

## **Interim Results – 15 November 2007**

### **Welcome**

**Don Robert, CEO, Experian**

#### **1. Preamble**

Good morning ladies and gentlemen and welcome to Experian's first half results presentation. As I reflect back on this last year and the hundreds of investor presentations I have had, in conversations with investors, the most frequently asked question is, "tell us how Experian will perform in a cyclical down turn." We are now at that point in the cycle, so I think we can speak to that question today with some authority.

Retail lending conditions in the UK have been very tough for the last couple of years, and now in the US an unprecedented disruption in the mortgage markets is causing fresh concerns about consumer lending there. I have been in this business a long time and this is probably the biggest market challenge I have seen yet, in a couple of decades at least. That brings us back to the question, "how does Experian perform in a cyclical downturn?" I would say pretty well.

Looking back at the first half, we have stood up well to the challenge. Looking forward, that headwind is still there and short-term visibility is still low, so we don't expect any near-term pick up. But our portfolio balance has served us very well and will continue to do so. We have excellent long-term prospects.

In today's session, after my introductory comments, Paul Brooks will take you through the financial results for the first half. I will then give you an overview of the strategic and operational progress we have made. Following our usual format, we will have a short presentation, this time by Chris Callero. Many of you have met Chris before. He is the CEO of our Americas business and is Chairman of the Board of our newly acquired Brazilian business called Serasa.

Chris will be giving us an update of our excellent progress in Brazil. After that, we will move to Q&A. Also, a date for your diaries: in January, we will be hosting investor seminars in London and then in New York on our global Credit Services and Decision Analytics activity. So, it would be great if you could all plan to join us.

#### **2. Financial Performance**

Notwithstanding market challenges, we have continued to grow, although at a more modest rate, and we have delivered good margins, testifying to the resilience of our operating model. We took some major strategic steps in the first half, both to further balance the portfolio and extend our global reach, particularly in emerging markets.

We are focused on operating efficiency with some important initiatives in the first half that we will be telling you about. And, as the Board has announced, the dividend increased by 18% to 6.5 cents a share. This is consistent with our stated objective of a cover of at least three times earnings for the full year, and is a measure of our ongoing confidence in the long-term prospects for Experian.

During the half, total sales growth at constant currency was 14% and organic growth was 6%, obviously with the difference being made up by acquisitions. As expected, we maintained margins at 21.9%, even as we funded a number of investments through the P&L. EBIT growth from our direct business was 14%, or 12% including the contribution from the FARES joint venture.

### **3. Market Influences**

If we look at market influences affecting the business, there are some positive and negative factors to balance. On the negative side, conditions are tough for retail lenders and their behaviour is changing as a result. In the US we have seen a sharp slow down in mortgage lending, consumer bankruptcies are rising and there are now signs of softer conditions in pre screen marketing in automotive lending. The UK has been, and remains tough for lenders, especially in credit cards. Many lenders are not marketing for new customers and are tightening their credit policies in order to mitigate rising delinquencies. Of course, the UK consumer remains very indebted.

On the plus side for Experian, this rise in delinquencies means that banks are increasingly focused on risk management, collections and careful segmentation of their customer base. They are asking Experian to help them in each of these areas. For example, we can provide early warning indicators of consumer default conditions to banks.

We do see a healthier picture in the other markets that we operate in. Latin American prospects are good, with a positive outlook in Brazil for retail lending, personal loans and mortgage lending. In Asia Pacific, consumer credit continues to grow rapidly and emerging Europe is also booming. We see this as a key strength for us because so many lenders will be looking to international markets to diversify their risk exposure.

### **5. Portfolio Balance**

While the uncertainty in global financial services looks set to continue, the balance in our portfolio, which is product balance, vertical market balance and geographic balance, will continue to underpin our performance. This has not happened by accident. The key is to have several spots on the wheel covered, and I think that we have.

We are now seeing the benefits of some of our historic strategy moves. For example, three years ago we took the decision to build a US collections business to diversify away from pre screen marketing and the customer acquisition side of the credit cycle. This has paid off in today's environment, as our financial services clients have become much more focused on managing delinquencies. In the UK, we have diversified into new vertical markets, in particular the Government sector, and that is helping us a lot.

Our strategic decision to expand geographically means that we are less reliant on any single country and we have exposure to regions less affected by the credit market uncertainties: Latin America, Asia and parts of Europe, for example. We now have market leading credit bureau positions in 15 countries around the world, and nobody else can say that. The breadth of our client relationships matters because we can sell products right across their activities to cover many eventualities in their business.

So, while we do expect some further slowdown in our organic sales growth, we remain focused on delivering a good profit outcome for the year and we are in excellent shape for the long term. Now, let me hand over to Paul for the financial review.

## **Financial Review**

### **Paul Brooks, CFO, Experian**

Thank you, Don, and good morning. Overall, we feel this is a good set of results, especially given the market challenges that Don outlined. This performance has been achieved without sacrificing any of the investment we are putting into the business for future growth.

#### **1. Sales Growth**

As we review the trading performance in this presentation, all growth rates will be stated at constant currency and for sales the focus will be on organic growth. To put this in perspective, the chart presented provides a bridge between first half sales last year and first half sales this year. The reported sales growth of 16% comprises organic sales growth of 6%, growth from acquisitions of 8% and an exchange benefit of the weaker dollar of 3%, offset by a 1% decline in discontinuing activities. In the second half, we expect the acquisitions to be in the low teens.

The total sales growth for continuing activities at a constant exchange rate was 14% in the first half, with 8% contributed by acquisitions. We saw robust organic sales growth across all four regions. North America delivered organic growth of 5% despite the impact of the credit crunch on the US mortgage market, which reduced growth in North America by 4% and global growth by 2%.

Organic growth in Latin America, which is now separated out as a separate region following the acquisition of Serasa, relates to the small Decision Analytics business in the region. UK and Ireland delivered organic growth of 5%, despite the tough market environment for financial services, and EMEA/ Asia Pacific saw good organic growth of 8%, which was broadly based across all activities. The acquisition contribution of 8% in the first half came principally from Serasa and Hitwise.

