with a revenue decline of 1 percent for the second consecutive quarter after being down 4 percent for all of 2014.

Second, we are experiencing some weaknesses in Europe, which we are addressing through tightening our sales execution, increasing the discipline around pipeline management, and introducing new products in areas like compliance. I'm pleased to say we've already closed some large deals in the third quarter in Europe.

Earnings at this point in the year. Operating income was down 10 percent in the second quarter, while EPS was down 11 percent, both as expected.

As we discussed in our first-quarter earnings call, we anticipated that operating income will be down 10 percent to 12 percent in the first half of the year, due to the timing of investments and also due to timing of revenue growth which is more back-end weighted. So we are on track to deliver all of our guidance metrics for the year, both organic and inorganic.

Now before I turn the call over to Rich to discuss the quarter in more detail, I wanted to give you a view of how our recent acquisitions are doing. Sales in our new Emerging Businesses division, which is a combination of Credibility Corp and our small-business sales channel exceeded our expectations in the quarter. Though early days, we are pleased with the results so far, particularly given all of the activity around merging these teams.

Now as I discussed in the last earnings call, to turn around our small- and medium-business sales, we faced a decision, build or buy. We made the strategic decision to buy, but we didn't stop there.

Under the leadership of the Credibility management team which has a proven track record of generating growth in the SMB space, we've merged the Dun & Bradstreet inside sales team with the Credibility team to form the Emerging Businesses division, and we now have a much more robust suite of solutions for the small- and medium-customer segments. It's great to have the Credibility team on board, and they're excited to have joined forces under one Dun & Bradstreet brand.

We're already working together to bring new value to our customers. We're identifying opportunities to leverage the Emerging Businesses platform in different geographies, and to develop new products to further drive growth. This will allow SMB sales to move from a drag on revenue growth as it has been in the last few years, to a driver of revenue growth into the future. We've also made great progress in integrating NetProspex into Dun & Bradstreet .

This acquisition was about making a big play in the business-contact space. When it comes to information about businesses, Dun & Bradstreet has long been the world's heavyweight champ. And with the acquisition of NetProspex, we're now the heavyweight champ in the professional-contact data space too. This helps our customers reach not just the businesses they're targeting, but the decision makers and influencers at those businesses.

With NetProspex, we're able to provide our customers an actionable view of companies and the people who run them, putting quality relationship insight at the center of marketing data strategy, which is increasingly important in a world where companies are trying to engage with customers in new ways, leveraging data and technology.

The acquisition is an example of our focus and commitment to modernizing delivery of data and analytics to our customers. The NetProspex Optimizer for Contacts tool is a cloud-based solution that provides an easy and cost effective way for B2B marketers to dramatically improve their contact data health, ensure they are targeting the best fit prospects, and optimize their demand generation efforts. I hope some of you had an opportunity to check out the Optimizer for Contacts demo at Investor Day.

Even since Investor Day, we have been making improvements to the NetProspex products. We've mapped all of the professional contacts at NetProspex to the companies in our database through the Dunn's number, to ensure that our products are comprehensive and complementary.

We're moving fast, because we see a big need in the market as companies strive for more and cleaner contact data. Our sales teams are focused on penetrating the existing Dun & Bradstreet customer base with Optimizer for Contacts, and we had a few big wins in the second quarter with large accounts.

So by leveraging existing Dun & Bradstreet relationships, the average order size of the product is increasing significantly by more than 20 percent.

We have also seen improvement in our pipeline driven by the identified up-sell and cross-sell opportunities, and sales through our Emerging Businesses division. We have found some real business synergies in the integration of NetProspex.

One of the things that attracted us to NetProspex was their process for curating and validating data to ensure it's not just the most accurate data in the market but actionable. They did for contact data what

Dun & Bradstreet has historically done for Company data, and now it's all under one roof.

All of the contact data we source as a Company, including sources that NetProspex was not previously collecting, goes through NetProspex's data refinery, so all the data that we provide is of the highest quality. Furthermore, we are realizing the cost synergies we expected when undertaking the acquisition.

We are eliminating a couple of million dollars of spend with other third-party providers of contact data, and I believe there's opportunity to find additional savings down the road.

NetProspex is a great example of forward-thinking at Dun & Bradstreet , and as I discussed during Investor Day, the world of data is changing, and it's changing fast.

As businesses become digitized, as marketing becomes automated, and as customers continue to demand data where they need it, when they need it, Dun & Bradstreet is filling a gap to help make sure that our customers know there's no better place to go for the data they need most. I am pleased to say that our strategy is working. NetProspex contributed 1 point to total Company revenue growth in the second quarter, and we plan to keep growing that business into the future.

