Q3 FY24, trading update

16 January 2024
Transcript

Contents

Overview

Brian Cassin
Chief Executive Officer, Experian

Introduction

Hello everybody and welcome to our Q3 trading update call. I'm here as usual with Lloyd, who will take you through the trading performance after my opening remarks.

Highlights

We continued to grow well in Q3 which came in at the upper end of our expectations, supported by strong execution and new product performance. Total group revenue growth was 9% at actual rates, 7% at constant exchange rates and organic revenue growth was 6%. All regions delivered growth, with 13% organic growth in Latin America and robust performances elsewhere. By segment, Consumer Services, where we now reach 182m free members globally, delivered double-digit organic growth and B2B was up 5%. So it was an encouraging performance all round.

Regional Performance

North America

Let me touch on some of the regional Q3 highlights. Starting with North America, where sequentially organic revenue growth improved to 5%. There were positive contributions in our CI/BI business line from Ascend, Clarity and Employment and Verification Services. Credit conditions are similar to when we last spoke in November. The precise timing of credit issuance recovery is up for debate but it feels like we are at or close to the trough. Across our clients the pattern of activity has not changed much. We have grown our position with larger clients helped by our platform strategy and by expansion into new categories of client spend. Performance across subprime lenders and fintechs is more of a mix with volumes still down in some of these segments. Other parts of our B2B portfolio have performed well, especially Automotive and Health, supported by new product contributions and expanded client engagements.

Our market position in Consumer Services has strengthened further. Organic revenue growth of 9% is a good outcome and has been helped by the diversity of the portfolio. We again added to our free member count to take it to 69m. When credit supply fully recovers this will represent a very attractive scaled audience for lenders and we expect this, plus the progress we've made with Experian Activate, to support a strong recovery in the credit marketplace at that time. Right now, we see different approaches by lenders in the credit marketplace. It's similar to when we last spoke. Premium services have to continued to perform well, and there was strength in partner solutions . We are also very encouraged by the progress we've made in insurance. We have onboarded the new carrier we previously discussed which has helped to drive up policy volumes.

Latin America

Turning now to Latin America which delivered 13% organic revenue growth. As expected, Q3 growth in Brazil stepped up sequentially as deals we had expected in Q2 were signed in Q3. Positive data scores, attributes, analytics, fraud and PowerCurve all contributed to growth in B2B. We are very pleased with progress in our agribusiness vertical which has progressed strongly. Spanish Latin America also contributed favourably.

Consumer Services had another strong quarter, up 26%. Free memberships for Latin America reached the noteworthy milestone of 100m. Revenues benefited from a record performance for Limpa Noma as well as an increased contribution from PagueVeloz, our payment platform.

UK and Ireland

The UK&I delivered another resilient quarter with organic revenue growth of 3%. In B2B, the notable call out is the 9% organic revenue growth we delivered in the UK CI/BI business line. In a market where credit issuance contracted by 5% this is a very strong result. We continue to deliver strong new business performance, with either increased share of wallet or through new client wins. We expect clients now to monitor consumer health indicators closely to judge when to resume new credit issuance. There is some evidence this has started to happen in the mortgage sector as interest rates expectations fall. Our new products have resonated very well with clients, we have more to come, and when the recovery happens, we are going to be very well placed.

Consumer Services is still the weak spot in the UK portfolio but has started to stabilize. We are very focused on making improvements to the consumer proposition and to position this business well for recovery.

EMEA and Asia Pacific

Q3 was another good quarter for EMEA and Asia Pacific which delivered organic revenue growth of 7%. We had some very good performances in our focus markets, with notable call-outs being Italy, Australia and India. All markets have also grown revenue contributions from new product innovation. So we have made good progress with a much more sustainable trajectory.

With that, I will now hand it over to Lloyd for the financials.

Financial Review

Lloyd Pitchford
Chief Financial Officer, Experian

Trading Performance

Thanks Brian, and good morning everyone.

As you've seen we delivered good growth at the upper end of our expectations for Q3, with organic revenue growth of 6% and continuing the trend of significantly outperforming the volume growth in our core lending markets.

We saw good growth in the US bureau, continued strength in the UK and Brazil bureaux and stronger than expected activity in our North America Data Breach business within the North America Consumer business.

B2B globally grew by 5%, whilst B2C grew very well at 10%. We continued our trajectory of membership growth adding 4 million in the quarter taking us to 182 million members overall.

