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CORPORATE PARTICIPANTS

Kathleen M. Guinnessey
Treasurer and Investor Relations Officer, Dun & Bradstreet Corp.

Robert P. Carrigan
Chairman and Chief Executive Officer, Dun & Bradstreet Corp.

Richard H. Veldran
Chief Financial Officer, Dun & Bradstreet Corp.

Joshua L. Peirez
President & Chief Operating Officer, Dun & Bradstreet Corp.

OTHER PARTICIPANTS

Peter P. Appert
Analyst, Piper Jaffray & Co.

Jeff P. Meuler
Analyst, Robert W. Baird & Co., Inc.

Stephen Hardy Sheldon
Analyst, William Blair & Co. LLC

Shlomo Rosenbaum
Analyst, Stifel, Nicolaus & Co., Inc.

Adam Parrington
Analyst, Stifel, Nicolaus & Co., Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to Dun & Bradstreet's 2016 Fourth 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. [Operator Instructions]

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

Kathleen M. Guinnessey
Treasurer and Investor Relations Officer, Dun & Bradstreet Corp.

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

Here's what you can expect on our call. Following my brief remarks, Bob will provide an overview of our results, and an update on our strategy. Rich will then take you through the highlights of the quarter. After that, we will open the call for your questions.

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. We undertake no obligation to update any forward-looking statements.

From time-to-time, we may refer to sales, which we define as the annual value of committed customer contracts. This term is often referred to as bookings or commitments by other companies. In addition, we speak from time-to-time about deferred revenue. As a reminder, deferred revenue is a liability that refers to revenue that has not yet been earned, and represents products or services that are owed to our customers. As the products and services are delivered over time, it is recognized as revenue on the income statement.

Deferred revenue is important to management, because it provides insight into the health of our future revenues. When we refer to the change in deferred revenue, we mean before foreign exchange, dispositions and acquisitions, and the impact of write-down of deferred revenue due to purchase accounting unless otherwise noted.

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 also before the effect of foreign exchange.

Additionally, when we discuss organic revenue growth, we will be referring to as adjusted revenue before the impact of acquired and divested businesses. And 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 exclude the results of discontinued operations. When we discuss free cash flow guidance, 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 unless otherwise noted.

You can find the reconciliation between these and other non-GAAP financial measures and the most directly comparable GAAP measures in schedules to our earnings release. They can also be 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 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 expenses, 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 Dun & Bradstreet's results computed in accordance with GAAP.

Later today, you'll also find a transcript of our prepared remarks on our Investor Relations site.

So with that, I'll now turn the call over to, Bob Carrigan.

Robert P. Carrigan
Chairman and Chief Executive Officer, Dun & Bradstreet Corp.

Well, good morning, everyone, and thank you, Kathy. Last night, we reported our earnings for the fourth quarter and full year 2016. I am pleased that our results were in line with our expectations for the year, and we hit all of our guidance metrics.

As expected, we finished the year with a strong fourth quarter, which has been our pattern over the past several years. Many of our biggest customers performed their most sophisticated data projects towards the end of the year, and we see an uptick in our revenue.

Specifically, organic revenue in the fourth quarter was up 5%, bringing full-year organic revenue growth to 2%. Operating income for the quarter was up 4%, and full year operating income was up 3%. EPS was up 4% in the fourth quarter, and 1% for the full year. And we delivered $263 million of free cash flow.

I'm really proud of the progress we've made as a company, and we see lots of evidence our strategy is working. Since we launched this strategy in early 2014, we've gotten revenue to consistent low-single-digit growth after five years of flat performance. Our newer, modern delivery products are growing the fastest, while our legacy solutions have been holding us back somewhat.

So today, I'll give you a quick update on our newer solutions, but I really want to focus on what we're doing to modernize our legacy solutions, which will help us get the company to consistent, mid-single-digit growth, enabling us to both invest in the business, and expand margins.

Last quarter, I talked about how modern delivery of our solutions is driving growth. In 2016, more than 20% of our total revenue in the Americas came from our cloud-based and as-a-service solutions. The transition to modern as-a-service delivery is good for our customers as it puts our data in their workflows across platforms and update it in real time. It means that they can have our data always on in their preferred tools at the time they need it, up-to-date and accurate every time they access it.

These modern delivery solutions predominantly in our Other Enterprise Risk and Advanced Marketing categories are also growing much faster than the rest of the business. The product sets include our Data-as-a-Service, or DaaS solutions where our data is delivered through APIs and our cloud-based products.

Specifically, the modern delivery products and Other Enterprise Risk and Advanced Marketing include newer solutions like D&B Direct, Optimizer for Contacts and our Credit-on-Self solutions.

We're also proud of what we've been in trade credit with D&B Credit, the newest addition to our as-a-service portfolio. As we talked about, growing our solutions in both trade credit and Traditional Prospecting has proven more difficult than we originally anticipated, and these legacy solutions have lagged behind our faster-growing solutions in Other Enterprise Risk and Advanced Marketing.

The launch of D&B Credit is an important step in turning trade credit around, and also in modernizing delivery of a significant piece of our business. After launching D&B Credit in early 2016 to move DNBi to the cloud, we are already seeing good progress. In the Americas, we've moved DNBi from down 4% in the first half of the year to down 2% in Q3 and down one point in the fourth quarter.

We're seeing progress in both improving retention and new customer acquisition. About 50% of our DNBi business renews between December and March. If we keep the trends we've seen over the last few quarters, we could get revenue in DNBi back to flat in the Americas in 2017 after five years of decline.

