Trading Update – 16 April 2008

Welcome

Don Robert
CEO, Experian

1. Preamble

Good afternoon everybody and thank you for joining us on today's call to discuss our second-half trading update. I will begin by making some introductory comments and then I will hand over to Paul Brooks to take you through the trading detail. After my closing comments, we will open for your questions. I am also joined today by Nadia Ridout-Jamieson and Peg Smith, from our Investor Relations team.

2. Overview

Headline Results

My take on today's trading announcement is that we are very pleased with our performance in the second half against some of the most challenging market conditions we have seen for several decades. We continued to grow in each of the third and fourth quarters, despite the turbulence in the US and UK financial services markets. This continued growth is significant and it demonstrates the benefits of our diverse business mix and our global reach. On a global basis, revenues were up 21% and organic revenue rose 2% in the second half. When we talked to you in January, we said the full-year profit outcome would be within the range of market expectations at that time, which equated to an EBIT of $935-965 million. Today, we are pleased to reaffirm that view.

Growth

In Brazil, Asia-Pacific and emerging Europe, our business is growing very fast and we continue to expand our geographic coverage with significant new opportunities for investment. There are some rather bright spots in our lines of business. Our Consumer Direct business continues to be a real success story, with real double-digit growth in the US and growth nearly doubling in the UK. We are delivering good growth in business information in the US and the UK in Decision Analytics, particularly in Europe and Asia.

Challenges

Other parts of the business face challenging market conditions, due to the issues with credit liquidity and a broader economic slow-down. As a management team, our job is to make sure we have the correct cost structure in place to steer our way through the current market conditions and to position ourselves well for a market recovery. When we spoke to you in January, we outlined our expectations for cost take outs. Now, one quarter on, I can tell you that the programme is on track, with the benefits set to come through in the second half of this financial year.

Opportunities

Even where markets are more challenging, we are still finding growth opportunities. Our clients have increased their focus on account management. They are taking aggressive action on defaults and, at the same time, looking to increase the value of their portfolios by retaining their best customers through cross-selling and up-selling. We are well positioned to support them in these areas and continue to see strong growth in our account management, collections and fraud detection activities.

Support

We are launching new efforts to support the capital markets. For example, in the US we have announced a new initiative to help investors monitor mortgage performance in the secondary market. Our near-term planning scenario calls for conditions to remain challenging for our financial services clients in the US and the UK. Our client activities vary widely depending on the strength of their balance sheets. Some are using this market turmoil as an opportunity to gain share, while others that are more capital constrained are tightening credit criteria and taking aggressive actions to prevent further loan book impairment. Ultimately, we continue to feel that stabilisation will not occur until mark-to-market activities are completed and capital deficiency issues dealt with.

3. Strategic Reviews

We previously announced that our French transaction processing activities and PriceGrabber are under strategic review. These reviews are advancing; we will provide more details in due course.

Trading Details

Paul Brooks
CFO, Experian

1. Revenue Growth

Our sales growth in the second half was 21% at actual exchange rates and 15% at constant exchange rates. Stripping out the impact of acquisitions, which was largely due to Serasa and Hitwise, organic revenue growth was 2% for the half, representing 2% in quarter three and 1% in quarter four. By principal activity, organic revenue growth was 7% at Decision Analytics, representing an improvement during the period. It was also 7% at Interactive. Credit Services was slightly down by 1%, as was Marketing Services. Both Hitwise and Serasa are performing well, meeting their respective buy plans. Hitwise will annualise during the next quarter, and will be treated as organic from June. Serasa will annualise from the beginning of July.

2. Trading Performance by Region

North America

North America was up 2% in total, with organic revenue growth of 1%. Credit Services organic revenue declined by 3%, as good performances in Automotive and

Business Information helped to offset the weak environment for consumer information, where we continue to see lower mortgage origination and pre-screen activity. We are pleased with the performance of Decision Analytics, up 3%, against a very strong prior-year comparable, reflecting new business wins in sectors outside financial services. Marketing Services organic revenue growth was 3% and, at Interactive, it was also 3%. ConsumerDirect and PriceGrabber performed very well in the period, but this was partially offset by further weakness in LowerMyBills.