Acquisitions added 1% to growth and exchange rates were a 2% tailwind following strength in the Brazilian Real and Pound Sterling, meaning total revenue at actual exchange rates grew by 9%.

Regional Performance

North America

Turning to the performance by region and beginning with North America, where organic revenue was up 5%, with B2B up 3%, and Consumer Services up 9%. Data was up 3%, the Bureau business excluding mortgage grew 3% improving from the growth we saw in the first half, as we saw strength in Ascend, which delivered another great quarter and Clarity Services, where alternative lending remains strong. Core bureau volumes continued to be down modestly. Mortgage revenue was down 6%, on volumes down 22% which was in line with our expectations. Automotive had another strong quarter growing 10%, with good performances across credit and marketing. Targeting was up 3% as strength in our digital propositions helped offset softer volume demand from the retail vertical.

Decisioning was up 4%, with Health delivering another strong quarter of 7% growth, following double-digit growth in eligibility transactions and good performances across all other product suites. During the quarter we completed the acquisition in our health business that adds to our propositions in revenue cycle management. Decision Analytics was down 1% principally due to the timing of key deals, whilst volumes in the fraud and ID business continue to perform well and we expect a stronger finish to the year in Q4.

Consumer Services was up 9% for the quarter. The Subscription business delivered another quarter of good growth, up mid-single digit following continued enhancements to the offering. Overall US Marketplace was down mid-single digit, consistent with the year-to-date trend and reflecting continued weak credit supply. Partner solutions grew strongly in the quarter as we saw a lot of activity and won a number of deals for Breach support services.

Latin America

In Latin America, organic revenue was up 13%. At constant exchange rates, total revenue was up 17%, including acquisitions. Factoring in an FX tailwind during the quarter, revenue grew 25%.

B2B was up 10% organically, while Consumer Services delivered organic growth of 26%. Data grew 9% organically, with 10% growth in the bureaux as our clients continue to adopt positive data scores and analytics.

Our Decisioning business also grew strongly at 12% as clients benefitted from our cloud-based decisioning tools and fraud and ID management capabilities.

Consumer Services grew 26% organically. Limpa Nome continued to show strength delivering another double-digit quarter. Our payments service, Pague Veloz, grew very strongly as we engaged more members and increased volume.

UK and Ireland

Turning to the UK, we saw 3% organic revenue growth, factoring in a tailwind from exchange rates total growth at actual rates was 9%.

B2B grew 3% whilst Consumer Services was flat against last year. Data grew 9% during the quarter, and within this the bureau had a great quarter up 9%, continuing the strength from Q2 and significantly outperforming a weak market backdrop with credit issuance down mid-single digit across the quarter. We continue to generate sizeable new business wins and drive growth from product initiatives centred around Ascend and Affordability propositions. Decisioning was down 6% on last year as we lap some large deals in the prior year and as we continue the shift from on premise to cloud based products.

Consumer Services was flat, showing an improving trend on Q2 across both Subscription and Marketplace.

EMEA and Asia Pacific

Moving on to EMEA and Asia Pacific, organic revenue grew 7%, with Decisioning growing 17%. New product innovation revenue is growing well and key markets like Australia, India and Italy continue to perform strongly.

Guidance

Turning now to our near-term expectations. With our good performance in the first three quarters, we now expect full-year ongoing organic revenue growth to be in the upper half of our previous guidance range, so 5-6%. We have also made a couple of bolt-on acquisitions in the half, in the North America health business and in our Brazil fraud business, which together we expect to add around 0.5% to revenue growth this year. With these acquisitions, we are updating our interest guidance range to $130-135 million, a $5 million increase on the previous guidance to account for the acquisition spend. All other aspects of our guidance for this year remain unchanged.

Summary

Brian Cassin

Thanks Lloyd, and so in summary, Q3 was a good quarter and puts us on track to deliver FY24 organic revenue growth of between 5-6%. Achieving this will add to our strong track record of resilience in the face of macro challenges. We have progressed our strategic initiatives and have improved our market positions during this time, and we expect recovery eventually to add to our performance.

With that, we will open up the line for questions – operator?

Questions and Answers

James Rose, Barclays

I have two questions, please. The first is on Data Breach services within North America consumer. Could you help us understand what these are and what your services are there, and perhaps give us an indication of the revenue contribution to the third quarter for what is the second quarter there? Secondly, to come back to the core bureau in North America and the slight step-up you have seen there, would you say that that is down to just your own products rather than market volumes? How would you characterise the behaviour of your bigger customers there?

