

Interim Management Statement, Third Quarter – 15 January 2009

Opening Remarks

Don Robert
Chief Executive Officer, Experian

1. Introduction

Good afternoon, everybody. We appreciate you joining us on the call to discuss our third quarter Interim Management Statement. I will begin the call with some overview comments, and then hand over to Paul Brooks to take you through the trading details. Of course after my concluding remarks we will open up the line for questions and answers.

2. 2008 Third Quarter Highlights

A Strong Performance

I am pleased to say that Experian delivered a good performance in the third quarter. In fact, it was somewhat better than we had originally anticipated. On a global basis, total revenues for the quarter were up 6%, at constant exchange rates. Organic revenues were up 5%. It is important to point out that the growth was broad-based, in that we grew across all four of our regions, in all four principal activities. Our performance in the quarter once again demonstrates the strength of the diverse business model, good execution by our management team, and a positive impact of a long track record of continued investment in new areas of growth.

We have seen some excellent performances across the business, helped by our exposure to counter-cyclical products, our presence in multiple geographies, and strength across many vertical markets. I will highlight a few of these.

Access to Credit

Firstly, access to credit remains tight. Our financial services clients continue to rein in their spending. They are allocating budgets to retain their best customers and to identify and accelerate collection activity on high-risk accounts. As a result, our account management and collection products remain in high demand. In particular, we are making much progress with our global collections initiative, where we are winning some large multi-country deals.

Consumer Direct

Also in the quarter, Consumer Direct has again performed very strongly in the UK and the US. Our scale, which enables continued investment in consumer marketing, continues to raise consumer awareness, and we are using better segmentation tools to grow our addressable market in improved response rates.

New Verticals

In terms of new verticals, the inroads we have made into the public sector are helping our UK credit services business as several of these contracts that were won last year have now begun to go live. In similar form, in the US, we are continuing to diversify outside of financial services, and we are taking our core credit data in analytics into the health care payments market with the recent acquisition of SearchAmerica.

Brazil

Brazil performed well against a tough economic backdrop. Lenders have tightened their credit filters, resulting in a reduction in the supply of credit in Brazil, but consumer and business demand remains strong. Strategically, we continue to make excellent progress there across Credit Services, Marketing Services, and Decision Analytics products.

The US Mortgage Sector

Since early December, we have benefited from a significant increase in mortgage refinancing activity in the US. It is too early to call a turn in the US mortgage sector because there is still much volatility in that market – and of course we have seen spikes there before, most recently in January 2008 – but mortgage refinancing has been a good boost to our US credit volumes.

3. Conclusion

Overall, we delivered a strong performance against tough economic headwinds. The balance and the diversity of the global business at Experian enabled us to continue to deliver good growth.

With that introduction, I now turn the call over to Paul who will take you through the trading details.

Financial Review

Paul Brooks
Chief Financial Officer, Experian

1. Trading Performance

Highlights

Total revenue at constant exchange rates for the quarter improved by 6%, with organic revenue growth of 5%. At actual rates, revenue declined by 5%, reflecting adverse events in exchange rates.

Organic Growth

We now turn to trading performance, starting with organic growth, at constant currency, by principal activity. I am pleased to repeat that our principal business activities performed well in the third quarter. All four delivered positive organic growth. Globally, organic revenue growth was at 3% for Credit Services, 2% for Decision Analytics, 1% for Marketing Services, and 14% for Interactive.

2. Performance by Region

North America

In North America, total and organic revenue grew by 3%. Organic revenue was down 4% in Credit Services; increased by 2% in Decision Analytics; declined 3% in Marketing Services; and increased 11% in Interactive. Points to note on these results are that, as Don mentioned, in Credit Services we benefited from an up-tick in consumer refinancing activity towards the end of the quarter. This helped boost mortgage profile revenues, it partly offset weakness earlier in the quarter, and also ongoing decline in demand for pre-screen prospecting products. Growth at Decision Analytics was helped by strong sales of counter-cyclical products, such as account management software and by good demand for customer score cards.

In Marketing Services, the weaker economic backdrop, particularly in Retail, has affected our more traditional activities. However, our New Media businesses continue to perform well.

In Interactive, growth was driven by Consumer Direct, with strong growth in membership revenue, supplemented by revenue from the conversion of the membership base of a large affinity partner, and also some large data breach agreements.