#### **2. EBIT Growth**

Sales growth of 14% in the direct business translated into 14% EBIT growth in direct activities. An overall margin was maintained of 21.9%, despite the significant investment in P&L and growth and cost saving initiatives that we flagged in May. All regions enjoyed a good rate of profit growth. The contribution from our FARES associate held up well at \$29 million despite the adverse mortgage market, due to costs cuts in the mortgage services business and growth in property information and default services.

For the full year, we continue to expect a modest decline in the FARES EBIT contribution. Total EBIT including FARES was \$447 million, up 12% from last year. Looking at margin by region, you can see that North America delivered a 50bp rise in the first half, despite margin compression in Interactive. Latin American margin was 23.5% and it should be noted that this margin will be lower in the second half due to seasonality in the Serasa business.

The lower margin in the UK and Ireland is attributable to acquisition mix. In addition, aggressive cost management offset an adverse mix effect arising from differential growth rates across the business segments. The margin in EMEA/ Asia Pacific reflects a step up in investment there.

### **3. Principal Activities**

#### **Credit Services**

Now let's look at performance in the period by our four principle activities, starting with Credit Services. Organic growth in North America Credit Services was 3%. First quarter performance was strong but we saw a declining rate of growth in the second quarter as the disruption in the global credit markets significantly impacted mortgage volumes. However, throughout the period we saw a very strong growth in portfolio management and collections products.

In Latin America, Serasa contributed \$96 million in the first three months of ownership and the business is performing to plan. Market conditions in the UK and Ireland have been difficult for some time. Growth here was a respectable 3% driven by expansion in non financial services verticals and strong business information performance.

Our consumer credit bureaux continue to perform well, delivering double digit growth. We also have several large business outsourcing contract wins in France. Margin was up 70bp to 27.9% as cost management in the mature markets more than offset investment in new markets and that dilutive effect of Serasa. In the second half, continued emerging market investment and Serasa seasonality will moderate margin expansion for the full year.

To give a little more detail on Serasa, when we announced the acquisition we inferred an IFRS adjustment to EBIT and anticipated integration charges. Let me now update you on these. The IFRS credit to EBIT amounted to \$3 million in the first half, with \$9 million expected for the nine months to the end of March 2008. The IFRS benefit relates principally to the capitalisation of data assets.

We have also identified integration costs of \$4 million relating to Serasa. For the nine months to March 2008, we expect a total charge in the region of \$11 million. We expect further integration charges in FY09 and FY10 of \$2 million to \$3 million per annum in addition to some incremental capex and product development related expenditure.

#### **Decision Analytics**

This business delivered 11% total sales growth with 6% organic growth. The acquisition contribution is attributable to the Tallyman collection software business and N4 Solutions, an application processing business. North America delivered an exceptionally good performance against a strong comparative, attributable to a major contract win from Bank of America, which contained some one-off elements. These exceptionally strong comparatives will continue into the second half of the year.

The lack of organic growth in the UK was due mainly to lumpiness and the timing of software deployment, which affects the period in which revenue is recognised. While

we continue to expect some improvement in the latter half of the year, we have seen growing instances of deferral by clients of investment in new software applications.

Finally, there was excellent growth in EMEA/ Asia Pacific, with a number of new client wins, particularly in Asia. The lower margin in the first half compared to last year is explained by adverse acquisition mix. Underlying margin was held despite increased investment in emerging markets.

### **Marketing Services**

This business delivered 11% total growth and 3% organic growth, with the acquisition contribution coming largely from Hitwise, which is spread across three regions. Organic sales growth in North America of 2% represents an improving trend. We continue to make good progress in transitioning our Marketing Services business in the US with higher growth activities, and moderating the decline in the more traditional activities.

Organic sales growth in the UK was also 2%. Growth in the UK has been tempered by prospective financial services clients cutting back on data management and database expenditure. In EMEA/ Asia Pacific, organic growth was strong and business is now developing scale following the acquisitions of Hitwise and Emailing Solution.

Hitwise is performing well and is on course to meet the financial projections set out at the time of the acquisition. Margins have improved by 90bp, mainly due to the benefit from last year's US restructuring and a favourable mix shift.

### **Interactive**

In North America sales growth slowed to 8% in the first half due to the severe impact of the downturn in the sub prime mortgage market on LowerMyBills. However, Consumer Direct continued to grow strongly as it consolidated its market-leading position. As PriceGrabber moves into its seasonally key quarter, it continues to deliver well.

In the UK, CreditExpert has also established a market leading position and continues to build on this by doubling its sales in the period. This excellent performance reflects strong growth in membership. LowerMyBills remains profitable but its reduced margin, despite a significantly reduced marketing spend as well as investment in new vertical markets, accounts for the overall lower margin of 28.1%.

## **4. Strategic Cost Initiatives**

Before moving on to benchmark earnings, let us take a closer look at cost management. Focus on cost is a key component to the way we run the business. This becomes even more important when market conditions affect our revenue growth.

The majority of our costs are relatively fixed against modest increments in revenue. This enables us to invest in the business through the income statement while continuing to maintain and improve margins. Indeed, we have done this and improved margins by an average of over 50bp per year for the last five years.

At the same time, we also look to make strategic moves to reduce our cost base, generally incurring short-term one off charges to secure longer-term benefit. Some recent and current examples of this include our Chilean near shoring, data centre consolidation both in Texas in North America and in Europe at our data centre in Nottingham, the restructuring of our Marketing Services activities both in the US and UK, rationalisation of our French cheque processing centres, and establishing Decision Analytic delivery centres in Bulgaria and Shanghai. In addition to these, we continue to assess other opportunities.

The next slide gives a breakdown of our costs by activity. In the current situation where trading conditions are difficult in parts of our business, our first step is to address direct costs. Some of these might reduce naturally, such as royalties, commissions and incremental delivery costs. Others require actions, the most obvious being our marketing spend in Interactive, where the key is to manage and target our marketing spend.

Another example is the reduced use of contractors. This means that in businesses like Decision Analytics, we can better match delivery resource to our sales pipeline. We can also make tactical moves on a more fixed cost. For instance, since labour represents a sizeable proportion of our cost base, one of the first options we have is to initiate headcount freezes across activities that have little or no impact on sales and future prospects.