Brian Cassin

I will deal with the first one. Data Breach services are really resolution services for companies that have experienced data breaches. They will typically put in front of the consumers affected some form of service, which would include pre-credit monitoring and so on. Typically, they will engage us or another provider to do that.

We have quite a large business actually in Data Breach resolution services, which is within our partner solutions business. If you think about it, it is almost a white-label consumer proposition, because you are effectively giving credit report monitoring, alerts and identity monitoring as well, as part of that package. That is what that product does. It is a bit lumpy, because it is obviously dependent upon, firstly, the volume of data breaches happening in the market, and secondly, our win rate. While we know that the level of data breaches has increased substantially over time, there is also an element of overlap sometimes in the market between consumers that are impacted. It was a pretty good quarter from that perspective.

Lloyd Pitchford

I can just add on that, James, regarding your question on the size. You saw North America consumers step up from mid-single digit to high-single digit. If you reversed out the increase for Data Breach, it would be more mid-single digit, so you saw some strength there in this quarter. As we look ahead, we are not assuming that that repeats in the fourth quarter. The fourth quarter overall for the group looks a lot like the third quarter, so around 6%, but without those Data Breach services in there.

Brian Cassin

Lloyd, what about the second question on the step-up in the bureau volumes?

Lloyd Pitchford

It is quite a fine balance around volumes. I think core lending markets, it has only been six weeks or so since we reported, and a lot of that has been the holiday period, so we have not really seen a lot of change in that period, but our innovations continue to progress well. So it's more things like the progress in the Ascend platform, which had a great quarter. We continue to see good progress on the build-out of that suite.

Annelies Vermeulen, Morgan Stanley

Good morning. I have two questions, please. I just wanted to delve a little bit more into those assumptions around the 6% for Q4. You have obviously mentioned that you do not expect the Data Breach piece to repeat in Q4. What else do you assume for Q4 in terms of improvement or recovery in other parts to get to that 6%? I appreciate this complex to consider, but is there any colour on the moving parts for that? As a related question, why are you confident that those data breaches were only one-time breaches? Could those, in fact, repeat in Q4?

Secondly, on capital allocation, I think you are still expecting to end the year below your target leverage range. Perhaps you could comment on the environment for acquisitions and how you see that piece developing as we move into full year 2025. Are you still seeing good opportunities, and is there any change in the target areas that you are focusing on?

Lloyd Pitchford

On Q4, obviously, things move around a little bit quarter to quarter. We think that the Data Breach revenue that we had in Q3 is associated with contracts that we won and built in Q3, so those contracts will not repeat, but of course we are trying to win other contracts. We could see more of that in Q4, but it is not assumed in our 6%.

Elsewhere, I mentioned in my remarks that we expect a bit of a tick-up in some of the Decisioning revenue in the fourth quarter on the third, and a little bit of seasonality in marketplace. This is traditionally when we get a better revenue performance from marketplace, albeit that the backdrop of the environment is a bit soft. I am fairly confident in that 6% for Q4.

Brian Cassin

Just coming back on the capital allocation, there is really no change. We have done two relatively modest acquisitions since we spoke to you last in November, one in Health and one in Fraud in Brazil, both of which are absolutely in the areas of strategic focus for us. We do not expect any change to the areas that we will remain focused on. As we commented on in November, the environment has got a little bit better, and obviously, we have concluded two small acquisitions since then. We remain relatively optimistic that there can be interesting developments for us next year, but again, each one of these things is an individual acquisition, and you never quite know whether they are going to happen or not. We retain the same focus.

Harry Martin, Bernstein

Good morning, everyone. I have a couple of questions. Firstly, you called out the Clarity services business a couple of times on the call and in the release. I wondered if you could talk about the drivers of growth here for a business skewing to alternative data and short-term subprime type lending, and what you see as the larger opportunity here.

I have a big-picture question on growth. The business is growing at 6% organic growth with credit conditions and volumes not strong by any means, as you mentioned. How much faster does this business grow in a normal environment? Maybe you could reflect on some of the countercyclical parts that may fall away a little bit as well. It would be good to understand where you see the longer-term growth algorithm.

Brian Cassin

Thank you for those questions. We have called out Clarity a couple of times. We talked about it a bit in November. This serves a segment of the market that is deep subprime. It might be counterintuitive, but if you think about the strength of the employment in the economy, these are typically people who will be working in service-industry jobs, for example, they will always access these services. And because employment has remained strong, you have continued to see very healthy lending in that segment. Indeed, as you have seen tightening at the prime or near prime, the available opportunity for lenders in that segment has become bigger. What would look like maybe a near-prime customer might look like not a great credit to a prime operator; to somebody who is typically operating in the clarity market, they look like a very good credit.