So with the integration of Credibility and NetProspex, and with our strategy that we discussed with you during Investor Day, you can see that we have a lot going on. We are keenly focused on executing and taking advantage of the tremendous opportunities in front of us. And with that, I will now turn the call over to Rich Veldran who will discuss our second-quarter results in further detail. Rich?

Rich Veldran (CFO):

Thanks, Bob, and good morning, everyone. For the second quarter, total Company revenue was $381.6 million, up 6 percent with about 1 percent organic growth. The Americas segment represented 81 percent of our revenue at $309.1 million in the quarter, and was up 8 percent, approximately 1 percent organic.

Non-Americas represented 19 percent of total revenue, down from 25 percent of our reported revenue last quarter due to the sale of our Australia business. Non-Americas revenue was $72.5 million, about flat to last year, and all organic.

Let me go through each segment in more detail, beginning with the Americas. Risk management which makes up 58 percent of Americas revenue was up 8 percent. Within risk management, trade credit was down 2 percent. DNBi is 75 percent of trade credit, and was down 1 percent during the quarter, similar to Q1.

Price increases continued to be in the low single-digits and retention was in the low 90 percents. As Bob mentioned, DNBi continues to stabilize, and we expect its 2015 performance to be better than last year, although still down for the year.

Other enterprise risk management was up 53 percent in the second quarter, off a relatively small base. The majority of the growth is inorganic as the Credibility Corp credit-on-self revenue is in this category.

Sales and marketing representing 42 percent of Americas revenue also increased 8 percent in the quarter. Traditional prospecting representing about 1/4 of SMS revenue was up 3 percent. This category was helped by some inorganic revenue from Credibility Corp, which offset declines in Hoovers.

Advanced marketing solutions, the remaining 3/4 of SMS was up 9 percent. Consistent with our results in the first quarter, about 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 DaaS/CRM alliances.

Now as Bob discussed, deferred revenue in the Americas was up slightly for the quarter, before the effect of foreign exchange and acquisitions. This does not reflect committed sales through alliances that would have added about 2 points to the total balance.

In non-Americas, revenue was flat for the quarter. Revenue growth is expected to pick up in the second half of the year as we have a growing pipeline of large deals. Compliance products such as FATCA and other Know Your Customer solutions are resonating particularly well with European companies that want to get ahead of compliance with US regulations. We expect full-year revenue growth for non-Americas to be in the low single-digits.

Now turning to the bottom line, operating income was down 10 percent in the quarter which is where we expected to be, due to the timing of both of our revenue ramp and investment spending. Our 2015 investment spending is on track, and will step up slightly in the second half. We have also gotten past the big negative comparison from the annualization of our 2014 investment that contributed to the minus 10 percent first half.

Going forward, we expect operating income to flatten in the third quarter and grow in the fourth quarter, when as in prior years we see most of our revenue growth.

EPS was down 11 percent in the second quarter, slightly more than operating income, due to increased interest expense slightly offset by a lower tax rate. Now earlier in the year I said, we expected our full-year 2015 tax rate to be up to 50 basis points below our 2014 rate. That 50 basis point improvement still applies, but with Australia out of the results, our tax rate for 2014 was 32.5 percent, so the improvement will be off the higher base.

Turning to the balance sheet. During the second quarter, we issued new five-year senior notes to support our recent acquisitions. The new debt issue was very well received, with demand 3 times higher than the $300 million that we were raising. The coupon on the notes is 4 percent.

We also entered into a forward starting five-year term loan with a syndicate of banks. This commitment allows us to draw down up to $400 million at any time between now and November of 2015. We plan to use this term loan to refinance $300 million of five-year notes that mature in November of this year.

As we've said, we're committed to maintaining our investment-grade credit rating, and in the near term we plan to use free cash flow to reduce debt. We're adding this term loan to our capital structure, because it allows us to repay all or part of the loan at any time prior to maturity with no prepayment penalty.

So all in, we're on track to deliver our guidance for the year. Revenue growth of 6 percent to 9 percent including about 5 points of contribution from acquisitions, operating income of flat to up 4 percent, EPS of minus 3 percent to plus 1 percent, and free cash flow of $255 million to $285 million.

Now with that, we'll open up the call for questions. Operator?

QUESTIONS & ANSWERS

Operator:

At this time, I would like to remind everyone in order to ask a question, please press star then the number one on your telephone keypad. We'll pause for a moment to compile the Q&A roster. Again, that's star then one on your telephone keypad.

Your first question comes from Jeff Meuler with RW Baird. Your line is open.

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

Yes, thank you, and good morning. I guess, just first on the slower start to organic growth in the first half relative to your expectations, I heard you on Europe. Any other particular factors to call out, relative to why it's started slower than you expected?

