Interim Management Statement – 13 July 2009

Opening Remarks

Don Robert
Chief Executive Officer, Experian

1. Introduction

Good morning and thank you for joining us on today's call to discuss our first-quarter interim management statement. I will begin today's call with some overview comments before handing over to Paul to take you through the trading detail. After my concluding remarks, we will take your questions.

2. First Quarter Highlights

A Strong Performance

For the quarter ending 30 June, Experian delivered another quarter of positive organic growth, which is a great achievement given that market conditions remain very challenging, particularly in the US and the UK. On a global basis, total revenues increased by 1% at constant exchange rates, and organic revenues also grew by 1%. Our growth is attributable to several strong performances within our broad portfolio, which helped to offset the recessionary conditions that we are experiencing in some markets. Our emerging markets have performed very strongly, with good growth in Latin America, Asia-Pacific and emerging European markets. Brazil in particular delivered another strong performance, as we continued to successfully execute on our sales strategy to increase market penetration and up-sell clients to higher-value products. There was also a good performance from our Interactive business, with double-digit growth in Consumer Direct, driven by membership growth.

Market Conditions Remain Challenging

Consistent with our expectations, market conditions remain tough and we continue to bump along the bottom of this cycle. Credit-granting remains tight and demand from consumers is slack. While we have had occasional surges in refinance activity, we have yet to see sustained improvement in the US mortgage market. We continue to see lenders on both sides of the Atlantic focused more on delinquency management than on growing their loan portfolios. Meanwhile, we are helping some of our financial services customers as they work through consolidation. As we have previously stated, we expect the total impact of consolidations announced to date to be less than 0.5% of global revenues, and largely confined to Credit Services.

In the quarter, the impact of major mergers like Lloyds and HBOS reduced the growth rate of Credit Services, but we remain confident that we will benefit over the longer term, as these large and complex lenders standardise on our data, analytics and platforms. Indeed, we have seen some success already with a number of new multi-country deals, particularly for account management and collections software. As is typical in any recession, traditional direct marketing budgets have been slashed and there has been a sharp decline in direct mail activity.

Significant Growth Opportunities Ahead

However, to provide some balance, there are some bright spots, a few of which I will highlight. In Credit Services, we continue to work with some credit card issuers that are in the early stages of planning to return to growth through new customer acquisition campaigns later this year. In Decision Analytics, clients are willing to invest in better software, scoring and analytics in order to gain competitive advantage, and we have a strong pipeline but with a longer sales cycle. Where companies are engaging in marketing campaigns, they are clearly moving to more effective and measurable methods like digital marketing. Consumers continue to show a strong interest in understanding and managing their credit, which bodes well for Consumer Direct.

Proactive Approach to Managing the Business

Throughout this downturn, we have taken a proactive approach to managing our business. We were quick with our cost takeouts and quick to focus on the countercyclical opportunities, and we have not let up on investment, which has helped us to strengthen our market position. We are, once again, adapting our business and our organisation to drive growth.

We see significant opportunities to diversify, innovate and expand, even if the financial services sector stays depressed. New vertical markets are highly promising in the US, the UK and indeed globally. Geographically, we are in a very strong position in Brazil, and our presence is growing rapidly in Asia-Pacific, India and the emerging markets of Europe. Our clients recognise the superiority of our products, our continued investment in innovation and our commitment to flawless execution. This sets us apart from our competitor group. At Consumer Direct, we are investing in a new segment of the consumer market, with new products aimed at identity protection.

3. Conclusion

Our challenge, then, is to focus on those opportunities with the biggest and best paybacks, and to concentrate our efforts throughout this financial year. With that, I will hand over to Paul, who will take you through the trading detail.

Financial Review

Paul Brooks
Chief Financial Officer, Experian

1. Trading Performance

Highlights

Thank you, Don. Reported and organic revenue growth at constant exchange rates for the first quarter was 1%. At actual rates, revenue declined by 8%, reflecting movements in exchange rates against the US dollar. Organic revenue at constant currency was 10% at Interactive, where we continue to see strong growth in our US and UK Consumer Direct businesses. Growth in Credit Services was 2%, with strong performances in Latin America and EMEA/Asia-Pacific more than offsetting weakness in North America and the UK. Decision Analytics revenue was down 7%, influenced by one-offs and slower pipeline conversion, as previously flagged. Marketing Services growth weakened to -8%, with continued growth in new media activities mitigating the impact of sharply reduced direct marketing spend on the traditional side of the business.

