

## **Trading Update – 10 October 2007**

**Welcome**

**Paul Brooks, CFO**

Good afternoon, ladies and gentlemen, and welcome to our first half trading update. With me today are Nadia Ridout-Jamieson and Peg Smith from our Investor Relations team. I will start by saying a few words about our performance, and then I will turn it over to questions.

### **1. Current Market Conditions**

As the global credit crunch unfolded and conditions in the US mortgage market deteriorated, we saw a tougher revenue environment in our North American business during the first half. Overall, our business has performed well, demonstrating the robustness of our model, particularly in Credit Services.

Total sales growth in the half was 14% at constant currency, with organic sales growth of 6%. Although slightly slower than we anticipated at the time of our trading update in July, this can be attributed to the severe downturn in the US mortgage market, which particularly affected LowerMyBills. Were we to exclude LowerMyBills, group organic sales growth would have been 8% in the half, and North American organic growth would have been 9%.

### **2. Strategic Progress in the Half**

Stepping back from current market conditions and looking at the bigger picture, we have made significant strategic progress in this half year. Organic sales growth, which remains within our target range, benefited from good business in our credit bureaus in new geographies, global deployment of Decision Analytics, and growing momentum in Marketing Solutions. We made further progress with organic investment to drive future growth, for example in Asia and in Canada, where we are re-platforming our bureau, and in India, where we have submitted our bureau licence application.

We made two strategically significant acquisitions. Serasa was a major step forward for our emerging markets growth strategy, while Hitwise brings unique data to Experian on online consumer behaviour and further supports the transformation of our marketing activities.

Globally by principal activity, group organic growth of 6% reflects a robust performance across Credit Services, where organic growth was 4%. Growth at Decision Analytics was 6%, held back by timing issues in the UK. Marketing Solutions progress is on track, with growth of 3%. Interactive growth was 12%.

### **3. Trading Performance**

Now let's look at trading performance across each of our regions. The acquisition of Serasa means we now report across four regions, with the region previously reported as Americas split into North America and Latin America.

#### **North America**

Sales from continuing activities in the six-month period increased by 6% in total. Organic growth was 5%. Our US credit services activities held up well, despite a marked deterioration in the mortgage environment in the latter part of the second quarter. We saw low single-digit organic growth, reflecting strength in non-mortgage verticals, account management and collections, and demonstrating the resilience of the business through economic cycles. Decision Analytics delivered double-digit growth against a tough comparative due to the Bank of America win last year, and there was further improvement in Marketing Solutions, as the mix shift to newer digital activities continues.

Organic sales growth at Interactive slowed to high single digits in the half. This was attributable to deterioration in LowerMyBills performance, as the subprime crisis unfolded over the second quarter. The outlook here remains challenging. Across the remainder of Interactive, growth continues to be strong.

### **Latin America**

Latin America comprises Serasa; Infomarketing, which is a small acquisition we made earlier in the year; and our pre-existing Latin American Decision Analytics activities. Sales were \$102 million, up from \$2 million the year before. Organic growth of 46% relates to our Decision Analytics activities in the region only. We are pleased with the performance of Serasa in the three months of ownership. The integration is proceeding well, and the business is performing in line with the acquisition buy plan.

### **UK and Ireland**

Sales from continuing activities increased by 9% in the first half at constant exchange rates. Organic growth was 5%. The market environment for UK financial services remains challenging, and this affects both our credit and marketing-related activities. Despite this, Credit Services performed well, with low single-digit organic sales growth in the half, again demonstrating counter-cyclical. Sales at Decision Analytics were broadly in line with last year, a reflection of the lumpy nature of this business. We have a high degree of visibility in Decision Analytics, and given a strong pipeline, we expect to return to normal levels of growth in the second half. Performance at Marketing Solutions was resilient, with low single-digit growth, and we are very pleased with the performance of Interactive, where sales doubled, with Credit Expert going from strength to strength.

