

First Half Trading Update – 15 October 2008

Don Robert
CEO, Experian

Introduction

Good morning ladies and gentlemen. Thank you for joining us on today's call to discuss our First Half Trading Update.

2008 First Half Highlights

Given the current dynamic credit environment, I will direct my comments to the second quarter and recent trading, since that is what seems to matter most right now. On a global basis revenues for the half were up 13% and organic revenue was up 3%. We are very pleased with this performance, which was driven up by an improving second quarter.

The second quarter organic growth was 5%, driven by improvement across all four regions and all four principal activities. In particular we continued to see strong growth in Brazil, in Consumer Direct, Digital Marketing and Decision Analytics, which helped to offset the challenging conditions in North America, UK Credit Services and UK Marketing.

A Changing Environment

The flexibility, diversity and strength in our business model have once again contributed to this result and now we have to recognise that the operating environment is continuing to evolve. We are in the midst of significant market change and the short-term outlook is less clear now than it has been at any time in the last 12 months.

Last week I met most of our top 10 retail bank clients in the US and the UK and their messages to me were clear and consistent. They are expecting a tough year ahead with big increases in loan loss reserves, tighter credit standards and a tougher regulatory environment. I can summarise their general posture by quoting one chief Risk Officer who said, 'Our priorities in this order are first liquidity, second capital and third profit and loss (P&L).' In other words collecting delinquent loans and making cash recoveries are driving most retail lending decisions at the moment.

Our Response

Our response has been to reposition our organisation to bring our clients the high-value impact for which they are now asking and doing it quickly.

Education

First, we are intensifying our educational efforts. Last week we held our annual US client conference, where the focus of the 300 or so client attendees was on better strategies for account management and collections. We are taking this show on the road to our major geographies with formats specially tailored to medium and large

clients. We are very good at turning client education into sales and our executive team is very much in the driver's seat in this important effort.

Better Analytics

Second, trends are shifting, which means there is a further need for better data and analytics to understand those changes and to respond appropriately. Most of our clients are asking us for additional data and analytics that will help them to identify and deal with pre-delinquent borrowers. In this regard we are seeing clients move away from quarterly account programmes to monthly and even weekly. New collection behaviour scores, as well as products like collection triggers are critical to gaining insight into taking immediate action.

Reflecting Current Behaviour

Third, our Decision Analytics teams are validating and rebuilding clients' score cards to ensure they reflect current consumer and business credit behaviour. The scores that were valid a year ago need to be updated to reflect this dynamic credit and economic environment.

Marketing Services

Finally, products from our Marketing Services group such as email marketing, lifestyle data and contact management software will be in greater demand to help financial services clients communicate better and more cost-effectively with their customers.

Cost Efficiency

We also remain vigilant on costs. Our cost-efficiency programme has progressed well, with good execution by our management team. We are on track and indeed slightly ahead of plan. We are monitoring recent events closely and we will take additional cost actions if necessary. I will update you further when we report our interim results in November.

Significant Opportunities

While the environment is tough, it is also true to say that there are significant opportunities for Experian. We are fortunate to have the agility and the products to help our clients at this time of change.

Strategic Reviews

Transaction Processing

Today I am pleased to announce the agreement to dispose of our transaction processing activities in France. These activities no longer fit with our strategy and this is a good outcome for all stakeholders.

PriceGrabber

We concluded that the PriceGrabber business was less closely aligned with our core activities of data and analytics and we undertook a process to sell it. We received many expressions of interest, but due to the current financing environment these did not convert into a bankable transaction. PriceGrabber is a good business and it has performed well under our ownership. We will continue to invest to strengthen its market position.

Trading Performance

Paul Brooks
CFO, Experian

Revenue Growth

Total revenue growth for the half was 13% at actual exchange rates and 11% at constant exchange rates, with organic revenue growth at 3%. Organic growth was 1% in the first quarter and it accelerated to 5% in the second quarter. These results exclude our transaction processing activities in France which have been treated as discontinued for the half year, following the disposal agreement that we announced today. This has enhanced organic revenue growth for the half by around 50 basis points.

All four of our principal businesses performed more strongly in quarter two than in quarter one, with all of them showing positive growth in the second quarter. For the full first half this translated into growth of 9% at Interactive and 7% at Decision Analytics. At Credit Services and Marketing Services organic sales were flat for the half, but both delivered low single-digit growth in the second quarter.