We are now focusing our attention on the second major legacy product, Hoover's. We said we needed to revamp Hoover's, which has been the prominent product within our Traditional Prospecting category. We've defined

Hoover's in the context of the Traditional Prospecting use case, providing customers the ability to generate leads and find high-quality prospects.

However, as we looked at how Hoover's fits in the broader sales and marketing landscape, we realize that we had a much bigger opportunity in the under-penetrated and fragmented sales acceleration space of which prospecting is just a subset.

So when we talk about sales acceleration, we mean helping companies advance relationships from prospects to paying customers by using data to give them insights into who to talk to, when to talk to them, and what to talk to them about. The market for sales acceleration is substantial. Also, the preeminent research firm covering the information industry pegs the market size at about $10 billion worldwide, and it is fragmented and underserved.

Given our data advantage, we are the best positioned to capture market share and grow faster than the overall market. So our aspiration is much bigger than creating a better prospecting tool by rebuilding Hoover's. We are the market leader in sales acceleration now, and we have all the capabilities to substantially extend that lead.

So I'm going to take a few minutes to update you on why we are positioned to do just that. So bear with me as there are a couple of pieces to the puzzle, but we're confident that we have the right strategy for long-term success in this very important market.

A critical piece is our acquisition of the Avention. Now, Avention is one of the leading companies in the sales acceleration space through its flagship OneSource platform. They've got some blue-chip customers that we didn't have, particularly in law, consulting and recruiting firms, so the acquisition provides opportunities to cross-sell new customers' additional products.

Avention made significant investments in 2015 in their product, technology and sales team to grow in the sales acceleration market. Their OneSource platform has intuitive capabilities valued by customers, including real-time triggers and alerts, the ability to integrate timely sales intelligence [Technical Difficulty] (10:31) social media, and APIs that allow us to plug into third-party CRM, and marketing automation solutions.

These are capabilities that we're lacking in Hoover's as we approach the sales acceleration market with world-class business data, not necessarily world-class software, enhanced with contact data from our NetProspex acquisition.

In other words, Dun & Bradstreet had led with data, while Avention has led with software. These combined capabilities now allow us to bring customers a new product with our unparalleled data, accessible in a great new application. This new solution is what we'll be selling going forward, replacing the existing Hoover's and OneSource standalone products. In fact, the first version of the new product will be out by the end of this quarter.

Another big piece of our strategy around sales acceleration involves the CRM space. An important part of that is our relationship with Salesforce. As you know, when we started working with Salesforce in 2011, both companies believe that the best way to sell Dun & Bradstreet data was to make it available on the Salesforce CRM platform through Data.com.

The partnership has been a real success for us. However, our revenue from this alliance has slowed, particularly in the second half of 2016. And given this trend, we expect our revenue from Salesforce to decline slightly in 2017.

Now, both Dun & Bradstreet and Salesforce believe that there's a lot of opportunity to further penetrate the Salesforce customer base, and we also agree that Dun & Bradstreet has the data expertise needed to grow sales of our data and insights on their platform.

So we worked with Salesforce and have agreed that Dun & Bradstreet will start selling directly to Salesforce customers on their platform with our own solution. Through the Avention acquisition, we now have the ability to sell our new product into the Salesforce ecosystem with the best business data, enhanced with our NetProspex contact data, it is not previously been available in Data.com, all in a great new product.

This change enabled us to further penetrate the Salesforce customer base, which is a huge opportunity for us as Data.com has had a relatively low penetration of that base so far.

We believe that we have positioned Dun & Bradstreet to really go after the sales acceleration market. We will put Hoover's, Avention and our new Salesforce integrated offering under one comprehensive suite of products called D&B Hoover's to take advantage of both Dun & Bradstreet and Hoover's strong brand equity.

We're really excited for the opportunity we see in sales acceleration and to execute our plan to build market share in this space. And that brings us to 2017. This year will be a pivotal year for Dun & Bradstreet. We've really got a lot going on.

We're continuing to migrate customers to D&B Credit, and bring new features to the platform, and we are continuing to modernize our other solutions to as-a-service and cloud-based delivery, particularly in the sales and marketing space, where our value proposition is strong as companies increasingly use our solutions to clean and manage their data. We continue to see strong growth from data management solutions, which is a significant competitive advantage for us.

At the same time, we're evolving our go-to-market strategy in the sales acceleration space. We're really excited about the opportunity we see in this space, however, given the downward revenue trajectory from the Salesforce alliance, we expect some drag on revenue in the near-term. So in our 2017 guidance ranges, we've assumed that revenue from Salesforce decline slightly in 2017, and we will start to ramp-up sales of our new product.

We also expect a drag on operating income in 2017 due to the lower revenue from Salesforce as well as investments to begin selling D&B Hoover's on their platform. While this tempers our results in 2017, it sets us up for better, more sustainable long-term growth. As such, our guidance for 2017 is as follows.

Organic revenue growth of 1% to 3% with total revenue growth of 3% to 5%. Operating income is expected to be about flat in the range of minus 2% to plus 2%, which includes about four points of drag from the changes in our Salesforce alliance. Now, Rich is going to talk to you about EPS and cash flow in a moment.

So in summary, we are excited to continue executing our strategy, the launch of D&B Credit and our approach in sales acceleration puts us in position to turn those businesses around.

And as I step back and reflect on all we have accomplished in the three years since launching this strategy, including restructuring our sales team, building innovative new use cases, and moving DNBi and other products to modern delivery solutions, as well as the success we've had in M&A, I can see that the strategy is working.

