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DNB - Q4 2015 Dun & Bradstreet Corp Earnings Call

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PRESENTATION

Operator

Good morning and welcome to Dun & Bradstreet's 2015 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.

(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.

Kathy Guinnessey *- The Dun & Bradstreet Corporation - Treasurer & IR Officer*

Thank you. Good morning, everyone, and thank you for joining us today. With me on the call this morning are Bob Carrigan, our 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 remarks, Bob will provide an overview of our 2015 results and an update on our strategy, including our outlook for 2016. Then Rich will come on to take you through the highlights of the fourth quarter, and 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, and we encourage you to review the material. We undertake no obligation to update any forward-looking statements.

So from time to time, we may refer to sales, which we define as the 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 them about deferred revenue.

As a reminder, deferred revenue is the liability that refers to revenues that have not yet been earned, and represents products and 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 and acquisitions, 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. When we discuss operating income, operating margin, and EPS, these will all be on the non-GAAP basis which we call as-adjusted. Additionally, our as-adjusted results include 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 schedule to our earnings release. They can also be found in the 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 any 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. With that, I'll now turn the call over to Bob Carrigan.

Bob Carrigan *- The Dun & Bradstreet Corporation - CEO*

Good morning everyone, and thank you, Kathy. This morning, I'm going to address our fourth-quarter and full-year 2015 results, the progress we have made against our strategy, and our 2016 guidance. I'll start with the fourth quarter. Last night, we announced that total Company revenue was up 10% for the quarter, and organic revenue grew 3%. Our revenue ramped in the fourth quarter, similar to our pattern over the last several years.

Operating income was up 10% for the quarter. If you recall in 2015, operating income declined 10% in the first half of the year, and ramped in the second half, which was what we communicated when we laid out our guidance in the beginning of last year, and we expect this pattern to continue in 2016. Rich will give you more detail on this in a few moments. EPS was up 13% in the quarter, so we had a strong fourth quarter, and I'm pleased that we had all of our guidance metrics for the year.

The quarter also continued the trend of strong growth in deferred revenue. Our deferred revenue balance had the highest growth we've seen in about five years. While we had seen a flat to declining deferred revenue balance in 2010, we saw a meaningful 4% increase in deferred revenue this year before acquisitions and FX, which represents about a point of full-year organic revenue growth. That's also before adding committed sales from strategic alliances, which would have added an additional point to the Company's deferred revenue balance.

The increased deferred revenue is driven by an improvement in underlying sales of our subscription and usage-based products, where revenue is recognized over time. This includes our newer cloud-based products like D&B Direct and Optimizer for Contacts. In fact, in 2015, organic revenue was up 1%, but organic sales were up 3%.

Now, when we talk about sales, we mean the value of committed contracts signed by customers. We're providing you with our annual sales growth figure, because it will help you understand how our true underlying performance against the strategy. Going forward, we will provide actual organic sales growth on an annual basis.

As I discussed on our last quarterly earnings call, deferred revenue growth is a good sign for our business, as it is proof that we are upgrading existing products and launching new ones that better meet our customers' needs for on-demand data solutions. Our new as-a-service and cloud-based data solutions are where the puck is headed, as more and more customers look to get our data embedded in their workflows.

So I'm pleased with the progress we made, and I'm confident that we're heading in the right direction, with accelerating sales momentum. Sales have been flat for several years before we launched our strategy in 2014. But in 2014, organic sales grew approximately 1.5%, and accelerated to about 3% in 2015, which was about 2 points higher than our growth in organic revenue.

The fact that sales are accelerating gives us confidence that we are investing in the right places. With our continued growth in newer products, we expect sales to continue to grow at a higher rate than revenue, contributing to a growing deferred revenue balance in 2016. And while a growing deferred revenue balance is a good thing, it does put pressure on near-term revenue.

Another sign that the strategy is working is in our large strategic customer base, where sales grew in the mid-single digits last year. This growth came despite a tough year in our government channel. Sales in government can be somewhat spiky, due to the timing of large contracts. For example, government sales grew in the teens in 2014 but only low single digits in 2015. And based on our pipeline, we expect our government sales to returned to strong growth in 2016.

We're also making significant headway in bringing on new alliance partnerships, that are intended to drive future revenue growth. We entered into 16 new alliances with a number of blue chip partners last year. Revenue from alliances grew double digits in 2015. This year, we will be focused on monetizing the new partnerships we have established and we expect strong revenue growth again in 2016, as many of our new alliances are brought to market.

Now let me talk about another area of our strategy, small and medium business. As you know we acquired Dun & Bradstreet Credibility Corp in May of last year, and merged our small to midsize business channel into them, creating the new division Dun & Bradstreet Emerging Businesses, led by the team from Credibility. If you recall, underlying sales and our former SMB channel had declined 3% to 5% consistently over the last five years. While we saw the team at Credibility double the size of their business, since acquiring it from us in 2010.