Regional Performance

North America

Revenue increased by 2% in total and organic revenue grew by 1%. Organic sales declined by 5% at Credit Services, were flat at Decision Analytics and increased by 2% at Marketing Services and by 6% at Interactive.

Some points to note on these results are that despite further weakening in mortgage volumes, year-on-year growth in Credit Services improved modestly in the second quarter compared to the first. This was due mainly to weaker comparatives at the end of the quarter. Decision Analytics saw improvements as the half progressed due to good growth in fraud prevention products as well as weaker comparatives. Trading in Marketing Services was largely consistent throughout the half with strong growth in new media activities being largely offset by declines in more traditional direct marketing activities. At Interactive, Consumer Direct had a very strong first half driven by membership revenue growth. Interactive Media is still weak, impacted by ongoing mortgage market conditions. We have also seen some softening at PriceGrabber lately due to the depressed retail environment.

Latin America

We saw total revenue growth of 119% and organic growth of 22%. Serasa has been included in the organic revenue growth calculations. Organic revenue growth was 18% in Credit Services and 23% in Decision Analytics. Marketing Services revenue more than doubled.

The growth at Credit Services was in line with our mid to high teens guidance and consistent with the Serasa acquisition buy plan. In the smaller Decision Analytics and Marketing businesses, we have seen significant benefit from the new shared sales force.

UK and Ireland

Revenue from continuing activities increased by 4% at constant exchange rates, with organic revenue up 1%. Organic revenue growth was down 4% at Credit Services, rose 8% at Decision Analytics, declined 7% at Marketing Services and increased by 46% at Interactive.

Credit Services has seen some weakening of the consumer information segment reflecting the financial services environment, although we continue to strengthen in new sectors such as government. Comparatives in this business become weaker in the second half.

Decision Analytics performed very well with strong sales of custom score cards and strength in countercyclical products such as collection software. Quarter two was particularly strong benefiting from some one-off software deliveries.

At Marketing Services we saw continued unwillingness by clients to invest in major new capital projects, and cutbacks in campaign activities. Against this we saw strong new business in contact management and email marketing, which is a compelling, cost-based value proposition for clients. At Interactive, Consumer Direct had an excellent first half reflecting strong growth in Credit Expert membership revenue.

EMEA/Asia Pacific

In EMEA/Asia Pacific, revenue from continuing activities increased by 21% at constant exchange rates, with organic revenue up 8%. Organic revenue grew across all principal activities - up 4% at Credit Services, 10% at Decision Analytics and 13% at Marketing Services. Credit Services now relates only to our credit bureau activities, principally in Europe and South Africa which continue to perform well, although the conditions in some markets are challenging.

At Decision Analytics we have continued to see good growth from new business wins throughout the half. This was supplemented in the first quarter by one-off software deliveries in Japan that we flagged in July. Marketing Services saw strong growth on the back of excellent performances in new media activities, especially HitWise.

We have announced today that we have reached agreement to sell the French transaction processing business to Advent International and Doc@Post. The sale is subject to certain conditions including French competition authority clearance. The gross cash consideration is €203 million and we expect to realise approximately

€150 million after taxes, separation and other transaction costs, which will be used to reduce net debt. For statutory reporting purposes transaction processing activities will be treated as discontinued and as a result this business is now excluded from both the organic growth calculation and from benchmark profit before tax (PBT).

Summary

Don Robert CEO, Experian

We are pleased with the results of the first half and this sequential improvement in performance in the second quarter, which demonstrate the strength of Experian's diverse business model. I would, however, like to make three points in summary. First, I would like to make it clear that retail credit is still flowing. Our markets are in the midst of significant change and we expect this uncertainty to last for some time. This new environment will require our clients to strengthen in risk management, optimise collections and focus on cost efficiency across their operations, all the while responding to new regulations. Our financial services' clients are asking us for help as they have never asked in the past, but in the meantime they are still open for business.

Second, we are adapting our business to this changing market environment. We have directed our sales teams to bring our clients high-value impact as quickly as possible, using the breadth of Experian's products across Credit Services, Decision Analytics and Marketing Services.

Finally, no-one can estimate the duration and impact of the unfolding market environment, but you can be sure we will position the business to maximise our performance under pressure, just as we have been doing these past 12 months.

