

Trading Update – 14 October 2009

Opening Remarks

Don Robert
Chief Executive Officer, Experian

1. Introduction

Good morning everyone and thank you for joining us on today's call to discuss our first-half trading update. I will start the call today with some overview comments and then hand over to Paul Brooks. After my concluding remarks we will open up the line for your questions.

2. 2009 First Half Highlights

A Consistent Performance

Experian delivered positive organic growth for the first-half. That was very much in line with the guidance that we set out earlier in the financial year. On a global basis, total revenues were up 1% at constant exchange rates and organic revenues were also up 1%. Paul will take you through the trading details shortly but, in summary, you will recognise that the trends stay fairly constant between the first and second quarters. We continued to benefit from growth in Latin America and strength across our Interactive operations. This helped offset weak conditions in North America and the UK, primarily within our financial services and retail segments. Our overall trading picture is very much an amalgamation of conditions in our major global markets. Let me give you my perspective on those markets.

Market Summary

In North America, we do see some signs of stability, but we expect recovery to be slow. Most economists are now indicating the US recession is finally over but there will be a long and slow recovery in jobs, credit and housing. On the other hand, the UK economy is weaker and we stay cautious on the outlook for that region. Meanwhile, Brazil looks like it has turned the corner toward economic recovery.

US and UK Markets

I will now drill down a little bit more into the US and UK markets. First, lenders remain very focused on repairing their balance sheets in response to higher credit losses. We continue to work closely with our clients to help them respond to market pressures. This translates into continued strength in our counter-cyclical activities, but a reluctance on our clients' parts to spend money on capex (capital expenditure). While we expect tighter lending criteria to remain at least for the balance of the calendar year, we have been working with various of our US lenders testing pre-screen marketing programmes. The good news is that response rates for the new card offers have been high. That indicates good demand for new consumer credit products. However, most of the major card initiatives have been delayed, as the card issuers are focused on complying with the new credit card reform regulations.

Risk management remains a key focus for our clients. Shareholder concerns and calls for regulatory reform have combined to place even greater pressure on banks for improved risk analytics, loss forecasting and stress testing. This also presents opportunity for us. Tight control over capital spending is also a key focus with our

clients. This has been a factor for us in Decision Analytics across many of our markets, where we have seen a lot of hesitancy in software investment with banks deferring their decisions. Our pipeline is strong and it is just that converting the pipeline is requiring some patience.

In US Marketing Services, we believe we may have seen the worst of the decline in traditional marketing. The significant contraction, caused by retailer bankruptcies and store closures, has bottomed out. In both the US and UK, we continue to see good growth in our newer marketing activities, as marketers turn to digital media for more cost effective and measurable marketing campaigns.

In vertical markets outside of financial services, we are finding clients who are willing to spend on new data, technology and analytics. Particularly, this is where it provides greater operational efficiencies. Utilities, telecommunications, government sector and health care payments are all continuing to grow.

Latin America

Due to the structural growth drivers in the Brazilian credit market and the strength of our market position there, our business in Latin America has been much less impacted by the economy. The outlook for consumer and commercial credit is strong and improving, driven by rising penetration of credit cards, growth in SME lending and the rapid growth in the Brazilian mortgage market. Our focus there is to further strengthen our market position through the introduction of value added products. We are making significant strides in penetrating the SME channel.

Emerging Markets

There are other bright spots for Experian around the world, particularly in emerging markets. I am highly optimistic regarding our prospects. South Africa, Turkey, China, Korea and Russia are all small markets for us now, but are growing rapidly even in these times. With that introduction, let me hand it over to Paul, who will take you through the trading detail.