It is one of those interesting dynamics that happens in an economy that is not moving at a uniform pace. It is a consequence of the unusual nature of the credit downturn, if you want to call it that, that we have seen last year. Pockets of the market have remained strong. Strangely enough, the pockets of the market that have stayed very strong have been the very top and almost the very bottom. But when you think about the employment aspect of that, it makes more sense. Lloyd can talk about the growth outlooks.

Lloyd Pitchford

You pull out a really important point. Despite the fact that we got soft volumes in core lending markets, particularly in the US and the UK, we are growing at 6% organic growth. That shows the strength of the diversified portfolio, but also the innovations that we have been bringing to market, which we have talked to you about for a number of years. You can see that we are significantly outperforming the volume growth in those core markets.

When we started this year, we talked about the fact that about 1.1 billion of US revenue was short-term volumetric in nature, and we saw that go from high-single digit to mid-single digit decline over about a 12-month period. It is hard to call what a normal period is, but from that maths you can work out that if that reverses, it is pretty accretive to growth.

What often happens in those volume markets is that when it turns on, it turns on quickly. We also have some strong fundamentals in our marketplace business that are also structural in nature that we expect to expand over time, so we are pretty optimistic that when a volumetric recovery comes, that will be positive for our business. Of course, we cannot call the timing. We will have to wait and see how that evolves, but with 6% with those soft volumes, we feel pretty positive, and it shows the strength of the portfolio.

Suhasini Varanasi, Goldman Sachs

Good morning and thank you for taking my question. I appreciate that it is a bit early to be thinking about FY25, but given the start that you have seen to this year, could you give some colour on how you feel about the trends compared to consensus expectations, which are looking for about 7% organic growth? Some colour there would be helpful.

Lloyd Pitchford

We will obviously come back in May with our full-year results and guide for next year. When we look at consensus, it has a bit of a structure that we have seen this year, which is a broad range, so just under 7% consensus but a range of 5% to 9%. That tells you that there are different views on the timing of volume recovery. That is pretty hard to call. As I have outlined, we are finishing this year at 6% despite the volume weakness. It bodes well for when that volume recovery comes, but we cannot really call the timing. We will update in May on our expectations for next year.

Andrew Ripper, Liberum

Good morning, everybody. Well done on the quarter. I have a couple of questions. First of all, just finishing off on North America, Brian, at the interims you were talking about how the change in the lending environment had helped you in terms of the tier 1s doing relatively well, which you had a bigger exposure to than some of your US peers. What do you feel the outlook is for this calendar year, bearing in mind that it is a new financial year for a lot of the lenders? Do you think the outlook is still the same, with tier 1s continuing to gain share?

Brian Cassin

It has only been eight weeks since we spoke to you, so not a whole lot has changed. You could take it as read that the market still looks pretty much as it did when we spoke to you back in November. You saw quite recently results coming out from the big banks in the US and you can see that all the big banks are doing really well, but they are still cautious, as you would expect, around the trajectory of interest rates, around the residual path of the economy in 2024 and how much of a hangover we have. We do not really expect much of a change in the short term to how people are behaving.

We will learn a lot in Q4 because, as you say, it is a new financial year for banks, and some of them may want to get a little bit more progressive and start to acquire a bit more progressively, but we will have to see. Certainly, as we go through the year and if the soft landing does occur, you are going to see a relaxation of people's caution. As I said, very different circumstances exist across the spectrum, but on the whole the

banking system is in very good shape, particularly at the top end of the market. There is no real change to that but let us see what happens in Q4.

Andrew Ripper

I just wanted to ask about the rate cycle. Expectations now are for rates to come off in the second half of this year. There have already been some interest rate reductions in Brazil. Has that affected the market backdrop? Have you seen any improvement in Brazil as a result of that? How do you think it would affect the volumetric side of the business? Do you need more than 25 or 50 basis points to stimulate activity, or is it difficult to judge based on experience of previous interest rate cycles?

Brian Cassin

It is a timing and confidence issue. On their own, a 25-basis point drop in interest rates does not make any difference in the light of the hikes we have seen, particularly during the last calendar year. If that signals a path to lower rates for longer, then you will probably see a change in sentiment.

