Trading Update – 12 July 2007

Paul Brooks
Chief Financial Officer

Introduction

Good afternoon ladies and gentleman and welcome to our first quarter trading update. With me today are Nadia Ridout-Jameson and Peg Smith from our Investor Relations team. I will start by saying a few words about our performance and then turn it over to the Q & A. In summary, we are very pleased with progress during the quarter. The results announced today are consistent with our expectations as outlined to you at our full year results meeting in May. We have delivered another strong period of sales performance with growth across all regions. Total sales growth in the quarter was 8% at constant currency and we have delivered strong organic sales growth of 7%. During the first quarter, we have made significant strategic progress and we have further consolidated our global leadership position in Credit Services as we completed the acquisition of an initial 65% stake in Serasa, the Brazilian credit bureau, for $1.2bn. This was a transformational transaction for us. We also made good progress organically by further expanding our relationship with key clients, like our additional contract wins with BskyB, and we are making good progress in our investment in near-shoring in Santiago, Chile, where we have hired our 200th employee. Our investments in emerging markets are gaining traction, with a growing pipeline and new contract wins in Eastern Europe, China and Japan. Globally, by business segment, organic growth of 7% reflects a solid performance of Credit Services, double-digit growth in Decision Analytics and modest improvement in Marketing Solutions. As expected, organic growth at Interactive has slowed to 13%, reflecting the downturn at LowerMyBills.

Now let us look at trading performance across each of our regions.

The Americas

Sales from continuing activities in the three-month period increased by 8% in total. Organic growth was 7%. We saw solid progress at US Credit Services, which continue to deliver mid-single digit organic growth in the quarter, driven by consumer credit and another strong performance in automotive information services. Decision Analytics again performed well, while organic performance in Marketing Solutions was encouraging, returning to growth as we further stabilise the traditional activities and continue to see high growth from our newer businesses such as CheetahMail and QAS. Organic sales at Interactive grew by 10% in the quarter. LowerMyBills sales were down over 20%, reflecting the downturn in the US sub-prime lending market, as previously flagged. But our other Interactive businesses performed well in the period, growing by over 20% with some good early results from advertising optimisation initiatives that we have undertaken.

UK and Ireland

Sales from continuing activities increased by 9% in the first quarter at constant exchange rates. Organic growth was 6%. While the environment in UK financial services remains challenging, performance in Credit Services has been resilient and we continue to see low single-digit organic growth while Decision Analytics delivered mid single-digit growth. The Marketing Solutions previously announced integration process is largely complete and we are pleased that despite the distraction element of this, the business has returned to growth. Interactive performed well, sales having almost doubled in the period as Credit Expert continues to build on its clear market leadership in the UK.

Europe and Asia Pacific

Sales at constant exchange rates increased by 11% in the first quarter, with organic sales growth of 7%. Credit Services growth was good, with strong double-digit growth in our Credit Bureaux, particularly in Southern Europe and South Africa. Decision Analytics continued to grow strongly with new contract wins in Eastern Europe and in new verticals, and Marketing Solutions performed well, delivering double-digit organic growth.

Summary

Overall, we have had a successful start to our financial year, both from a financial and a strategic standpoint. Some of the markets in which we operate are still challenging but we are pleased with progress so far. Overall, for the year as a whole, we continue to expect organic sales growth at a mid to high single-digit rate, with some acceleration in sales as we move into the second half.

Question and Answers

Matt Littlewood, Merrill Lynch

Earlier in the year you were talking about LowerMyBills, saying that you were introducing some initiatives to increase profitability but also trying to re-integrate the top line by diversifying away from the sub-prime market. I was just wondering if you could update us on how these initiatives are progressing and are we to assume that the sub-prime exposure of LowerMyBills is now less than the 85% previously stated?

Paul Brooks

There are probably four areas that I would refer to in LowerMyBills as measures we are taking to improve performance. The first one is an ongoing effort which has been going on for a little while and is really to improve the quality of our leads. Firstly, this involves the qualifying of those leads by applying a credit score to them and also establishing a value of the property on which the loan is going to be secured. In addition to that, we have been calling customers to verify the seriousness with which they are applying for the loan, and also confirming whether the lead gets converted. So, by doing this, we are improving the quality of the leads for the lenders, which is very important particularly from a pricing point of view. That is the first measure and applies to all of our leads, including the sub-prime ones. The second measure we are taking is to diversify more towards prime. As you say, we worked historically more than 80% in the sub-prime sector. That is already down to just over 70% last month. So we are seeing good growth in the prime and in our pipeline, more than 50% is prime. The third thing we have been doing is to diversify into other offers. Probably the one we are most enthusiastic about is the pre-screen credit card offers. That is now launched and we have four major credit card issuers signed up and we expect to see that one ramp up as the year progresses. The final thing we have been doing with some success is optimising the traffic that we are getting in on our various sites. So we are switching the traffic between our various offerings. For instance, we might switch from a LowerMyBills offer to an educational vertical offer. That is also giving some very positive results for us. All of these measures together, added to the fact that we do see some stabilisation in the sub-prime element of the business, encourages us to think that this was the worst quarter in terms of year-on-year decline for LowerMyBills.