### **EMEA/Asia Pacific**

It was a good half for EMEA/Asia Pacific, with sales at constant exchange rates up by 14% and organic sales growth of 8%. Credit Services' growth was mid single-digits, again reflecting very strong performances in our credit bureau in continental Europe, while in Decision Analytics we saw double-digit growth, with particularly strong growth in emerging markets. Finally, Marketing Solutions performed well, also delivering double-digit organic growth.

Overall, our business has demonstrated its robustness, and it has continued to deliver good organic growth against a more difficult market backdrop. While we are cautious on the outlook for the US mortgage market, we are on track to deliver profit in line with our expectations for the year.

### **Questions and Answers**

## **George Gregory, Credit Suisse**

I appreciate that this is a trading update and that you do not intend to talk about profitability, but clearly it is quite important for everyone to get a sense of how the margins are holding up in some of your more difficult environments. What are you doing in LowerMyBills to prop up profitability there? Can you talk about the pricing trends in the Credit Services business in the US and whether the credit crunch issues are having any impact on pricing? If that is the case, what are you doing to counteract that?

## **Paul Brooks**

The issue with LowerMyBills is the fact that the vast majority of the costs are direct; they are the costs of actually generating traffic. So, we have focused first on optimising that marketing spend and reducing it in line with the demand for leads and the price offered for leads. That is a fairly precise science, so we can really monitor and manage our marketing spend to deliver the optimal outcome. Secondly, LowerMyBills is fully integrated with our education online business, and with the steps we have taken to diversify to other areas, like insurance and pre-screened credit cards, we are able to offer the optimal offer with our advertising. In other words, we optimise our advertising to put forward the offer which is most likely to end up with a lead. That is another area where we are improving the productivity our marketing spend. This is not just a feature of LowerMyBills; it is something we are doing across the Interactive business. It is clearly a force to drive margins in that business.

The pricing trends in the Credit Services business are very similar to ones we have seen for many years. Remember that the acquisition activities in Consumer Information, other than mortgage, have been growing well. We are continuing to see growth in the Credit Services business, and in terms of volume and price trends, we continue to see the volume trends in the mid single digits and the price coming down low single digits, which are the sort of trends we have seen for a long time in that business.

## **Kervane Wong, JPB Securities**

I know one of your competitors last quarter had surprising growth as far as risk scores; it was part of the credit crunch driving people being more concerned about their portfolios and doing more checks. Did you see that same trend yourself in this quarter as far as increased demand for risk scores, both in the US and in the UK?

## **Paul Brooks**

This really speaks to the counter-cyclical characteristics of the business. We have certainly seen that trend in both the US and the UK. As we said in the statement, although we have seen a decline in the mortgage side of the business, which is about 10% of our credit business in the US and just a bit less than that in the UK, we have seen very strong growth in account management and collection activities, which really speaks to the greater focus on risk. For example, in the collections business in the US, there has been growth of well over 20% in the first half. In the UK, these trends are very similar, but the difference in the UK market is that we are not seeing growth in unsecured lending. We are very much in the counter-cyclical mode of seeing big growth in portfolio management, collections, tracing and so forth, which have been growing in the 20% range.

## **Kervane Wong**

What is the update on VantageScore? Has that had a particular benefit given the same counter-cyclical ability, or is it just a little too early to tell that versus just market share gains?

## **Paul Brooks**

It is too early for it to have made any significant difference to our numbers, but we continue to be very pleased with the progress of VantageScore. Something like 1,700 clients have purchased it, and one of our clients has now adopted it for batch and online purposes, which is something of a breakthrough in itself. So, we continue to be encouraged by it, but the revenue we expect this year is not going to be significant.

## **Kervane Wong**

Can you address the Marketing Solutions environment? Is the integration of Serasa set at this point?