I'm confident that we've got the team and expertise to successfully execute this next phase of our strategy to address the legacy parts of the business, and continue to grow in the newer areas of our business.

Now with that, I'll turn the call over to Rich Veldran, who will discuss our fourth quarter and full year results in further detail. Rich?

Richard H. Veldran
Chief Financial Officer, Dun & Bradstreet Corp.

Thanks, Bob, and good morning everyone. As Bob said, 2016 results were in line with our expectations, and we finished the year with a strong fourth quarter. In my comments this morning, I'll give you more detail on our fourth quarter results, and then, I'll talk about our full year 2017 guidance.

As we expected, and consistent with prior years, the fourth quarter was our fastest-growing quarter. Total revenue for the company grew 4%, and organic revenue grew 5% in the quarter. Total revenue growth is lower than organic due to the impact of divesting our Benelux and Latin American markets during the fourth quarter. The divested revenue was worth about 1 point to total growth rate.

Now, let me give you more detail on our segment performance. The Americas had fourth quarter revenue of $441.2 million, which represented 85% of our revenue in the quarter. Total and organic revenue were each up about 4.5%.

Within the Americas, Risk Management or RMS was up 1% in the fourth quarter as strong growth in Other Enterprise Risk was offset by declines in trade credit. Other Enterprise Risk grew 10% in the quarter, with the strong growth spread across the product mix with particular strength in compliance and supply driven by new business. Trade credit was down 4% in the quarter. The combined DNBi and D&B Credit category, which makes up almost three quarters of trade credit revenue declined 1%.

As Bob discussed, we launched D&B Credit, our new cloud-based workflow tool for credit positioning in early 2016. This was an important part of our strategy to modernize delivery of our products to attain higher value revenue. D&B Credit is a subscription-based product, and as we said at the time of the launch, it takes some time for results to meaningfully impact overall revenue.

I'm pleased to say that we're starting to see those results now, as the performance of the combined category went from being down 4% in the first half of the year to a 2% decline in the second half with an improving trajectory. As Bob said, we believe that we can get the combined DNBi, D&B Credit category to flat in the Americas in 2017. Other trade credit was down 11% in the quarter, largely due to shifts out of this category to other product categories.

Now, let me shift to sales and marketing where revenue was up 8% in the quarter. This is an area where we're really seeing returns on our investment in modern delivery products. We haven't spent a lot of time on data management today, given the more timely sales acceleration discussion, but it remains a very important part of our overall sales and marketing strategy. In fact, Advanced Marketing Solutions was up 13%, driven by strength in our data management solutions including Optimizer.

Prospecting solutions declined 10% during the quarter, as the decline in Hoover's accelerated a bit. We believe, we're well-positioned to address this drag based on the new approach to the sales acceleration market that, Bob discussed.

Shifting to non-Americas, revenue was $75.9 million in the fourth quarter, which represented 15% of revenue for the company. Total revenue was flat, and organic revenue grew 6%. The organic revenue growth was due to strong growth in Asia and our European partnerships, particularly offset by softness in the UK market due to the lack of new business to offset growth from one-time profits in 2015.

Deferred revenue was up about 2.5% for the company before M&A activity and the impact of foreign exchange. Americas deferred revenue was up 3%, and non-Americas was down 2%. Organic sales for the year showed growth of about 2%. Sales grew a little slower than 2015 due to weakness in the UK, as well as the slowdown in Data.com that Bob talked about.

Now, let me turn to profitability. Operating income in the quarter was up 4% as increased investment spend was more than offset by revenue growth. Overall, we had around $36 million of investment in 2016 to support our strategy.

EPS increased 4% in the quarter to $2.99 per share. The increase was due to higher operating income as well as lower tax expense and a lower tax rate (sic) [and lower interest expense] (20:56) in the quarter. For the full-year, our tax rate was 31.3% compared with 31.7% in the prior year.

Turning to the balance sheet, we ended the year with $1.6 billion of debt, including about $1 billion of fixed rate senior notes and $600 million of floating rate debt. Our cash balance at year-end was $353 million for net debt of $1.3 billion.

Now, before we open the call for your questions, let me give you a little more color on 2017. As Bob said, 2017 is a pivotal and exciting year for us, as we continue to modernize delivery of our data and insights for our customers.

Let me put our progress against the strategy in context for you. We've said that we believe that this business can deliver consistent mid-single-digit revenue growth, and I'm convinced that we are on the right path to do that.

As we move more of our solutions to modern means of delivery and bring new use cases to customers, our business grows faster. Most of these products today are in our Other Enterprise Risk and Advanced Marketing categories, which together represent about half of our revenue. These categories are already growing in the high-single-digits organically.

The other half of our business, trade credit and Traditional Prospecting, have been declining low to mid-single-digits. Today, we spent a lot of time on what we're doing to get these businesses back to growth, and I believe that we have the right plans in place to do just that.

The launch of D&B Credit is doing what we expected in moving the needle on our DNBi revenue which is three quarters of trade credit. In terms of addressing the decline in Traditional Prospecting, we've completely re-imagined the space through our sales acceleration strategy, where we have plenty of runway for growth.

As Bob mentioned, we've accounted for some drag in 2017 as we go after this exciting opportunity, and we viewed some conservative assumptions in our 2017 revenue and operating income guidance ranges. Specifically, we expect organic revenue growth of 1% to 3% in 2017 and operating income growth of about flat in the range of minus 2% to plus 2%.

