

DHI Group

Second Quarter 2015 Public Earnings Call

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**CORPORATE PARTICIPANTS**

**Jennifer Milan** – *Director of Investor Relations*

**Mike Durney** – *President and Chief Executive Officer*

**John Roberts** – *Chief Financial Officer*

## **PRESENTATION**

### **Operator**

Good morning and welcome to DHI's Second Quarter 2015 Earnings Conference Call. All participants will be in a listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star then one on your touchtone phone. To withdraw your question, please press star then two. Please note, this event is being recorded.

I would now like to turn the conference over to Jennifer Milan, Director of Investor Relations. Please go ahead, ma'am.

### **Jennifer Milan**

Thanks, and good morning, everyone. With me on the call today is Mike Durney, President and Chief Executive Officer of DHI Group, Inc., along with John Roberts, our Chief Financial Officer. This morning, we issued a press release describing the company's results for the second quarter. A copy of that release can be viewed on the company's website at [DHIGroupInc.com](http://DHIGroupInc.com).

Before I hand the call over to Mike, I'd like to note that today's call includes certain forward-looking statements, particularly statements regarding future financial and operating results of the company and its businesses. These statements are based on management's current expectations or beliefs, and are subject to uncertainty and changes in circumstances. Actual results may vary materially from those expressed or implied by the statements herein, due to changes in the economics, business, competitive, technological, and/or regulatory factors.

The principal risks that could cause our results to differ materially from our current expectations are detailed in the company's SEC filings, including our annual report on Form 10-K in the sections entitled Risk Factors, Forward-Looking Statements, and Management's Discussion and Analysis of Financial Condition and Results of Operations. The company is under no obligation to update any forward-looking statements, except as required by the federal securities laws.

Today's call also includes certain non-GAAP financial measures, including adjusted EBITDA, adjusted EBITDA excluding Slashdot Media, adjusted revenues, adjusted revenues excluding Slashdot Media, net income excluding Slashdot Media, adjusted EBITDA margins, free cash flow, and net cash to net debt. For details on these measures, including why we use them and reconciliations to the most comparable GAAP measures, please refer to our earnings release and our Form 8-K that has been furnished to the SEC, both of which are available on our website.

Now, I'll turn the call over to Mike.

### **Mike Durney**

Great. Thanks, Jen, and welcome to the DHI Second Quarter Earnings Call. Before we get started, I just want to reiterate a statement I made at Investor Day. The company's board of directors and management work together, focusing on enhancing shareholder value. We look forward to detailing for you this morning how we are progressing on our key initiatives. At the end of the remarks detailing the company's operating performance and initiatives, we'll open the call to take questions about these topics.

So, last month, we hosted an Investor Day in New York, where we had a chance to update investors on what we're working on and where we want to take the business strategically. We outlined the three

main areas where we believe we can play and win in our sectors, talent acquisition, sourcing management, and career management. We also articulated what our strategic goals are around cementing our place, in terms of pursuing deeper relationships with customers by providing more services and increasing the efficiency and effectiveness of our products and services. We also spoke about our view that the sourcing of talent will continue to evolve and become a bigger part of the overall talent acquisition and recruitment landscape.

On Investor Day, we gave you an update on our progress to date and highlighted our current initiatives. We continue to work diligently against all of our strategic goals. Today, I want to discuss some of our accomplishments in Q2, in order to provide an update on our continued progress towards these goals that aim to deliver increased value to the customers and professionals who use our services. The team has made good strides against a number of these current initiatives, although we clearly recognize there is more to be done.

In the area of improving the efficiency and effectiveness of our core products and services, for example, we replaced the resume search engine at eFinancialCareers during the second quarter, providing more speed, relevance, and flexibility. We also launched an improved user interface for resume search and developed an iOS app that was just been made available in the Apple Store last week.