Bob Carrigan (President, CEO):

There's really two factors. We had -- our sales actually outpaced our revenue growth, and that really gets to the mix issue that I discussed, where we're selling products, some of our newer products like D&B Direct and Optimizer for Contacts, where we don't earn as much revenue upfront.

They're rather usage based and ratable over time. And so, you saw the accelerated sales in North America, which is really a reflection of that. That obviously put some pressure on us on revenue in the short-term, but bodes well for us as we go forward.

And then, yes, and then we talked about Europe. Actually, I can be even more specific and say, we had particular weakness in our Benelux market, and we've instituted some new processes including as we said some detailed pipeline management.

And we've launched some new products, particularly in the compliance space, which is very relevant and much in demand in that market. And so, we've already seen a few deals close in Q3, but definitely off to a slower start, particularly in that Benelux market. But we're -- believe me, we're very focused on it.

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

OK. And then, can you recap the factors that give you confidence in the acceleration as we get into the back half, and more importantly, the continued acceleration into 2016? I know Q4 is seasonally strong and we have the sales, but anything else in terms of early stage revenue that's ramping nicely, or planned product releases? I didn't hear an update on the planned DNBi cloud roll-out in terms of timing, anything like that?

Bob Carrigan (President, CEO):

Yes, so we are still looking towards that sustainable mid single-digit growth into next year, and there's a lot that gives us confidence to that.

Yes, there's the cyclicality of our business, and the seasonality, I should say, and certainly we see a natural stronger second half in terms of how the revenue ramps. But again, the build up of our deferred revenue, the progress we're making with alliances, and we're starting to see nice growth rates there, that we see certainly sustaining, if not improving slightly in the second half.

We're getting -- these acquisitions are relatively new, and actually the performance exceeded our expectations. Emerging Businesses did a little better than we even thought. We only had six weeks in the quarter, but we're liking what we're seeing there, and the potential to get that back on a growth path. And with DNBi, we're still down 1 point, but that's better than being down 4 points. So we're making progress there.

And you mentioned the movement to the cloud. What we're doing is leveraging the Credibility platform and technology. One of the great things in acquiring that business and bringing them in, was not just the formation of Emerging Businesses, but they had a market-tested Amazon cloud-based offering upon which their business is really built, and it's been in the market for years, and has serviced hundreds of thousands of customers.

And so, our plan is to launch as we mentioned at Investor Day, to accelerate our plans in the US with DNBi, and we're targeting the end of this year to be able to bring DNBi into the US market, and be able to cross-sell and upsell a lot of those Credibility customers. So again, we're early days into Emerging Businesses. But when I look at the different levers of our business, I'm feeling very confident about that mid single-digit organic growth next year.

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

OK. Thank you, Bob.

Operator:

Your next question comes from Peter Appert with Piper Jaffray. Your line is open.

Peter Appert (Analyst - Piper Jaffray):

Thanks. Good morning.

Bob Carrigan (President, CEO):

Good morning.

Peter Appert (Analyst - Piper Jaffray):

So Bob, you mentioned the partnership channel. Can you expand a little more on what you're seeing, and any momentum in terms of new partner additions?

Josh Peirez (COO):

Hey, Peter, it's Josh. So if you look at the growth rates that you're seeing, particularly in the Americas, most of our growth is still coming from Salesforce, but we are seeing some growth in the second quarter from other partnerships as well.

And as we discussed at Investor day, we do see this as a portfolio play, and we've put in place between the latter part of last year and the first half of this year, a great stable of blue chip portfolio partners where we do see the growth from the future also coming from.

And we should emphasize that in the case of Salesforce, it took us about two years to ramp it into something that would show up materially in the results. We expect to be able to do that much faster now, based on the learnings we've had from how to accelerate the growth from the Salesforce partnership.

So we expect that to start showing up, late into this year and early next year. And we have had a very accelerated pace of adding new partnerships, which we expect to continue to do.

So we are seeing a little bit of the results today from that. Salesforce is still driving the majority of the growth you're seeing there. But the rates for the first half are certainly something that we expected, and we expect that growth rate to accelerate through the year.

Peter Appert (Analyst - Piper Jaffray):

And I know that the dollar amounts are relatively small in the context of the total Company, but I assume that the profitability of the partnership channel is higher than traditional sales. So the question is number one, is that correct? And number two, is it sufficient to drive some implications for overall margins in 2015 -- not so much 2015, in 2016 and beyond?

Rich Veldran (CFO):

Yes, Peter, this is Rich. So generally, the newer alliances that we're structuring are for sure, structured to be more profitable. And as we think about margin expansion opportunities in the future, that is part of the calculus of how we thought about it.

Peter Appert (Analyst - Piper Jaffray):

OK. And then lastly, in terms of -- you already mentioned this to some extent, but in terms of the integration of DBCC, is the heavy lifting done, a lot more to go? And I am particularly interested in sales integration?