Matt Littlewood

That is great, thank you. I was just wondering if you could confirm that you are happy with what you see to be 2007 and 2008 consensus EBITDA and could you just confirm what you think that is at the moment?

Nadia Ridout-Jamieson, Director of Investor Relations

I think there is really very little change in terms of our guidance here. We said at the time of the prelims that we expected organic growth in the first quarter of this year to be similar to the organic growth at the end of last year, and indeed that is where we have come out. We are pretty consistent in the guidance that we are giving for the second half of the year, which is that we would expect to see some acceleration going into the second half of the year. I do not think it is for me to be drawn on this call into exactly what the consensus forecasts are.

Matt Littlewood

Thank you.

Michael Meltz, Bear Stearns

I have three questions. Nadia or Paul, on that last question, when you are saying some acceleration in the second half, is it fair to say that you think that you will see business stable in Q2 relative to Q1?

Paul Brooks

Well, we do not want to get too granular quarter by quarter, but we would not expect to see quarter two to be wildly different from quarter one and we expect to see some acceleration in the second half. I think that is the way we would summarise it.

Michael Meltz

Ok. Can you just clarify for us that in Interactive, I know you said that LowerMyBills was down by over 20% and the balance was up by a touch over 20%. How did Consumer Direct specifically do in performing in line with recent periods?

Paul Brooks

Well, as you know, we do not break down the detail and increasingly we run this as a single business but it is true to say that growth of the other lead gen businesses, apart from LowerMyBills, and the growth of Consumer Direct are roughly the same. So, you are talking in the early twenties for both.

Michael Meltz

Also, with Decision Analytics, I want to make sure that I understood what you said. You said it was up something over 10% globally and the UK business was lower than that. What does that infer for the US Decision Analytics for the quarter?

Paul Brooks

We said the Americas performed well; it was well into the double digits. You will recall that last year was exceptionally strong and we grew by nearly 30%, so it was not as strong as that but was still very well into the double digits for the quarter.

Michael Meltz

I know that. You should send me over the Experian dictionary. Lastly, is there some type of Serasa integration blueprint or something that we should be following? It was a quick close out so what is your strategy over the next few months?

Paul Brooks

Well, we had a very detailed integration plan prepared prior to the acquisition being completed and it completed in the end just a couple of days before the end of this period. So, those work streams are now launched and are underway, and as you can imagine, it is a very detailed integration plan, and in every area of the business we have a detailed integration plan. In some cases it involves a lot of integration and in other areas, it is more light touch. But that is now progressing and the more we see of Serasa, the more enthused we are by its prospects.

Nadia Ridout-Jamieson

You will not have details of a blueprint of the plan, Michael, but you will have details in terms of visibility around the numbers because we are going to break Latin America out separately. So Credit Services in Latin America will be Serasa at the beginning of the half-year.

Michael Meltz

Thank you.

George Gregory, Credit Suisse

Good afternoon. I have a couple of questions. Firstly, you talked in the past about cutting back your marketing spend in the LowerMyBills business. Obviously you cannot talk explicitly about the margin and profitability at this stage, but has that performed in line with your expectations in terms of mitigating a decline at the top line? Secondly, can you talk a little bit about price and volume trends in the US Credit Services business as well?

Paul Brooks

On LowerMyBills, the great thing about these direct cost businesses and particularly with the amount of optimisation we are doing on the marketing spend, means that unlike the rest of our business, where you would expect to see quite a lot of negative operating leverage for that kind of sales performance, we have seen with LowerMyBills that the margin has held up pretty well. It is down marginally in the quarter but it is still at a good clip. So we have seen very slight market erosion in LowerMyBills.

On the Credit Services business, the trend there has been the same as it has ever been, certainly as long as I have been looking at it. We have seen a volume growth of mid to high-single digits and a price trend which is down by low-single digits. That is the trend we see with the tiered pricing that we offer. That is a very traditional way of looking at the business.

Jessica Flounders, Morgan Stanley

In terms of Interactive, you said it is quite a high variable and you have flexibility with the cost base. I was wondering how much of it is truly variable so you can react to change in the sales and how much do you have to invest to maintain the brands, especially something like PriceGrabber, where you are generating a lot of organic traffic rather than having to pay for the leads.