At Rigzone, where we continue to enhance the Rigzone platform following the integration of oil careers in Q1, we launched a refreshed brand and website in early May. This new release of the site incorporates some of the features of the original oil careers site and added some new features that increased the usability and efficiency of the Rigzone service.

As it relates to one of our most important newer products, Open Web, we made further improvements to the standalone product of eFinancialCareers, primarily focusing on improving search relevance specific to the financial services industry. We also launched a likely-to-switch feature in the Open Web version of Dice. One of the ways we provide efficiency is to identify actionable candidates. Actionable candidates are ones with the right skill sets, but who are also prepared to consider making a change.

The likely-to-switch feature provides signals from various Open Web data that highlight when a professional may consider making a change. What's unique about our product is that we combine that with signals from our own proprietary Dice database and, together, make a compelling highlight of actionable candidates, thereby improving a customer's recruiting effectiveness.

We continue to focus on a number of enhancements in services aimed at driving increased engagement and customer usage of Open Web, which we believe will be instrumental in helping customers derive the most benefit in the form of enhanced productivity. We're seeing continued success of Open Web at Dice, adding 85 net new customers during the second quarter. The number of customers subscribing to Open Web through Dice under annual contract has increased 39% since the end of 2014, and we now have more than 10% of our recruitment package customers subscribing to Open Web. These are just a few examples of the ongoing improvements we are making to our most successful products and services across our brands. I'll get to a few more in a moment.

Another area of strategic focus for us is developing deeper, higher-value relationships, and I'm pleased that we also made progress in this area during the second quarter, particularly for Dice. Our Sourcing Concierge suite of products continues to increase and had another record quarter of sales. Those products where we use our specialist expertise to provide enhanced recruitment support have helped deepen our relationship with certain clients who don't purely focus on job postings and database access for all of their sourcing needs.

In terms of our strategic goal of entering the sourcing market, we are very excited about the launch of SHIFT in our healthcare service, Health eCareers, during the second quarter. SHIFT is a mobile tool, dedicated to temporary healthcare employment that uniquely addresses the very real challenges arising from the shortage of talent in the marketplace. SHIFT extends Health eCareers' brand proposition and expands our market opportunity in the healthcare vertical, and we are encouraged by the initial feedback and usage since its release in June, with more than 4000 opportunities and 3000 registered professionals. SHIFT is the first of an exciting and robust product pipeline for Health eCareers this year that also includes the launch of a new product suite called Spotlight, which focuses on building employer branding as part of a company's overall sourcing strategy, and which features rich content integrated with the job seeker experience.

Looking forward to the remainder of the year, the environment for most of our verticals remains broadly similar to recent trends, with the exception of energy, where sentiment has, again, worsened with declining oil prices. In our most recent Rigzone hiring survey, which we completed in June, 65% of oil and gas hiring managers indicated they expect lower hiring levels in the third and fourth quarters, and job cuts have now reached 120,000, according to Swift.

As we've mentioned on prior calls, dramatic changes in the price of oil have historically brought industry hiring and recruitment to a halt, and that is what we continue to see in terms of our business. Over the past couple of months, we had seen a slight recovery and stabilization of oil prices, but the last few weeks has seen a further decline. The long-term need to replace retiring workers supports our expectation that recruiting activity will pick up when the market begins to recover, and we believe we are well-positioned to capture ultimate growth in the marketplace and gain market share of longer term.

In terms of our continued strategic positioning work at the end of June, we successfully completed the rebrand of the IT Job Board to Dice. As we had intended with the acquisition of the IT Job Board, this extends our Dice service into the UK and continental Europe and enables customers and professionals to use Dice's data-driven technologies to provide enhanced services and insights. With one international tech offering to serve customers on a unified value proposition going forward, the rebranding is an important first step in the integration project, with platform integration expected to be completed in phases over the next year or so.

Moving on to other areas, we're very pleased with the continued strong performance delivered by all three brands acquired in the 2013 on-target jobs acquisition, Health eCareers, Hcareers, and BioSpace. In July, Health eCareers launched a refreshed brand and improved site to convey its reemergence as an innovative thought leader. The site has a number of upgrades that, while early, have been very well-received thus far.