Latin America

In Latin America, revenues for the six-month period were $221 million, up from $3 million the year before, reflecting the Serasa and Informarketing acquisitions. Organic revenue growth was 40%, which reflects our small pre-existing Decision Analytics activities only.

UK and Ireland

In the UK and Ireland, revenue from continuing activities rose by 7% at constant exchange rates, with 1% growth in organic revenue. In Credit Services, organic revenue declined slightly in the half, by 1%. Weakness in consumer information, caused by the tough lending environment, was largely mitigated by strength in business information, which is illustrative of the balance we have in our portfolio. Organic revenue for Decision Analytics rose 1%, with trends largely unchanged during the period. Application processing activity was weak, but was offset by some improvement in pipeline conversion rates. Organic revenue at Marketing Services, which has financial services exposure in the UK, declined by 7% in the half. ConsumerDirect in the UK continues to be a great success story, with interactive sales nearly doubling in the period, building on the market-leading position of our CreditExpert product.

EMEA / Asia-Pacific

At constant exchange rates, revenues in EMEA/Asia-Pacific rose 12% in the second half, with good organic revenue growth of 6%. At Credit Services, organic revenue growth was 1%, while at Decision Analytics there was an outstanding performance with organic revenue growth of 24%, attributable to very strong growth from new contract wins in both Europe and Asia-Pacific. Marketing Services also performed strongly, up 10% organically, also due to strength in Asia-Pacific.

Second-Half Performance Summary

Don Robert
CEO, Experian

Experian remains a strong business, performing well in difficult markets. We will end fiscal year 2008 with a good profit outcome in line with our previous expectations. It is too early to call a turnaround in the US and the UK financial services markets, but we expect strong performances next year in other Experian regions and in key business lines. In the meantime, our game plan calls for us to keep a tight rein on costs, all the while continuing to invest in the long-term growth of the business. Said differently, we are in an offensive position as we approach clients and new markets around the world. Experian is a business with excellent future growth opportunities. We are very confident about our future prospects.

Questions and Answers

Kyle Evans, Stephens US

Starting by digging down into the North American Credit Services business, could you talk a little about the trends you saw in consumer and break that out more distinctly from the business piece?

Paul Brooks

The trends we saw in the fourth quarter were very similar to what we saw in the third quarter. In essence we saw mortgage significantly down year on year, by well over 20%. We saw very good growth on account management for Collections. We saw quite a big decline in our pre-screen activity. The reason for the Credit Services growth in North America being slightly less in quarter four than quarter three was due to pre-screen being down by slightly more in the fourth quarter than it was in the third quarter.

Kyle Evans

Is that pre-screen decline a double-digit number?

Paul Brooks

It was down by around 20% in the third quarter and it was down by more than that in the fourth quarter.

Kyle Evans

On the strength in the Marketing Services business in North America, have you reached tipping point in terms of the mix of tradition list and label type business?

Paul Brooks

In terms of the mix between the two, we are pretty much at a mix of 50:50, although, in the new we have Hitwise, which is not yet reflected in the organic sales growth. As you can see in the numbers, we continue to see good, greater than 20% growth in the newer parts of the Marketing Services business, particularly given the retail environment in the US is clearly becoming weaker, and retail is our largest vertical market for Marketing Services in the US, and we have been pleased with the performance.

Kyle Evans

The Hitwise business was growing very rapidly, when you acquired it, with a rather nice margin profile. Has that largely been maintained since you acquired it?

Paul Brooks

It has. We advised when we acquired it that we expected to see growth of about 40% for the global Hitwise in this fiscal year, and that is what we have seen, with good margins.

Kyle Evans

Could you give an overall mortgage exposure number for revenue and EBIT contributions?

Paul Brooks

Mortgage impacts us in a number of areas. It impacts us in North America Credit Services, where it is roughly 10% of Credit Services in North America. It affects us in LowerMyBills. Traditionally, LowerMyBills is almost exclusively mortgage. It affects us in our UK Credit Services business, where for overall Credit Services, it is probably around 5% of sales. The other area where we are affected to some extent is from our contribution through First American Real Estate Solution (FARES).

Kyle Evans

Can you comment on the FARES contribution?