## **Paul Brooks**

In the US, we continue to see the transformation of the Marketing Solutions business. We have said many times that 40% of the business is in newer parts of the business, while 60% is in more traditional parts. The traditional parts, the areas where we supply lists mainly for direct mail campaigns, have been declining, although that rate of decline has moderated somewhat in the first half. But, newer parts of the business which are focused on some of the newer, more targeted areas and channels, such as our Cheetahmail business, are growing very strongly. In the course of this year, those two sides of the business are going to become quite balanced, and we expect to see good growth in the US.

There are somewhat similar trends in the UK, but the main difference for us is that our marketing business has traditionally been more focused on the financial services sector. In the current environment, clearly a number of our financial services clients have been cutting back on their marketing, so we have seen some impact from that. Despite that, we have continued to grow nicely in the first half, and we expect acceleration in that business in the second half.

The integration of Serasa is progressing well. We have put some key management into the business, including a CFO and Head of Strategic Sales, and we have a full-time integration director. We are probably about halfway through the formal integration programme, which we started before we acquired the business, and we continue to see good opportunities for revenue synergies. They are not going to come through immediately, but, as we said at the time of the acquisition, we see some very good opportunities for our value-added products in that business.

## **Jessica Flounders, Morgan Stanley**

In terms of Interactive, we have heard a lot about LowerMyBills. What about Consumer Direct and PriceGrabber? With Consumer Direct, it feels like consumers go and buy their credit report when they are making big purchases, such as new homes, and PriceGrabber seems to be quite driven by consumer spending, and both of those

areas should be softening in the US. What kind of growth are you seeing in those two businesses?

### **Paul Brooks**

If you adjust for LowerMyBills, you will see that the Interactive business grew roughly 20% in the first half, so it continues to grow very well. We have not seen signs of slowdown there. In terms of PriceGrabber, we are coming into the busiest period of the year, the holiday period, and we are encouraged by the early signs for the holiday period. You can argue your point either way because in times when the consumer is a bit more pressed, he may be more inclined to do comparison shopping. We certainly anticipate a decent holiday period for PriceGrabber, including the price increase during the holiday period.

Consumer Direct continues to grow well. We have been focused on retention, which has certainly helped the growth, and we have been reducing the membership churn and increasing the lifetime value. We have also been diversifying the offering and introducing new products, such as those which protect the family's and children's identities against ID theft. There are a number of factors which drive people to sign up for the Consumer Direct membership, and certainly buying a house is only one of many. Again, we see no signs of slowdown in that business, although, as we have always said, over time as the business develops scale, clearly we cannot expect to continue to grow at over 20% rates. Over time, that will slow. As regards the current situation, however, we have not seen signs of that happening.

### **Jessica Flounders**

You were talking about growth of mid single-digits revenue growth in Credit Services in the US; looking at the first half as a whole, it is low single digits. Does that imply that the second quarter was actually flat?

### **Paul Brooks**

It might imply that, but that was not the case. In fact, the growth in the second quarter was low single digits in itself.

### **Kyle Evans, Stephens**

Could you give us more specifics around the initial success that you may or may not have had with the cross-selling of Analytical Solutions in Serasa? Could you also give us a brief update on where you are in that market with the transition towards trying to collect positive credit information?

### **Paul Brooks**

It is still early days in terms of introducing the value-added products. The first thing to do is clearly to do a full evaluation of the market to actually confirm the opportunities there, and that is the stage we are in at the moment. As I mentioned, we continue to see the opportunities which we identified prior to the acquisition as being possibilities. The process at the moment is to develop the business case to justify the development investment that needs to go into them and to be confident that we are going to get the return on it. That is the stage we have reached at the

moment. We will probably be in a better position to update you in another three months.

In terms of the positive data legislation, the bill to enable positive data to be collected and used is shortly to go to the lower house of the Brazilian parliament, where it will be debated; following that, it will go to the upper house. There is a way to go yet in the legislative process, although it is possible this legislation could be passed before the end of the next calendar year. However, I would remind you that this acquisition has always been justified based solely on negative data; it stacks up in that respect alone, and positive data would be icing on the cake. We remain confident that this legislation will be passed in due course.