BioSpace, which continues to strengthen its position as the leading recruitment and content portal, with a focus on original and user-generated content has achieved double-digit gains in audience that have driven five consecutive quarters of year-over-year revenue growth. After having initially invested in those brands to build out the management teams and to enhance the services, it's rewarding to see year-over-year revenue growth for the first six months with 9% at Health eCareers, 46% at BioSpace, and 30% at Hcareers.

Lastly, on the strategic positioning front, as announced in our press release issued this morning, we plan to sell our Slashdot and SourceForge businesses that, together, we refer to as Slashdot Media. When we acquired Slashdot Media in 2012, it was to provide Dice with a broader reach into Slashdot's user community base and to leverage SourceForge's international traffic to build Dice outside North America. However, we've not been able to leverage the user base as we had hoped for the Dice business. At the same time, the potential benefit of the international traffic SourceForge generates is

not as material as it once was, given our acquisition of the IT Job Board and our success with Open Web.

With all that in mind, we now believe it is prudent to divest of this business, as it no longer fits with our strategic initiatives. We believe this will allow Slashdot Media to improve its financial performance as part of a business that is focused primarily on media and software solutions. At the same time, it will enable us to focus more fully on our core strategies to better position us for growth and enhance shareholder value longer term.

John will discuss the financial implications from the planned sale of Slashdot Media shortly, including what it means in terms of our outlook for the remainder of the year, which is essentially unchanged, excluding Slashdot's operations. We've made great process on our path of innovation, integration, and evolution. We're confident our approach is the right one and is helping to strengthen our leadership position in each of our verticals. As we continue to execute against these goals, the sophisticated technology behind Open Web is instrumental, in that it aggregates the underlying data that is empowering a number of new and exciting products.

With this in mind, we'll continue to improve product performance and capabilities across all of our brands and we're pursuing a number of new opportunities for growth. In this regard, we are actively working to expand our addressable markets, while Open Web can lead us into new services and territories over time. With our demonstrated ability to use data and analytics to enhance our products and services, we'll continue to deliver greater value in the form of increased efficiency for our customers and create greater affinity with our brands for professionals.

So, before I turn it over to John, I'd like to take a moment to thank all of our employees and acknowledge their accomplishments to date. As we demonstrated at Investor Day, we've made a lot of change to the management teams throughout the company and the individual brands, and we've added a lot of talented people throughout the entire organization. The teams are working together more collaboratively, which has led to a greater level of execution and greater value for our customers and the professionals who use our services. With a much stronger foundation in place, increased levels of innovation and collaboration throughout the organization, increasing expertise in data and analytics, and insights we provide, we're well-positioned to capitalize on the investments we have been making to drive growth and create greater value to our shareholders longer term.

So, with that, let me turn it over to John.

### **John Roberts**

Great. Thanks, Mike. I will review the details of our Q2 financial performance, and then we will open the call up to questions. As mentioned in our press release, we have initiated a process to sell the Slashdot Media business, given that it is non-core to our strategic operations going forward. Where appropriate, I will speak to our financials, excluding Slashdot Media. We believe it is important to present our financial results and expected financial performance excluding Slashdot Media operations in order to portray a more accurate picture of the ongoing operations of DHI.

Overall, we are pleased with the continued progress we made on our operations during the second quarter, despite ongoing headwinds from currency effects and the continued negative impacts of lower oil prices on our energy business. Recruitment activity in the second quarter was fairly consistent across our brands, with the exception of energy, where the recruitment market has gotten worse, compared to what we saw in Q1, and at the beginning of Q2.

For the second quarter, I want to highlight a few areas important to our results. First, year-over-year

growth in revenues of 1% in constant currency, including growth in most of our operating segments. Two, higher year-over-year revenue per recruitment package customer at Dice, reflecting the positive impact of Open Web and increased service levels by customers. Three, significant year-over-year revenue growth in our healthcare and hospitality segments, which were largely acquired in 2013. And fourth, solid free cash flow.