Paul Brooks

There is nothing further to update. FARES announce shortly for its second quarter. What I can say, and you will see this in the FARES announcement in January, that as we expected, we are certainly seeing a decline in the contribution from FARES in our second half. To give you more colour on that, parts of its business are counter-cyclical, which are going well, like default services and the core property information, but clearly, it is impacted in other areas, such as its flood and tax businesses, and some of its securitisation-related activities.

Kyle Evans

Lastly, for more detail on LowerMyBills, was it as bad as it has been over the last two quarters and what is the contribution to Interactive from LowerMyBills now?

Paul Brooks

Again, the reason Interactive was slightly weaker in the fourth quarter than the third was due to LowerMyBills, which was weaker. There is massive demand for mortgages, but obviously, the supply that is coming through is greatly reduced. We continue to make a positive contribution; it is still a profitable business, LowerMyBills.

At the same time, we are actively diversifying the business model, particularly into credit card solicitation and also insurance. We are seeing very promising signs there.

Kyle Evans

Is there any sense of what that is as a percentage of Interactive revenue? I would expect less of an impact from this business in fiscal year 2009, as those other pieces continue to increase and this one continues to decrease.

Paul Brooks

We do not break out all of the components of Interactive, but LowerMyBills was still over $100 million for the year, although we have seen it shrink a fair amount in the course of our fiscal year.

Kyle Evans

Is it still a single-digit EBIT margin?

Paul Brooks

Yes.

Michael Meltz, Bear Stearns

On the last question, you said LowerMyBills was over $100 million for the year. The run rate out of quarter four, is it running at that rate? Is it running at $25 million, or is it below that now?

Paul Brooks

It is in that region in the fourth quarter. It was over $100 million for the year and it is around that for the fourth quarter.

Michael Meltz

Don said that it was too early to call a turnaround in the US and the UK, and that is clear to all of us, especially myself sitting here. However, on the 1-2% organic growth that you presented, do you think you have seen a bottom on your business?

Don Robert

What I will say, which a lot of people are picking up on today, is a very encouraging sign is that we have seen stabilisation for several months now. Whether or not that represents a bottom, or a false bottom, in our business, I am not sure. I will offer up that stability is there and our approach to running the business and taking out cost and continuing to invest for the future has certainly been helpful. At least, we have fewer moving parts than we did five or six months ago.

Michael Meltz

Have you seen a change of tone thus far in this current quarter?

Don Robert

We have not really, neither positively or negatively.

Michael Meltz

Your comment on Marketing Services being up 3% and Digital being up 20%, and your comment on prospecting and traditional would imply that it was down low to mid-teens. You said that despite retail, you are feeling fine about everything, but that is still a significant decline. Can you talk a little more about what you are seeing on the non-digital marketing services?

Paul Brooks

It was actually a high single-digit decline in the second half. There is a special factor behind that as well, because there are a couple of database contracts that we had, which, for strategic reasons have gone away. As a result, we are seeing the impact of that. That does not annualise until the first quarter of next year. If you like, the underlying decline was rather less than that. As I said earlier, given the rather soft retail climate at the moment, we are relatively pleased with that. As you can see, we are seeing an underlying improving trend there, as well.

Michael Meltz

On that point, if you say that you are down high single digits all in, on the pure prospecting part, which I would think would be rather weak, it sounds like you are saying it is not that weak.

Paul Brooks

It is not that weak, no.

Michael Meltz

In terms of the strategic review of the assets, you first announced the review of the French unit, but that has been running nearly six months now and PriceGrabber has been several months. Can you give us more of an update than saying ‘it is progressing’?

Don Robert

Firstly, I would correct you on the duration of the strategic review processes: neither one of them has been going on anywhere near that long and both are progressing. There is not much more I can say at this time, for obvious reasons, but when there is something to report, we will be back with you.

Michael Meltz

I apologise; I thought the French processing was announced back in November.

Nadia Ridout-Jamieson

That was in January.

Don Robert

You were just hoping for it back in November.

Michael Meltz

It has been a long year. The last question from me is on business information. Can you talk about some of the growth that you are seeing there? Is it more on the marketing side? What is driving it?