### **Kyle Evans**

Could you help us quantify the mortgage exposure in North America, both the change and its contribution to overall revenue?

### **Paul Brooks**

Within Credit Services in North America, which represents about 40% of North America's sales, mortgage represents roughly 10%. The other exposure to mortgages is obviously through LowerMyBills, which is a little less than 5% of our total sales.

### **Kyle Evans**

Could you help us think more clearly about how the new policy that allows consumers to freeze their credit files could impact the Consumer Direct business?

### **Peg Smith**

Credit file freeze already exists in 42 states for regulatory requirements, and we have now extended it to all 50 states. That being said, the take-up by consumers for credit file freeze is so nominal that it really has no impact at all on Consumer Direct. For example, in California the law has been in existence for about five years, and about 100,000 consumers have really ever taken advantage of that in that state. It is a nice service out there for consumers who believe they need it, but it is not a replacement for monitoring your credit report on a regular basis, so we see no effect.

### **Jaime Brandwood, UBS**

If you have moved from mid single-digits in the first quarter to what appears to be pretty low single digits in the second quarter in the mortgage part of your US Credit Services business, the drag from that part of US Credit Services must have been quite significant in the second quarter in order to account for all of the slowdown there. Can you quantify to what extent that has slowed moving from Q1 to Q2?

### **Paul Brooks**

It is certainly true to say that the slowdown was basically attributable to mortgages in the second quarter. Mortgage originations were down 4% in June, but in the September quarter they were down 25%. 10% of our business there is in mortgage, so that gives you a feel for the differential impact of mortgage on the overall

numbers. To answer your question, nearly all of the slowdown in Credit Services in the second quarter compared to the first is due to mortgage.

**Jaime Brandwood**

It was only 4% down in the June quarter?

**Paul Brooks**

Mortgage originations were down; our mortgage was down slightly more than that, but originations are usually a pretty good proxy for the impact.

**Jaime Brandwood**

Ex the mortgage part of US Credit Services, are you comfortable with the growth there? Obviously there are different moving parts in terms of collections and all the rest of it, but overall are you comfortable that there was not a slowdown ex the mortgage services part?

**Paul Brooks**

Yes. We saw consistent trends in the acquisition areas outside of mortgage, particularly in credit cards and other forms of finance. Pre-screen is always a bit up and down, but there was a similar trend in the second quarter; it might have been marginally weaker, but it was more or less the same as it was in the first quarter. We also saw very good growth in both portfolio management and collections. The trends were very similar.

**Jaime Brandwood**

You were referring in your comments on volume earlier to US Credit Services, or at least to the consumer part of it, when you talked about mid single-digit volume growth. Is that broadly the same as what you were seeing in fiscal Q1?

**Paul Brooks**

The volume growth would have slowed slightly because of mortgages.

**Jaime Brandwood**

I know you do not give disclosure on a quarterly basis, but Equifax were pretty consistently seeing close to double-digit volume growth in the three quarters until the June quarter. Has that been similar for you in terms of the volume part?

**Paul Brooks**

I am not sure we measure volume in the same way as Equifax; there are different ways of defining volume. To answer your question, I said mid single digits for the half; it was clearly higher than that for the first quarter, and it would have been lower in the second quarter because of the mortgage fall-off.

## **Jaime Brandwood**

Can you add a bit more colour to your comment about being on track to meet your expectations?

## **Paul Brooks**

We have given guidance that we would expect to grow our organic revenue by mid to high single digits and to maintain or improve margins over time. Clearly, there have been views as to what our organic sales growth would be and the extent to which we might improve margins, and in terms of how that converts into profit, we would expect that to continue to see the same kind of profit number at the end of the day as previously expected. That probably is the best I can give you.

## **Nadia Ridout-Jamieson**

Obviously we cannot comment directly on the market forecasts, but we are aware of what the market forecasts are; they are on our website. If we were expecting to come out significantly out of sync with the market forecasts, we would have to say so. Obviously the revenue environment is tougher, but we do have some flexibility on costs.

