Trading Update – 16 April 2009

Opening Remarks

Don Robert
Chief Executive Officer, Experian

1. Introduction

Good afternoon and thank you for joining us on today's call to discuss our second-half trading update. I will begin with some overview comments before handing over to Paul, who will take you through the trading detail. After my concluding remarks, we will take your questions.

2. 2008 Second Half Highlights

A Strong Performance

I am pleased to say that Experian delivered good growth in the second half of the fiscal year. On a global basis, total revenues were up 5% at constant exchange rates, while organic revenues were up 4%. As expected, growth in the fourth quarter moderated somewhat, as one-off factors dropped out of the numbers. Overall, we have continued to benefit from strong performances in various parts of the portfolio, such as Brazil and non-financial verticals. We have seen continued strength in Consumer Direct, while demand for countercyclical and risk management products looks set to remain high for some time. Execution by our management teams on cost efficiency measures has been excellent and we are confident of delivering a profit and cash outcome for the year in line with our targets.

Financial Services Sector Environment

As we move into the new financial year, we see some signs of early stabilisation in the financial services sector, which we hope and expect, in due course, will translate into improved retail credit activity. However, the environment today is still quite fragile and we are not yet seeing evidence of a free flow of credit to consumers and businesses. As a result, we remain fairly cautious on the outlook for organic revenue growth, which could soften in the first quarter.

What that means for Experian is that the trends that we are seeing have not significantly changed one way or another. Aside from intermittent surges in mortgage refinance activity in the US, conditions in lending have not really eased much. In US Consumer Credit, we see sizeable fluctuations in mortgage origination volumes from week to week. Unsecured credit origination is at low levels. Delinquencies and charge-offs are still rising, and discussions with our clients are centred on tackling credit losses and helping them control costs. Large lenders are still focused on managing existing loans rather than prospecting or originating new ones.

Therefore, while we are hopeful that the actions taken by governments and central banks to stimulate global recovery will ultimately result in improvements in retail credit activity, we are still far from a stable market.

Actions Taken

In the mean time, we are focused on the actions that are within our control and that have enabled us to deliver revenue and profit growth: first, harvesting growth opportunities by adapting our business to current client needs; second, remaining diligent on costs; and, third, making prudent investments for the long-term growth of the business.

We have also taken some tough decisions to discontinue efforts where market circumstances have changed and the certainty of returns has diminished. Specifically, we have decided not to continue our credit bureau build in Canada, and we will redeploy those resources to more viable growth opportunities. We have a thriving Decision Analytics business in Canada which we will continue to nurture and grow.

3. Conclusion

Overall, Experian delivered another strong performance in exceptionally challenging circumstances, as we benefit from the balance in our portfolio and from our ability to adapt. This has been a tough year for our people, and I would like to take this opportunity to thank all of them for the tremendous effort that they have put in to keep Experian on track.

With that, let me now hand over to Paul, who will take you through the trading detail.

Financial Review

Paul Brooks
Chief Financial Officer, Experian

1. Trading Performance

Highlights

Turning to trading performance in the second half, total revenue at constant exchange rates for the half grew by 5%, with organic revenue growth of 4%. At actual rates, revenue declined by 6%, reflecting movements in exchange rates against the US dollar.

Let us now look in more detail at trading performance, starting with organic growth at constant currency by principal activity.

Organic growth

Globally, organic revenue growth was 2% for Credit Services, 3% for Decision Analytics, flat for Marketing Services, and 10% for Interactive.

2. Performance by Region

North America

Turning now to performance by region, let us start with North America, where total revenue grew by 1%, while organic revenue was flat. The difference relates to the contribution from SearchAmerica, which was acquired in December 2008. Organic revenue was down 5% in Credit Services, increased by 2% in Decision Analytics, declined 6% in Marketing Services, and increased by 7% in Interactive. As Don mentioned, there was considerable volatility in mortgage refinancing activity, but mortgage volumes remain down overall. Prospecting activity has remained weak and we saw some softness in Business Information in the period, driven by the B2B marketing side of the business. Against this, there was strong growth in account management and collections.

Decision Analytics benefited from growth in countercyclical products. Growth in Marketing Services was impacted by the very weak retail sector, particularly affecting our traditional activities, but our New Media businesses continue to perform well. At Interactive, Consumer Direct performed well, with additional benefit from one-off revenue in the early part of the half. This was partially offset by weak trading conditions for Interactive Media and PriceGrabber.

Latin America

In Latin America, we saw total and organic revenue growth at constant exchange rates of 17%. Organic revenue growth was 16% in Credit Services, 37% in Decision Analytics, and 25% in Marketing Services.

Our credit bureau activities have continued to perform very well in Brazil, despite a clear tightening in credit conditions. We have benefited from growth in premium products and in countercyclical products. We continue to see excellent performances in Decision Analytics and Marketing Services.