While we continue to invest in innovation for future revenue growth, we also continue to reduce net debt and return cash to shareholders, with the repurchase of approximately 1.4 million shares of our common stock during the quarter. Second quarter revenues, excluding Slashdot Media, increased 2% year-over-year on a constant currency basis. This reflects growth in most of our operating segments, largely offset by the decline in the energy segment.

Now, for some more detail on the specific segments. I will compare Q2 revenues on a segment basis to adjusted revenues in Q2 2014, where appropriate. Adjusted revenues adds back the deferred revenue adjustment to Q2 2014, which effectively has the impact of lowering the year-over-year growth rates. We feel it's appropriate to give this comparison in order to provide a more fair perspective of our relative performance, especially in the healthcare, hospitality, and energy verticals, given the size of the deferred revenue adjustment in those segments.

For tech and clearance, revenues increased 4% year-over-year. The tech and clearance segment is comprised of a few brands. Within that segment, Dice revenues increased 2% year-over-year. At June 30<sup>th</sup>, Dice Recruitment Package customers were roughly 7750, which is slightly lower than the count at the end of the first quarter. Within the Dice Recruitment Package customer base, there were minimal shifts quarter-over-quarter between shorter term and annual customers, with about 93%, or nearly 7200, of our customers under annual contract at quarter end.

The renewal rate on annual contracts was 67% in the quarter, with about 1700 customers up for renewal during the quarter. In Q2, Recruitment Package customers spent, on average, \$1084 per month, up 5% year-over-year, as customers continued to increase their levels of service, including Open Web, which contributed more than half of the year-over-year increase.

Finally, within the tech and clearance segment, clearance jobs are only accounting for 4% of our overall revenues, achieved year-over-year growth of 22% in revenues. Growth in this segment was driven primarily by increased demand for cleared technology professionals, due to favorable market conditions in the government sector, combined with tightened supply, with the government continuing to take much longer to process clearances. Additionally, growth was aided by the clearance jobs product launch of pay-per-view job postings, which has created additional value for our customers by helping to drive the job count for clearance jobs to 13,250 from 5,600 last year.

Moving on to our finance segment, revenues decreased 3% year-over-year to \$8.9 million. Translation from foreign currencies negatively impacted revenues by \$700,000 compared to the second quarter a year ago. So, on a constant currency basis, revenues increased 5% year-over-year.

I'll discuss the regions and their respective functional currency to give perspective on the underlying business trends. Overall, the trend is positive in the major financial centers. In the UK, continental Europe, and Middle East, revenues increased 3% year-over-year in sterling, and accounted for about 60% of the segment's revenues in the quarter. Broadly, the environment continues to be better than last year.

In the Asia Pacific region, which is 26% of overall segment revenues, revenues were up 8% in Singapore dollars, with stronger performance in Asia, which is up 15% year-over-year, including Hong

Kong and Singapore. In the US, which is 14% of segment revenues, was up 2% year-over-year.

In our energy segment, Q2 revenues were \$5.7 million, down 35% year-over-year, compared to Q4 2014 adjusted revenues, which, again, adds back the deferred revenue purchase accounting adjustment. In the quarter, we saw more disruption in the energy market caused by the volatility and falling oil prices, resulting in a deterioration of the recruitment market. We expect the impacts to continue as we move forward further into 2015, given layoffs of several large energy companies and the impact on hiring plans. While we remain committed to our long-term position in the energy market, we have also used this as an opportunity to reorganize the two energy businesses, which has resulted in lower overall costs.

In our healthcare segment, revenues were \$7.8 million, up 13% year-over-year, compared to Q2 2014 adjusted revenues, due to increased usage by customers at both Health eCareers and BioSpace.