So it's great to have them back in the fold, and running the entirety of our SMB business. Sales in that channel have already shown a significant improvement over prior years. In fact, since the credibility team took over, sales in our former SMB channels have actually reversed their decline and begun to grow. The integration of Credibility Corp has gone even better than expected, and we are confident that we can turn what has been a drag on growth into a driver of growth.

Now let's talk about the other acquisition we made last year, NetProspex. The integration of NetProspex is on plan, and has generated immediate results. We were able to quickly deliver our new contact data from that prospects to the Dun & Bradstreet sales force.

In fact, our sales force generated about $10 million in new cross-sell sales of NetProspex-related content in 2015. Importantly, the Dun & Bradstreet NetProspex team is also moving the needle on innovation, and is taking the lead in the development of new sales and marketing solutions across the entire company, in new areas for us, like programmatic advertising.

Dun & Bradstreet NetProspex, of course, is not the only area where we are innovating. We have told you in the past that DNBi had not had a significant update in several years. Last month, we announced the launch of D&B Credit, which is our new, state-of-the-art, cloud-based, trade credit solution. D&B Credit is a powerful next-generation risk intelligence platform that can help today's finance professionals maximize cash flow through smart credit management.

And the fact that it is now available in the cloud gives us flexibility to make the product more sophisticated. We now have the agility to offer more variety of the product than we could before, and to do so on a global scale. It is a great example of our commitment to modernize the way we deliver our solutions to our clients, and we are now in the process of upgrading DNBi customers and attracting new customers to the platform. We launched the new D&B Credit platform on time in the Americas, and we are on track for a staged rollout in Europe starting this summer.

The last update I want to give you about our strategy is that we have really upgraded our entire marketing operation. We've modernized our brand, which we talked about last year, and that has put wind in our sails in the marketplace because it has been so well received by our customers. The next step in our modernization has been around creating a marketing engine to help us be more effective in generating leads, and deploying account-based marketing practices to generate more pipeline for our sales team.

We are doing this across all of the personas that we are targeting, from the Chief Risk Officer to the Chief Marketing Officer to the CFO and the credit analyst. Marketing across all of these constituencies is key to our ability to realize our share of the much larger $24 billion market opportunity that we see for Dun & Bradstreet. We've redefined our brand more broadly across all of these use cases, and we are targeting the right buyers with purpose, which will help drive growth into future. So we made a lot of big changes at Dun & Bradstreet that are generating positive results, but as with any large-scale transformation, we encountered a few bumps in the road.

So we redoubled their efforts to remove impediments to growth in 2016. Now as you may recall, we elevated Josh Peirez to the role of President and Chief Operating Officer of Dun & Bradstreet in October, and we put all customer-facing operations under him, to unlock the full potential of our multi-channel sales organization, which is centered around three key areas.

Our global direct sales channel, alliances, and our emerging businesses division. Since then, we have changed the compensation structure in our sales force to incent new business development for every sales rep. We've also restructured the organization to reduce friction, and to make sure our salespeople and alliance partners are selling the same way, leaving the option of how to buy up to the customers.

In other words, allowing us to sell our solutions to customers in ways that are channel-agnostic. And quite frankly, we had some people who were not the best equipped to take us forward in this new multi-channel world, so we needed to make some personnel changes. In the end, we have upgraded our sales force, removed management layers, and aligned incentives to drive new growth. We made these changes while still delivering a strong fourth quarter.

We've accomplished quite a lot in a short period to set Dun & Bradstreet on the path to sustainable growth. We've completed and successfully integrated two major acquisitions, reorganized and upgraded both our marketing and sales organizations, launched innovative new products, and signed new alliance partners, all while accelerating sales growth.

I'm really excited about where Dun & Bradstreet is headed, which brings us to our guidance ranges for 2016. We expect revenue growth between 4% and 6%. As a reminder, we acquired NetProspex on January 5 last year, so it is now in our organic base. The Credibility acquisition in mid-May of last year, so we realized about almost 2.5 points of inorganic growth from that acquisition in 2015. Operating income, flat and up 4%.

EPS between minus 3% and plus 2%, and I would like to note that our EPS guidance includes a higher interest expense year-on-year, primarily due to last year's acquisitions. And free cash flow of $255 million to $285 million. So as we enter the third year of our strategy, there are things working better than I thought, and things that needed more transformation then I originally anticipated.

Last year I said that we thought we would be in a position to achieve mid-single-digit organic revenue growth in 2016, at which time we would see flat to expanding margin. While I can see us getting to that level of growth in terms of organic sales in 2016, we're not quite there yet, in terms of organic revenue growth. Still, I'm very encouraged by the progress we're making to set Dun & Bradstreet up for sustainable, long-term growth.