## **Matt Thistlewood, Merrill Lynch**

In terms of the use of cash flow, historically you have had a focus on acquisitions. With the share price having come back a bit, a bit of a value opportunity, going forward might you have, or would you consider, the opportunity to buy back stock?

## **Paul Brooks**

We would never rule out the possibility of buying back stock if we felt it was in the best interests of shareholders. Clearly, our strategy has been to continue to grow the business and to invest in growth, and that includes an acquisition element, which requires the use of our balance sheet flexibility. We certainly have not changed that strategy for the time being, and, in any event, we spent heavily on acquisitions in the first half and we are only thinly into our credit band rating, so that is not something we are contemplating in the near future.

## **Dominic, Clay Finlay**

How big is your portfolio management and collections business in North American Credit Services? If it is growing off a small base, it does not really mean much to me.

## **Paul Brooks**

It is certainly smaller than the acquisition side of the business, but it should matter to you because when it does grow, it grows very, very strongly. In the collections side of the business, for instance, we are seeing growth of well over 20%, whereas the flexing on the acquisition side is much less, so you see a few percentage points plus or maybe minus when we are in the counter-cyclical side of the business. To give you an example, in the UK we are seeing low single-digit declines in the acquisition side of the business in what is a very, very tough environment, but we are seeing around



20% growth in the portfolio and collections. Overall, we are talking somewhere in the region of a little over two-thirds in the acquisition side and one-third in the portfolio management and collections side.

**Julian Martin, Merrill Lynch**

I am from the credit side. Could you elaborate on the acquisition plans you have for the rest of the year, as I think you only have \$200-250 million to spend by March 2008?

**Paul Brooks**

You are right we have about \$200 million of leeway. We continue to look at acquisitions of all sizes. We continue to have a pipeline of acquisitions, but we do not have anything significant which is imminent right now, although we would not comment on specific acquisitions.

**Julian Martin**

Are you still committed to your current ratings?

**Paul Brooks**

That is right.

**Andrew Ripper, Merill Lynch**

Can you comment about new product developments and the degree to which your spending is changing over time in relation to the bureau and how it affects business? The other day you put out an announcement in relation to bankruptcy predicts and the joint venture with Visa. I appreciate that some of this could be commercially sensitive, but can you give us a flavour of what else is in the background and how it could affect US growth? Also, how are you changing where you invest with the evolution of the credit cycle?

**Paul Brooks**

That is a very broad question. I will give you a general answer and you may want to pick up on one or two specifics. Developing new products is absolutely fundamental to the business; it is in our DNA, a key part of what we do. Quite a significant amount of our cost is in areas which could be regarded to a greater or lesser extent as product development. Sometimes it is work for an individual client and sometimes it could be specific projects, for which we earmark a significant amount of funds. We spend 5-10% of revenue each year on these kinds of development activities.

We always monitor the amount of money we get from new products and 10% of our revenue comes from products we have developed over the last four years. It is a big area of focus. I suspect we would be very reticent about talking about anything that has not yet been announced. Nadia is there anything on which you want to comment?

## **Peg Smith**

The one on which I will comment is the Visa bankruptcy predict model, because I think is an example of a different move in terms of product innovation. It is co-created with Visa. We are jointly involved in selling and marketing that new score for bankruptcy predictions. I think it is also an indication of us finding the right partners with which to work in terms of bringing new data or solutions to the market that address very specific needs. It is a different approach to new development, but it is, I think, one that is very worthwhile.

## **Ian Armstrong, Brewin Dolphin**

You were talking about this bankruptcy predict and I do not want to sound too negative, but that is going to be a very successful business. Is it not going to impact negatively on the other credit service businesses?