The hospitality segment contributed \$4.3 million in revenues in the quarter, up approximately \$500,000, or 14%, year-over-year, compared to Q2 2014 adjusted revenues, again, due to increased usage by customers, which has resulted in early renewals and up-sells of service.

Finally, corporate and other, this segment contains Slashdot Media and Work Digital. Slashdot Media revenues decreased 17% year-over-year, primarily due to declines or delays in advertising campaigns from a number of large advertising clients. This segment also contains our corporate-related costs, which were \$4.5 million in the quarter.

On a year-over-year basis for our segments, Q2 billings for tech and clearance were up 7%, including an increase of 4% year-over-year at Dice. Finance billings were down 8%, down 1% on a constant currency basis, and energy billings decreased 48%. For healthcare Q2 billings increased 20% year-over-year and hospitality billings were up 13%.

Deferred revenue, which totaled \$88.1 million at the end of Q2, including \$1.7 million for Slashdot Media, was up 3%, or \$2.4 million, from the end of Q2 2014. The year-over-year increase was primarily driven by our tech and clearance segment, which grew by 6%, partially offset by decrease in our energy segment.

On the expense side, operating expenses increased 3% year-over-year to \$55.3 million, primarily driven by additional headcount, increased stock-based compensation expense, and increased bad debt expense of \$600,000 in the quarter, related to one customer of Slashdot Media. These increases were partially offset by lower depreciation and amortization expenses. Depreciation and amortization was \$1.3 million lower than last year at roughly \$6 million for Q2 2015, primarily due to fewer depreciable assets and certain intangible assets becoming fully amortized.

Adjusted EBITDA totaled \$19.1 million during the second quarter, down \$4.1 million from last year after adding back the deferred revenue adjustment of \$1 million to Q2 2014. Adjusted EBITDA, excluding Slashdot Media, for the second quarter totaled \$19 million or 31% of adjusted revenues, excluding Slashdot Media. Reconciliations of net income to adjusted EBITDA and adjusted EBITDA excluding Slashdot Media and of operating cash flows to adjusted EBITDA and adjusted EBITDA excluding Slashdot Media are provided in our press release.

The company posted net income in Q2 of \$5.7 million, resulting in diluted earnings per share of \$0.11. Cash flow from operations totaled \$17.9 million in the second quarter compared to \$21.3 million last year. On a year-to-date basis, cash flow from operations is up \$3.6 million or 11% from last year. Some of this increase is driven by lower tax payments in the first half of 2015 and the tax payments will

increase by approximately \$4 million in each of Q3 and Q4 2015.

We generated free cash flow in the quarter of \$15.4 million. In addition to the stock buyback during the quarter of approximately \$12 million, we also reduced net debt by approximately \$5 million.

Now I'd like to turn to our outlook for the remainder of the year which will exclude Slashdot Media for the reasons I outlined earlier. We have provided a full reconciliation of our estimate in the press release in order to provide clarity on the different bases. The reconciliation shows our full year 2015 guidance for revenue and adjusted EBITDA that was provided on our Q1 call on April 29, 2015 and what the full year 2015 guidance on those measures would have been had Slashdot Media been excluded at that time. Please refer to the table provided in the business outlook section in our press release.

To clarify again, our estimate we are providing today, which includes ranges for both the upcoming quarter and the full year does not include any amounts for the Slashdot Media business that we're in the process of selling. For 2015 our outlook is largely in line with the estimate provided in April with some modifications down for energy offset by modest improvements in other areas. We anticipate revenues in the range of \$244 million to \$249 million and adjusted EBITDA of \$71 million to \$75 million. In Q3, we expect revenues of \$60.5 million to \$62 million and adjusted EBITDA of \$17 million to \$18 million.

With that, we are ready to open the call up for questions.

## **QUESTIONS AND ANSWERS**

### **Operator**

We will now begin the question and answer session. To ask a question, you may press star, then one on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star, then two. Again, that is star then one to ask a question.