With that, I now will turn the call over to Rich Veldran, who will discuss our fourth-quarter results in further detail. Rich?

Rich Veldran *- The Dun & Bradstreet Corporation - CFO*

Thanks, Bob, and good morning, everyone. In my comments this morning, I'm going to discuss our fourth-quarter results, and then I'll talk a bit about our full-year guidance and how we expect it to play out in our results over the course of the year.

As we expected, and consistent with prior years, the fourth quarter was our fastest-growing quarter, with total revenue growth of 10%, on organic growth of 3%. This was on top of 3% growth in the fourth quarter of 2014, and 4% in 2013. The reason for this pattern of strong fourth-quarter growth is that as year-end approaches, our largest customers are planning their strategies for the following year, and they want to ensure that they have the freshest and most complete predictive data that is available. This is particularly true in sales and marketing, with products like Optimizer and D&B Direct. You can see in our reported results that our advanced marketing solutions became a much bigger part of our mix in the fourth quarter.

Now, let me give you more detail on our segment performance. The Americas had revenue of $422 million, which represented 84% of revenue in the quarter. Revenue grew 11%, and organic revenue was up 2%. Within the Americas, risk management, or RMS, was up 11% in the fourth quarter, due entirely to the inorganic contribution of Credibility Corp. Organic RMS revenue declined low single digits, as growth in other enterprise risk was offset by declines in trade [carting].

Other enterprise risk grew 51% in the quarter. As a reminder, the inorganic credit on self revenue from Credibility Corp is in this category. Organic revenue in other enterprise risk was also strong, with mid single-digit growth in the quarter. The organic performance was driven by data and analytics projects, as well as our data-as-a-service solution, D&B Direct for Risk.

Trade credit was down 2% in the quarter. DNBi makes up about 72% of trade credit, and declined 1% for the quarter and for the full year. DNBi retention was again in the low 90s, with price increases in the low single digits.

As Bob discussed, we just launched D&B Credit, which is our new cloud-based workflow tool for credit decisions. Like DNBi, the new product is subscription-based so it will take a little while to have an impact on our reported trade credit results. While we are very encouraged by the reception from customers that are already using it. The decline in other trade credit was primarily due to shifts to other more value-added risk solutions.

Sales and marketing revenue was up 11% in the quarter, with more than half of that growth organic. Advanced marketing solutions was also up 11%, with organic growth in the high single digits. Revenue from Optimizer, alliances and D&B Direct for Sales and Marketing drove the strong organic growth.

The inorganic growth came from NetProspex. Prospecting solutions grew 10% during the quarter, due to the inorganic contribution from Credibility Corp. Prospecting was down in the low single digits organically, primarily due to continue weakness in Hoovers.

Now, shifting to the non-Americas, revenue was $82.4 million in the fourth quarter, which represented 16% of revenue for the Company. Non-Americas grew 7% in the quarter, driven by strong increases in our partner markets in both Asia-Pacific and Europe. In our own markets, we continue to see growth in China and India, partially offset by weakness in Europe, particularly Benelux. However, Benelux did see improved underlying sales in the quarter due to growth in compliance products. That growth will be recognized throughout 2016.

Now as Bob mentioned, deferred revenue was up 4% for the Company before acquisitions and the impact of foreign exchange. This is the second consecutive quarter of strong growth in deferred, as our overall sales growth continues to outpace reported revenue. In total, organic revenue grew 1% for the year as we reported, however organic sales and bookings grew 3%. Overall, our sales were greater than our revenue in 2015, and this difference goes into deferred revenue. As we look forward to 2016, we expect this trend to continue, with sales growing faster than revenue on an organic basis.

Turning to profitability, operating income in the quarter was up 10%, driven by the higher revenue. EPS increased 13% in the quarter to $2.87 per share. The increase was due to the higher operating income and the lower tax rate in the quarter, partially offset by higher interest expense due to the acquisitions, and a higher average borrowing rate in 2015. For the full year, our tax rate was 31.7%, compared with 32.5% in the prior year.

Turning to the balance sheet, we ended the year with $1.8 billion of debt, including about $1 billion of fixed rate senior notes, and $800 million of floating rate debt. Our cash balance at year-end was $366 million, for net debt of $1.5 billion. Net debt increased by $125 million year-over-year, due to the net impact of M&A activity in 2015.

Now before we open the call for questions, I want to give you a little more color on out 2016 guidance. As we enter the third year since the strategy launched, we're seeing sales growth accelerate, particularly in areas that were the initial focus of the strategy such as alliances and large strategic accounts. And we're very pleased with the progress that we are making in emerging businesses through the Credibility acquisition, as this was an area that has been a drag for several years.

In 2016, we expect revenue to improve over 2015, and with it, operating income. But as you can infer from our guidance ranges, we are not yet at that tipping point where we expect the margins to expand. We believe our strategy is working, and we'll continue to invest behind it in 2016. This year, we expect new investment of $35 million to $40 million.