Financial Review

Paul Brooks
Chief Financial Officer, Experian

1. Trading Performance

Headline Figures

Thank you Don. I will now turn to trading performance in the first-half. Organic revenue growth at constant exchange rates on the first half were reported at 1%. At actual rates, revenue declined by 6%, reflecting movement in exchange rates against the US dollar. Trends in quarter 2 were very similar to those we saw in the first quarter, with organic revenue growth of 1% in both. For the half, looking at performance by principal activity, organic revenue of constant currency was 12% at Interactive, with strong growth in our US and UK consumer direct businesses throughout the half. There was a return to growth elsewhere in Interactive in

quarter 2. Credit Services growth was 1%, with continued strength in Latin America and EMEA, offsetting ongoing weak conditions in our Northern American and UK businesses. There was no significant difference in underlying trends between quarter 1 and 2. Decision Analytics revenue was down by 8%, reflecting lower transaction volumes and long sales cycles in the mature markets. Marketing Services declined by 7%, with a slight improvement in year-on-year growth in quarter 2. With mature markets, we have continued to see good performances in new media business. This has partially offset weak conditions for traditional activities. EMEA/Asia Pacific has shown good growth.

2. Regional Performances

North America

In North America, total revenue declined by 1%, with organic revenue down by 2%. Organic revenue declined by 7% in Credit Services, 5% in Decision Analytics and by 14% in Marketing Services. Interactive delivered growth of 8%. In Credit Services, mortgage revenue was broadly flat year-on-year for the half, while pre-screen and other lending categories remained depressed. Account management revenue has been strong across both consumer and business information. Decision Analytics was impacted by elongated sales cycles, while the Marketing Services performance reflects significantly reduced client marketing spend and bankruptcies in the retail sector. At Interactive, Consumer Direct continued to perform well. We also saw improved trends in some lead-generation verticals and at PriceGrabber.

Latin America

In Latin America, total and organic revenue growth at constant exchange rates was 14%. Credit Services again performed strongly and were up 15%, with growth across both business and consumer information.

UK and Ireland

Total revenue at constant exchange rates and organic revenue were both flat. Organic revenue declined by 5% in Credit Services, 8% in Decision Analytics and by 3% in Marketing Services. Interactive delivered growth of 51%. In Credit Services, the decline was driven by low levels of origination activity, the impact of bank merger consolidation and market exits. Partly offsetting this was counter cyclical revenue and non-financial services verticals, which continued to grow well. In Decision Analytics, the primary driver of declines is also lower origination volumes, which impacts traditional revenues, as well as deferral by banks for investment in large IT systems. In Marketing Services, the impact of significant declines in direct marketing activity was largely offset by growth in new media activities. Continued strength in memberships at CreditExpert helped to deliver excellent growth at Interactive.

EMEA/Asia Pacific

Total revenue growth at constant exchange rates was 5% in the half and organic revenue was flat. Organic revenue growth was 5% in Credit Services and 7% in Marketing Services. Decision Analytics declined by 12%. We were pleased with the performance of Credit Services, with good growth in both established and emerging markets despite the challenging market conditions. In Decision Analytics, performance was impacted by strong comparatives, relating to bureau software

deliveries last year, as we previously flagged. Marketing Services is growing well, due to increased market penetration, particularly in emerging markets.

With that, let me turn the call back to Don.

Concluding Remarks

Don Robert

Thank you, Paul. In July when we spoke I said that we had rallied our whole organisation to drive growth across the business. Today, there is a tremendous amount of energy and focus at Experian. We are a company with a lot of growth potential. We have invested throughout the downturn in new products, new geographies and new vertical markets to drive growth and position us well as markets recover. Our market position is strong and we enjoy global leadership. The combination of investment and excellent execution will further allow us to extend that leadership position. While there are a lot of moving parts, we are encouraged by signs of stability in some of our markets. Given the successful execution against our cost programme, we are comfortable that will at least maintain margins and deliver profit growth for the year as a whole.

Now let me turn the call over for your questions, for which we will be joined by Nadia and Peg from our Investor Relations team. Back to you operator.