And, our first question comes from Youssef Squali of Cantor Fitzgerald. Please go ahead.

### **Youssef Squali**

Yes, thanks a lot. Youssef Squali at Cantor. Hi, guys. Just two questions, I guess. Starting with just a slight improvement that you've shown in everything except energy, I was wondering if you can parse out maybe the improvement from product innovation that you've been working on over the last say 12 to 18 months versus maybe any changes to the competitive landscape that may have, or just overall macro improvement that you may have kind of noticed throughout the quarter.

And, the other is around Slashdot Media. Can you just remind us how much did you guys actually pay for that asset in 2012? Will you be selling the entire asset? Or, are you keeping any pieces of it back? And, I actually have a follow-up if you don't mind.

### **John Roberts**

Youssef, it's John. Let me take the second one first, on Slashdot. So, we paid \$20 million for it back in 2012, and our plan is to sell the entire business. So, that's made up of Slashdot and SourceForge, but the plans that we're working on and working on with the bank that we've retained is to sell the full business.

### **Mike Durney**



So, Youssef, on the first question, I guess it would be hard to separate the two pieces that you outlined, but I guess I would say a couple things. One, the overall environment has gotten progressively, marginally, better over the last couple of years. Certainly in the professional categories that we operate in, it's been pretty good for a while.

But, as we've said for years, we need the overall environment to be better from an employment standpoint, and I'm talking about globally, not just in the US, but to be better in order to release budget dollars and not have people be concerned about where they spend which gives us the opportunity to compete with the generalists who have the lion's share of the overall online recruitment dollars. So, the overall market continues to get slightly incrementally better.

But, I think, more importantly is if you look at the nature of our business and what we've been doing over the last couple of years, I think, to improve the product and add new services has been key to us maintaining our share. Because overall if you look at the pricing environment from the generalists over a long period of time, it certainly has declined. It has been relatively stable recently, but has declined over time.

So things like improving the efficiency of the service, adding alerts, and helping customers with search and refining search, and we've demonstrated some of those things at Investor Day in terms of how we're further improving and refining the search capability is key. And customers like it, and they appreciate the efficiency we provide.

The clearest example is Open Web. So, Open Web is a new product that we launched 18 months ago on Dice, and now so far have it on Dice, Dice Europe and eFinancialCareers has been instrumental not only in generating several million dollars of new revenue streams from the sale of Open Web, but we believe strongly opens doors for us in terms of having conversations about innovation with customers and prospects that are looking for innovation. So, to summarize, I would say it's hard to bifurcate the two, but I think having new products and services is key for us to have those conversations and to open doors.

### **Youssef Squali**

Okay, and then Open Web, since you mentioned it, what was the total count at quarter's end? I think it was about 39%. It was up 39% from year end 2014, so I don't know if you've actually quantified the total number.

### **John Roberts**

Yes, so just to clarify that Youssef, the 39% was the Dice annual number compared to the end of 2014. The total Open Web count is just over 1,000 at the end of Q2, primarily within Dice, but there's also customers there within IT JB/Dice Europe now as well as EFC. Just over 1,000 in total.

### **Youssef Squali**

Okay, thank you very much.

### **Operator**

Our next question comes from Jeff Silber of BMO. Please go ahead.

### **Henry Chien**

Hi. Good morning. It's Henry Chien calling for Jeff. I just wanted to ask a little bit about the Slashdot Media sale. Is there currently buyers that you're talking to? I just wanted to just understand what the timeline of the process is at this point. Thanks.

**John Roberts**

Sure Henry, so we've engaged, as disclosed in the release, we disclosed Key Bank to help us in the sale process. And, we've gotten into that in earnest in Q2 over the last couple months, and we're talking to a number of different folks, but we're not at the point in the process where we can report exactly who or when we expect the sale to happen, but we are in the process.

**Henry Chien**

Got it. And, will you be providing a restated or not restated but historical financials, excluding the Slashdot business—intention for [ph]?