Latin America

In Latin America we saw total and organic revenue growth, at constant exchange rates, of 15%. Revenue growth was 14% in Credit Services, 38% in Decision Analytics, and 44% in Marketing Services.

In Brazil there has been a slowdown in the growth in lending, particularly affecting certain sectors, such as Automotive. Applications for credit remain strong, however. We have continued to see good growth in our business, helped by clients migrating to some of our higher value products. We have also seen strong growth across both Decision Analytics and Marketing Services, reflecting new business wins.

UK and Ireland

In the UK and Ireland, the total and organic revenue from continuing activities increased by 5% at the constant exchange rates. Revenue increased across all areas of activity. The growth was 2% in Credit Services, 2% in Decision Analytics, 1% in Marketing Services, and 50% in Interactive.

Points to note from this include that there was an improved performance in Credit Services which returned to growth. In part, this was due to the annualisation of the credit crunch, but it also reflected strength in collections activities and strong growth in revenue from new verticals, particularly in the public sector. In Decision Analytics, we flagged that we expected some adverse phasing in the UK, after exceptional growth from one-off software deliveries in the second quarter. We continue to see strong demand for our counter-cyclical products, particularly collections software. Marketing Services was also helped by a weaker comparable, and some excellent performances in New Media, with good new business wins and high retention rates. In Interactive, we continue to see very strong uptake in new CreditExpert memberships.

EMEA/Asia Pacific

Finally, in EMEA/Asia Pacific, revenue from continuing activities increased by 14% at constant exchange rates, with organic revenue up 3%. Organic revenue was up 4% in Credit Services; declined by 2% in Decision Analytics; and rose 10% in Marketing Services. I would highlight here that Credit Services continued to perform well, despite tough conditions in some markets. Decision Analytics was affected by a very strong comparative from a large one-off contract that was won last year. This disguises strong underlying growth in Eastern Europe and Asia. Marketing Services continues to perform very well, on the back of excellent performances by QAS, Hitwise and CheetahMail.

I now turn the call back to Don.

Concluding Remarks

Don Robert
Chief Executive Officer, Experian

1. Summary

Thanks, Paul. I will now give a brief summary. There is no question that Experian performs best when the economy is expanding, capital is flowing freely, and lenders are focused on growing their loan books. However, the last few quarters have again demonstrated that our business can grow even in the tough times. Part of that growth equation is from the business mix. We have benefited from our strategy of geographic expansion and channel diversification, particularly from the growth in Consumer Direct.

Another equally important component in the growth equation is that of adaptation. We have the data and the tools that can help clients in bad times as well as in good times. This is the real power behind our model. We have reoriented our organisation across the globe to maximise on all the opportunities we see in the short term. In the coming year, we will also benefit from the full effect of the cost actions that we have already taken.

2. Outlook

We are not at all complacent about the outlook. We think that challenges in the global economy are going to persist for quite some time. Our stance is to err on the side of caution. For the fourth quarter, therefore, we are likely to see some moderation in organic revenue growth. Beyond that, our performance will be influenced by global economic conditions, which are currently getting tougher. In terms of profits in cash, however, we are on track in fiscal year 2009 to meet our objectives of broadly maintaining margins, growing profits and delivering strong cash flow conversion.

I now turn the call over to you for your questions. I will be joined by Nadia Ridout-Jamieson and Peg Smith of our Investor Relations team.

Questions and Answers

Carter Malloy, Stephen Inc.

Within your USCS business, can you talk about the trends in the business information segment, and if there has been any significant impact in increased account management activities?

Paul Brooks

Yes, Carter. With the business information business held up reasonably well in the quarter, we have seen some pressure on the acquisition side, as you would expect, particularly the B2B marketing side of the business, on the front end. We continue to see good growth in the portfolio management side and the more counter-cyclical parts of the business, and also on the trade side.

Carter Malloy

On your cost initiatives, it seems as though you are on track to cash in the \$70 million this year and \$110 million next year. Can you give us a sense of additional available costs that you will cut out of the business should the operating environment deteriorate much further?