So, there are a number of ways for us to manage costs, both tactically in the short and strategically for the long term.

## **5. Group Benchmark Earnings**

EBIT before central activities was \$474 million. Central activity costs amounted to \$27 million in the first half against the non-comparable pre demerger number last year. These costs are incurred in sterling and euros, and hence are impacted by the weakening dollar. Nevertheless, we expect a similar charge to be incurred in the second half. Profit from discontinuing activities reflects primarily the run down of the UK account processing business. We have now subcontracted the provision of these services to First Data. So, in the second half we expect discontinuing profit to be negligible.

In total, this brings us down to EBIT for the first half of \$454 million. Net interest of \$58 million reflects the increased level of debt in the first half to fund acquisition activity. The benchmark tax charge of \$91 million is at a rate of 23% on benchmark PBT and we expect a similar rate for the full year. Our minority interest arises mainly from Serasa. Benchmark earnings for the six months to September 2007 amounted to \$297 million and, based on a weighted average number of shares of 1.008 billion, benchmark EPS is 29.5.

## **6. Operating Cash Flow**

From the traditionally weaker first half of the year, we converted 70% of EBIT into operating cash, compared to last year's exceptional performance of 84%. Capital expenditure in the first half of the year was \$140 million and we expect spend for the full year to be in the range of \$330 million to \$350 million. This is in line with our

previous guidance, including the impact of capex in new acquisitions and the weaker dollar.

For the full year, we are on track to achieve our guidance of converting at least 85% of EBIT into operating cash. This will be lower than last year due to business and geographic mix as well as lower net accrual for performance based payments.

## **7. Acquisitions**

We completed a number of acquisitions in the first half for a total spend of \$1.7 billion. The most notable of these was Serasa, where we purchased just under 70% at 30 September for a total of \$1.25 billion, including expenses, and Hitwise for \$240 million. In addition to Serasa and Hitwise, we spent a little under \$2 million acquiring businesses like Informarketing, a Brazilian direct marketing business, Tallyman, Emailing Solution and N4 solutions. The acquisitions purchases during the period are performing to plan. We expect them to be accretive to earnings in FY09 and to deliver a post-tax double digit IRR.

## **8. Net Debt**

After interest in tax payments, we generated \$220 million of free cash flow in the first half. However, after dividends and acquisition spend we incurred a net cash outflow of \$1.62. Consequently, our net debt increased to a little over \$3 billion. At this level, we maintained our targeted strong investment grade credit rating.

## **9. Summary**

The growing turmoil in the financial services sector has made this a very challenging first half. Against this backdrop, we have delivered a resilient first half performance, achieving 6% organic sales growth and 12% EBIT growth, and maintaining margins while continuing to make significant organic investment in the business for future growth.

We have also completed some excellent acquisitions, which will further strengthen our growth prospects. While conditions in Q3 are more difficult than Q2, with continuing emphasis on cost management we remain focused on achieving our financial objectives for this year and beyond. With that, I will hand you back to Don.



## **Strategic and Operational Review**

**Don Robert**

### **1. Strategic Priorities**

Thank you, Paul. Setting aside the short-term uncertainties, our strategic focus remains on the long term and positioning Experian to take advantage of the many structural growth opportunities that we see on horizon. Let me remind you of our long-term investment priorities.

Strategically, we are executing a plan for global growth and setting a framework for the business for the future. Organisational structure can be an important source of competitive advantage and we are after that. Over the past year of independence, we have taken some important steps to enhance our organisational structure and our team to help us compete globally on an even more aggressive basis. Our first task has been to create a global organisation. The matrix structure that we have created is flexible and enables us to compete more effectively because it emphasises global products as well as geography.

We have made some changes to our executive line up as well, most recently at Experian Interactive. I think we have got one of the strongest management benches I have ever had the privilege to work with, and it is certainly the most globally experienced in terms of our sector.

We are also doing more to measure the success of our new product investment, which is one of the KPIs we now measure internally. We are pleased by the increasing percentage of our revenue that comes from new products. In fact, now around 15% of the Group's sales come from products that did not even exist three years ago.

We want market leadership in the areas that we choose to operate in and we want to own businesses with high barriers to entry or, to steal a phrase from someone else, businesses that have wide moats around them. You don't go into developed credit markets these days and just build a credit bureau, and that scarcity value is very attractive to us. Our aim is to deliver strong financial performance and ultimately better value for our shareholders.

### **2. Acquisition Strategy**

Acquisitions have been a key part of the strategy and they will continue to be as we see suitable opportunities. When assessing targets we look at strategic synergies, market position, and evaluation, and we also closely monitor post acquisition performance, including integration success and synergy extraction. Over the next few years, our principle focus in the acquisition arena will be on credit bureaux, scarce sources of data, analytics and marketing services. In the acquisitions you see on the slide, Serasa, Hitwise, Tallyman and some other smaller acquisitions reflect that focus.

### **3. Portfolio Balance**

I think our strategy has served us well. Today, we are more global, less dependant on any vertical market, including financial services, and more functionally balanced than we have ever been. The distinction between our competitors and us grows even wider. We are distinguished by our scale. The chart shows the revenue earned in North America and outside North America for Experian and its competitors. We are distinguished by this scale and the power of our analytics and global reach. We are the only company in our industry with the power to truly serve large multinational clients.

### **4. Progress in First Half**

#### **Overview**

We want to provide our clients with access to credit data and analytics in all major credit economies and we have taken some important actions in that regard during the first half of the year. Our acquisition of the controlling interest in Serasa is a significant development for Experian and it greatly strengthens our position in Latin America. As Paul just mentioned, we have recently increased our stake there from 65% to about 70%. The integration is proceeding well and Chris will tell you more about that shortly.

We also now have more global products to offer, for example organic development of a next generation of credit pre screen tools in the US, called Prospect Navigator, and the acquisitions we have made in the UK give us new addressable markets there. We continue to build our infrastructure in Asia Pacific with increased scale in Hong Kong and China, where we are building up our sales and client support activities.