Don Robert

Much of it is a focus on small and medium-sized enterprise (SME) scoring. A lot of winds in the marketplace are focusing on our sweet spot, which is bringing information on individuals into the partnership and small proprietorship market. It is the same story in the US and UK. Both of them are drawing very strongly. Our Baker Hill business is doing quite well. To refresh your memory, that is the platform play that many banks use for the soup to nuts evaluation of SME credit and the tracking of documentation and collateral on an ongoing basis, as well. I would say it has been more underwriting-related than business marketing related.

Michael Meltz

Paul said he was comfortable with consensus estimate numbers that may be on your website. That is for fiscal 2008. Do you want to talk about the March 2009 numbers that are up there as well?

Nadia Ridout-Jamieson

There are numbers on our website at the moment and the range for EBIT is $936-1075 million, which is a reasonably large range. We are not making any comment at this stage on the fiscal 2009 outlook. We are going to take it quarter by quarter.

Allen Swickler, First Manhattan

I have two totally unrelated questions. First, could you just update us on the debt structure of the company as of the end of March and in a range, if possible, what you would expect to receive from the two properties that are for sale, just so that we can understand? You had a fair amount of debt to purchase these properties and we would like to get an update.

Paul Brooks

The net debt at the year end was $2.7 billion. In terms of its make-up, about $1.4 billion would be in the form of bonds, half of which mature in 2009 and half in 2013. The balance is drawn down on our banking facility.

Allen Swickler

Did you say there was $2.7 billion in net debt?

Paul Brooks

That is right.

Allen Swickler

What does that mean in gross debt? How much cash do you have?

Paul Brooks

Generally we run with cash of $100-200 million, so the gross will be $3 billion.

Allen Swickler

So how does that compare with December and what is the structure of the non-term debt?

Paul Brooks

I think there is $2.9 billion of net debt.

Allen Swickler

I am sorry, what is the structure of the remaining $1.5 billion?

Paul Brooks

$1.4 billion is in the form of bonds, the other half of the $2.9 billion. That is drawn down on the $2.5 billion banking facility we have from something like 16 banks.

Allen Swickler

So you have $1 billion open in that line?

Paul Brooks

We have just over $1 billion.

Allen Swickler

Do you have any ranges on what you might expect from the properties you have for sale? What are the book values of those properties?

Paul Brooks

I do not think we want to go into that. As Don said earlier both of these businesses are under strategic review and when we have something on which to update you, we will do so.

Allen Swickler

Secondly, what is the market like in the United States on pricing, volume and the mix of business, whether it is in Decision Analytics or just plain credit reports? I would also be remiss if I did not ask about the VantageScore.

Paul Brooks

In terms of the prices and volumes in the credit services business in North America, pricing has held up pretty well. In the fourth quarter the price was pretty much flat year-on-year. The reason for that is effectively that, to some extent, our pricing is volume related and obviously the volumes have been weaker. We have also been looking to implement price increases for certain categories of customer, particularly customers that we service out of our customer contact centre and that has been a fairly successful move during the course of this year.

Don Robert

I will take the Vantage question. We are continuing to test with a lot of clients and the score continues to show very strongly in terms of additional, predictive lift over other tools that are out there in the marketplace. The pipeline looks great. We continue to outperform our own expectations for the score and it builds every quarter. Again, it is a long game and we are just chipping away and trying to carve out a good, solid market share for ourselves.

Allen Swickler

Lastly, I do not follow what some of the people on the street are saying when you say you are confirming your guidance for the year. Could you please just tell me what that guidance is or what the consensus is? I was not clear on that.

Don Robert

What we are trying to do is take you back to the time when we originally made that statement reaffirming our guidance, which was at the January trading update. At the time the range of analyst expectations, which was EBIT, was $935-965 million. It has moved a little bit since then, but we are saying we are referring you back to that particular range, which was up on the web site in January.

Allen Swickler

Does that include restructuring? Does that EBIT include all charges? How do you look at the EBIT?

Paul Brooks

The EBIT is obviously before interest and tax and also before exceptional items and we will be taking the restructuring charge as an exceptional item.

Allen Swickler

So it is before that item?

Paul Brooks

It is, yes.

Nat Otis, KBW-Connecticut

My question has been answered but I just want to follow up on a couple of things. First, is there any way to get an idea about what percentage of the business in the fourth quarter was mortgage as you gain traction in credit card and auto insurance? How much of that is there in the fourth quarter?