Paul Brooks

You are right about PriceGrabber. One of the great features of PriceGrabber is the repeat business that we get, so there is a lot of free traffic there. The main thing I should say about the marketing spend is the way we have targeted it between the offers. I would say we have been becoming slicker and slicker in making sure that our marketing spending is profitable. Certain areas, for instance, of paid search which are unprofitable we have been pulling back, whereas in other areas that we see are very profitable we have been reinvesting. Therefore, overall, our marketing spend has not been moving a lot, but we have been making it more and more productive.

Jessica Flounders

Regarding Decision Analytics in the US, what kind of dynamics are you seeing there in terms of competitors? Are you seeing a change in market share of your products that are becoming more competitive and so it should be expected because of the duration of the good growth that we saw there in the fourth quarter?

Paul Brooks

As I mentioned earlier, we had quite an exceptional year last year with a growth of nearly 30% and clearly this major contract we have with Bank of America has been very important to us. We do not expect as much revenue from them this year as last year, so that will have an impact. However, overall, we continue to see very strong prospects for Decision Analytics in the US. We certainly see a sustainable growth rate, at least in the mid-teens, going forward and, by implication this must mean we are winning share. However, also remember that for Decision Analytics one of the big opportunities is displacing in-house solutions as well, so it is not only beating the competition, it is also convincing our clients that they would be better off using our solutions than their internally-developed solution.

Adrian Cattley, Citigroup

I have two questions on Marketing Solutions and one on the US Credit Services. In Marketing, can you give us an update on how the cost-cutting programmes are going and, secondly, within that are you seeing any improvement in the trends in direct mail or is all the growth improvement coming from the new internet-based businesses?

To come back to the question on the pricing in US Credit Services, I seem to remember at the full-year results you talked about slightly more positive pricing. I wondered if things had changed materially since then.

Paul Brooks

In terms of the cost-cutting in Marketing, we had two takeouts of cost in the US last year, one at the beginning of the year and one at the end of the year. I think it was about 100 people we took out towards the end of the year, so clearly we are getting the benefit of those cost savings in the first half of this year. The other big move we had was in the UK, where we have been integrating our database marketing businesses, our existing one with the ClarityBlue business and in the UK in the first three months this is now largely complete; we have taken out about 113 people, I believe. We have incurred residual costs of about $4 million for the first half of this year; it was about $8 million in the latter part of last year. That is now largely complete. There has been probably a slight distraction aspect to it, so we do expect sales growth to accelerate in that business as the year goes by.

In terms of the traditional business in the US, we have not seen any particular change in the market dynamics, but we are seeing an improvement in our performance. The rate of decline in that side of the business has begun to moderate and we expect it to continue to do so as the year goes by. That is clearly going to help our growth and, to some extent, our margins as well.

Turning to your final question on Credit Services and the price rises. The price rises we have put in have been routed to our small clients through our telephone sales channel. The price rises have held and we are looking to roll them out further. However, I would caution against moving the dial too much on the numbers, because clearly these are the smaller clients, so it has a limited amount of impact on the overall numbers. The encouraging thing is, however, that it demonstrates the value of the credit reports, so I think it has symbolic importance and it is something which encourages us to believe that we can fight the price erosion in this business.

Kevane Wong, JPM Securities

I will get my first question out of the way, the inevitable question on VantageScore: can you give us an update on that?

Peg Smith, Executive Vice-President

We would be disappointed if you did not ask!

Kevane Wong

It is required at this point, is it not?

Peg Smith

The good news is the momentum continues. We have at or about 1,500 clients either buying or using VantageScore. We are still testing. What I think is most important and we have said this on previous calls is that the model is performing very, very well in test and clients are clearly engaged in the evaluation of what it means for their portfolios. We have had a conversion of a major retailer in the US, but not yet any financial services customers that have converted to the product. Therefore, in the main, very much ahead of the plan that we put in place a year ago and it continues to have momentum behind it.

Kevane Wong

My second question is one of your competitors has had some issues and has outlined a turnaround, including trying to improve some customer satisfaction issues. Has this turnaround had any impact on the link with sales? Are the people who might have moved over taking a little longer, giving the competitor a little more time to fix their house or has it had any change at all whatsoever?

Peg Smith

We have not seen any change in the buying dynamics with clients when we are making proposals for software scoring analytics in that space. Therefore, I would say it has not changed at all in terms of elongating any decision processes. We have good traction and a good pipeline for sales.

Jaime Brandwood, UBS London

Firstly, on US Credit Services and the portion of that business that is mortgage-related. I think I remember you talking about declines in that part of the business. Could you give a little more colour there in terms of what is happening between the sub-prime and non sub-prime part of that piece of the business?

Paul Brooks

The sub-prime is probably less than 20% of the overall mortgage business and the overall mortgage business is about 10% of our Credit Services segment. Therefore, it is not a particularly important part and I would remind you that the mortgage sales in our Credit Services business have been declining for about four years by roughly the same rates and we have had probably four of the best years we have ever had in Credit Services. Thus, I think too much play is made of the mortgage sales in our overall business. I do not see it as being a factor in our overall performance.