Josh Peirez (COO):

Sure, Peter. It's Josh. So the heavy lifting in terms of organizational movements and getting the teams together is done. But we still have great opportunities to actually integrate, to accelerate the revenue synergies that we think the channel can provide us, as well as to leverage some of the technology to launch new products across the channel.

So we've just started, for example, being able to cross-sell and upsell among the couple teams that we put together there. So you're not seeing that benefit in the results yet. That's an opportunity for us going forward. We have not yet put all of our inside sales team members onto the sales technology that we acquired with the Emerging Businesses team now.

So that should be happening this quarter. And so, we see great opportunities for the synergies to take hold and provide even better results, but the heavy lifting in terms of organizationally, getting everyone on the same page and working together, that is largely done.

Peter Appert (Analyst - Piper Jaffray):

Got it. And actually one last thing. Just in terms of competitive dynamic in the credit business, I mean, you've been struggling for a while obviously, to get back to positive revenue growth. The macro environment I understand.

How significant do you view the competitive issues as an impediment to faster revenue growth?

Bob Carrigan (President, CEO):

Hey, it's Bob. Look, we're very aware of the competition. It's really sharpening our focus on execution. That said, with respect to the traditional credit risk market, we're not really seeing a material change in the competitive landscape.

You can see in our results that we stabilized, or somewhat stabilized the DNBi performance and feel pretty good about that. And again, we expect that the performance to continue to improve with the Emerging Business division. We now have a lot of the key pieces in place. And as Josh was just talking about, we're excited about that. And of course, rolling out DNBi in the cloud, and accelerating that roll-out in the US will also help us.

Peter Appert (Analyst - Piper Jaffray):

Got it. Great. Thanks, Bob.

Bob Carrigan (President, CEO):

Sure.

Operator:

Your next question comes from Shlomo Rosenbaum with Stifel Nicolaus. Your line is open.

Shlomo Rosenbaum (Analyst - Stifel Nicolaus):

Hi. Good morning. Thank you for taking my questions this morning.

Bob Carrigan (President, CEO):

Hi, Shlomo.

Shlomo Rosenbaum (Analyst - Stifel Nicolaus):

The improvement in DNBi is in the right direction. Do you have an idea of the sustainability of keeping it at this level, and kind of the effort to move it forward, and maybe even get it to breakeven, where it will grow a little bit?

Josh Peirez (COO):

Thanks, Shlomo, it's Josh. So look, we feel good about the first half performance of minus 1 in each of the first [three quarters], given the relative comparison to the minus 4 that we experienced last year.

It's also a ratable product, so based on the sales we've had, we feel confident that we should be able to sustain performance better than what we had last year, though we'll still be slightly down for the year.

But we do expect better performance over time. We did put in place some enhancements to the product which we think are helping, some selling techniques that we think are helping today, and we'll continue to do that as we get to the roll-out of DNBi in the cloud. Now also we've just started having our Emerging Businesses division sell DNBi to the existing base that we acquired with the Credibility acquisition.

So again, it's ratable, so you'll see those sales improvements show up over time on the revenue line, and we also expect the cloud version which as we've said we targeted the end of this year could be early into first quarter, but we expect that to help us next year to even accelerate that sales growth more.

Shlomo Rosenbaum (Analyst - Stifel Nicolaus):

So would you be surprised if instead of negative 1, we saw negative 2 or negative 3 in the second half of the year?

Josh Peirez (COO):

I'd be very surprised at negative 3, Shlomo. I think the minus 1 to minus 2 is probably a good estimate. Certainly, the minus 1 is in our scopes.

Shlomo Rosenbaum (Analyst - Stifel Nicolaus):

OK, and Hoovers, what -- is there any early indications that the Credibility platform and NetProspex is kind of slowing down the decline in Hoovers? Or what kind of commentary do you have on that?

Josh Peirez (COO):

So Shlomo, first on Hoovers, we actually have had some enhancements to the product that Jeff and his team have already put in place, like a concierge service which hasn't existed before, and some basic usability enhancements that we expect to continue to roll out through the year. We do expect some continuing improvement.

It has improved versus the first quarter, and is down a lot less than it was in the first quarter. So those are good signs. We also think that tightening up the quality of the data, from putting the NetProspex data into the product will help. But this is a product where we really do expect to see the major trajectory shifts occur next year.

Bob Carrigan (President, CEO):

The only thing I'll add, it's also a ratable product, so as we get those improvements, you'll see that flow in over time.

Josh Peirez (COO):

Yes, if you can -- the strategy for our Emerging Businesses division is to be able to offer a more integrated suite of applications to the customers. So everything from credit-on-self to credit-on-others products to helping them to find the right prospects and grow their businesses.