We expect a decline in revenue from Salesforce combined with some start-up go-to-market costs to launch our D&B Hoover's offering on the Salesforce platform to pressure our bottom line by about four points during the year, a primary factor in our overall expectation for flat operating income in 2017.

As for the rest of the guidance metrics, we expect EPS to decline 4% to 9%, primarily due to increased interest expense. And we have a few things at play here. First, the Fed is expected to increase interest rates two to three times in 2017, which will impact our floating rate debt.

Second, we have a $450 million note maturing in the fourth quarter of this year, which we expect to refinance at a higher rate than the expiring coupon, and with some interest overlap.

And third, we expect pressure on our interest costs as our M&A strategy is expected to cause our leverage to remain elevated in 2017. In addition, we expect our tax rate for the year to be about 32% compared with 31.3% in 2016 as we had some one-time benefits last year that will not repeat.

Finally, our free cash flow guidance is $215 million to $245 million, which is lower than prior years. There are always multiple timing issues related to cash, but this year we also have three large items that together account for over $30 million of free cash flow decline.

First as I said, interest expense is expected to be higher this year. Second, we have a higher payout on the Credibility earn out. And third, we have a payment for the settlement of a lawsuit.

Let me just note that our free cash flow guidance does not include costs related to the China matter as we do not yet know the timing or final amount. And before closing, I want to spend a minute on the quarterly timing of our business.

Consistent with the seasonal pattern of our business, we again expect a slow start to the year followed by a strong second half with a particularly strong fourth quarter. As in prior years, we expect the first quarter to be our weakest with organic revenue down slightly, which includes the shift in timing of a large government contract.

We expect operating income to be down in the mid-teens percentage range. As first quarter operating income is our seasonally smallest, a small decline in revenue has a disproportionate impact on the operating income growth rate.

Once again in 2017, the fourth quarter is expected to be our strongest, as our large customers perform their big data projects at the end of the year in preparation for the year ahead. These are our fastest growing customers, and they're also buying some of our fastest-growing products.

And as we've improved the execution of our sales team, we're successfully upselling new solutions to these customers. These quarterly trend in both our revenue and operating income are consistent with the historic seasonality, and we've taken it account into our full-year guidance.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of Peter Appert with Piper Jaffray. Your line is open.

Robert P. Carrigan
Chairman and Chief Executive Officer, Dun & Bradstreet Corp.
A

Good morning, Peter.

Peter P. Appert
Analyst, Piper Jaffray & Co.
Q

Good morning. So Bob, I guess, I don't fully understand why the Salesforce revenues is rolling over. I think they continue to see fairly strong momentum in their business, what is the issue, please?

Robert P. Carrigan
Chairman and Chief Executive Officer, Dun & Bradstreet Corp.
A

Yeah, look we have – Salesforce is an incredible company. We have a terrific relationship with them, and the opportunity is substantial. We did see a decline in our revenue from Data.com in the second half of last year, and so – we've worked with them to put a plan together where we, as the experts in the data space are going to address the needs of the customers in that market.

Again, we're still going to be working with Salesforce on this. We're just going to get much more directly involved in particularly new business sales. I should also say that, about two-thirds of our planned 2017 revenue from Salesforce is already from committed sales that occur before 2017. And there's also a significant amount of revenue for 2018 contractually committed as well.

And so, we'll have this ongoing relationship with them, but as we – especially again with the acquisition of Avention you can start to see how we're putting these pieces together, really take advantage of – what is an underpenetrated market, and really also underpenetrated on Salesforce. We have a relatively low penetration of the overall Salesforce customer base, and look we're specialists in this. We're going to focus on this, and we're the ones that are best suited to really take advantage of the opportunity on that platform.

Peter P. Appert
Analyst, Piper Jaffray & Co.
Q

Is the issue, Bob, that Salesforce clients are choosing to use a different data supplier, because I think, I was remembering that you had an exclusive deal with Salesforce; is that correct or not?

Robert P. Carrigan
Chairman and Chief Executive Officer, Dun & Bradstreet Corp.
A

Yeah. We had an exclusive relationship with Salesforce in the Data.com offering, and obviously we work closely with them to develop that joint product. We're also going to be selling our own new product, which is going to leverage the APIs from Avention, a company we acquired. They've already got an API into Salesforce. They've been selling on that platform.

So under this structure, we're going to be working closely with Salesforce. As we market the new offerings and provide, obviously our main focus is providing a great experience to the end users, and so we're excited about the opportunity there.

Peter P. Appert
Analyst, Piper Jaffray & Co.

Q

And Bob, can you talk for a second about your non-Salesforce CRM business, how that's progressing?

Joshua L. Peirez
President & Chief Operating Officer, Dun & Bradstreet Corp.

A

Hey, Peter, it's Josh, I'll jump in, and I'll talk more about the alliances portfolio in general. So we do view it overall as a portfolio of blue-chip alliance partners, And we're not looking at any single one as being the major driver of growth, but we are starting to see growth from a number of key relationships and categories, in particular, we're seeing continued growth from the Audience Solutions area. We're very excited about this use case as it's clearly where our marketing spend is heading, and we have some unique assets in the space that we think are resonating extremely well.

The growth rates are large, but it's not yet a meaningful material piece of our business and it's still such a new product set for us. We're also very excited about the way we're able to leverage our multi-channel go-to-market structure to get our data to end users this way. So we're generating sales from alliance partners like the Oracle Data Cloud through our direct sales force, not just through the alliance partner sales force in that context.