Jaime Brandwood

Therefore, you have not seen any change in momentum there or anything like that?

Paul Brooks

No, not at all.

Jaime Brandwood

There was a question on price versus volume in US Credit Services. Can you talk a little bit about price versus volume in UK Credit Services and UK Decision Analytics?

Paul Brooks

Yes. In the UK Credit Services, the dynamics are not terribly dissimilar in terms of the raw credit report. Again, you see volumes going up and prices coming down slightly with the volumes. However, the big difference in the UK, of course, is that generally we are selling an application rather than a credit report. Instead of selling, say, a credit report for 20p we are selling an application for £1.10 or something of that sort. Thus, what you are seeing there is very much the advantage of having the value-added products wrapped in with the credit report and we see very little movement in the prices there.

In Decision Analytics, generally, the pricing across the board is fairly robust. That is not to say it is not often a competitive sale, but it is very much a value-add sale, so pricing is not an issue that concerns us in Decision Analytics.

Jaime Brandwood

Therefore, is it fair to say in Decision Analytics that you do have a little bit of price inflation at the moment?

Paul Brooks

Well, it is really value pricing and a lot of it is pretty bespoke, so it depends exactly upon the work we are doing for the client and the more value-add the bigger the margin. It is our biggest value-add part of the business with high margins and we expect it to remain that way.

Jaime Brandwood

Lastly, since there was the obligatory question on VantageScore, can you say anything on what the latest is on the threat from Fair Isaac to sue the three bureaux, whether anything at all has happened on that or whether it was all hot air?

Peg Smith

No, it is still an active suit. We do have to go through the expense of defending the suit, although I can tell you we will defend it vigorously because we believe the entire suit is without merit.

Jaime Brandwood

No new developments so far then?

Peg Smith

No. Anti-trust suits in the US can take years. Do not expect anything in the near-term on that.

Ian Armstrong, Brewin Dolphin

In terms of the recent economic data we have had in the US and, in particular, the employment numbers, which were much stronger than expected, I was wondering if, at least on a month by month basis through the quarter, that was starting to have a positive effect on, Decision Analytics and maybe even in Credit Services or is it too early to say that.

Paul Brooks

If you take a long-term view of Credit Services, employment is important and certainly unemployment is generally not a good thing for the Credit Services business, so it is a relevant criterion. However, in fact, it is not something that has a material impact on performance at the moment. In terms of growth in the US Credit Services business, we have seen a fairly consistent trend over a little while now with the mid-single digit range.

Ian Armstrong

If that is not a bigger driver for the business, would it be fair to say that you would rather have a more volatile interest rate environment rather than a flat rate environment? Although we have had five interest rate rises in the UK in the last 12 months, the outlook in the US seems to be that the Fed wants to keep everything on hold. Is it possible that that could have a slight negative effect on that acceleration that you are forecasting for the second half of the year?

Paul Brooks

We are not forecasting necessarily an acceleration in the Credit Services business. The acceleration that we anticipate, primarily we expect to come from the Marketing Solutions side. We also expect to see some acceleration in Decision Analytics, particularly in the UK in the second half and we would hope to see some acceleration in Interactive as well. Those, more so than the Credit Services, because I should remind you that for, say, the US Credit Services business we have traditionally said it is a low to mid-single digit grower and it is growing at mid-single digits at the moment and we are quite happy with that rate of growth.

Ian Armstrong

Finally, can you give us an update on how the integration of Hitwise is going?

Paul Brooks

It is going well. The point about Hitwise is that, apart from the back office, which is progressing very well, the main integration giving rise to synergies is through the shared sales approach with CheetahMail and that is progressing well. Indeed, in the first month of our ownership of Hitwise, which was June, we saw growth that was higher than we pointed out to the market at the time of the acquisition; therefore, so far so good with that one.

Matt Littlewood

Can you update us very briefly, and I understand you will probably not quantify it, in terms of leveraging the marketing spend between the Interactive divisions? How is that going? Is it running to plan?

Paul Brooks

As I mentioned earlier on, it has been a feature, particularly this last quarter and particularly from LowerMyBills. We have been redirecting quite a lot of LowerMyBills traffic to our other offering, so it has been going very well. The great thing is it demonstrates the advantages of having the range of offerings of lead generation. That is something that we see strategically as very important to drive forward, with a shared platform now for lead generation which can switch between offers and maximise the profitability of the traffic that comes into our websites.

Conclusion

Paul Brooks

Thank you for all your insightful questions. To reiterate, I feel it has been a very good start to the year and we feel we are well set now for a strong performance for the rest of the year. Thank you very much.