We remain focused on increased efficiencies. We have made good progress in Chile at our near shore facility. Phase one has gone extremely well; we have moved about 300 jobs to Santiago and there are around 200 more to go, largely coming from US Credit Services and US Decision Analytics. In Decision Analytics we have also built up a delivery centre with about 100 people in Bulgaria and we plan to continue to staff that, taking advantage of the low cost, high expertise labour market.

#### **Credit Services**

We made good strategic progress in Credit Services in the first half in Canada. Our new bureau build is on track for launch later this year, which is part of our strategy to expand to where our clients ask us to be. VantageScore is performing well. It continues to outperform existing scorers and we continue to win new VantageScore clients.

We announced an important new partnership with Visa recently. We now combine Visa transaction data with our consumer credit data to create a more predictive bankruptcy score. It is a great product and an example of where we can create value working with our clients and build new risk management tools.

In the UK, Consumer Credit's growth is coming largely in a counter cyclical fashion but I want to highlight the progress we are making in a new vertical market there, particularly the public sector, where we have seen excellent performance. We have

had new contract wins using our fraud prevention and identity management tools. We are also seeing good momentum in Business Information in the UK.

Focus on execution is making a big difference competitively. We have upgraded our sales force and brought new products to market, and that is paying off. Speaking of the UK, Tiku Patel is the new managing director of our UK and Ireland business. Tiku joined us about a year ago from Barclays Retail Bank and he has been running the UK business for six months. He will join us on stage later for the Q&A.

In other geographies we are seeing very good growth in Continental Europe. The Estonia bureau that we bought last year has rounded our Nordic offering and in France we have secured a couple of big BPO wins from Carrefour and Credit Lyonnaise.

### **Decision Analytics**

We are building our global position in Decision Analytics. The first half was impacted by timing issues in the UK, as you heard from Paul. It has become harder to predict client spending patterns and there is clear evidence that clients are now delaying implementation.

Let me just add a little bit of colour to that. As you know, a little over 50% of our global business comes from financial institutions, many of which are your employers. These financial institutions are announcing large losses, which are causing them to look hard at their expense, control and capex. So, wherever possible they are simply delaying important projects, a lot of which come from Experian, so that they can make numbers and watch the balance sheet. We do expect this trend to reverse; it cannot last forever and they cannot stop investing.

Strategically, we have made a couple of small but significant acquisitions in Decision Analytics. Tallyman is an example of product diversification in the debt collection software, a counter cyclical revenue stream. I am pleased to say that Tallyman won a significant deal in the period from Barclays Bank to help them prioritise their collection efforts. Experian's credentials as the owner of Tallyman were an essential factor in that win.

### **Marketing Services**

The transformation of our Marketing Services activities is gaining momentum as the mix continues to shift in favour of newer media activities, away from print and mail. Digital services or email marketing powered ahead in the period with higher volumes and new client wins in the expansion of programmes with existing clients.

In the meantime, the rate of decline in our more traditional US activities has started to moderate. We continue to see spending cut backs in the UK, again in the financial services sector, but other business lines like QAS have performed well with good wins from the Government for their Quick Address Software.

Finally, Hitwise is performing well. We have had a big focus on synergy projects, we have actioned several cross selling opportunities with other Experian business units and we have embarked on a major new product collaboration which will combine

Hitwise internet data with our mosaic demographic codes to create a state of the art targeted advertising tool. This is very exciting.

### **Interactive**

Our chief focus in Interactive has been on integration. We have new leadership in the business; Victor Nichols joined us from Wells Fargo a few months ago and we are making excellent strides in Interactive. We are the clear market leader in Consumer Direct and we provide online access to credit reports and monitoring services, as you know.

Growth has been very strong there, reflecting increases in membership activity, improved retention rates and good traction from new products. Our focus is on innovation and we are seeing encouraging early signs for our new child identify and ID theft protection products. This week, we announced a new partnership with Discover Card to provide them with credit score tracking for their 50 million card member portfolios. That is a further important step in our indirect channel.

We have seen an exceptionally weak market environment for LowerMyBills as sub prime lenders went out of business and other lenders tightened up their lending filters. While we don't expect any near-term improvement, the fall out from the sub prime meltdown means that only the strongest players in our field are likely to survive. We are very confident of LowerMyBills' long-term prospects. Once the mortgage market rebounds, and demand from consumers right now is very high, we see it playing a vital role in the future food chain for consumer financial services.

So, we are repositioning at LowerMyBills. Our focus has been on consolidating platforms, advertising optimisation and diversifying them into non-mortgage segments. It is early days but we are making good progress in verticals such as credit cards, auto insurance and debt consolidation loans. We are very encouraged.

### **5. Serasa**

I wish you could all travel with us to Brazil to see why we have been so excited about our Serasa acquisition there. But that is not possible, at least today, so we have brought you this video to give you more of a feel for what we have purchased in Brazil.

[Video shown]

I hope that has given you some flavour for the business we acquired in Brazil and I hope you will agree it looks like, and indeed is, an impressive outfit well situated in an exciting growth market. We turned this business over to Chris Callero because everything that he has come into contact with at Experian over these last six years he has made better. So, we gave him our largest investment to look over. Chris is the Chairman of the Board of Serasa and Chris, I think you just got back from your fifth, six or seventh trip to Brazil in the last few months. Come and tell us how it is going.

## **Serasa Integration Update**

**Chris Callero**

### **1. Preamble**

Thank you, Don, and good morning everyone. It is really five and seven months; number six, if you are keeping the metrics, will be in December with our second Board meeting of Serasa. I want to first remind everyone that there is a tremendous opportunity with Serasa. You probably felt some of that as you looked at the video and I would like to amplify that as I go through this presentation.

By way of background, we closed the transaction at the end of June, so we are still in the very early days and we are getting a lot of good work done. I also want to remind you that the acquisition plan for Serasa was predicated upon negative data only. I will give an update about positive data further on in the presentation.

To outline the presentation, I will give a quick overview of Serasa, an update of our progress towards integration, review the three sources of synergy (sales, product and cost), give the positive data legislation update, and I will close with my personal assessment of our market position.

Brazil is a highly attractive emerging credit market, as evidenced in some of the material and comments that you saw in the video. This is largely attributed to its population, demographics and underlying economic conditions. Serasa is not only the largest credit bureau in Brazil; it is the fourth largest in the world.