## **Peg Smith**

That is a great question. To give you a quick summary, bankruptcy predict takes credit data and the credit from your Visa card and combines those to predict bankruptcy on a credit card. It is a narrow part of the market but an indication of how broadly we can use the data in very clever ways to address specific business issues. We think it is unique and positions us well in terms of moving the business forward in the area of bankruptcy risk. It is not necessarily cannibalising another product; it is just a broader use of the data for bankruptcy prediction.

## **Ian Armstrong**

Does it work in other ways? For example, say you have paid more than your minimum payment to start off with and then it gradually decreases, is that used to indicate that the credit holder's cash flow is starting to get into trouble?

## **Peg Smith**

It looks for frequency of payment and use and the dollar value of the transactions. The bottom line is it is a much more predictive indicator of bankruptcy risk than anything else we have tested it against in the bank card market. You are right it is a combination of transaction and credit bureau data for that purpose.

## **Ian Armstrong**

On your marketing solution in the UK, you said there was a cutback in spending on marketing services, but you expected an acceleration in the second half of the year. Is that because in August and September the mortgage market disappeared?

## **Paul Brooks**

The comment we were making was a more general one. There are two things that are going to drive our growth in the second half. First, we have a very good pipeline in our QAS address hygiene software business and good visibility into future revenue streams. Some good deals have come through in the first half and revenue will be recognised in the second half. That business is spread across every vertical that you can imagine, including government, which is quite important.

In the other part of the business, the integrated marketing business, there are some deals there with financial services clients, which have been pushed into the second half, which could be related to constraints on spend in this calendar year. Again, we have quite good visibility to the pipeline and there are other sectors involved there as well. There is, however, some merit in your point that financial services marketing spend has been pushed out.

**Ian Armstrong**

I seem to remember you talking about the opportunities in the auto business, although I cannot remember in which division that was. Presumably US car sales have been a bit weaker?

**Paul Brooks**

Our automotive business is part of the credit services business in the US. It is not a big part of the business, although it does grow quite strongly. That business benefits from the sale of used cars, because its prime product is vehicle history reports, provenance reports on vehicles, so it performs well in these kinds of conditions when the focus is on used rather than new cars.

**Ian Armstrong**

I think there is a correlation with eBay, because a lot of it is done via this route and it has become the biggest second-hand car outlet.

**Paul Brooks**

That is correct. We have a relationship with eBay, whereby if you get a vehicle history report on eBay it says it is an Experian auto check product.

**Ian Armstrong**

When you said decision analytics, what are the timing issues in the UK?

**Paul Brooks**

A big part of the decision analytics business involves software deployment for clients. By its very nature it is a lumpy business. We have very good visibility, because we have a very clear pipeline. We know what is coming through it. The timing of the deployment, hence the revenue recognition is in the hands of clients to some extent and it can move around. This quarter, the second quarter, last year was particularly strong and some of the business in the second quarter this year has been pushed into the second half. We are confident that we are going to get the normal rate of growth for the full year, but this one quarter dipped. It is certainly not a trend and has no significance.

**Ian Armstrong**

What was that licence growth last year?

**Paul Brooks**

There was double-digit growth in the quarter last year.

**Brad Rosenberg, OSS Capital**

There has been a lot of frustration with the stock price throughout the year. You certainly had the balance sheet capacity to do something about it and I cannot imagine there being any better acquisition out there than your own stock right now. It is probably two-thirds or less of its intrinsic value and you are going to have pay a premium on intrinsic value or intrinsic value for your acquisitions. I understand why people are selling their stock today, when the company is talking about doing more deals and one of your more recent large deals has thrown your organic growth by 200 basis points.

**Paul Brooks**

We are not talking about doing new, large deals at the moment. Let me give you an example of why we have developed the balance sheet we have. The Serasa deal is an excellent example, because it is an absolutely critical asset, which launches one of our core businesses into a key, new, emerging market with a business of scale. Our view is that it is in the interests of shareholders to invest in these kinds of markets and assets for future growth. That Serasa acquisition will create significant shareholder value over time. That is the strategy we have adopted.