The other thing I would say is that, just as it took some time for interest rate increases to work through the system, it also takes a bit of time for interest rate decreases to work through the system. That is everything from adjustment to risk profiles to consumer behaviour. It is positive, but it would be over-optimistic to expect an immediate response to that. It also depends on whether it is followed through with a longer-term outlook for lower rates.

Simona Sarli, Bank of America

First of all, I would like a clarification on the US mortgages. I appreciate it is only 2% of your revenues, but we have seen the volume decline sequential improving from -30% in Q2 to -22%. Nevertheless, your revenue decline has accelerated sequentially. Could you please explain that in the context of the FICO price increases? Please also talk a little bit about your expectation for the US mortgage businesses in the calendar 2024 and 2025.

Lloyd Pitchford

On the overall position of the mortgage business, as you say, it is quite a small business for us. We have seen fairly consistent mid-20s declines in volume this year; as you say, it was 22% down in Q3. We expect it to be about the same, about mid-20s down, in Q4 also. The pricing difference can be anywhere around 20% beneficial to that. It depends on the mix of the various resellers, and so on, in an individual period, but it is about the same. We expect Q4 to be fairly similar to Q3 and show a mid-20s decline in volume and low-to-mid single-digit decline in revenue. We will provide an outlook for our next fiscal year in May.

Simona Sarli

Thank you. The second question is a follow-up to what Andrew was asking, and it is related to B2B in Latin America. Clearly, we saw a very strong sequential acceleration in B2B organic growth in Q3 versus Q2. How much of that would you say, even at a high level, could be potentially related to rate cuts versus market share gains in data analytics and the positive trade data?

Lloyd Pitchford

If you remember, at the end of Q2, we commented that a couple of contracts we signed were in early Q3 rather than the end of Q2. Q2 was a little softer, and in Q3, we saw the revenue flow over. When you look at those sequential numbers, you have to adjust for that. When you stand back, you can see a pretty consistent, strong, teen-level growth in Brazil.

On the impact of interest rate changes, we have to reflect on how that affects the felt interest rates in consumer markets. Remember that the credit spreads between the base rate and the consumer felt interest rate is very

material in Brazil. What is driving how people feel interest rates is much more the deregulation of the lending markets, the availability of positive data and the different products that people can gain access to with the democratisation of data. At this sort of level, that has a much bigger impact than small changes in the base rate.

Andy Grobler, BNP Paribas Exane

Firstly, on the acquisitions, for modelling purposes of the scale of the two businesses, could you give a bit more detail on your thoughts and expectations for revenue contribution next year? Secondly, there is really good progress against the market in the UK. To what extent do you think you have an embedded competitive advantage here from your product suite? Is it about service and data as well, or is it a combination of all those factors? What is driving that market share gain, and how sustainable will that be?

Lloyd Pitchford

Just in terms of the acquisition contribution, there is not a lot to add. These are fairly small bolt-ons. Overall, it adds about 0.5% to organic revenue growth this year for about half a year. It will add another 0.5% for next year across the first half, which will be similar to EBIT, and then it will add about $5 million to our interest charge. There are some small changes there and a couple of bolt-ons. It is in the fraud space in Brazil, so it will really support the build-out of our Fraud and Analytical services, and in the revenue cycle management, particularly around insurance coverage discovery inside the Health business in North America.

Brian Cassin

On your second question, which was specific to the UK, I will make a point that is true for the whole of 2023 and Q3 as well. If you look at our revenues in our core bureau businesses, they are outstripping volume in the market quite substantially. We always get this question around businesses and the regression analysis between activity in the market and our growth rate. You can see we are outpacing that quite significantly.

In the UK, it is quite marked. The volume issuance in the market is down 5%, and our business is obviously growing really strongly. That is a combination of all of the things that you mentioned. We believe that we have a sustainable competitive advantage across the quality of our data, the product sets that we have in market, the products that we are bringing to market, and increasingly, our ability to stitch them together from origination through to customer management and collections. Increasingly, using the Ascend One platform capabilities across lots of different use cases for our clients means it is really changing the dynamic of how we compete there. We are very optimistic about our position there, and it is the result of a lot of work.

You also mentioned things like service and so on. You have been around a while, Andrew; you will remember, a few years back, we did actually have some issues, which were really more related to the stability of the technology environment in the UK. Those have all been solved; that has made a huge difference. It is really fighting on all of those fronts that has put us in a position to deliver those kind of results, and long may it continue.

Concluding remarks

Brian Cassin

Thank you everybody for joining today and thanks for all your questions. I wish you all a good day and we look forward to speaking to you again in May for our full-year results. Thank you very much.

****