Questions and Answers

Kyle Evans, Little Rock, Stephens

With revenue growth, successful expense cuts, a pretty cash-generative business model and the recent sale of the transaction processing business, could you give us a rough update on the balance sheet, your leverage target and perhaps some timing around when you would be able to buy back stock, if that is what you plan to do, when do you get below the target?

Paul Brooks

We told you at the end of March, our year end, that our net debt was about \$2.7 million. The first half is always our weaker half for cash flow, largely because it is when we pay our final dividend. This year also a lot of the cash costs of our restructuring have been going through in the first half. That together with some of the deferred position expenditure that has been going out means our net debt position has not changed very much. At the end of the year we gave you our target range, which was twice EBITDA and we are still outside the top end of that range. When the

French deal completes, which it has not yet done, that will bring proceeds that will bring us back within range. Our overall position on share buy backs remains absolutely unchanged. We have our target debt range; we do not need to come down below the bottom of that range and so buy backs are on the agenda as we move down within our debt range.

Kyle Evans

From a very high level you put up 5% common currency organic growth in the second quarter and 1% in the first quarter. You also talked about a 50 basis point benefit from the divestiture of the French transaction processing business. What was the residual impact of the balance from Hitwise, Serasa and Tallyman?

Paul Brooks

Together those had a roughly 2% point impact.

Kyle Evans

That means 1% in the first quarter versus 3% in the second quarter, comparing like with like?

Paul Brooks

That is right, if you strip out those businesses.

Kyle Evans

From that same high-level view, what were the main dials that turned to the right there and allowed you to accelerate growth sequentially?

Paul Brooks

We had a slight improvement in US Credit Services. We had an excellent second quarter in Decision Analytics across the board in the US and the UK. Marketing was pretty similar in the two quarters and we also saw some improvement in Interactive, particularly driven by Consumer Direct, which is going very well for us.

Kyle Evans

On the UK call I believe you mentioned that about half of Decision Analytics is transaction driven, with the other half being driven by a more traditional software model. You also mentioned that the transactional piece was down on lower volumes. Do those have similar margin profiles?

Paul Brooks

Those comments referred to the UK Decision Analytics business. The answer is that they do not. The transaction business is a very low variable cost, so it is high gross

margin. It varies with some of the others. If we are talking about the software business, that is clearly very high margin after year one, but some of the scorecard work we do, some of the more labour-intensive work, some of the delivery work, you would expect to see lower margins there, so there is an adverse margin mix within Decision Analytics as a result of those differential growth rates.

Kyle Evans

Organic Marketing Services in North America had growth of 2%, which is a pretty solid number. Could you give us an update on Hitwise and CheetahMail in North America and any trends you see across vertical industries here in the US?

Paul Brooks

Both of those businesses continue to grow very well. We are talking about growth rates in excess of 20%. North America is just one part of the Hitwise operation, because it is also in the UK and Australia.

Kyle Evans

Did you see any vertical differentials in the Marketing Services business? Was there anything particularly strong or weak?

Paul Brooks

Not really, the growth trends in the two quarters were pretty similar, although it was marginally stronger in the second quarter in Marketing Services in the US.

Kyle Evans

Was there any weakness or strength in retail, financial services or any of the other key verticals?

Paul Brooks

In the US the retail vertical is the single most important one to us and we have not seen any significant softening. Clearly as economic conditions get more difficult, we would expect to see some impact on that business, although there are some offsets in terms of the mix effects of the newer media activities, which are becoming a bigger part of the whole. We have also had one or two good database wins within the traditional marketing business.

Allen Zwickler, First Manhattan

The profit from divesting the French business looks decent, at least on the surface, but if you were to step back now and pull those earnings out, how would that impact your plans for earnings per share this year? I am not trying to pin you down on a number, but just trying to understand what the variance is. What is the difference now this business has been sold?

Paul Brooks

It is probably better to refer to a pro forma, because obviously, this year is going to be messy. We would estimate that the dilution effect on earnings per share (EPS) in a full year, based on last year's profitability, would be in the region of 1.5 cents.

Allen Zwickler

Is that all in?

Paul Brooks

That would be taking last year's profit, taxing it and then picking up the proceeds and the interest saving by paying down debt.

Allen Zwickler

You are assuming you are going to take the proceeds and reduce your debt. What is the structure of your debt today? What is the amortisation of that debt?

Paul Brooks

Our total net debt is about \$2.7 billion at the last year end. It has come down slightly since then. There are two components to the debt. One is bonds and the other is a committed line of credit, which we have with 16 banks. We have two lots of bonds. One matures next year, so we need to redeem next July and that is about \$700 million.