Clearly you can argue that the share price is depressed at the moment. That is an issue and we will review that, but the strategy on which we have embarked is to grow the business and to acquire these strategic assets that can create long-term shareholder value.

**Brad Rosenberg**

It would just be nice to see you guys be a little more opportunistic. I think something else that would be helpful is to give a lot more disclosure as to why this acquisition strategy makes sense and how you have created value in the past.

**Paul Brooks**

I think if you monitor our performance over the last five or six years it is quite clear to see in terms of the cash we have generated, the improvement in return on invested capital over that period and the sales and profit growth. It is quite demonstrable.

**Michael Meltz, Bear Stearns**

Just to clarify, on the US business you are at 5% in the second quarter. Just so I am clear, it sounds like LowerMyBills was down over 30% and weakened towards the later end.

**Paul Brooks**

You are pretty close there.

**Michael Meltz**

Perhaps then you are up 7-8% excluding LowerMyBills?

**Paul Brooks**

In the North American business in the half we are up 9% excluding LowerMyBills.

**Michael Meltz**

So is that a little bit less for the quarter?

**Paul Brooks**

Yes, it will be a little bit less than that for the quarter.

**Michael Meltz**

On your expectations for the whole year, if you are saying your guidance is mid-single to high-single digits and you did 6% in the first half, it seems like LowerMyBills is still pretty weak; that is going to be a drag. It also feels like UK is going to be getting much better here. I know this is a kind of rambling question, but what are the expectations for the second half?

**Paul Brooks**

Let us just look at the regions in reverse order. We expect a strong performance in EMEA/Asia Pacific and we do expect acceleration in the UK, certainly through credit, decision analytics and marketing.

In the US we are very confident of a good performance in the marketing solutions business in the second half; decision analytics is growing well and we expect the non-Lower My Bills part of interactive to continue to do well. That leaves the credit business, which is a robust business, although in the current climate it is growing at low-single digits and that might give you a steer for how we think that might do going forward. Finally there is LowerMyBills, which, as you rightly say, did decelerate in the quarter. It is hard to see the mortgage business getting worse in the second half, but clearly that is probably the wild card in the numbers.

If you pull that lot together, then clearly, for the year as a whole, we expect to be mid to high-single digit, maybe towards the lower end of that range, but that is where we expect to be. The implication in our announcement is that obviously we expect to see a nice margin improvement in the second half as well.

**Michael Meltz**

On LowerMyBills, given the deterioration and disappointment there and I know it is never good to sell on the bottom, what is the current thinking on that business? Is this still a key asset for Experian?

## **Paul Brooks**

Well it is. A few things about LowerMyBills, first we have merged it with our education vertical business, which gives us the ability to move traffic around to the most profitable lead. We are diversifying very actively. Our pre-screen credit card offer is developing now and we have also developed an automotive insurance offer. We are seeing these new verticals beginning to prosper. There was always the strategy to move into these new verticals.

I think the other point to make is that one of the consequences of the mortgage turmoil is there has been quite a fallout in the mortgage [inaudible] and basically Lending Tree and ourselves are the last men standing there, so as and when the market comes back, we are thinking we are very well positioned and we have taken this opportunity to get closer to the clients who have stayed around during these very difficult times. We think the partnerships we have established will stand us in very good stead as the business comes back. We are going to be key suppliers to those lenders. We are not calling the turn, but when it does turn I think we are very well positioned in that business.

## **Nicholas Ward, Deutsche Bank**

Correct me if I am wrong, but my understanding was that in your credit services business the major driver of unit price decline has been that customer volumes have increased and moved into the next price bracket. Is that still the case and are we therefore seeing less downward pressure on unit prices in a slower growth environment?

## **Paul Brooks**

It is still the case, but, as we said earlier, although mortgage is down the other verticals are growing. Overall we are seeing volume growth higher than the price erosion. These are very similar trends to the ones we have always seen.

## **Nicholas Ward**

If there is any future slowdown in that non-mortgage part of the business you would expect to see a more favourable net-price movement?