So over time, we'll move Hoovers to the -- we'll get better and better about integrating that, moving that to the platform that Credibility has been so successful with, layering in new value-added services like the concierge service that Josh mentioned, which they've done in the Credibility space. For all those reasons, and then, just their -- the way that they're very focused on selling at SMB customers, that makes us feel pretty optimistic about Hoovers.

Shlomo Rosenbaum (Analyst - Stifel Nicolaus):

And then Bob, I want to just go back to what you talked about initially in terms of the sales versus the revenue, being one aspect of the reason why organic growth was a little bit slower than you expected in the quarter, that and in Europe. The Salesforce revenue is a mix issue. I understand the part where sales is doing better, but what part of the type of sales, where you would have expected upfront revenue, what part of that is doing worse than expected?

Rich Veldran (CFO):

This is Rich, Shlomo. Let me give you an example to kind of put it into perspective. In this quarter, sales of D&B Direct were pretty strong which is more of a usage-based product. On the other hand, Optimizer was only up 1 percent, and last year Optimizer was up 18 percent in the second quarter.

That's our, as you know, our main upfront product. That can be lumpy. So some quarters are strong, some quarters are less strong. In this particular quarter, less Optimizer, a little bit more of the usage type products like Direct.

Kathy Guinnessey (Treasurer, IR Officer):

Shlomo, it's Kath. I would just add, it's not a zero sum game. The underlying sales were actually up. So the gains that we got weren't offsetting necessarily a decline.

Shlomo Rosenbaum (Analyst - Stifel Nicolaus):

OK. And then a comment on alliances, where you had growth of 28 percent I think first half of the year is like 12 percent to 13 percent. Is this based on all the efforts in the partnerships and everything you put in, should we think about this as a double-digit grower in aggregate for the year? I know there's changes between quarters, but is that the way we should be thinking about this, now that you put a lot of those alliances into place?

Josh Peirez (COO):

Yes, Shlomo, you should be thinking about it as a double-digit grower, and the 12 percent to 13 percent is probably a little lower than what you should think of for the year.

Shlomo Rosenbaum (Analyst - Stifel Nicolaus):

OK. Great. And this is the last one I'm going to sneak in here. Did the original guidance of the growth rates contemplate selling Australia New Zealand?

Bob Carrigan (President, CEO):

Yes, so we, although we always consider it in portfolio, it wasn't explicitly in there. The interesting thing, though, Shlomo, is our actual plan for Australia was it for to grow on the top line about 6 percent this year, and the bottom line to grow 4 percent. So it actually hurts us, from a standpoint of having pulled it out. That said, we're easily able to cover that within the guidance range that we gave.

Shlomo Rosenbaum (Analyst - Stifel Nicolaus):

All right. Thank you.

Operator:

Your next question comes from Bill Warmington with Wells Fargo. Your line is open.

Bill Warmington (Analyst - Wells Fargo Securities):

Good morning, everyone.

Bob Carrigan (President, CEO):

Hey, Bill.

Bill Warmington (Analyst - Wells Fargo Securities):

So one of the things I was hoping to get, just a housekeeping item was to ask, what would the rough revenue and EPS for Q2 have been, if Australia and New Zealand had still been reported?

Rich Veldran (CFO):

OK, so this is Rich. So the revenue growth would have been the same, actually. We had about 2 percent growth is what we saw, so would have still rounded to about the same. It was about $22 million of revenue in the quarter.

Bill Warmington (Analyst - Wells Fargo Securities):

OK.

Rich Veldran (CFO):

From an Op income standpoint, in the quarter we only had about $1 million of actual income in that quarter, so the [10] would have gone to a minus [12]. For the year, it had the opposite impact, it actually would have hurt us. But in the quarter, it actually would have helped.

Bill Warmington (Analyst - Wells Fargo Securities):

So OK, because just kind of going off of some of the historical results, it looked like it was running around $20 million to $23 million in revenue, and about a $0.04 to $0.06 loss. Am I thinking about that the right way, so that if you --?

Rich Veldran (CFO):

Yes, so it ended up being just about a $0.01 in the quarter, so from an EPS standpoint, it wasn't material. If you go to the historical, say last year for the full year, it was about $97 million of revenue and about $10 million of Op income. But it does bounce around a little bit quarter to quarter.

Bill Warmington (Analyst - Wells Fargo Securities):

Got it. OK.

Rich Veldran (CFO):

So really, the bottom line I'd say it's immaterial to all rates in the quarter, and certainly for the year as well.

Bill Warmington (Analyst - Wells Fargo Securities):

OK. And then the -- I wanted to ask in terms of Europe, whether you're seeing some pickup in demand? People will sometimes talk about your business on the credit side as being counter cyclical, meaning that as you head into a crisis, you see difficulties, use the business more. Want to see if maybe you're seeing some pickup in the European business from that?