2. Performance by Region

North America

In North America, total and organic revenue declined by 2%. In Credit Services, trading conditions remained challenging, and organic revenue was down by 6%. Mortgage revenue was volatile, but flat for the quarter overall. Prospecting revenue continued to be very weak, and there was some incremental softness in non-mortgage origination, for example in automotive credit. Account management revenue continues to grow strongly. The Marketing Services revenue decline of 14% was due to the very weak state of the retail sector, as Don mentioned. We saw significant reductions in catalogue mailings, which impacted our traditional marketing activities, and some of our clients went out of business altogether. New media businesses have continued to grow, although growth has slowed somewhat. Interactive delivered 6% growth, with double-digit growth from Consumer Direct, despite the negative effect of one-offs related mainly to prior-year data breaches, which will also be a factor in quarter two.

Latin America

In Latin America, underlying trends remained largely unchanged, and we saw total and organic revenue growth at constant exchange rates of 15%. Credit Services performed strongly, with revenue up by 17%. Both the consumer and business information sides of the business performed well. The year-on-year decline at Marketing Services was due mainly to a tough comparative, as we benefited from some one-off projects the previous year.

UK and Ireland

Total and organic revenue from continuing activities was flat at constant exchange rates. As previously flagged, Credit Services, where revenue declined by 5%, saw pricing headwinds attributable to bank mergers starting to flow through in this quarter. We also previously indicated that Decision Analytics would be impacted by delays in pipeline conversion. In addition, the growth rate of -6% was negatively impacted by our switching to an annual licence model for our Tallyman software, bringing it into line with the revenue model for most of our other software products. On an underlying basis, origination revenue was down, but there was growth in collections and customer analytics. In Marketing Services, we have continued to see good growth in new media activities, driven by our contact data management business QAS, and email marketing. This has largely offset sharply lower client spend on the more traditional activities. Interactive delivered excellent growth of 56% as we further expand CreditExpert in the UK market through membership growth.

EMEA / Asia-Pacific

Revenue from continuing activities increased by 5% at constant exchange rates and organic revenue was flat. The acquisition contribution was mainly from KreditInform in South Africa. We were very pleased with progress at Credit Services, which grew by 7%, despite tougher lending conditions in Europe. The growth rate of -14% at Decision Analytics arose from similar pipeline conversion trends in the UK, as well as an impact from large software deliveries last year. The impact of these one-offs will also be a factor in Q2. Meanwhile, Marketing Services continues to perform strongly.

With that, I will hand back to Don.

Concluding Remarks

Don Robert

Thank you, Paul. In summary, as we expected, markets remain tough, but we are not sitting back waiting for a recovery. We are running a tight ship, managing for profits and cash and seizing opportunities to strengthen our market position. While we continue to expect a little organic revenue growth in the first half, we are confident on delivering our profit objectives for the year. We are also playing an offensive game: we have significant opportunities to expand our business in government, healthcare payments, telco, utilities and global products, as well as in many geographies around the world. We are aggressively pursuing these opportunities by investing in people, global products and platforms. We feel that we are uniquely placed in our industry to capitalise on new opportunities, and we have great confidence about our future.

Nadia and Peg from Investor Relations will now join us to take your questions.

Questions and Answers

Andy Chu, Deutsche Bank

When we strip out the one-off effects, such as Tallyman or some of the effects in EMEA/Asia-Pacific, what was the underlying decline in the quarter in Decision Analytics?

Paul Brooks

Let me answer that by addressing each region. In North America, there were no significant one-off impacts, so performance there was broadly in line with the prior year. There were also no particular one-off effects to flag in Latin America, so this is a UK and EMEA/Asia-Pacific issue. In the UK, the impact of moving Tallyman to perpetual annual licences is a somewhat subjective impact in the $1-2 million bracket. Aside from that, we have seen some weakening in the pipeline for software deliveries. We also have strong comparatives because, in the UK, we saw 8% growth in the Decision Analytics business in the first half last year.

In EMEA/Asia-Pacific, it is best to divide this into four parts. We saw double-digit growth in the emerging European markets and in Asia-Pacific. In the established EMEA markets, we saw a decline. The pipeline conversion time delays have certainly become a factor in EMEA: although the pipeline is fairly robust, conversion is slow. The one-off effects have been quite significant, in the region of $4 million. These were software deliveries that we made in the first half of last year.

Andy Chu

Is there a high risk of the pipeline being pushed further out and potential orders never being converted?

Paul Brooks

There is not a high risk of that. Until the revenue comes in, one always has to be a little cautious. However, our general view is that the pipeline is good. The issue is capex constraints, particularly early in the year in terms of our clients' capex budgets. I would say that we have a reasonable degree of confidence around some of these delays. In some cases, the delays relate to contracts that are signed, but we have simply been asked to defer the implementation into the second half of the calendar year. We certainly expect them to come through. I would say that we are cautiously positive about that.