Allen Zwickler

Do you mean July 2009?

Paul Brooks

I do, yes. There is about another \$700 million, which mature in 2013.

Allen Zwickler

Okay, so that is \$1.4 billion.

Paul Brooks

The balance is drawn down from the syndicated line of credit from the banks.

Allen Zwickler

Would that be about \$1.3 billion?

Paul Brooks

That is roughly right.

Allen Zwickler

What is your total, available line of credit?

Paul Brooks

We have about \$1 billion of headroom on that basis, at the moment.

Allen Zwickler

Have you drawn down \$1 billion of the \$1.3 billion available?

Paul Brooks

No, we have drawn down about \$1.3 billion.

Allen Zwickler

What is the available line?

Paul Brooks

The total is about \$2.5 billion.

Allen Zwickler

Will your first priority be to bring down that line of credit?

Paul Brooks

That is correct.

Allen Zwickler

I notice you have not changed your cost goals in terms of reducing the cost of doing business, the French business aside. Do you have any comment on that given the current conditions? Will there be further cost cutting during the course of this fiscal year?

Paul Brooks

We are evaluating the situation at the moment. Clearly, we are going through some fairly changing conditions. We will be taking stock of any impact that we expect those to have on the business. If we do see some negative impact from that, we would look

at the potential to take out further costs. We do not have any firm plans to do that at the moment, but we would evaluate them.

Allen Zwickler

Right now then has there been no change in that plan of what you are expecting to do?

Paul Brooks

Not at the moment, but clearly, as I am sure you would acknowledge, these are uncertain times and the visibility is low, so we are keeping it under review.

Scott Williams, TIAA-CREF

Can you remind us how much of your business is to the government market and how those margins compare to the margins in the rest of the business?

Paul Brooks

Across Experian it is about \$30 million or a little bit more, perhaps \$50 million.

Scott Williams

Are the margins comparable?

Paul Brooks

It is hard to answer that question. It is across multiple business lines and geographies. Are you particularly referring to the government work we do in Credit Services?

Scott Williams

I guess what I am thinking about is that the government is clearly playing a much larger role in your main end market. I was wondering if you had given any thought to how we should be regarding government interference in the end market that you serve primarily, how that might play out and what you are looking at to determine where you are going to take the business?

Don Robert

We do know there will be a lot of new regulation with which the banks will have to deal and that will probably come rather quickly. We do not know how that will look or the shape of it, but, generally speaking, we think it will be good for our business, because we think there will be tighter controls on underwriting and the use of good tools and underwriting instruments. That ought to be good for Experian. In terms of how we directly engage with governments, 100% of our public sector work right now happens in the UK. It is with various municipal authorities and the equivalent of

federal government departments such as housing, pensions and public assistance. It has to do with verifying eligibility. The components of that come from two or three different parts of Experian.

Will there be specific ways in which Experian can participate in government-related work as a result of programmes in the US? We have some ideas; we have been working on some things and talking to people, but it is really too early to discuss that.

Scott Williams

When do you think you will have more information, because it is obviously a moving target?

Don Robert

Right now we are waiting for the Treasury to give us their priorities in terms of implementation. They set the pace.

Scott Williams

Can you give us an update on VantageScore and are you seeing actual results close to the predictions of your model, given the widening gap between market to market and market to myth for some of the banks on products they are selling?

Peg Smith, Investor Relations, Experian

We have been testing and validating Vantage against all kinds of portfolios in this environment and it is holding up very well, continuing to outpace the others. You may have seen an announcement from Fitch about three weeks ago in which they said they are not only going to accept VantageScore but also that it is outperforming other models in the market for this very grey area of sub-prime mortgages. I think it is a winner for everybody involved.

Scott Williams

Is that on both the consumer and business side or just the consumer side?

Peg Smith

It is purely a consumer model at this point. We do have separate models for business.

Scott Williams

Are you seeing any trends on the business side there, given the recent onset of the credit crunch?

Peg Smith

We are seeing a lot of trends there, particularly in the sweet spot where Experian plays on this crossover between small businesses, which are funding that business on the back of a home equity line or a mortgage. As you might imagine, right now it is incredibly important for anybody in the small lending space to get on top of that issue. There is a White Paper on small business lending and the impact on mortgages on our web site.