Bob Carrigan (President, CEO):

Well, we're seeing some -- I'll just speak generally. Outside of -- I don't want to attribute anything to any of the economic conditions. I'll just say there are pockets of real opportunity there that we're seeing, particularly as we mentioned earlier in the compliance area, a number of European companies we're seeing is they want to get ahead of the compliance regulations in the US.

And as we've mentioned before, within risk management that's one of the use cases where we've seen some growth and we've had some new solutions. We're seeing a nice -- we're seeing a lot of interest in those products in Europe.

Bill Warmington (Analyst - Wells Fargo Securities):

OK. And then on the sales side, you've been -- you talked about you how you were building out the global account teams, and hiring a number of global business directors. How is that process going? Is everybody now, feet on the ground, and starting to contribute, or how much longer do you think that will take to get to that point?

Bob Carrigan (President, CEO):

Yes. So as we talked about at Investor Day, this is a key part of our strategy. And given the global data footprint that we have, we feel that we're uniquely positioned to serve multinational companies. And we've designated about 40 of our largest accounts for this program, roughly about a $200 million book of business.

And the pipeline's growing, we're starting to get some real traction. The sales cycle is a bit longer on these much larger accounts, and we're getting all of our global business directors, the sales folks in the role, and getting them up to speed. So it is a -- it's a bit of a process. But we're very much engaged in it, and making some really good progress, and see this as a key to our strategy going forward.

Bill Warmington (Analyst - Wells Fargo Securities):

OK. Thank you very much.

Operator:

Your next question comes from Andrew Steinerman with JPMorgan. Your line is open. Andrew Steinerman, your line is open.

Your next question comes from Manav Patnaik with Barclays Capital. Your line is open.

Unidentified Participant:

Hi, this is actually Greg calling on for Manav. I just wanted to confirm that contribution from Credibility Corp. I think it was about a 4 percent contribution for the quarter.

And then I think you had talked about how you hadn't layered on the cross-sell or upsell opportunities there. So do you think there's some upside to that 4 percent contribution that you've talked about for the year?

Rich Veldran (CFO):

Yes, so the 4 percent is about right. Yes, so we do expect the combination of moving some of their product into the rest of the sales force and vice versa will obviously help the overall business going forward. So that is correct.

Unidentified Participant:

OK. And then on…

Rich Veldran (CFO):

But the one thing I will add, though, as we go forward, it is going to become increasingly hard to try to separate organic from inorganic. As you will recall, we took our existing small business sales force, combined it into the Credibility sales force. So going forward, it's going to be very difficult for us to break those kind of things out. So we'll end up reporting generally speaking on a total basis, and we'll do our best to give you some indication of what organic could look like within that.

Unidentified Participant:

Fair enough. On the partnership side, I think you've talked about driving new partnerships and bringing those partnerships on more quickly. I know we've talked about Salesforce a lot in the past, and maybe this is a bit simplistic, but if we were to focus on one or two of the other partnerships that you think could really start to drive growth going forward, which are the one to two that you're most excited about?

Bob Carrigan (President, CEO):

Well, look, it is a portfolio, and what I'm excited about, and this is Bob, what I'm excited about is that we've introduced some new alliance relationships in different use case areas. So we introduced our first ERP in the cloud deal with NetSuite. We introduced an alliance in the cap market space with [TenTen]. We're pursuing the whole digital marketing arena with Adobe.

So I don't want to make a call as to which one will be better than the other. But I could tell you, we're working with leading providers, some of the most innovative companies in those spaces, and these are great places to leverage our content in new ways. And certainly, we've learned a lot from past alliances, and as we do more and more of these we hope to get better and better.

And so, that's why we're pretty optimistic about where we're going with this, and we're going after -- we'll continue to go after high growth partners in segments where we think we can add tremendous value to the end customer.

Unidentified Participant:

OK. And then, just one quick modeling one from me. When you talk about the negative 3 percent to 1 percent EPS growth in 2015, now that we have Australia out of there, what is the adjusted EPS number for 2014 that would be for that comparable?

Rich Veldran (CFO):

OK. So for the -- I'm going to go to the full year. It would be $7.18. But what we can do, so it was actually basically the same.

Unidentified Participant:

OK. Thank you.

Rich Veldran (CFO):

What we can do is, we'll walk you through all the Australia stuff later.

Unidentified Participant:

All right. Sounds good. Thanks.

Operator:

Your next question comes from Andre Benjamin with Goldman Sachs. Your line is open.

Andre Benjamin (Analyst - Goldman Sachs):

Good morning.

Bob Carrigan (President, CEO):

Hey, Andre.