We've mentioned in the past that we expect margins to expand when we reach mid single-digit organic revenue growth, and this is still true. With a business model centered on data, our incremental margins are high, and that level of growth will afford us the opportunity to expand margins, even while continuing to invest in the business. We're just not quite at that point yet in 2016.

Now, consistent with the seasonal pattern that we see year after year in our business, we again expect a relatively slower start to the year, followed by a strong second half, with a particularly strong fourth quarter, when we see significant increases in advanced marketing solutions and other enterprise risk, as customers prepare their businesses for the year ahead. Q1 is always a slow quarter for us, and will be impacted this year by the timing of several large contracts that have shifted to later in the year. We currently expect organic revenue to be flat to down slightly in the first quarter.

In terms of operating income, the first quarter is always our seasonally smallest. For example, in 2015, first-quarter operating income was $77 million, out of a total of $437 million for the year. Against this small base, the potential dip in organic revenue, as well as our Q1 investment spending, will have a disproportionate impact on our operating income growth rate. So while we expect operating income to be flat to up 4% for the year, in the first quarter, we expect operating income to be down in the mid-teens percentage range. These quarterly trends in both revenue and operating income are consistent with the historic seasonality of our business, and are taken into account in our full-year guidance. With that, we will now open up the call for your questions.

QUESTION AND ANSWER

Operator

(Operator Instructions)

The first question is from Peter Appert with Piper Jaffrey.

Peter Appert *- Piper Jaffray & Co. - Analyst*

Things good morning. So rich high could we dig a little further into the guidance because I'm not following. The target is mid single-digit revenue growth to get the margin leverage. You are forecasting 46% like mid-single digits so I am seeing -- it seems like a disconnect is revenue acceleration and lack of margin leverage.

NEW SPEAKER

Yes let me talk a little bit about that Peter. I will give some of the details on it. But again I want to start with strategy is working and we will continue to invest. We haven't changed our investment plan even though the revenue is a little bit behind without we would be. We as we've said many times when we get to mid-single-digit organic revenue that is where we see the margin expansion began. So if you kind of diss aggregate the year ahead and I'm going to take the midpoint of the range is to put the numbers around it and hopefully this will make it clear but at the midpoint of the range of 46 that is about a 5% growth, call that 8 million bucks. Half of that of 40 is the inorganic contribution of credibility. That comes in with around the 20 margin so a little lower than the rest of our business. We've also got some integration costs so net as a result of that half of the revenue I would expect about a point of op income increases give or take. And if you look at the rest of it the other 40 million or so of revenue there offset by that 35 to 40,000,000 of investment I mentioned before. Now as you know we always every year go to our business and we save a lot of money and we are very prudent with the way we spent things. All of the savings that we're doing this year are really going toward dealing with inflationary pressures as well as some one-time items like I go back into last year for example as we said many times we were little behind our expectations for some of our bearable comps were little bit lower last year and that gets restored to normal level the share. It also had a number of other one time things that I'm dealing with increasing hedging costs that kind of stuff. All of that we're taking care of with cost savings. So to give a flavor of where we are.

NEW SPEAKER

Yep. Understood. Thank you. And then in terms of the incremental $35-$40 million investment spend, give me some color on how that spinning directed in product areas etc?

NEW SPEAKER

Yes let me talk about that and a lot of the seasonality is a little different the share as well. Normally we have ramped up to a degree. This year a lot of these investments were really want to the talent of last year and are continuing. On things like the DMV I dashed the of the credit rollout continued work on that. We've ramped up a lot of new alliances some of the work and the early part of the share was on activating those lines in getting them moving. And then I never about the new product areas such as compliance and programmatic advertising that we think are going to really they give contribution down the road and you need to spend money upfront to get this things moving. So those are a lot of the areas that you will see the spending hit.

NEW SPEAKER

Got it. Thanks very much.

NEW SPEAKER

The next question is from Jeff Meuler with Baird.

NEW SPEAKER

Thank you. I guess how do you think about managing the investment spend from the standpoint that you took a pretty big step up in 2014 I think a more modest up in 2015. It's continuing to ramp, I know sales are starting to ramp as well but if revenue is more towards the lower end of the full-year guidance range I think organic is about 1/2% or 2%. Do you feel like you need to continue to increase initiative spend in 2017 to continue to try to jumpstart revenue growth or at what point do we stop seeing the increases in additional spend I guess.