Andy Chu

What percentage of the cost base comes from marketing costs for the business overall, and how do you see them playing out over the next 12-18 months, given that they must be coming down in terms of advertising spend?

Paul Brooks

Our marketing spend is almost exclusively within the Interactive segment. It is more to do with customer acquisition spend. We are maintaining that spend, given that it is productive and drives revenue, thanks to several factors: lower broadcast advertising rates and somewhat lower internet advertising rates. Together with a lot of the work that we have been doing on the optimisation of our marketing spend in Interactive, we have become more productive in that marketing spend, so we have no plans to reduce it.

Andy Chu

Finally, are you prepared to say where you are currently in terms of your cost-cutting plans?

Paul Brooks

The programme is now largely complete, so we are pretty much at the full run rate of savings. As previously flagged, you will see the full $150 million a year of cost savings this year.

Jaime Brandwood, UBS

In terms of your near-term growth expectations, it sounds to me like you are expecting relatively similar growth in the coming quarter to the 1% that you have just seen. How should we look at that in terms of the quarter perhaps being up against a slightly tougher year-on-year comparison? Even if we adjust for the fact that Serasa came into the numbers for the first time in the prior year, what parts of the business will improve in order to overcome the fact that you have a somewhat tougher year-on-year comparison?

Paul Brooks

I think that you are being quite granular. Given the underlying impact, particularly of Serasa coming into the numbers for the first time in the second quarter last year, I do not think that the second quarter is a substantially tougher comparative than the first quarter. Without going into the minutiae of forecasting individual parts of the business, your overall conclusion that we would not expect the second quarter to be wildly different from the first one is a fair assumption to make, given the guidance that we are giving, which is little organic revenue growth in the half.

Jaime Brandwood

Could you go into some more detail on the price versus volume trend in US Credit Services?

Paul Brooks

We saw a slight decline in the average unit price of 2-3% in the quarter, which is to be expected, given that we are seeing the pricing impact of the bank mergers coming through.

Jaime Brandwood

I would guess that volumes are down by 3-4% as a result.

Paul Brooks

Yes, somewhere in that region.

Jaime Brandwood

In UK Credit Services, to some extent the pricing impact there has only partially come through in the quarter. Are you expecting that pricing impact to gather any momentum in the coming quarter, or do you think that you have had the full hit now?

Paul Brooks

It is the case throughout the business that we should be pretty much at the full rate of pricing impact on the known mergers in Q1. While we do not expect it to worsen sequentially, it will be a factor throughout the year in terms of year-on-year comparisons.

Jaime Brandwood

Did the portion of UK Decision Analytics which is also volume/transaction-oriented also take a pricing hit similar to what you saw in UK Credit Services?

Paul Brooks

There is an element of pricing impact. It is mainly in Credit Services but some of it is in Decision Analytics. The other factor that we referenced in May, which was the issues around Cattles – quite a significant customer for us – also had an impact on Decision Analytics, as well as Credit Services.

Jaime Brandwood

What are your thoughts on the new chairman appointment and does this have any bearing from your point of view on whether it would be an external or internal candidate?

Don Robert

We are disappointed to lose John. His stature as a founder and guiding force in the company has been huge over the years. At the same time, we are proud to have a great ally at Standard Chartered Bank. I assume that our Board will conduct a very robust search process that is not yet underway, but that will ultimately be up to the Board to decide how far and how wide to cast that net and how the search process will play out.

Jaime Brandwood

It is then, too early to say at this stage, and you have had nothing communicated to you by the Board as to how their thinking is panning out at the moment.

Don Robert

It is too early to say much, but let us keep in mind that John will stay on until a successor is found. He is certainly in no rush to leave, and I am certainly in no rush to have him leave.

Mark Shepherd, UBS

Could you give us any guidance on your views on cash flow for this year and the interest rate, and whether that has changed? Last year, the interest charge and debt reduction came through rather better than expected; is that continuing this year?

Paul Brooks

It was only about six weeks ago that we gave the guidance for the current year.

Mark Shepherd

Do you have any updates?

Paul Brooks

Not really; we said net interest in the region of $80-100 million after a nominal net pension charge. If rates remain low, it will be towards the lower end of that range; otherwise, there is nothing more to say at this stage.

Mark Shepherd

Do you feel that it is towards the lower end of that range as we currently stand?

Paul Brooks

It really depends on what happens to rates. If they stay low throughout the year, we would be closer to the bottom end than the top end of that range. That is the only comment that I would make at this stage.

Concluding Remarks

Don Robert

Thank you for joining us today. We look forward to talking to you again in October, when we update you on our first half of trading.