Michael Meltz, JP Morgan

Don, in your press release and your comments there are various references to the market as dynamic, evolving and changing, but it is the first quarter for a while where you did not say challenging. Have you seen a notable change in your Credit and Marketing businesses in the past few weeks? It does not sound as though you have seen business fall off a cliff or that you expect it to do that. Can you talk about what your daily activity has been reporting?

Don Robert

The adjectives were changing as recently as last night. I think that illustrates how quickly things are changing, mostly driven by how various governments around the world are reacting to the financial crisis and lending support. On any given day you might describe it in different ways, so we thought dynamic and changing were safe bets. It certainly is challenging and we see a lot of movement within the core US and UK Credit Services businesses. Generally speaking we are seeing fewer transactions oriented towards origination and marketing-related activities; we are seeing volumes continuing to shift into activities related to collection and account management. I would say the business is holding up pretty well.

Michael Meltz

How did your commercial business actually perform in the most recent period? Was there growth and are you expecting continued momentum going forward?

Paul Brooks

The commercial business in both the US and UK continues to grow nicely. We are seeing good growth particularly in portfolio management and in some of our solutions products as well. As you would expect the business is more pressured on the origination side, but the net is positive.

Michael Meltz

Are you talking about mid single digits?

Paul Brooks

It fluctuates from quarter to quarter, but it is in that ball park.

Michael Meltz

I know you have consensus numbers on your web site for the fiscal year. Do you think that the consensus EBIT is achievable?

Nadia Ridout-Jamieson, Investor Relations, Experian

We do have some consensus forecasts on our web site, but we have not really given any guidance so far this year other than the very loose guidance that we are focused on profit growth, which we said in the first quarter and which we continue to say. There are technical adjustments that need to be made. I think the only thing we would say is what we said before, which is that there are some factors that help us as we go into the second half of this year. Clearly, we have had a very good second quarter. The benefit of the cost savings comes through in the second half of the year and we will also benefit from some weaker comparatives as we go into the second half of the year. Those are the factors that give us confidence looking forward.

Michael Meltz

I do not know whether that was a yes or a no, but if I take the 990 of EBIT on your web site and subtract the 37 of French processing, I guess that would be an adjusted number. Are you comfortable with that number?

Nadia Ridout-Jamieson

We are not going to give any specific guidance at this stage other than to say that we continue to focus on profit growth.

Ricky Sandler, Eminence Capital

If I hear you correctly there are at least two things that are offsetting whatever decline in credit conditions the banks have seen. One is monitoring and collection activity and the other is potential government regulation. Can you size the opportunity in some framework that we can think about relative to your base business? Secondly, if what the government is trying to do has any positive effect, banks will start lending again at some point; do you think that will be a direct benefit to what you are doing? Is it going to affect your trend line?

Don Robert

Retail credit is flowing; it never really shut down. While banks are being very cautious about how they underwrite loans and mortgage activity is sharply down, generally speaking, the open sign is still there and people are doing business. We also have some product opportunities and those have as much to do with just beefing up the collection offerings in our business, as much as they do with capturing any kind of government activity. I am hesitant to speculate at all about the government, because I have this ground hog day sense that goes back to post 9/11 and the airline passenger database that was hanging out there for about a year-and-a-half. We all thought we were going to get rich on the back of that, but it took so long and got so mired in bureaucracy that ultimately I do not believe anyone capitalised on it. That

will be a bonus if it happens, but the immediate opportunity really is helping clients to collect loans and make cash recoveries.

You are now seeing an interesting confluence of marketing data from the business that I think can be brought to bear in new ways to help the clients segment their databases and devise collection strategies. I do see opportunities there in product development.

We do see opportunities in regulation, simply because I think the banks are going to be forced to use more products when they do start lending. In the UK the government is actually forcing the banks to lend as part of the bail-out package, so I do hopefully see things picking up again. We are not viewing the circumstances as dire at all. They are challenging, yes, but there are plenty of ways to win.

Closing Remarks

Don Robert

Thank you to everyone for joining us today. The last question was a good way to end the call in that even though we have again said that visibility appears to be low and changing right now, we are certainly not downbeat or depressed about the outlook. We see a lot of opportunities that can be brought home here with some hard work and a little bit of luck. We have opportunities in products, vertical markets, the cost base, increased regulation and acquiring good people and we need as much talent as we can get. Thank you for dialling in and your continued interest in Experian.