NEW SPEAKER

High this is Bob. As Rick said that it is been our plan to continue As Rick said that it is been our plan to continue to invest in the strategy and as we grow revenue our incremental margin in the ability to continue to invest and as we grow we are little bit behind in terms of organic revenue but we're seeing the sales acceleration in all the right areas so that we know our investments are working certainly we need to continue to spend the D&B credit and the areas like data service, things that are really contributing to our sales momentum and will increasingly over time. So for us the model is very much allows us to invest at the appropriate level on a go forward basis. We're still in that original investment plan where we laid out a couple of key areas where we get to drive the business. You see those areas are working. And you know again being a little bit behind in revenue and the fact that we are spending is not ramping through this year. We are big front ended this year compared to last year and how the investments from last year. Those are all the future bidding factors but the headline is we are investing in the right areas. We are seeing accelerating sales against that. And as the revenue increases with increasing sales it affords us plenty of room to be able to invest at the right level to continue to drive strategy forward.

NEW SPEAKER

Okay so is this more a function of your spending at about the level that you expected to in 2016 but because you are little bit further behind where you were helping to be on revenue growth that comes out of margins instead of being supported by the revenue growth that is the right way to think about it the spend levels we thought it would be?

NEW SPEAKER

Yes that's exactly right. We've got a good thing going here and after many years of lack of investment here we've been very focused on building an investing in the right areas and we don't want to let up on that. And I know that puts a little bit of pressure in the near-term but it's the right thing for the long term and that's why we're in this. We're all about long-term sustainable growth and the potential for Dun & Bradstreet in this market is tremendous. We see again that $24 billion market opportunity to do that. We need to invest in a couple of key areas again we like the process we are making against these things. We've got this issue where sales is outpacing revenue. That's one of the reasons we wanted to be a bit more transparent on the sales this year because the CDC that we are growing sales and if we continue to do that all good things will happen on the organic revenue side as well.

NEW SPEAKER

Okay. And just finally from me, you had a comment about 2016 sales and I think you said it's possible or something along those lines to hit mid-single-digit but if you could just clarify your comment and I'm assuming you are stopping short of providing formal sales guidance and that related to that, just given the impact bookings leading revenue should have on free cash flow, are they are offsetting factors that we don't see a better year-over-year free cash flow number in 2016?

NEW SPEAKER

Yes let me take the second part of the question first and then bump up back on the first one. Couple of things this year they do hold us back a little bit. We did do more restructuring as you will see in our reported results again last year we paid for that in the year ahead so a little bit more of a downward push on free cash flow this year. I've also got higher interest expense this year for example so that will hold me back a little bit. But you are correct. As I sell and recognized out in front it helps my free cash flow because we bill at the time we sell solutions so even though I may recognize that revenue across the year I'm actually collecting the bulk of the money upfront. People don't pay as you go with this one. They pass with a solution it we would get them a little bit of terms but we collect that money and it is recognize the revenue.

NEW SPEAKER

At your question around sales in 2016. Again to repeat a little bit what I said in my remarks, organic sales has been flat here for many years prior to us launching the strategy in our new grow to market. In 2014 sales reached about a point and a half of growth and in '15 we are at 3%. And so you can see that we're trying to drive this of the to the right and what I said was we certainly can see us getting to that mid-single-digit organic sales in 2016. That is certainly what we are focused on. We're actually focus beyond that as you can imagine. But we are building in the right direction.

NEW SPEAKER

Okay. Thank you guys.

NEW SPEAKER

The next question is from Shlomo Rosenbaum with Stifel Nicholas.

NEW SPEAKER

Good good morning. Thank you very much. For taking my questions. Can you hear me?

NEW SPEAKER

Yes pecan.

NEW SPEAKER

Okay thanks. Rich can you do the math for us. What is the organic constant currency revenue growth implied in the revenue guidance. Just what is it straight out?

NEW SPEAKER

Well obviously it is two-and-a-half from inorganic and one and a half to 3 1/2.

NEW SPEAKER

[Multiple Speakers]

NEW SPEAKER

Right okay. And can you just go over the interplay of deferred revenue to actual revenue and how much of the business is revenue is going into deferred revenue. In other words you have an improvement in some of that is moving in the business from one-time contracts into some of the staff that is a little bit more subscription-based and I just want to know how much is that indicative of the growth of the underlying business.

NEW SPEAKER

Note that I understand the question entirely. So let me break it out in rough terms. So in things that I would consider more upfront recognition the optimizes of the world roughly across our business that's about a third of our business. The other two thirds is lot usage. Usage has been taking up only. Today about three quarters of it or so is mountable with the remaining two thirds. With the rest that usage has been picking up of late and that's when you get a little more variability that which is us later in the year because what we're finding is that a lot of the usage in our contracts began and when we get paid upfront the customers tended to use that a little bit later in the year a little bit less in the first quarter just less of an activity-based quarter that you will see as you get closer to year-end.

NEW SPEAKER

So how much of the company of revenue, how much of the actual revenue did you recognize during the year initially started out in the year or at some point in the year was deferred revenue?

NEW SPEAKER

Well I will give an example. If I go into this year my deferred balance is around $660 million. So I've been about $660 million or so sitting on my balance sheet today that's going to flow in to revenue in the year ahead.