We're also seeing traction in some other alliances like with Informatica in the Master Data Management space, and we're still very much focused on ramping and activating these relationships which we've signed over the last 12 to 18 months.

And one final point on Salesforce itself. There have always been other data providers who've sold directly to Salesforce customers, actually Avention was one of those, which is now of course ours. So we actually are able to use the integrations they had already built to get to market faster with our own solution as Bob mentioned. But we are giving you the guidance based on what we saw in the revenues in the back half of the year. That's not related to them selling different data sources. It's just a slowdown that we saw.

Peter P. Appert
Analyst, Piper Jaffray & Co.

Q

Okay, fair enough. Thank you for that. And last thing, Rich, the higher interest – I'm sorry if I missed this, but have you seen the downgrade in the credit rating or is it part of this in anticipation of a downgrade in the rating?

Richard H. Veldran
Chief Financial Officer, Dun & Bradstreet Corp.

A

Yeah. So here's what we've done, Peter. There's a few things at play. We have built into our guidance range, the expectation that one could have. It won't necessarily happen, but wouldn't want to surprise you later, if it were to happen, so we did build that into.

And that's about a point of the EPS decline that you have to put into some numbers. The other things going on in interest are – we do have a refinancing in the second half of the year, obviously a much higher rate environment. So there'll be some impact there, and typically when you do a refinancing, you're going to go a month earlier, so just to be safe, particularly with disruptions in the market, you get a little bit of extra interest overlap.

And then last, as you saw, we ended the year with about $600 million of variable debt. We're assuming that Fed's going to raise two to three times; we've already seen bit of an increase since last year. So we've built that in as well, so all of those together really do put some pressure on interest expense in the year.

Peter P. Appert
Analyst, Piper Jaffray & Co. Q

Got it. Understood. Okay. Thanks very much.

Robert P. Carrigan
Chairman and Chief Executive Officer, Dun & Bradstreet Corp. A

Sure.

Operator: Your next question comes from the line of Jeff Meuler with Baird. Your line is open.

Jeff P. Meuler
Analyst, Robert W. Baird & Co., Inc. Q

Yeah. Thanks. I guess on Salesforce, did the retention deteriorate over time or was there some reason why their sales force lost interest in selling it? And then, does your take rate, the percentage of the revenue share that goes to you go up, commensurate, I guess with the increased expense that you're going to have to sell the product?

Joshua L. Peirez
President & Chief Operating Officer, Dun & Bradstreet Corp. A

Hi, Jeff. It's Josh.

Jeff P. Meuler
Analyst, Robert W. Baird & Co., Inc. Q

Hi, Josh.

Joshua L. Peirez
President & Chief Operating Officer, Dun & Bradstreet Corp. A

I'm going to try to answer all three of those, if I miss one just remind me. So we have not seen changes in underlying customer metrics of retention or otherwise, we can't really speak to their sales. I mean, that's something you'd have to talk to them about, but in terms of what we're seeing, the feedback from customers is still that they really do like the value proposition and they're seeing it.

We just saw in the royalties we received a slowdown in those revenues, and a decline. And so, we're factoring those into our guidance. We're also – obviously been in conversations with them throughout the entirety of our relationship, and have shifted it multiple times. And as we first started to see this, we agreed that, actually we should be the ones in market selling directly to customers.

And when you put the pieces together of what we've got in terms of the data assets, and now with the product from Avention, that was part of the acquisition we bought, we're positioned to do that very quickly, and as Bob mentioned, actually be in market with the first version of that product this quarter, which is for us, great speed in terms of getting to the opportunity.

In terms of revenue shares, this will be a product that we sell. So we will be taking the full value of any of those sales. It will be a ratable product, so you'll see that revenue over time, but we would be taking the full amount of that revenue.

Jeff P. Meuler
Analyst, Robert W. Baird & Co., Inc.

Q

Okay. And then, I guess, just a question on overall spend levels. You've increased spend quite a bit in the last three years, and I know that some of it – some of the initiative spend was going to stick, you hire some data analytics people and their salaries are in the ongoing spend rate, but the other areas like the rebranding, I would have thought that, that would have freed up dollars to shift to another area, but it seems like the spend level keeps drifting higher.

I don't know if you can just – I know that's a generic question, but if you could comment on spend levels and why there is not a shifting of initiative spend from prior areas or savings and other parts of the business to help better fund some of the new initiatives?

Richard H. Veldran
Chief Financial Officer, Dun & Bradstreet Corp.

A

Yeah, let me start on that, and then see if anyone else wants to comment; a couple things. We've said pretty consistently throughout that we do expect to continue to invest year-after-year, call it in the 30-ish million dollar range, $30 million to $40 million right – which we continue to do.

Our model, which is what we're operating against. In a data business, you can fuel that level of investment to continue to drive the long-term, and when you get too low to mid-single-digit-ish growth, you can more than pay for that investment and expand margin.

Now, as you know, we haven't quite got to the mid-single-digit organic yet, which is why you haven't seen margins expand. But in terms of the level of investments, for a company of this size, we should be doing that type of level of investment, because quite frankly, there is tremendous opportunity out there for the spaces that we play, and we want to take advantage of them and fully intend to take advantage of them.

Our goal is to get the revenue moving, and we're doing that; the last two pieces of the puzzle around the legacy businesses, I believe we've addressed. And we're going to see the business fulfill its destiny. Bob, may want to comment?

Robert P. Carrigan
Chairman and Chief Executive Officer, Dun & Bradstreet Corp.