Andre Benjamin (Analyst - Goldman Sachs):

My first question, I know at the Analyst day you discussed efforts to better incentivize the salesforce to prioritize the new sales and upsell. I was wondering if you can provide any update on how the selling strategy is evolving? I know you partly touched on that with your answer about the global accounts focus, but anything else regarding Salesforce.

Bob Carrigan (President, CEO):

Well, look, in general, we're very focused on upping our execution with the salesforce. You know that's a critical focus for us. We're happy to see some accelerated sales momentum, at least in North America. We do have pockets of challenges like we mentioned in our Benelux area.

Just generally speaking though, as we look at incentives and compensation, we've -- to be consistent with our desire to attract more new business, we've created plans that give much more incentive and higher hurdles around accomplishing more new business sales. That's very much in the market right now.

And for our sales folks to be able to hit their goals, they need to bring in more new business. So we've raised the bar there. That's all part of upping our game, and increasing the performance of our direct sales execution.

Andre Benjamin (Analyst - Goldman Sachs):

And in terms of the alliances, I know you're probably working on a number of them. You've emphasize a portfolio approach. On the back of the KPMG alliance which was the first outside of the sales and marketing channel, are there any other areas that you can talk of, that make sense for us to be thinking about, big picture, where you think that your data can add value that may not be on our -- at the forefront of our minds today?

Josh Peirez (COO):

Hey, Andre, it's Josh. Just to emphasize in connection with KPMG, that's our first partnership in the compliance space. We do actually envision other partnerships in the alliance space as well. And then, we have partnerships in the audience solutions space. You could think of it as adtech which we've recently launched with Bluekai and Adobe. So all those are in sales in marketing, it's in a space where we haven't had partnerships traditionally.

And then, I would also emphasize that we've launched in the capital markets space. So again, not really what you would think of as our traditional risk or sales and marketing space.

So a space to help people to actually figure out how to price bonds and equities, based on data that we're seeing that would be for - public companies would be disclosing cash flow, for example, and would cover private companies that you wouldn't actually have that visibility into. So you're seeing us really enter into spaces like this.

Again, in our reporting they will show up as either sales or marketing or risk, simply because that's how we bucket our reporting, but these are all new spaces for us. And when we talk about the portfolio play, it's both a portfolio of blue chip companies, but also a portfolio of opportunity areas, where we think the growth outpaces our current growth rates.

So that there's actually growth in the segments like compliance, like capital markets, like the adtech space, with the companies who are the number one, two, three players in that space and growing rapidly.

Andre Benjamin (Analyst - Goldman Sachs):

Is there anything that you would call out on the floor that you're not currently doing, where you see an opportunity?

Bob Carrigan (President, CEO):

Well, this is Bob, Andre. So Josh mentioned the adtech arena. That's a -- I just saw a report by the IAB and PWC that showed that about half of all display advertising is moving to programmatic, and that is a market that is going from B2C to B2B pretty rapidly.

So a lot of B2B marketers are looking to find ways to leverage data, to find and target the right buyers on the web. And so, we're leveraging our data now, and surfacing it for the adtech ecosystem, being available on some of the most popular data management platforms like Bluekai.

We've got some relationships with some of the larger trading desks, and so that our -- again, our data can be used to target. And with the NetProspex data, we're bringing in -- we have so many more contacts and names, and we associate them with the Dunn's number, and use that data to be able to target. That's very different from how a lot of companies use data, where it's largely web behavioral or intent data.

We have very deterministic, foundational data from our database. And that's a whole -- that's just an example of a sales and marketing use case where we hadn't played before. It's an area with some natural wind to our back.

We've already gotten some early sales from this and we see this as an area that we've just jumped into. But it's an area that, again big market with lots of momentum, just again another example of how to leverage data across in a use case, and we're excited about that one.

Andre Benjamin (Analyst - Goldman Sachs):

Thank you.

Operator:

Again, as a reminder, in order to ask a question, please press star then the number one on your telephone keypad.

Your next question comes from Brett Huff with Stephens, Inc. Your line is open.

James Rutherford (Analyst - Stephens):

Thanks for taking the questions. This is James Rutherford in for Brett. Just a couple of quick ones. One is on international, you talked about this a little bit already.

On the trade credit piece specifically, it's not the compliance piece, just give me more color on what drove that 4 percent constant currency decline in the international trade credit? And then to clarify, did you expect the entire international to return to kind of low single-digit growth in the second half?

Rich Veldran (CFO):

Yes, I can take that. So this is Rich. If you disaggregate it, what you'll see is DNBi outside the US actually was up a nice 10 percent. We did have some legacy older trade credit business declines that did hurt us in the quarter. I'm expecting over time though, as DNBi takes bigger hold and certainly as we bring the cloud application to bear outside the US, that you'll start to see trade credit pick up as well.