Paul Brooks

We are seeing very strong double-digit growth in these emerging markets, but in the fourth quarter we are still talking about a little under $10 million of revenue, although we are seeing very nice growth.

Nat Otis

What about the breakout between prime and sub-prime mortgages, is there really no sub-prime left?

Paul Brooks

Sub-prime was the biggest single area. We are seeing that 80% of the business is now in either prime or Alt-A. A relatively small part is in sub-prime. There is still a sub-prime element there.

Nat Otis

On Decision Analytics in Europe, Africa, Middle East (EMEA) and Asia/Pacific, you said it was a good quarter and this had to do with some good contract wins. Can you give us any colour in respect of those contract wins?

Don Robert

The clients have not given us permission to release specific names, but they were big, multi-country wins, for instance with our Tallyman Collection product. The trend is towards our clients wanting to collect very aggressively on delinquent loans and wanting to use better tools. We had a whole run of very good Transact installations. What we were seeing was the large platform plays versus one-off score development opportunities.

Nat Otis

The last question is whether you have any comment on one of your competitors and their recent announcement that they have purchased a way into the Russian market?

Don Robert

Good luck and God bless, it is tough going. We have been in Russia for a few years now and our Decision Analytics business does very well there, but the credit bureau business is not for the faint of heart or the faint of wallet. It will take a long time and they will need to be very patient and be prepared to 'ante up' with capital calls as their partners request.

Kyle Evans, Stephens

I have a follow up to the question on Russia. I was hoping to get a little more detail on your strength in Brazil and what your outlook is on moving towards positive data collection there. I would also like an update on India, because we are all just sitting here waiting for the licences to get handed out, so that you guys can fire the starting gun and race to get that market.

Don Robert

You answered your own question on India in a way. We are waiting for licences, but in the quarter we did finally get the ruling on the foreign direct investment (FDI), so we now know what percentage of the venture we will be able to own, which is 49%. We continue to get signals that the government looks favourably on us as an applicant and we are just simply waiting for a licence to be granted. In the meantime we have continued to put more people on the ground and we are building a Decision Analytics sales pipeline there. We have a good country manager, chief financial officer and sales people in the region and we are really starting to get going. Of course, with our fairly portable, global bureau technology we can have that ready to start loading data when the time is right.

Brazil goes from strength to strength and we continue to be delighted with everything about Serasa. I would say the most noteworthy, recent development is that we have now built a strategic client sales force in Sao Paolo, so that we can start to treat the largest clients and partners there as we do our largest clients and partners in more developed or longer-term markets. We have been engaging at very high levels with these folks developing good opportunity and relationship maps and getting a better idea of how we can add value to those relationships. We are excited about that. We have been putting in place a lot of the Experian machinery that we have historically used to find sales success, including pipeline management discipline, pricing discipline, looking at different tiers and verticals as ways of organising the sales force and doing very basic things such as running the first ever Serasa sales conference just loaded with recognition and excitement to really get people up for the year ahead. On the positive data side, there is nothing new to report there other than continued optimism on our part as we watch the legislation move through the channels in Brasil.

Kyle Evans

Is that a multi-year process in your view?

Don Robert

We have always thought it would be and I am sure it will be.

Kyle Evans

Does the ownership cap that you have for the credit bureau in India extend to Decision Analytics or can you own that outright?

Don Robert

We can own that outright.

Kyle Evans

Is your ownership structure in Russia also a minority?

Don Robert

We have a proprietary Decision Analytics business there that is getting to be of significant scale and then we have a partner in the Russian joint venture, which is a 50/50 deal. The partner's name is Interfax and they are a provider of business information and news. We have been together with Interfax for four years now.

Allen Cwickaer

Have you any further thoughts about repurchasing your shares?

Don Robert

The same thoughts that we probably shared with you in January, we continue to feel that our shares are dramatically undervalued and that repurchasing them represents a great use of our capital. There are a lot of moving parts at the moment including the instability in the debt markets and, as you pointed out a little while ago, the strategic reviews that we have going on and whether or not those reviews result in disposals and timing and form of considerations. We are still very much up for doing the right thing by shareholders and we hope that all the moving parts will come into focus in the months ahead.

Thank you everybody for joining us today. We will wrap it up now and I look forward to talking to you again on 21 May, when we release our full year results.