Questions and Answers

Will Slabaugh, Stephens Little Rock

I know you said the sales cycles are blinking a little bit for Decision Analytics which is understandable. Could you give us a little bit more colour on what these conversations are like with your clients regarding decision management applications?

Don Robert

I think generally speaking I would make two points. One is that there are some regional differences right now in the way decisions are being made with regard to the Decision Analytics product line; in the US we have actually had a lot of success around redevelopment of scoring models, and of developing new scoring models. That side of the Decision Analytics business is pretty strong. Again, enterprise wide software sales are tough. It is not just our industry. If you look at most software companies right now, you will see that the trends are similar. However, we have seen some good success on the Decision Analytics software side in the last quarter in our EMEA region, where we had quite a flurry of closing activity towards the end of the second quarter. Maybe that is a good sign, I am not sure. For reasons that I think make a lot of sense, in tying back to what I said about clients trying to sort out

their capital positions and shore up their balance sheets, it is slow going right now on the software side.

Will Slabaugh

Thanks. Regarding the testing of the waters in the pre-screen activity that you mentioned earlier - do you expect this business to return to a meaningful percent of credit card offers out there or would you expect it to remain small looking into next year?

Don Robert

I do not have real high hopes for the business to come back full strength, to its former shape and size. We are also seeing more pre-screen activity, more invitation to apply activity coming through email channels right now which is a lot cheaper. It is also another form of testing the water that does not cost the card issuer so much money. I think it will be interesting to see how that mix finally balances out between email and really firm pre-screen activity in the way we used to know it. The third dimension is the issuers trying to figure out who their optimum customer is in light of the new credit card bill. There are still a lot of moving parts there.

Will

Lastly, could you touch on the Experian automotive and what types of market opportunities you see there and what individual contribution will apply?

Don Robert

It has been one of the bigger success stories in our business in North America. We made an important investment this year in that we added accident data to our automotive file. We previously did not have a real robust source of accident data. That has enhanced the value of the auto check report, the vehicle history report that we sell. It has resulted, even in a seriously down used-car market, in a lot of additional sales and additional partnerships. In addition, we have been doing a lot more at the enterprise level. That is tying the dealer to the manufacturer, to the consumer, with database marketing, data-feed type activity and taking a more holistic approach to the auto business. I would say a combination of better data, more holistic sales processes and going forward you will see more of the same. We would be delighted to see that business continue to grow at any level at all in this kind of market.

Jaime Brandwood, UBS

One of the things you mentioned this morning in relation to Brazilian legislation is not just that you are expecting at some point the passing of a Positive Data Bill, but you also made reference to another Bill. Could you expand a little bit more, because it is not a Bill I have heard about and I was intrigued about what that might mean for your business out there?

Don Robert

There are two Bills which are currently in the Upper House of the Brazilian Congress. One is quite straightforward and permits the use of positive data. The second one is a Bill which is designed to regulate creditor activities. Obviously the one that is more important to us is the Positive Data Bill which we are very keen to see pass. The other Bill has various clauses in it which looks to regulate the activities of the

bureaus. At the moment, when negative data is added to a file, we need to notify the consumer with a recorded delivery letter. The proposal is that that would then become a registered letter. In other words, we would have to get a receipt for the fact that the letter has been received.

Jaime Brandwood

So just making it more expensive basically?

Don Robert

Yes that is right. Another is that there would be a threshold value below which delinquencies would not be registered in the bureau, at a low level. It is these kind of things. That Bill is most unlikely to get passed in its current form, not least because the President has said he will not pass it in its current form. We are confident that anything within that Bill which we would find particularly unpleasant will not go through and indeed the Bill itself might not go through. Obviously it is the other Bill which is being actively sponsored by the Administration. Right now, the Bills are still up for discussion in the Senate so there is no immediate update on their progress.