NEW SPEAKER

Should I think about a 35 to 40% of revenue goes into deferred?

NEW SPEAKER

Yes and that is up from where it used to be. Right.

NEW SPEAKER

Okay yes thank you. How about giving us if you are talking about sales a lot of other companies get an annual contract value or something like that. Does it make sense for you guys to start talking about that if you are moving more in that direction. You are talking about sales.

NEW SPEAKER

Look we are sort of easing our way into it so our bookings our sales. We did give you a figure now. We are planning to at least talk about it annually. We've debated putting it out metric. It's a little more volatile because we have so many the contracts that tend to move around quarter to quarter so you don't get a perfect view. When you look quarter to quarter. You do get a very good view when you look year-over-year because of the time the government contracts. It is a shift around during the year. You still end up selling them you may sell them a different quarters. So we debated whether that is actually going to help or hurt if we stop putting out a quarterly metric for that. But it is something we will talk more about as we go and would certainly we will talk about it on an annual basis.

NEW SPEAKER

Okay thank you. And Bob can you talk about the cloud city in five Dashti MBI cloud solution. I think it was starting to rollout in January. Is it enough time for you to talk to the desk to get a good sense about the appeal to the market?

NEW SPEAKER

Well it is rolling out its starting to rollout in North America January so we've been working with customers that have been using the date -- beta version and getting a lot of feedback from them. So we been at this for quite some time. The product is really informed almost entirely by our customers. So the early feedback has been good. Just rolling it out to the teams and so as you can imagine our sales folks are excited about having a new solution a new product after many years of not having this and we are the leaders in this market. So it's a terrific opportunity and Josh you want to add any other color?

NEW SPEAKER

Shlomo I would add that we have had our first sales both new business and upgrading of existing customer and we also have in markets and free trials where we have a number of customers who are chosen to take advantage of that and that is a new approach for us to get customers on the product using it whether they are signed up to continue at the end of the trial. We're actually getting pretty good feedback and market. As salesforce is also very excited and something that while we are early in market we like what we're seeing. We also like the fact that we are releasing every three weeks so we can at enhancements and changes in the accordance with what we hear from customers pretty quickly. Given the cloud-based nature of the product.

NEW SPEAKER

Okay great. Last one for me. If you could go into little more detail what the restructuring charges in the quarter were pretty high end is that part of the sales force alignment that you guys talked about?

NEW SPEAKER

Yes we did do a fair amount of realignment. Within sales. Within a couple of other areas that related to that. So that was the primary set of changes. We wanted to make sure that when we did the work around the go to market strategy we did it quickly and we did it well. And you see that reflected in the fourth quarter.

NEW SPEAKER

Thank you.

NEW SPEAKER

The next question is from Andrew Steinerman from J.P. Morgan.

NEW SPEAKER

High wanted to talk more about the launch. High enter I wanted to talk about the launch of D&B credit. Is it product that mostly would be celled to existing customers or upgraded to existing customers during the renew -- renewal cycle that we just went through in December and January and so in terms of traction as product is it more kind of like a year away at this point?

NEW SPEAKER

Enter it is Josh. First of all we see a very strong opportunity for new customer acquisition materially in the emerging business segment. As we are able to launch many different versions of the product in micro segment consistent with the strategy that Jeff discussed on how to approach the business so we actually do see opportunity there. in terms of upgrades our intention is not only to upgrade customers at the time of renewal. In fact many of the conversations we're having an market today are about getting this customers onto a higher value product sooner and locking them up into longer-term arrangements earlier. So we do anticipate that. However given the radical nature of the product and timing you will see that show up towards the latter part of the year and into next year but you will see it show up in the preferred balance sooner. So we don't expected to be a year away but we do expected to be later in the year where we see of material movement. We're also a market testing many different pricing packaging options to make sure we maximize the value for customers and ourselves so as we now accelerate our efforts.

NEW SPEAKER

Gosh -- Josh could you go more into that last point of how you see the value realization?

NEW SPEAKER

Sure. So we're in the previous versions of the MBI we generally sold package price for customers pretty much consistent across the board and then we added modules sales on top of those customers who wanted a higher value. Here we actually have a number of different offers an market that we are testing that are different from one-size-fits-all pricing model. And we think it's allowing us to move up the demand curve and be able to really target what customers need from the product so one example is in the past while we had versions of the MBI international data was actually limited and we had a package of amount of international data. It was actually one of the biggest this satisfies we had in the product. Today we have a version from D&B credit of an limited global data for this customers where that has value. We are testing out the price points for that an market Tuesday exactly what that value has and as we sweet spot we will be able to accelerate pretty standard way that you would go into pricing on a new product versus our historical method which has been to fix a price and then have a sales people see what they can get for it.