A

Yeah, let me just add to that, Jeff. We have – as Rich said, we now have moved the revenue to growth, and we're at this low-single-digit sustainable growth, and that is a much better place to be than where we had been the prior five years to launching this strategy, where we were flat. In fact, there was quite a lot of negative momentum, I will say, and if there's anything that I didn't fully appreciate, it was in some of the legacy areas of the business that we've talked about.

We've been very purposeful in how we have invested in the business, and how we've used M&A, which has been a huge success for us. The Credibility acquisition and that prospects have really, as we said, exceeded our acquisition economics. We're leveraging the talent and the technologies in meaningful ways, and look at what we're doing with Avention, right. We're using that application to be in market this quarter to quickly get in market when we're seeing sharp declines from that Salesforce relationship.

So we have a – we're very proactive, and we're addressing these areas, and very purposeful in our investments. We definitely see improvements in not just revenue, but customer satisfaction through our Net Promoter Score increases, the employee engagement, the brand engagement.

All these things have put together are helping us to get to this sustainable growth rate, and we certainly see lots of opportunity ahead. And as, Rich said, as soon as we can get this revenue to that sustainable mid-single-digit, we create the capacity to invest on an ongoing basis.

So that's the model. And some areas are taking a little longer than others, but we're – as I reflect on it, we're in a much better position, and we're taking control of the opportunity. And as we – as Rich said about half the revenue, it's in these areas that are growing really well, Other Risk Management and in Advanced Marketing, it's this half of the business that's in legacy.

And if you just look at what we're doing with D&B Credit, we said that for the first time in five years we could see getting our head above water in 2017. That will be a huge moment for our company and it will address about 25% of our global revenue, and now we've got a strategy against Hoover's in the sales intelligence space; with the acquisition of Avention we're moving very aggressively in that area.

So there's investment that's required with these things. But, I hope you could see how we are addressing the issues at hand and maximizing the potential of this business as we go forward.

Jeff P. Meuler
Analyst, Robert W. Baird & Co., Inc.

Q

Okay. And then, I think this was in Rich's answer, but if you could just confirm that I interpreted it correctly. You've done the refresh on DNBi, you've done the refresh with the Avention acquisition on Hoover's, there's no other large legacy products beyond those two that require a step function improvement in terms of the capabilities? Is that correct?

Robert P. Carrigan
Chairman and Chief Executive Officer, Dun & Bradstreet Corp.

A

No. I think that is correct for sure, and when you look at – let's get beyond this legacy conversation, right. 20% of our business is in the other end of the spectrum, which is in this as-a-service modern delivery, cloud and API. And we have moved – from near zero, we have moved our business to about 20% of that in the Americas, and that is where customers are using our Data-on-Demand. It's a much better place for us to be embedded in workflows, much more useful for the customer.

And that's sort of – that's moving aggressively in that direction, and so, yes, you combine that with what we're doing on legacy. As we move trade credit from DNBi to D&B Credit, those customers will move into that as-a-service higher value place, and that bodes very well for our company going forward.

Jeff P. Meuler
Analyst, Robert W. Baird & Co., Inc.

Q

Okay. Thank you.

Robert P. Carrigan
Chairman and Chief Executive Officer, Dun & Bradstreet Corp.

A

Sure.

Operator: Your next question comes from the line of Andrew Steinerman with JPMorgan. Your line is open.

Q

Hi. Good morning guys. This is [indiscernible] (40:53) for Andrew.

[indiscernible] (40:55)

Q

Hi, just want to touch on D&B Credit for a second. I know you were commenting there, but just given we're kind of two thirds of the way through this kind of key renewal season, what portion of DNBi customers has upgraded to D&B Credit, and maybe if you can just kind of give us a sense of the average premium when clients do upgrade to D&B Credit?

Joshua L. Peirez
President & Chief Operating Officer, Dun & Bradstreet Corp.

A

Sure, it's Josh. Let me give you a little bit of color on that and try to give you a little more context on the broader view on how we're thinking about lifts. So first, we're very pleased with the traction that we're now seeing on D&B Credit.

We're approaching 10% of the revenue base on the product, and 20% of the total customer count on the new platform. So those are good milestones for us again as we launched it early last year.

We mentioned, I think on the Q2 call that we really started to get into market in a meaningful way in the latter part of Q2, and then through the end of the year. So as we said, the metrics we saw through the renewal cycle in the latter part of the year leading into this year, if we can maintain those through March, we see getting our heads above water on the combined category this year, and we see ourselves really starting to move even more significant portions of the customer base over.

To give you some context on that, we've started to have very good traction in the emerging business space, particularly where we've seen new business and significant lift on existing customers, which has been great.

And we're seeing the adoption there to the point where we have about half of the D&B Credit customers in emerging business being new, who were not DNBi customers before, so that's very encouraging for us.

We're also starting to see some good large deals in the national space, both in upgrades from DNBi and in new customer acquisition. And I should also mention, we did launch in the summer of last year in the UK market, where we're actually starting to see good uptake in growth as well.

When we are moving customers over, we are seeing lift that's a little bit higher than what we had been seeing on DNBi renewals, however, our focus and strategy with the product is actually on increasing the retention rate, and selling new business. So as long as we're maintaining or getting a little bit more on price lift, we're happy.

Our goal is on the retention rate and the new business improving, which is how we see ourselves getting to the flat and above water, because you'll remember it, when before we were sitting in the capture rates of mid-90s, we didn't have new business to actually get ourselves over water. So that's where you started to see the decline.