## **Paul Brooks**

You would, subject to any mix effects, because the other thing to recognise is you do get some mix effects, because some verticals intrinsically have higher prices than others according to the size of the clients within that vertical.

## **Nicholas Ward**

I have one further question. I think it was back at your full year results that you talked about selectively trying to price a little bit more aggressively. That is not something we have necessarily talked about over the last couple of calls. What do you see now as the opportunity to start pushing prices up in those areas where you think you have a clear competitive advantage and where there are barriers to entry?

## **Paul Brooks**

We have been quite encouraged. The majority of these price rises have been with some of our smaller clients, reseller clients, the ones we tend to sell to through our telesales channel. It is part price rise and it is part also price equalisation, because we have had a lot of price inconsistencies that have developed over the years, so we have taken this opportunity to make the pricing to these customers more consistent and at the same time to introduce some elements of price increase.

I think in the first wave we introduced price rises to about 2,000 clients, of whom we lost about 50 as a result of it, so it has proved quite successful. We are now reviewing the degree to which we want to extend this to the next tranche of clients. We are certainly quite pleased with the process. It has had some impact on revenue, although not massive, in the first half.

## **Carl Green, Credit Suisse**

Are you in a position to update us on the development in the FARES profitability in the first half?

## **Paul Brooks**

I can, but only on a limited scale, because First American will be reporting in about three weeks' time. First I would remind you of what we said back in May, when the mortgage outlook was a little bit more benign. We referred to a modest decline in the FARES contribution for this fiscal year. Clearly we will be updating you in November on the actual number, but our guidance was pretty sound as regards the first half. I think we will need to wait to hear what First American have to say on the second half.

What I can tell you is the mortgage environment has got worse, particularly towards the end of this last quarter where we have seen this deterioration, which is one factor to bear in mind. On the other it is important to point out that FARES have taken some very aggressive actions on costs. Something like 160 heads were taken out in their quarter two, which would be the June quarter and another 200 in the September quarter. I think they have referred externally to annualised savings of \$22 million a year. That is obviously at the 100% level. Against this slower revenue outlook, there are going to be some cost savings. That gives you some clue for the second half. We will update you further when we meet in November.

## **Jamie Brandwood, UBS**

I just want to follow up on LowerMyBills. Going back to when you bought this business, I think you paid \$330 million for it and potentially there was supposed to be an element of deferred consideration. Did you ever end up paying any of that deferred consideration and if so, what has been the total purchase price for this business?

## **Paul Brooks**

The total purchase price was in the region of \$370 million. There was a deferred consideration, which was paid some time ago.

**Jamie Brandwood**

If I look at that \$370 million, is most of that on your balance sheet as goodwill?

**Paul Brooks**

The majority of it will be, yes.

**Jamie Brandwood**

Is there any risk of write down there?

**Paul Brooks**

No, as I was saying earlier, the LowerMyBills business is now merged into the other lead generation businesses. We are continuing to see a profitable business here and we see good prospects for it over the medium term. There is no intention to write it down.

**Jamie Brandwood**

I am still struggling a bit with the concept of how the ClassesUSA business shares leads with LowerMyBills. Presumably if I want a cheaper mortgage I will go to LowerMyBills and if I want an online education package I am going to go to ClassesUSA.

**Paul Brooks**

When we are directing adverts to individual web sites we will work out who is most likely to respond to a particular advert, at a particular time of day. Those are the cold, unfocussed adverts that go out.

**Jamie Brandwood**

So you are talking about how you are refocusing your marketing spend? Is that the angle?

**Paul Brooks**

The marketing spend will have been committed to a specific slot. What we can do is change the offer at the very last minute. To make it more sophisticated, we can work out the general region or area where the consumer is accessing that site and we can decide which offer is most appropriate for that consumer.

Thank you everybody for all those questions. I hope that gives you a clear view of our performance for the first half and we look forward to speaking to you again at our interim announcement on 15 November.