### **2. Integration**

I would like to provide you with a brief update. First of all, we define integration as back office activities (all the back office activities that are necessary to run the business), the governance and controls. By completing the integration, we get a great sense of confidence in the business performance, about the risk management and the control surrounding that.

I am pleased to say that you see a completion of 88% thus far, with the integration activities. For the sake of simplicity, we have listed five key disciplines; underneath those are hundreds of tasks that are getting done and we have a great team working on it. We expect to be completed with the integration in March, which will be around two months earlier than we originally scheduled.

### **3. Synergies**

#### **Sales**

Very simply, we have taken our strategic account programme that we employ in the UK and US, and have lifted and dropped it into Latin America, based at Serasa. We are in the process of forming a strategic accounts team to serve our largest global

clients and key regional clients within Latin America. These people will end up cross selling products from Credit Services, Decision Analytics and Marketing Services.

At the same time, we have gone through a review of best practices as it relates to our sales practices and we are in the process of adding some capabilities to help us better cross sell within Serasa for Experian products and for Experian, on Serasa products already in the region.

Serasa does have a very strong 400-person sales force; they are full of excitement, doing a great job and have been achieving great growth numbers. They are definitely keen to add more capabilities to their arsenal.

### **Product Synergies**

I thought it would be a good idea to review with you what our process is that gets us from determining the most important product synergies and deploying them into the market.

Firstly, we had a couple of weeks of product fairs. Largely, this has involved our leaders and product development experts spending countless hours educating each other on the product sets offered in the marketplace, the underlying logic rationale and value propositions with those products. We then validated that with our clients, and insofar as we have a strong market position and shareholder banks that are chiefly looking at us to bring value to the market place, it is a very easy and smooth process to do.

So, we have completed that. We have now taken from a list of 60 high priority initiatives roughly the top ten and next week we will be finalising the list to roll out later this fiscal year. Modification for the Brazil market of these products will be continuing and we will be launching some of these products later this fiscal year and certainly into FY09. You can see four examples that will make the final cut list; two of them represent products in Credit Services and the other two represent products from Decision Analytics. We will then work on the next set of synergies.

### **Cost Synergies**

You would expect us to address cost synergies and we clearly are. First and foremost we have had great sharing of best practices and we have come up with some things we can collectively do to leverage the new organisation. We are leveraging Serasa's infrastructure for our Latin American region. It is very important and essential, and puts a good beach head for us in Latin America.

We also found some data acquisition synergies and have been able to achieve them. We also use our global purchasing power. You will have seen in the video a lot of IBM equipment and other technology in the Serasa data centre. We have very similar capabilities and providers.

## **4. Update on Positive Data Legislation**

### **Definition**

A good starting point is with negative data only. Negative data suppresses a lender from providing credit to those they do not want to lend to. Conversely, positive data

provides the data and information, and enables the lender to work out who is credit worthy, what is their capacity and how they can grow and build that relationship. In combination, greater access and lower risk are provided and it stimulates greater economic growth. There are a lot of wins.

### **Status**

Currently, the legislation is moving through Congress in Brazil. Studies have been presented, probably the most prominent of which is the PERC study, which is available through a link on our website. The PERC study has been very well received. The Lula administration as well as the Central Bank recognise that, in order for the economy to continue its expansion, it is important to get credit to consumers, and to get that credit in a relatively careful risk environment and at lower interest rates. Positive data combined with negative data helps support that.

### **4. Personal Perspective**

I would like to close on what I see. I have made five trips to Serasa and I will be going back for our second Board meeting in the middle of December. I would say firstly it is fabulous company. It has a tremendous track record, great people at all levels and a very strong senior management team that is working with us extremely well. We have augmented that executive management team with four people from the US, three of which have significant working experience and speak Portuguese. That is very important.

I also want to bring things to life. Two of the top executives at Serasa understand English but do not speak it as well as they would like in business settings. At 07.00 every morning, they are taking English classes. When I was leaving on Saturday from Brazil to London, a guy who heads up the integration wasn't going out to play golf; he was going for three hours of Portuguese lessons. I want to use that as an example of how things are coming together.

The geography, language and culture are new and different. We are dealing very well with the country and the language. Another example is that we have over 250 employees who are studying English. We have a great education programme. They have invested in a great learning and development centre, and they are learning English more and more. Additionally, we have over 100 people in North America, particularly in the US, who take self-study lessons in Portuguese. Bringing the company together is very important.

The other key factor is the very close relationship and partnership that we have with our clients. We particularly have that with the client banks that are shareholders. Don and I have promised when we have made visits to the CEOs of the three largest banks that we will provide products and services to them that will help distinguish them in the marketplace. That is exactly what we are going to do. They have entrusted the assets of Serasa to us and we will continue to deliver on that.

The other aspect is that Serasa enjoys a very strong relationship with clients not just in the financial services industry but also across telecommunications and other vertical markets. It is very strong on the commercial side and the consumer side. All in all, one has to feel good about the progress we are making. As mentioned by Don and Paul, we are on the buy plan and we are looking good and feeling pleased about that.

## **5. Close**

In closing, the one thing that I would like you to think about is that I fully expect in five years that Serasa will be the largest credit bureau in the world. We feel consistently good about that opportunity. We are going to invest accordingly and manage this precious asset in the way it deservedly should be managed.

Thank you very much. I will hand over to Don.



## **Summary**

### **Don Robert**

Thank you Chris. That is a great story and things really are going well in Brazil under your leadership. Let me just summarise. The market environment in the US and in the UK remains tough, and is likely to get tougher. Generally speaking our financial services clients have deferred their spending, for both capital projects and for marketing, to obtain new customers. That is just a fact and by now I think the reasons should be obvious to you.

What we do know is that this is a temporary situation, but we do not necessarily see the end of it yet. What we also know is that the balance and the diversity in the Experian portfolio protects us, and it allows us to continue to grow, even in challenging markets. We have put in place a strategic framework to support continued global investment and growth, and taken significant steps in the first half of this year to become leaner and more efficient.