So we want to get the base over – get them over with some better retention rates, get new customers on the platform, and we can continue to add value over time, because we continue to innovate and release on this product every few weeks. We've got plans this year to be launching in India, in other markets with Worldwide Network partners around the world. And to add the functionality around portfolio management and decisioning that's required for us to actually move up and move our enterprise customers to upgrade as well.

So this is a very exciting year for us on the D&B Credit side and then the trade credit space, and we believe we now have the absolute best product in market, and it's being proven by customer choices every day.

Q

Thanks. And if I could just squeeze one more in on Salesforce, sorry if I missed it, but I think you mentioned op income drag from Salesforce that was embedded in the guidance. Did you give a revenue drag from that as well, given the 1% to 3% organic revenue growth for 2017?

Richard H. Veldran
Chief Financial Officer, Dun & Bradstreet Corp.

A

Yeah, here's how we think about it, this is Rich. On the revenue side of the equation, we expect the revenue that we get from Salesforce to be a little bit lower this year than it was last year, so little bit of a decline.

Now, we're obviously expecting then to begin to sell into the platform ourselves, so that will offset some of it, but overall a little bit of a drag to our overall growth rate. And that's embedded in the 1% to 3% organic growth rate that we put out for guidance, so it's embedded within there.

In terms of the operating income drag, we'll obviously be doing some work around sales, marketing and a little bit of development work as we make sure that we can really attack the sales acceleration space and take advantage of the opportunity on that Salesforce platform. So some investment out ahead of a lots of revenue growth, that we expect in the future.

Q

Okay, thank you.

Operator: Your next question comes through the line of Shlomo Rosenbaum with Stifel. Your line is open.

Robert P. Carrigan
Chairman and Chief Executive Officer, Dun & Bradstreet Corp.

A

Hey, Shlomo.

Richard H. Veldran
Chief Financial Officer, Dun & Bradstreet Corp.

A

Shlomo?

Operator: Shlomo Rosenbaum, your line is open.

Robert P. Carrigan
Chairman and Chief Executive Officer, Dun & Bradstreet Corp.

A

Hello, can you hear me?

Richard H. Veldran
Chief Financial Officer, Dun & Bradstreet Corp.

A

Hello. Maybe he will come back in. Is there another person waiting?

Operator: [Operator Instructions] Your next question comes from the line of Stephen Sheldon with William Blair. Your line is open.

Stephen Hardy Sheldon
Analyst, William Blair & Co. LLC

Q

Good morning, and thanks for taking my questions.

Robert P. Carrigan
Chairman and Chief Executive Officer, Dun & Bradstreet Corp.

A

Hey, good morning.

Stephen Hardy Sheldon
Analyst, William Blair & Co. LLC

Q

First on the trade credit practice, can you maybe talk about overall client growth, it sounds like D&B Credit has helped, but has client wins on D&B Credit so far been enough to offset potentially any client losses in DNBi? And I guess how are you thinking about overall trade credit client growth in 2017?

Joshua L. Peirez
President & Chief Operating Officer, Dun & Bradstreet Corp.

A

Yeah, sure, Stephen. It's Josh. So first of all, we are growing the customer base on the combined DNBi, D&B Credit line, and that is a trend that is new for us starting towards the latter part of last year with this product. So we were seeing customer account decline which were a part and parcel of the revenue declines that you would've seen in reports, and getting ourselves back to getting our head above water assumes customer counts continue to increase.

And that assumption is baked into our expectations, again ratable product, so even as you get more new customers on, you'll start to see that revenue flow later into the year, and again in earnest, sales were really in the latter part of second quarter onward last year, so you will see those increases ramp-up more and more through this year.

In terms of the overall trade credit number, I think just to emphasize something Rich has said in his remarks, the numbers you would've seen in the other trade credit bucket for Q4 were almost entirely related to customers moving into other categories.

Our large customers will shift their spend at the end of the year as they look for where they can get the most volume from us, and we had a number of those shifts that can be a lumpy category, but the best indicator for us is looking at that combined DNBi, D&B Credit line, and we really like the trends we're seeing.

Stephen Hardy Sheldon
Analyst, William Blair & Co. LLC

Q

Okay. That's helpful. On the Avention acquisition, it seems like the combination of Hoover's and Avention makes a lot of sense, strategically. But how, I guess, should we think about the risk of revenue cannibalization for Hoover's, especially in the near-term, and how would the rollout of the combined D&B Hoover's business, or would it be a kind of slow rollout over the next few years or is it something that once the product's already here in the next few months, you will start moving clients to the combined product fairly quickly?

Robert P. Carrigan
Chairman and Chief Executive Officer, Dun & Bradstreet Corp.

A

Yeah. So we – this is Bob. So we mentioned that we'll have – we're moving quickly, and we'll have a product in market this quarter. And our goal is to get everybody on – ultimately on one product D&B Hoover's, and we're naming it that way to leverage strong brand equity of those names.

We did some testing and what may seem obvious, the numbers were definitely compelling when it came to using not just Hoover's but the Dun & Bradstreet name in their, especially given all the work we've done in marketing over the last couple of years.

As we said, there are – while there is some customer overlap, Avention did have some areas like in the legal area, consulting et cetera where these represent areas that we could cross-sell but the opportunity in this market is quite substantial, and when we put together our best-in-class data especially with the NetProspex acquisition that we had a few years ago, early 2015, and we combine that with the Avention software product, which has some very unique capabilities that are really beyond just Traditional Prospecting. It's got a lot of built-in triggers and sales intelligence and news feeds and all the connectors to marketing automation systems and APIs it really is quite additive.