**John Roberts**

We did actually. So, you may not have seen it yet, but in the back of our press release, there's actually, if you go all the way into the back, there are reconciliations in there of adjusted revenue and then adjusted revenue excluding Slashdot Media and also for net income and adjusted EBITDA both for the three months and the six months 2015 compared to 2014.

**Henry Chien**

Got it, okay. Alright. Perfect. Great and just one last one. Looking at your recruitment package customers, that ticked down a little bit and just I know you mentioned that billings were up in the quarter. Just trying to understand, so are most of the new sales coming from existing customers, and is that sort of the roadmap for growth going forward for the next few quarters?

**Mike Durney**

Yes, so, this is Mike. So, I think there's a couple things in there. So, as John mentioned, the average revenue per recruitment package customer was up 5% year-over-year. So that is the bulk of the growth because recruitment package customers is 90% of the revenue stream at Dice. But, the other thing that's impacted that is that we have other products that we've been selling.

So, they're relatively small in the aggregate for the Dice business, but under the Sourcing Concierge product suite, there's a number of products we've been selling, which provide different services and get us deeper into customer relationships, and that's certainly had an impact. And, providing more service and being more important to the sourcing plans of customers is a key strategic initiative for us. And so, you see the impact of that within the billings growth.

**Henry Chien**

Got it. Okay. Perfect. Thank you.

**Operator**

Our next question comes from Randy Reece of Avondale. Please go ahead.

**Randy Reece**

Morning. I would like to just kind of walk through the decision-making process from the time that you bought the Slashdot Media properties to the time that you decided you needed to sell them. And, what changed throughout that sequence?

**Mike Durney**

Yes, so I think a couple things. One, originally when we bought Slashdot Media, we bought it for three reasons. We believed that using the Slashdot or interacting with the Slashdot audience, and given how passionate and engaged they were, would help from an overall engagement standpoint for Dice, principally in the US.

Second, we thought that the significant international traffic of both Slashdot and SourceForge, so Slashdot at the time I think about 40% of the traffic was outside North America and SourceForge was about 80% at the time, could help us launch Dice internationally and get into the tech recruiting business internationally. And, the third was that at the time we liked the media business focused on tech, and we thought we could improve the business in that regard.

So, if you look at what's happened, take the last one first, the tech-advertising environment, especially the types of products and services that are advertised on Slashdot and SourceForge certainly hasn't grown, and has seen some contraction, so we were clearly wrong about that. Slashdot, the user engagement is pretty strong within Slashdot, but it's a different type of engagement than what would be beneficial to Dice. We thought we could leverage it, and it turned out we couldn't. And, so we didn't succeed there.

And, third, the international traffic. We decided over time that we were better off getting into online recruitment through an existing player. And, we had the opportunity to subsequently purchase IT Job Board, and with new management in the Dice business, together with the management of the IT Job Board business, we're able to leverage the two of them and grow our business internationally in the tech vertical without the help of Slashdot and SourceForge. And so, we decided for that business, it would be better off owned by somebody else and the value that we thought it would provide to us just hasn't materialized.

### **Randy Reece**

The behavior of traffic acquisition costs within the Dice business, it seemed coincident with the acquisition of these properties that you were able to manage traffic acquisition costs down. Did they have an effect? Was the traffic of sufficient quality? And, how is that model going to change going forward?

### **Mike Durney**

So, it did have a positive impact on traffic acquisition costs, initially, and I think we've gotten some of that benefit going forward, but it hasn't increased over time. So, there was kind of an initial benefit as we added job listings to the site and cross-pollinated the two sites, but there's been no increase in it from the early days. I think from an acquisition standpoint of improving the product on Dice has had a much more significant impact than any relationship with Slashdot had over time. And, having a new management team who's focused on product and marketing and branding and building a presence in Silicon Valley with that team has had a far bigger impact than anything Slashdot could have done.

### **Randy Reece**

Very good. Thank you.