NEW SPEAKER

That sounds right. Thank you.

NEW SPEAKER

Sure.

NEW SPEAKER

The next question is from when I Pat knee with Barclays capital.

NEW SPEAKER

Good morning guys. How are you doing. First question is it sounds like from a common does your commentary you guys are making a lot more progress than what the market is clearly giving you credit for. And with the stock down 32% of the last year while isn't buyback something you guys are doing especially since steady free cash flow 300 million of cash leverage should not be an issue so why isn't that something as part of the strategy.

NEW SPEAKER

Hi this is rich. Leverage is not been an issue holder I suppose. For us as you know we been very keen on remaining investment-grade after the acquisitions that we did last year and the significant repurchase program we've done in the past we are at the lower end of investment-grade. It's very important to us. So our uses of cash in the near-term are really geared towards producing leverage.

NEW SPEAKER

Okay fine. And Bob just one question. I think you obviously inherited a tough task your bed just around the talent pool that you referred to earlier just maybe could you elaborate a little bit more around the sales force and other areas. You had I guess two of your higher that you have highlighted when you first adjoined leave the company for different reasons but just trying to understand how comfortable you are there to see a lot more turnover going on there has to we think about that.

NEW SPEAKER

While we been very purposeful in how -- in the changes that we've made. So with the acquisitions we've made particularly with credibility and forming that focus around the SMB area with emerging businesses all of the new alliances that we launched we kind of set okay the best way for us to go to market is around these three distinct channels so global direct sales and emerging businesses and alliances. And this year was a year where I felt confident that we could make some pretty big organizational changes. You know we have look I talked to a lot of you guys over the years my about historic issues around our go to market and sales. And I will tell you we took some pretty good -- big action in the latter part of the year and I think we turnover almost a quarter of our sales team. A lot of that was again part of the organizational change but also we want to up our game and we want to get the right people in the right areas focused on serving customers and this year we felt like we were in a position to be able to do -- to do just that and I'm really pleased with the talent we been able to attract and by delayering of it and putting people closer to the customers this is a good thing for us and it helps us to be more agile and I believe that is exactly what we needed to happen. And so I think we've made those moves bold moves. I'm really pleased that a happen and I'm certainly give Joshua credit we took over in Q4 when we did a lot of this in a big quarter for us and we were able to still come in with a strong quarter and build sales momentum. So I think these changes were necessary. They were the right thing for our business over the long term and I'm really pleased with the talent and the organizational structure that we have right now.

NEW SPEAKER

Okay and just last question rich I think you said 46% was constant currency so what is the I guess how should we think about what the estimated FX impact would be at maybe current rates.

NEW SPEAKER

Expecting about a point or so it on the top line. A little less than a point to the bottom line. That on the bottom line.

NEW SPEAKER

So the 4 26 bank should be 3 to 5 reported.

NEW SPEAKER

They pay FX yes on constant currency.

NEW SPEAKER

All right. Thanks a lot guys.

NEW SPEAKER

The next question is from Bill Warmington with Wells Fargo.

NEW SPEAKER

Good morning everyone.

NEW SPEAKER

Good morning.

NEW SPEAKER

I want to start out by asking about the renewal season and how you do most of the renewals come in December or January timeframe and talk a little bit about how those renewals have been going and maybe some comments around retention and price increases.

NEW SPEAKER

Hey Bill it is Josh. I think we had a good season you see it reflected in the performance in the quarter as well as our balance. Our ranges in terms of renewal rates and price increases stay at the same for the MBI for example low 90s and low single-digit price increases. So really pleased that we saw that be consistent while been having good performance in some of our newer products which drove a lot of the growth. So it was a good season.

NEW SPEAKER

Okay. Now in terms of the quarterly progression going from Q4 to Q1, were there any contracts or renewals that got moved from Q1 into Q4 that might account for particularly we can Q1?

NEW SPEAKER

It was nothing significant. The bigger move that we are seeing or moving later into this year, they may have been one contract less than 1 million bucks or so that was early but the real driver was that of moving later in the year. Don't forget Q4 is always a lot of the Optimizer work and you get a lot of the data services work. And that stuff pretty much renews in fourth quarter because that is when they get their work done. You don't get that much movement say in and out of Q4 because of those needs that customers have.

NEW SPEAKER

Okay and what was I think you may have mentioned the revenue in terms of modeling the revenue in Q1 in terms of the organic growth that quarter.

NEW SPEAKER

Yapper Q1 we are expecting it to be a flat to slightly down. It is been pretty flat to the last three years. It is always a lie quarter for us. More activity was driven as a mentioned we do have a couple of things we do know will go to in the year.