This is a – not just a Traditional Prospecting solution, but would outsell that research firm, call it more in the sales acceleration space. And if you saw the report they published around this, they really put the combination of Dun & Bradstreet and Avention in that upper-right-hand quadrant in terms of leaders in this space.

So I think we can elevate this space beyond Traditional Prospecting, move it into this broader sales acceleration space, which is a much bigger market, much more connected to marketing automation systems, and really gives us a leg up. It's a space we should own.

We're all about growing the most valuable relationships in business by uncovering truth and meaning from data; this space really gets to the essence of that. And while we'll do it, we'll address this Salesforce Data.com revenue decline. And also we're addressing Hoover's in this context. So the goal is to come out ahead of this. And to transform the space with a much larger vision around this, and put a tremendous focus on moving this into a much better place.

Joshua L. Peirez
President & Chief Operating Officer, Dun & Bradstreet Corp.

A

And I guess, just to dimensionalize it, it's Josh. We are not expecting cannibalization. In fact, we're planfully looking to convert existing Hoover's customers to the OneSource platform that has D&B Hoover's platform.

We expect that to actually improve the pretty steep declines that you saw in Hoover's in 2016, and to start to turn that, so just dimensionalizing it for you. We have roughly 85 million-ish of Hoover's business from 2016, roughly $60 million in the Avention acquisition as we told you at the time of that transaction.

Our goal of course is to bring those two things together, and end up with more, but it is a ratabale product, we do have to roll it out and we do have to turn the tide on those Hoover's transaction. So these products did compete in market. We're now able to go after this much bigger market space in a way where we can really be additive both on customer count and ultimately on value per customer.

Stephen Hardy Sheldon
Analyst, William Blair & Co. LLC

Q

Great. Thank you.

Joshua L. Peirez
President & Chief Operating Officer, Dun & Bradstreet Corp.

A

Thanks.

Operator: Your final question comes from the line of Shlomo Rosenbaum with Stifel. Your line is open.

Robert P. Carrigan
Chairman and Chief Executive Officer, Dun & Bradstreet Corp.

A

Hey, Shlomo.

Shlomo Rosenbaum
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Hey, can you hear me now?

Robert P. Carrigan
Chairman and Chief Executive Officer, Dun & Bradstreet Corp.

A

Yes.

Adam Parrington
Analyst, Stifel, Nicolaus & Co., Inc.

Q

This is Adam on for Shlomo. Just quick, going back, you see – expect revenue decline in 2017 slightly from a Salesforce.com, why is that? What was – it wasn't exactly clear what the reason behind that was?

Richard H. Veldran
Chief Financial Officer, Dun & Bradstreet Corp.

A

Yeah, you may have been off. I did talk about a little bit, it's Rich. But what we've seen is the trend started to decrease during the second half of this year, and as we've looked at some of the underlying stats, we believe that the contribution from what we're getting out of the Salesforce lines itself will be lower this year. At the same time, we'll be ramping up to sell our product on the Salesforce platform.

So we think that will partially if not fully offset the decline, but certainly it's an impact on our overall company growth rate where we've been getting about half a point of growth or so from that relationship to our growth. That's all reflected in our 1% to 3% organic estimate for this year.

Adam Parrington
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Okay. And what is Americas deferred revenue growth step down in what kind of appears to be a solid sales quarter? And how...

Richard H. Veldran
Chief Financial Officer, Dun & Bradstreet Corp.

A

Yeah, I mean a couple of things on that. And if you listen to our prepared remarks, overall we did say that, if you looked at our subscription businesses in particular, right, the legacy businesses, Hoover's and DNBi they were a bit challenged year.

So although our sales growth rate ended up pretty solid, a lot of the – into the year was in the Master Data Management space if you look at Optimizer, if you look Integration Manager, which are really more Master Data Management upfront recognized products, they had a terrific fourth quarter. Our overall Master Data Management space was up about 12% for the year, and up almost 20% in the fourth quarter, but most of that stuff tends to be upfront recognized. So that's really why you saw that dynamic.

Adam Parrington
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Okay. And then kind of housekeeping, why did you have a $2.7 million gain on the sale of business, I think there was note 11 – schedule 11 but the schedule above that is a $5.5 million loss?

Richard H. Veldran
Chief Financial Officer, Dun & Bradstreet Corp.

A

Yeah, there's a couple things – you might be looking at the tax impact – the tax help from a gain. We did have a write-off of an investment that we had in a development company in there, and then we did have a little bit of a tax gain on that. I can pull out the schedule later, but that maybe what you're looking at.

Adam Parrington
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Okay. I guess that makes sense. Okay, thank you.

Operator: There are no further questions at this time. I would now like to turn the call back over to the presenters.

Kathleen M. Guinnessey
Treasurer and Investor Relations Officer, Dun & Bradstreet Corp.

This is, Kathy. Thanks very much for joining us. I just want to close with a very quick housekeeping item, so we can clean up the transcript.

At the end of Richard's review of the fourth quarter results when discussing EPS, he said the increase of 4% was due to higher operating income as well as a lower tax rate; and he should have said, and lower interest expense. So just wanted to clarify that, and we'll reflect that in the transcript.

So thanks very much for your help everyone – thanks everyone for your attention, and we'll talk to you soon.

Operator: This concludes today's conference call. You may now disconnect.