Experian remains a great company with exciting growth prospects. We are well positioned to continue to deliver long-term growth and long-term shareholder value. It has been a long presentation, but we had a lot of information to convey. I thank you for your attention, I suspect there may be a question or two, I will invite Tiku to join us for Q and A and let us start with Andrew.

## **Questions & Answers**

### **Andrew Ripper, Merrill Lynch**

Don, given your closing comments about the environment for origination, we all appreciate the Banks are tightening the lending standards. I just wonder on the demand side, what your impression is of consumers' attitudes towards debt in the US? I presume that if people are still looking to borrow money or get new credit cards, the banks, even though they reject those applications, will still use your services. If the demand is not there obviously they are not going to. Could you just contrast that for us?

### **Don Robert**

Sure, well obviously I think there are two kinds of demand. There is demand that is stimulated by financial institutions marketing, which is not necessarily taking place right now. Then there is ongoing steady state demand for consumers who have legitimate needs.

An important indicator of that is the activity that we are seeing coming to our LowerMyBills website in the US. Unprecedented numbers are coming to us looking not just for refinanced deals on sub-prime mortgages, but for prime mortgages, for credit cards, and for debt consolidation products. The demand is very much there, I would say that sadly the funding or supply of lending dollars is constricted right now.

## **Andrew Ripper**

My second question is maybe more for Chris. In terms of your work on costs, I think you are doing a pretty good job so far. Paul put up a slide talking about the breakdown of costs for the Group. Could you give us a feel for US credit, what proportion of your costs are fixed? What proportion are variable? If the top line remains weak or continued to deteriorate, what additional scope have you got to manage that cost base to keep the profits up?

## **Paul Brooks**

On the numbers side, in the credit services business, the true variable costs I guess would be about 10% of the cost base, and would include royalties, commissions and some other direct payments. The critical thing we are trying to get across here is that within the rest of the cost base, which is fixed or semi-fixed, there are a lot of things we can do to manage these costs.

We talked about the strategic moves we are making, in terms of the Chilean near-shoring, one of the big areas of cost in the credit business is the customer contact centre. We are basically moving all the back office functions out of Texas down into Chile. That gives rise to significant savings. Another one of these kinds of measures is the data centre consolidation, that I made reference to. We reduced the number of data centres in the US from three to two.

In Europe we have brought several of the continental European data centres into Fareham. It is these strategic measures that we can take to get the cost base down. I also referenced some of the more tactical things that we can do, which is freezing headcount in certain areas of the business and reining back discretionary spend. So that gives you some colour on what we can do on costs in Credit Services.

## **Andrew Ripper**

You mentioned a number of initiatives in the first half, which resulted in one-off costs. Could you quantify what the aggregate impact of those one-offs was, and how much benefit you would expect to come through as a result of the second half? Things like UK marketing integration, the points you just mentioned about US credit and the data centre consolidation in Europe.

## **Paul Brooks**

In the first half the additional costs that we put into business was investment in both cost saving and investment for future growth in emerging markets and new products. The incremental amount was probably in the region of \$15 million – \$20 million. The majority of that will be investment for future growth, the rest will be related to things like the residual costs of the marketing restructuring in the UK, the ongoing transfer of people to Chile, and the setting up of the decision analytics delivery centres off shore.

**Don Robert**

I could add a couple of things to Andrew's second question. First, we look at strategic investments not just for growth, we always look at them for cost. For example, we did not wait until the credit market problems to go about Santiago. We decided to do that roughly a year ago – in November. A year later we have a population of 300 growing to close to 500 over the next few months. Again, while we have strategic investments in our pipeline for growth, we also have more strategic investments as it relates to cost. It is something that we bake into the culture, the leadership and that is expected. The best time to cut costs is when things are going well, not when you have your backs against the wall.

**Andrew Ripper**

Just to be clear, it sounds like from your outlook statement that revenues are a bit below plan, but you are making it up on the cost side. I am still not clear, as a result of all the actions that you have flagged today, what the benefit is going to be for the Group overall in the second half?

**Paul Brooks**

What we are saying is that the measures we have taken and are taking on costs will be sufficient to offset what we anticipate being represented by the lower sales growth in the second half of the year, based on current conditions. We see sufficient mileage in our cost savings in the second half of the year to mitigate any reduction in the rate of growth that we see coming through in the second half.

**Don Robert**

Paul, what are the top five cost moves that you are referring to again?

**Paul Brooks**

Segment by segment, Credit Services we have already referred to two or three there. Decision Analytics, I would point out there the offshore delivery centres, we talked about Bulgaria and Shanghai. Another thing in Decision Analytics is the increased focus on annual licence arrangements from perpetual licences. Clearly that is a much better recurring revenue stream, at much higher margins, if we do that.

In Marketing Services we had two restructurings last year in the US, one at the beginning of the year and one at the end. Roughly 100 people taken out of the traditional part of the business in each of those, and we are reaping the benefits of that this year.

We integrated our database business in the UK with our existing marketing bureau business. If you recall we took a charge at the end of last year. There was a small extra cost in the first half this year. We will start reaping the benefits of that in the second half year.

In interactive we have done a great job in better targeting our marketing spend. The margin you saw in Interactive there was over 20%, which was really quite an

incredible achievement, given we saw quite a significant decline in the LowerMyBills margin, as you would imagine during the half. At the same time we were investing something like \$5 million in developing the new vertical markets within the online customer acquisition business. In all of the segments you can see these cost saving measures.

**Don Robert**

It all started well in advance of this cycle.

**Jaime Brandwood, UBS**

I wanted to start by asking you about your comments on capex, more from a ratio perspective rather than absolute amounts. I think, at the time of the IPO, you were talking about capex to depreciation ratio of 1.1 times going forward. It came out at around 1.2 times in fiscal 07, it looks like it could be coming out at around 1.3 times in fiscal 08. How do you see that panning out going forwards?

**Paul Brooks**

Our target for this year would be 1.1, plus we have some additional capex in emerging markets, notably Indian credit bureau projects. We would expect to be less than 1.15.

**Jaime Brandwood**

In terms of the 330 versus 350, that implies the depreciation also goes up a lot in the second half?