James Rutherford (Analyst - Stephens):

OK. The other question I have was on the Emerging Businesses. You said it did better than expectations. It sounds like that was mostly on the Credibility, the credit-on-self side, and then some in Hoovers, but probably still early stages in the SMB DNBi piece and the reacceleration there. Is that a fair way to kind of characterize that in terms of the strength being mostly in the credit-on-self piece?

Bob Carrigan (President, CEO):

Look, there's two things. First of all, it was only six weeks, so it's early.

James Rutherford (Analyst - Stephens):

Sure.

Bob Carrigan (President, CEO):

So we, actually beyond just the Credibility business that came in, we saw our small business group perform much better in this quarter than they had. Then just for perspective, that business was down about 5 percent in the first quarter, and was down 2 percent this quarter.

So we're seeing that move in the right direction. Again, I'll emphasize that, as we've now combined, it's going to be hard to disaggregate the two pieces. But for this first six week period, it was real easy to do so.

James Rutherford (Analyst - Stephens):

OK. Thanks so much.

Operator:

Your final question comes from Shlomo Rosenbaum with Stifel Nicolaus. Your line is open.

Shlomo Rosenbaum (Analyst - Stifel Nicolaus):

Hi, thank you for letting me back in. What's the baseline for operating income excluding Australia? Because we're all going to be building models, looking at what the baseline is. And we just want to get, the same questions you had for EPS, if we could get that for Australia for revenue and all that?

Bob Carrigan (President, CEO):

Yes, and what we'll do is we can actually walk you guys through it, because we're putting the model out there. We can actually walk you guys through every piece of it. So it's probably just best to -- we'll put the model up, and just walk you guys through it.

Kathy Guinnessey (Treasurer, IR Officer):

Yes, Shlomo, that five year model we have on the website, will be posted this afternoon. So it's going to have all the history going back.

Bob Carrigan (President, CEO):

We'll do it by quarter, so it will be --.

Kathy Guinnessey (Treasurer, IR Officer):

By quarter for a couple years.

Shlomo Rosenbaum (Analyst - Stifel Nicolaus):

OK. And just as I look through the tables in the press release, the last table in the press release shows Australia with negative $0.5 million operating income. But when you have the discontinued operations in the P&L, looks like it's contributing $700,000. So what's going on there? How do I understand what's going on?

Bob Carrigan (President, CEO):

It was some tax help.

Kathy Guinnessey (Treasurer, IR Officer):

Tax help.

Rich Veldran (CFO):

There was some tax help. We have some tax structures from Australia that helped as well. So that was the other, but we can walk you through that as well.

Shlomo Rosenbaum (Analyst - Stifel Nicolaus):

What I am trying to understand, is that a -- did you sell a money losing business or a money making business?

Rich Veldran (CFO):

No, no, it made $0.5 million. So after -- so those negatives are subtractions. So before we discontinued, it was $80.7 million. We actually made $0.5 million. So it's positive.

Shlomo Rosenbaum (Analyst - Stifel Nicolaus):

I see (multiple speakers).

Rich Veldran (CFO):

it's a funny display. That's a subtraction from before we divested. So by divesting it you lose $0.5 million.

Shlomo Rosenbaum (Analyst - Stifel Nicolaus):

Got it, no, I get that. And then just one last thing, just in terms of thinking about how we should be layering in the acquisitions, can you give us a little bit more specificity for the last two quarters of the year, in terms of how we should think about both NetProspex and DBCC?

Kathy Guinnessey (Treasurer, IR Officer):

Yes, Shlomo, what we said in the beginning of the year, and they're probably pretty well spread, spread evenly, we said that we expected NetProspex to contribute about 1 point of revenue for the full year, and that Credibility would contribute about 4 points. So overall, about 5 points for the full year. It's a full year of NetProspex in that 1 point, and it's 7 1/2 months of Credibility.

Shlomo Rosenbaum (Analyst - Stifel Nicolaus):

And just assume it's ratable?

Kathy Guinnessey (Treasurer, IR Officer):

I'm just saying, assume that improvement -- (multiple speakers).

Rich Veldran (CFO):

Well, mostly ratable.

Kathy Guinnessey (Treasurer, IR Officer):

You can spread it pretty evenly across the year, yes.

Shlomo Rosenbaum (Analyst - Stifel Nicolaus):

OK. Thank you so much.

Kathy Guinnessey (Treasurer, IR Officer):

No problem.

Operator:

There are no further questions at this time. I turn the call back over to the presenters.

Kathy Guinnessey (Treasurer, IR Officer):

OK. Great. Well, thank you very much for your interest. We'll talk to you next quarter.

Operator:

This concludes today's conference call.