NEW SPEAKER

And then I was going to ask -- if you look at the organic growth and again correct my figures because again looking at it from the outside I don't have your level of position, 2014 1.7% constant currency organic, 2015 looks like 0.9%, the guidance for 2016 1.5 to 3.5. If you look at the fourth quarter it looked like fourth quarter of 2014 3.1% in the quarter we just did 2.6%. So my point is that we are looking at an acceleration no matter how you slice it and I was going to ask if you could kind of walk through the components of what we are going to hope you deliver that acceleration.

NEW SPEAKER

Yes. Look during the course of the year but we typically see couple and just framing it. Sales has been moving faster than revenue in general. So as you think about this year and as we typically do we're starting off relatively slow. You have a little more business in the beginning of the year. As the year progresses you will begin to see the impact of some of the newer product this year of some of the deferred that came in from last year because a lot of that by itself. Necessarily be in the first quarter but it will be used throughout the year. And then you will also see the impact from the alliance work that we are activating the sure. The big quarter is always the fourth quarter. We expect that again this year. The largest customers tended to Optimizer data services and lots of work to prepare their portfolios. We do more and more with these. We have a very strong relationships with customers. We do a lot of work with them. And we spend more with us because we're giving them more value every fourth quarter as once again we expect a pretty big pop in the fourth quarter. We do have that $20 million incremental deferred that you saw last year that we know [Indiscernible - low volume] this year. That is already a point of revenue in the year not as much of it in the first quarter as the rest of the year ago.

NEW SPEAKER

Got it. So that could be the ramp and again it's not that dissimilar from the rents we've seen in the past with a little more strength going into the year because of the increase in deferred and we have a lot more in terms of what we expect from activation of alliances and newer products that we are expecting to come on as the year progresses.

NEW SPEAKER

Okay. Last question is just to ask given the turmoil that you are seeing in the Capital Markets the question that's coming up a lot is are you seeing any change in customer behavior on either the marketing side or the credit side. That's the question.

NEW SPEAKER

Hey Bill it is Josh. We haven't seen major impacts as you mentioned Europe is in a little slower for part of last year. And you know the current economic climate is factored into our plan that our guidance but in terms of what we are seeing hearing from our customers out there you know we are expecting to be within our ranges. We did have a stronger Q4 as you saw even with the climate and we see that. As within the range of our guidance.

NEW SPEAKER

Thank you very much. Appreciate it.

NEW SPEAKER

(Operator Instructions).

NEW SPEAKER

The next question is from Andre Benjamin with Goldman Sachs.

NEW SPEAKER

Thanks good morning.

NEW SPEAKER

Hey Andre. First question is beyond the partnership it sales force you've done a lot of alliances. Is there any color you could provide on which one of those is next material in terms of materiality sorry and how they should trend over the next couple of years and how big they can get relative to the sales force deal.

NEW SPEAKER

High Andre. Yes we've had a lot of success in the alliance area in the CRM space and as we got into the second half of last year we started to gain some traction into some other areas like the MBM space compliance, starting to ramp in the programmatic advertising area relationships with some of the data management platforms and trading desks so we're starting to gain some traction in those I would say in those buckets. In particular. Our focus as I said in 2016 is going to be on monetizing these relationships. It is a portfolio. You -- we had 60 new alliances on top of the alliances we already had and so our goal is to do our best to get most of these growing in a good direction with a portfolio you're going to have some that will do better than others and for our focus is on really activating and driving these relationships in 2016.

NEW SPEAKER

And the follow-up I believe was the sales force. I apologize if I missed it. Any update on the challenges that you were previously facing in Europe area particular of concern and any thoughts on hiring a new chief sales officer or are you going to continue to cover those responsibilities as a committee.

NEW SPEAKER

Yes so we talked a bit about the some of the challenges we had particularly in the Benelux region where we had a particularly acute competitive situation and we didn't have some of the solutions that we needed to be -- to compete effectively in that market. The good news there is that we've actually launched some solutions there and physically in the compliance area and that is a hotbed area for that. And we saw some really strong sales. Some of our biggest compliance deals happened towards -- towards the end of last year. We will start to realize the revenue benefit of that in 2016. So I think we've addressed a lot of those issues. Obviously we are all over it and these are all in the context of the larger changes that we've made around our multichannel approach. Again focused on global direct sales emerging businesses which has been a historical challenge for us. The SMB area. And then alliances. Selling group best in class partners. I put all of that under Josh Perez and that in addition to focusing on some key use cases that we've got particular attraction in like compliance sales and marketing solutions analytics supply trade credit, these are all areas that are a real focus for us. I like the focus of our structure going forward and we are off and running and we're starting to see accelerating sales in that new structure.

NEW SPEAKER

Thank you.

NEW SPEAKER

We had no further questions at this time.

NEW SPEAKER

Okay. Great. Well thank you everyone for your attention and we will talk to you next quarter.

NEW SPEAKER

Ladies and Gentlemen, this concludes today's conference call and you may now disconnect.

NEW SPEAKER

[Event Concluded]