Paul Brooks

Firstly, just to correct you on the numbers: it is \$130 million next year. The first point to make is that the restructuring programme, which we announced in January and have subsequently added to, is very much focused on efficiency. As we have said before, the measures are good for the business. There is much offshoring involved there. There is much streamlining of the business, and much integration in areas such as technology. We feel that this gives us a good cost base going forward. We have visibility as we move into next year.

There are no further plans for significant cost cuts. We continue to be vigilant on costs. If things became substantially worse, we would obviously review the situation,

and then I believe it would be a question of deciding to what extent we wanted to cut deeper on costs and to what extent we felt that it was important to maintain the infrastructure of the business so that we can benefit properly from the eventual upturn when it comes.

Carter Malloy

On LowerMyBills, it seems you have been profitable because of the cost base. However, is there a scenario where that business could become a margin drive on the overall company?

Don Robert

I don't think it would because it is very much a variable cost business. It is also now fully integrated with our other lead generation businesses, which are focused on education and automatic insurance. We have the ability now to also switch traffic between the three types of offer. Therefore, I would see little or no prospect of that going negative.

Carter Malloy

Because of the overwhelming supply of leads recently for the lenders, have you seen a weakening demand for the lending side of the business?

Paul Brooks

When they have this big increase in interest in mortgage refinancing, we find that our clients are then getting plenty of leads coming directly to them, so their demand for leads from us becomes less. Therefore, the answer to your question is yes.

Mike Meltz, JP Morgan

I have three questions. Firstly, what were Pricegrabber's trends in the quarter? Secondly, I can understand how you might have comfort in the credit bureau going forward, but what about Decision Analytics? [Line interference]

Paul Brooks

Firstly, with regards to Pricegrabber, given the very challenging retail environment, we were quite pleased with the performance of Pricegrabber in the third quarter. Traffic actually held up well. Revenue was down year on year, but that was as a result of mix. The higher value consumer electronics traffic was down and we saw growth in the non-tech areas, such as in household goods. Therefore, we were down, year on year, but the performance probably beat our expectations.

With regards to your question on Decision Analytics, your telephone broke up during the question. Were you asking about the sustainability at Decision Analytics?

Mike Meltz

Yes. If you cannot hear me well, I can follow-up afterwards. I just wanted to know: is your expectation that Decision Analytics can maintain momentum or improve? It seems to me that, as budgets get tighter, this might be an area that would concern you going forward.

Paul Brooks

In the Decision Analytics business, we have focused on the more counter-cyclical offerings that we have, which tend to be focused in the account management collections area. That is where we are currently seeing the growth, together with modelling and scorecard work that we are doing with clients. Those are the growth areas. Where we are seeing decline is with anything to do with application processing or application transactions. There is a mix between those two. At the moment, the sort of growth rates we saw in the US and the UK seem to be reasonable growth rates going forward. EMEA/Asia Pacific, on the other hand, as we said earlier, was affected by a very strong comparative because of a large software delivery that we had last year. We would therefore expect to see EMEA/Asia Pacific return to decent growth as we move forward.

Mike Meltz

With regard to your comments about Brazil, can you talk more about your expectation here, going forward?

Don Robert

We expect to see our business continuing to grow well. Clearly the external environment has become much more difficult. The Brazilian economy is slowing. The growth in credit has certainly come back quite a bit, particularly in certain verticals, and Automotive would be one of those. However, we are still seeing good growth. This is based, first of all, on the demand for credit. We are still seeing strong application growth and that is obviously something which influences the business. We are also benefiting from our clients trading up to some of our higher value products because they are looking for more comprehensive checks on borrowers before they agree to lend. That is also helping us. Clearly it is a dynamic situation. The economy is certainly not improving in Brazil at the moment, but from our perspective, we expect to see good growth in this business going forward.

Matt Pickering, Harris Associates

Great quarter, obviously. I just have a couple of questions. Can you remind us what the Group's exposure is to Retail? Also, in an environment where retailers are struggling to drive foot traffic, how are your conversations evolving? Are they positive or negative as they look to utilise your services?

Don Robert

The overall exposure to retail is about 12%. Much of that is in Marketing Services. Catalogue list processing as well as credit and analytical products. It is spread across several geographies and several product groups. I did not catch the second part of your question.