**Paul Brooks**

Yes, remember you have got the acquisitions coming in, the capex for the acquisitions is in the region of 50 million. Exchange also adds to the total quantum. Last year we had capex of 275, we said it would be broadly similar this year, if you add 50 million for acquisitions you get to 325, at least 10 million for exchange gets you to 335, which is in the middle of the range we have given you for the full year.

**Jaime Brandwood**

One of the points where you sounded a bit more optimistic was on the EPS accretion coming from acquisitions in fiscal 09. Are you able to give a sense of just how much EPS accretion you might expect?

**Paul Brooks**

If you take the big ones, we gave fairly granular numbers on HitWise at the time of the acquisition, which broadly worked out as earnings neutral this year, clearly we would expect HitWise to be accretive next year. Serasa is performing well, it is on plan. If you adjust for integration costs and based on current exchange rates it is

going to be quite close to being accretive this year, so next year we would expect it to be accretive on that basis.

**Jaime Brandwood**

But you are not willing at this point to give a slight quantification of total aggregate EPS impact?

**Paul Brooks**

No, I think it would be more appropriate to do that in May, at the year end.

**Jaime Brandwood**

One final question, just on the PUT option that you recognised on your balance sheet re: Serasa, the \$499 million. Can you talk about whether there is any P&L impact from that, any notional interest on that liability?

**Paul Brooks**

There is a charge that goes through the financing fair value line, as the value of the PUT increases, there will be an adjustment going through there. Obviously it is not a cash item, it is simply flagging the potential cost if the minority exercise their PUT option at the end of year five.

**Jaime Brandwood**

You would be taking that below the benchmark level?

**Paul Brooks**

Yes, indeed.

**Ed Steele, CitiGroup**

Firstly, going back to credit services in the US, the mortgage business has been under some strain for a few quarters and it seems you are flagging some contagion out of that today in some other segments. Could you be a bit more specific about which areas of Credit Services are now decelerating in any noticeable way? Are you seeing it in credit cards as well as auto-loans? What about personal loans? Is that business now negative growth?

**Chris Callero**

Fundamentally, through the first half, with the exception of the mortgage vertical, things are fine. Most recent trading, it is obvious to us that credit marketing slowed down. Obviously unsecured, in large part, credit card we saw it in October. That is generally what happens.

The question to that becomes is that something that is going to be sustainable over a period of time, we are nearing the end of the fiscal year, we are going to slice back some of our marketing with an announcement of our earnings issues, and losses that we are taking that is to be determined. That is really the principle area that we are seeing, any spill over is in that form of landing, our other verticals are just fine.

**Ed Steele**

Is it negative in October?

**Chris Callero**

Yes.

**Ed Steele**

The second question relates to the marketing spend within your cost base, it was 12% in your pie chart. How much of that is in interactive? Is there any significant deviation amongst the residual amount between the other three divisions?

**Paul Brooks**

At least 95% of that will be in interactive, yes.

**Ed Steele**

The third question relates to your acquisition comments, reading between the lines it sounds like you are not going to make any more internet acquisitions. Obviously we have seen that LowerMyBills has been problematic, the last time we spoke PriceGrabber was still okay, and that is the biggest part of your internet spend to date. What are you saying about that in terms of the growth rate? Is that something that has not performed relative to your plans when you bought it? Are we going to see some write-offs shortly?

**Don Robert**

You will not see any write-offs, we are delighted with the performance of PriceGrabber. It is right on the buy plan and coming into the Christmas shopping season we expect a good performance there. LowerMyBills, obviously we are disappointed by the financial performance, but as I tried to point out in the presentation, we really think it serves a very very important function for consumers in the US, in terms of matching them up with financial services that they really need. We are working to diversify the offering and we think it is going to be a great business.

**Ed Steele**

So if PriceGrabber is fine, why is there no more internet acquisitions? Is LowerMyBills the reason?

**Don Robert**

No, what we are saying is that we now believe that through the organic efforts we have made, building a common lead generation platform and developing marketing pools of expertise in that business, we are confident that we can do what we need to do organically.

**Andy Chu, Deutsche Bank**

Two questions, please. The first one is just a follow on from Ed's question in terms of the acquisition policy. Clearly a shift and a de-emphasis away from Interactive. Are you maintaining therefore what you have said on acquisition spend, of around \$40 million – \$600 million per annum?

**Paul Brooks**

Clearly acquisition spend is very dependent on the right opportunities arising, which are both strategic and meet our financial criteria. At the time of the IPO we talked about a spend of somewhere in the region of \$600 million - \$700 million a year. I think after our spend in the first half of this year, we are probably averaging a little bit more than that. If we did not do much more this year we would still be on that kind of average. It is a little hard to project exactly what will emerge over the next 12 months, for the time being that is a reasonable working assumption.

**Andy Chu**

The second question relates to your cost base in terms of labour being the largest chunk at 42%. Just trying to get a flavour of the flexibility of how quickly you can react to taking costs, in that chunk of labour costs? Could you give us a flavour of the natural attrition in the company in employees? Maybe a split also into contractors and part-time staff to give us a flavour of the flexibility?

**Paul Brooks**

There is a whole range of different types of labour in there. It includes labour in cheque processing centres in France. There is a customer contact service referred to in the credit business, there is quite a lot of sales people in there. There is no 80:20 rule there, there are a lot of Groups of similar size.

The ones in areas like client services delivery contractors, which may represent 20% of that labour are the more direct elements, they are more volume related. In terms of reducing the numbers, if we were actually to restructure and reduce. In the US the cost is less than it is in the UK, but we have no plans to have wholesale restructuring at this stage.

In natural attrition, we are probably talking maybe 10% a year in average across the business. It is important to stress that our major aim is to have strategic cost move, rather than reaction to circumstances. We are always planning our next move on strategically reducing costs and that really is far more significant than short-term restructuring.

**David Appleton, Alder Investment Management**

Could you give some comments on Consumer Direct in North America? It seems to be continuing to do well, could you talk about how you expect that to continue if the supply of lending dollars remains constrained and the consumer confidence turns down further?

**Don Robert**

I actually think those are two things that will drive the Consumer Direct business forward.