### **Operator**

Our next question comes from Kim Opiatowski of APB. Please go ahead.

### **Kim Opiatowski**

Good morning. You noted that on a constant currency basis, you had a 5% increase in the financial segment. Can you expand upon what the source is of growth there? And, second question, if you don't mind, with regards to Open Web, can you provide us with any more details on metrics since it's a relatively newer product as far as the rate of adoption within the customer base and what the future potential is in this product as well?

### **John Roberts**

Sure, Kim, this is John. So, within the finance segment, we operate there in a number of different

geographies. So, if you look at the individual geographies in there, and I talked about a few of them, but if you take the UK as an example. The UK on a constant currency basis was up 5% on its own. That market for us is about 43% of the total EFC market, so that certainly is one of the largest contributors in terms of the overall 5% constant currency number that I mentioned, and you just referred to.

I think the second largest contributor, from a percentage basis, is Asia-Pacific. So, Asia-Pacific in total up 8% on a constant currency basis. That market is about 26% of the overall EFC business for us. So those are the two largest contributors on a constant currency basis.

**Kim Opatowski**

Great. Thank you.

**Mike Durney**

So, on Open Web, I'm sorry I don't remember the specifics of your question, but Open Web, as John mentioned, we have about 1,000 customers at the end of June across the three brands, Dice, being by far the biggest. Dice is the one where Open Web is integrated into the Dice service. So if you subscribe to both Dice's Talent Match, which is what the core product is called and Open Web, when you do a search, you get an integrated set of results.

So the adoption of that product within Dice has been very strong. And today we have, if you take the annual customers of about 7,200 and the annual customers for Open Web which is about 800, we have a greater than 10% adoption rate for our existing customer base, which is pretty significant, we believe, for what is a product that has been commercially available for about 18 months and really is a new way to source candidates.

So it takes a fair amount of training and integration and handholding with customers to get them to focus on something that is a little bit more work, but potentially more rewarding because it takes them outside their comfort zone as it relates to what they're used to doing from an online recruiting standpoint. So, we're really happy with the adoption rate.

We continue to refine how we serve those customers, how we provide value to them, how we get them to use the service more broadly within their organizations. One of the things we're actively working on is increasing adoption within organizations that are customers. So there's a fair amount of trialing today where we may have a customer that has 20 users of the Dice service, but may only have 1 or 2 or 3 Open Web unit users as they trial it and get used to it.

And so we think there's a fair amount of opportunity even within the 800 or so annual customers we have using Dice's version of Open Web. We think there's opportunity to expand those relationships. So, we're really happy with the adoption to date, but we know there's more work to do, and we're pretty excited about it.

**Kim Opatowski**

Great. Thank you very much for the clarification.

**Operator**

Again, if you have a question, please press star, then one. Our next question comes from Ned Davis from Wm Smith & Co. Please go ahead.

**Ned Davis**

Yes, most of my questions have been answered, thank you. But, just on the Slashdot, your cost is

around 20, and if I read it right, you've got about \$4 million in net assets on the balance sheet now. My question really is, if we make an assumption about a cash sale price, based on EBITDA, what kind of tax basis would you have? And therefore, we could then translate as to what your net cash proceeds from the sale would be. Can you give us any insight on that?

**John Roberts**

Yes, so we have a net tax basis of about \$7 million, Ned.

**Ned Davis**

Okay. And you can't give us any guidelines on the range of what you think the valuation might be based on your preliminary discussions.

**John Roberts**

No. No, it's not something that we can talk about at this point, given where we are with the sale process.

**Ned Davis**

Okay, thank you.

**John Roberts**

Thank you.

## **CONCLUSION**

**Operator**

This concludes our question and answer session. I'd like to turn the conference back over to management for any closing remarks.

**Mike Durney**

Great, well thanks, everybody, for joining us today. As always, if you have additional questions, you can feel free to call us or email us, and we'll be happy to follow up with you. Thanks for attending.

**Operator**

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