Jaime Brandwood

I have another question on US Credit Services, which you described as stabilising. If we look from peak, your total US Credit Services revenues in underlying terms are probably down by around 10% or so from peak. If we look at the consumer proportion of the US Credit Services revenues, it might be down nearer 15%. I am just wondering on that decline that you have seen from peak, how much would you attribute to a paralysis in credit supply, in that sense that there has been far lower levels of credit churn, and how much would you attribute to the more recent consumer deleveraging trend?

Paul Brooks

It is extremely hard to quantify.

Don Robert

That is exactly what I was going to say, it is hard to quantify. So far, if you start to do some deep data mining on the whole deleveraging issue, you can see that most of the deleveraging has taken place exactly where you would think it would. That is in the subprime segment of credit active consumers. The way that they are deleveraging is that they are defaulting and their lenders are writing off their loan obligations - mortgages, cars and automobiles. I think it is hard to quantify but gut instinct tells me that it is not so much deleveraging at this point.

Jaime Brandwood

Of those write-offs that you just mentioned, are those impacting on the monthly consumer credit stance that come out of the Fed?

Don Robert

Which stats in particular? New loan origination?

Jaime Brandwood

When we look at absolute dollar amounts of outstanding unsecured consumer credit on a monthly basis, are you saying that effectively part of the reason for the decline in that absolute amount of consumer credit outstanding is because of write-offs?

Don Robert

Absolutely.

Nat Otis, KBW Hartford

Morning, gentlemen. I have one quick question on the FICO issues related to the lawsuit. Can you quantify what could necessarily take place with VantageScore once things are cleared up with respect with what is going with FICO? Obviously, there has been a little bit of drag on the VantageScore traction. Assuming that you can get by that at some point in the near future, can you give a little colour on what impact that might have on VantageScore?

Don Robert

I will take the first pat of that and maybe ask Peg to fill in some of the colour commentary, as she is our star witness. We have effectively won all of the antitrust, anticompetitive elements of that litigation between FICO and VantageScore and Experian. We are just down to one issue that the Judge wanted to see go to trial. That is going to be happening shortly. That has to do with the scale of the score and how scores are expressed numerically. Our feelings about VantageScore are absolutely unchanged. It is still a fantastic tool. It is more highly predictive than the FICO score. Our lenders want it and they are increasingly adopting it. It is full speed ahead as far as we are concerned.

Peg Smith, Executive Vice-President, Experian

The only thing I will add is that in terms of client reception to VantageScore, there is no doubt that, in some cases, the fact that this antitrust case was filed was an impediment to some large lenders either looking to use or to test Vantage. Those discussions opened up pretty quickly when the court dismissed the antitrust claim. There is better traction now than there was two months ago. Hopefully, we get this last issue put to rest and dismissed by the Court so we can move forward here.

Alan Zwickler, First Manhattan New York

I am just a little intrigued by the statement in the release about looking at acquisitions versus perhaps paying off some of the leverage or buying in some of the shares. I just cannot imagine that there is anything available in the marketplace that could be more valuable than your own shares. Just for the benefit of those who look at things that way, could you perhaps give us some insight?

Paul Brooks

We continue to evaluate acquisition opportunities. Part of that evaluation on the financial side would be to look at the attractiveness of the acquisition against alternative uses of the cash. That is either paying down debt or potentially returning cash to shareholders. That will form part of our evaluation.

Alan Zwickler

That does not answer my question. Would it not be cheaper to buy in your shares than to buy a company with say \$20 million of sales for \$100 million? I just do not see the arithmetic. Maybe you could take me through it.

Paul Brooks

We are saying that we are evaluating acquisition opportunities and part of that evaluation process will be to look at alternative uses of the cash. That is a fairly clear answer.

Alan Zwickler

Have you paid off any leverage in the last three months?

Paul Brooks

We have a certain amount but we will update the market on our capital strategy at our interims next month in November.

Concluding Remarks

Don Robert

Thank you everyone for joining us today. We will look forward to talking to you again in November at our half-year results presentation. Thank you, good bye.