**Chris Callero**

We are continuing to see strong growth with Consumer Direct, our membership continues to grow, as do our capabilities. We have just launched a couple of products that Don mentioned, with the family and child secure products. Those are off to fabulous starts. We have also done a lot of work on our call centre and our retention rates have continued to improve.

We have a nice innovation pipeline within our Consumer Direct business. At the same time while we are presenting the opportunities for product innovation, we are also looking at our own marketing and to more of a sub-segment marketing approach in various forms. We looked down the tunnel, and we see a lot of further opportunities for growth with Consumer Direct, and we are pleased with the performance of that business.

**George Gregory, Credit Suisse**

A couple of questions, in the UK marketing solutions business, what proportion is financial services?

**Paul Brooks**

It is about 30%.

**George Gregory**

The second question, going back to US credit services, clearly the last chunk of marketing spend, which is almost entirely variable, relates to Interactive. You have discussed the variability in labour, confined to the contractors and the delivery aspect of that side of the business.

If volume were to stay where it is, the current run rates are negative, continued price deflation in credit reports. Presumably you would expect the margin in Credit Services to decline. Have you done any sensitivity analysis yourself to say if volumes fell 5% in full year 09, we could flex certain amounts of labour, the price deflation trend would continue. What would happen to your margins?



**Paul Brooks**

We don't expect any scenario of significant decline in credit services. What Chris referenced was a marginal decline in the month of October, and that is the sort of rate we are currently at. At these levels, by accelerating strategic costs moves as well as the tactical moves we should be in a position to maintain margins over time.

**Paul Steegers, Merrill Lynch**

I have a question on US and UK decision analytics. Paul, part of your pipeline on UK Decision Analytics seems to be deferred. Can you quantify the magnitude of orders that have been deferred, how likely they are to come through next fiscal year? Moving onto the US decision analytics, obviously still good growth, although on a much slower level. Where are those growth rates going into Q3 and is it not likely that that the growth rate could really slow down quite significantly?

**Paul Brooks**

In terms of the entirety, the UK is far more important. We are being a little cautious here because generally Decision Analytics is very stable, we have quite long visibility in terms of seeing the pipeline. We have a familiarity with the rate of conversion in that pipeline. This current situation is quite unprecedented in terms of where we have deals, but the implementation is being delayed. We see the demand there and it is just a matter of time as to when it comes through. Clearly in the short term it is going to impact the numbers.

In Q2 we had mid single digit decline in Decision Analytics, but that was largely due to some lumpiness in the comparative in the previous year. We think Q3 this year is going to be difficult, we would expect little or no growth, but we are very cautious in predicting that. It is really too early to say for Q4, just to repeat we have a very strong pipeline and we expect it to convert at some stage, but we are very reticent about making a forecast for Q4.

**Paul Steegers**

In terms of the Pipeline you have got in the UK Decision Analytics, can you give us a sense of how big it is? So we can see if you were to convert on 50%...

**Paul Brooks**

If the pipeline came through in the normal way, we would see growth in the low to mid single digits. Traditionally UK Decision Analytics has grown fairly consistently at the high single digits – 7,8 or 9%. If the pipeline came through at the present we would see it more at 3,4,5,6%, but at the moment the situation is more difficult than that.

**Tiku Patel, Managing Director, UK and Ireland**

Just to add a little to that, we are seeing that our clients are very keen to talk to us about opportunities for us to work with them, to reduce their cost base or improve returns in the business. What they are not prepared to do at the moment is to

commit the funds to do that. There is a lot of conversation going on, there is a lot of demand for our products, the pipeline is very strong, there is just a delay on when it is going to hit.

**Robert Miller, Redburn Partners**

Going back to Serasa. Paul was I right in thinking that your original long-term revenue projections were based on no significant synergy gains between the Group and Serasa, and no positive credit information legislation?

**Paul Brooks**

Yes, they were based on no positive credit legislation. We had a small amount of revenue synergy in there that did not really kick in, from memory of the plan, until year four or year five. It was certainly well under 10% of revenue in year five, so very little synergy contribution.

**Robert Miller**

Can you give us some guidance on if these things do come through strongly for you, both on the credit information and the synergies? What is it capable of adding in terms of the compound revenue of growth of the business in your five year plan?

**Chris Callero**

We have to separate anything associated with positive data, we do not know what form it is going to take, we do not know what the requirements will be, and the underlying cost structure to support the requirements. Also the timing is very elusive. We are suspecting and expecting that it will pass, and that it will happen in the market at some point in time. However, our plan right now is not predicated upon that. In terms of the synergies that we are working through today, we expect the kind of growth that Paul has mentioned, that is probably the best way to look at it.

**Robert Miller**

Did Paul mention one?

**Chris Callero**

He said 10%, less than 10% by year five.

**Robert Miller**

That was in the original guidance?

**Chris Callero**

Yes, pretty consistent.

**Robert Miller**

Can I ask Don a question on the general guidance, it does appear that the nature of your guidance, and indeed your body language, has changed quite a lot in the last month, since you last reported to the market.

**Don Robert**

I haven't seen you in the last month.

**Robert Miller**

From the last time you spoke to us, you do appear to have become quite a lot more defensive about the market environment. What is it that has specifically happened in the last month for that to be the case? Is it only in the last month that you have seen the behavioural changes from the financial institutions that have led to changing your outlook?

**Don Robert**

Yes, there was somewhat of a dramatic shift in late August, and carrying on through September, in the behaviour of the financial institutions that we work with. Things were still quite buoyant throughout the summer months, as the sub-prime crisis continued to play out. It seemed to be pretty well contained, and then it took on a life of its own very late in the summer, when the deceleration really started. The rapidity of that change is what makes us a bit cautious.

**Robert Miller**

Presumably we are unlikely to see any signs of change in that until the auditors have dealt with year end situations for the big financial institutions?

**Don Robert**

I could not argue that point. All the news needs to come out, our clients need to get settled down; they need to decide how much money they have to spend. When they are back, we are back.

On the theory that it is always the last question that is the gotcha, I think maybe we will just finish now. Thank you all for coming. If we could remind you about our investor seminars coming up, we would really appreciate your attendance. Thank you so much.

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