Matt Pickering

In light of the like for like trends, with regards to the conversations you have been having recently with your customers, your bank customers have been utilising you more to increase their customer knowledge. Retailers are trying to maintain foot traffic. Generally speaking, I am curious as to how your conversations are evolving and whether it is reasonable to expect them to also utilise more of your services. Alternatively, in contrast to Credit Services and Decision Analytics, is it reasonable to suggest that they may cut back on spend?

Don Robert

It is a mixed bag. On the credit side of the retailing portfolio, it is safe to say that most stores that are running credit programmes are doing them through private label arrangements with people like GECC. We see the activity start to decline slightly, but then of course they are faced with the same challenges as our bank clients so we will be working with them on larger-scale collection initiatives.

With regards to the marketing side of the Retail vertical, the name of the game is going to be ROI on the marketing spend. You are currently seeing acceleration in the move away from expensive catalogue campaigns and more into email and database types of campaign. We are, of course, in the middle of that. Accordingly, our email marketing business is still growing very strongly. It has backed off slightly, but it still has strong double-digit growth, and the majority of that is to the Retail community.

Matt Pickering

At the divisional level, are those roughly offset or is it reasonable, as you indicated with the third quarter, to see some lessening of business opportunities, at least for the foreseeable future?

Don Robert

All in all, I would say it is about a 'push' right now.

Matt Pickering

Paul, can you help me to understand currency? I appreciate the underlying trends, given how volatile the dollar has been and given your balance sheet, is there any currency mismatch we should be aware of? What will the impact be from currency at a group level going forward?

Paul Brooks

Currency affects us in a number of ways. Firstly, we do not have any currency exposure within the business in the way we operate. Basically we incur costs in the country where we invoice our sales so they will both be in the same currency. Therefore, there is no exposure from that point of view. In terms of translating the results, because we report in dollars we do get these swings. We did actually reference, at the interims in November, that year on year, if the exchange rates remain the same as they were in November through to the end of the year, compared to last year the adverse exchange impact would be of approximately \$25 million on EBIT. That number is still approximately the same number. It might be slightly higher now, but not materially.

The third issue on currency is the currency of our debt relative to our earnings. Essentially, the broad philosophy we adopt is that our borrowings are, by way of swaps, effectively in currency roughly pro rata to our earnings, with the exception of our Brazilian earnings.

Matt Pickering

So your Brazilian earnings are dollar-funded, but earned in real?

Paul Brooks

That is correct. The reason for that is that, because of the interest differential, most overseas companies that invest in Brazil will hedge. Effectively, by hedging, you are anticipating devaluation.

Matt Pickering

On the net impact of corporate activity, you guide to a \$70 million benefit. Has there been a change in the phasing of the payment for the French transaction processing business or, in contrast, did you still get the \$200 million, and have therefore spent approximately \$130 million on mergers and acquisitions, and earn outs?

Paul Brooks

That is correct. We had just over \$200 million from the French disposal. We bought SearchAmerica during the period for \$90 million. The balance is the aggregate of what we paid for the South African business that we bought and some earn outs that we paid during the quarter. Those together net out at approximately \$70 million.

Matt Pickering

From an earn out perspective, your disclosure is quite detailed at the aggregate level, but from a phasing perspective, unless you continue to be active, are earn outs going to fall away or are there more meaningful outflows to expect over the next 18 to 24 months?

Paul Brooks

We still have some earn outs to come, but at less than \$100 million over the next two years.

Matt Pickering

Can you remind me what the incremental margin in Credit Services is, given the cost actions that you have taken recently? That is, for every dollar of incremental revenue earned, how much falls to the bottom line, given that you have been addressing the cost base over the last 18 months?

Paul Brooks

For most of our products in Credit Services there is very little direct cost, certainly less than 10% of revenue. The vast majority of incremental revenue therefore does fall through to the bottom line.

Matt Pickering

Thank you very much. Congratulations on the excellent business performance.

Carter Malloy

Can you give us an update on the collection of positive data in Brazil? Has there been any further lobbying?

Don Robert

There is nothing further to report. Legislation continues to go through the Brazilian Congress so there is no particular update. I think the only piece of colour that we might add is that the utility of positive data would be more felt in a difficult environment. However, there is nothing specific to report.

It sounds as though there are no further questions so we will conclude the call. Thank you for joining us today. We look forward to talking to you again at our next trading update, which is in April. Thank you. Goodbye.