UK and Ireland

In the UK and Ireland, total and organic revenue from continuing activities increased by 5% at constant exchange rates. Growth was flat in Credit Services, increased by 5% in Decision Analytics, was flat in Marketing Services, and grew by 48% in Interactive.

In Credit Services, we have seen good performances in non-financial services verticals, as well as growth in countercyclical activities. This has offset very challenging conditions in the banking sector. Growth in Decision Analytics was helped by a number of one-off deliveries in the period, as well as growth in account management and collections products.

Weakness in traditional Marketing Services was offset by a strong performance by our New Media activities of QAS, CheetahMail and Hitwise. The very strong performance in Interactive reflects substantially increased subscriptions from direct and indirect CreditExpert memberships.

EMEA / Asia Pacific

Finally, in EMEA/Asia Pacific, revenue from continuing activities increased by 17% at constant exchange rates, with organic revenue up 5%. Acquisition contributions were mainly from CreditInform in South Africa and Sinotrust in China. Organic revenue was up 4% in Credit Services, declined by 1% in Decision Analytics, and rose 14% in Marketing Services.

We saw broadly-based good progress in Credit Services, and underlying performance in Decision Analytics was good. The decline of 1% reflected a strong prior-year comparative. We also saw another excellent performance in Marketing Services in the period, again driven by strength in QAS, CheetahMail and Hitwise.

3. Summary

In summary, we are pleased with the performance in the half. For the full year, we will achieve our objectives of broadly maintaining margins, growing profits and generating strong cashflow. Also, as stated in this morning's announcement, we expect to deliver a good earnings outcome, helped by a lower-than-expected interest charge.

With that, I will hand back to Don.

Concluding Remarks

Don Robert

Thank you, Paul. In summary, in the last 18 months, Experian has demonstrated its resilience, delivering a consistently strong financial performance. This is now our seventh consecutive quarter of organic growth against the backdrop of the credit crisis.

Across our business, I see excellent strategic progress, investment in data and new analytical products, and greater penetration in emerging markets, all of which give me great confidence that Experian will emerge from this downturn better positioned competitively, with significant expansion opportunities in new verticals and considerable opportunity to grow our global footprint.

We are now happy take your questions.

Questions and Answers

Carter Malloy, Stephens Inc

I was encouraged to see the flat revenues in UK and Ireland Credit Services, given the tough selling environment. Could you speak about the overall trends there and your expectations for UK public sector work?

Don Robert

In general terms, lending criteria for consumers and businesses are still quite tight. UK banks are focused on chasing deposits and on account management and collections, rather than retail lending products. Even though the capital situation is more or less sorted out and things are moving out of crisis and into a more stable operating mode, there is still no hunger for retail lending products; hence the comments about the first quarter.

In terms of the public sector, we continue to make solid progress as we learn how to deal even more effectively with UK government at national and regional levels. We have continued to pick up sizeable contracts in various parts of national government. We have a good pipeline and are continuing to invest in this area in terms of new technologies that we have tailored to various parts of the UK government. We are also adding people to our government staff. It is a good source of diversification for our UK business.

Carter Malloy

It was also good to see the acceleration in growth in your Decision Analytics tools. I assume that many of these are modelling and scorecard-type products, but can you give us a sense of the growth in your application processing and transaction products? Maybe that also touches on account management-type products, so could you give us a sense of what the mix there looks like?

Don Robert

As you know, we have had a lot of big wins in custom-scoring in the analytics area, particularly in telecommunications and around Basel II compliance work outside the US and the UK. We are doing a lot of model redevelopment in our major markets, where much of the growth is due to fraud. We have had a couple of successful application processing installations with Transact, although those are bigger and more complicated sales, so they tend to be fewer and further between. However, our strategy management suite of tools has been moving nicely too in all parts of the Experian geography.

Paul Brooks

Specifically on the UK, I would add that we are seeing declines in transaction revenue, which affects things like scores, fraud checks and application hits. On a positive note, we are seeing good growth in our account management software, such as Probe, and our collection software, such as Tallyman. These are big engines of growth for us globally.

Allen Zwickler, First Manhattan

First, given the amount of money being funnelled into banks worldwide, how does that affect your business?

Don Robert

There has not been a direct impact yet. I would say that the banks have been able to shore up their capital bases with the money received from governments. However, in terms of any direct impact on us, the closest has been the somewhat direct impact from the Term Asset-Backed Securities Loan Facility (TALF) programme in the US, where we have seen the government become involved in the securitisation business, buying Treasuries and taking other actions that have had a net impact of lowering mortgage rates and stimulating some refinance activity. It is a rather indirect effect, but we have seen some periodic spikes in mortgage refinance activity directly related to the US government's intervention in the mortgage and securitisation markets.

However, it comes and goes; for example, the Mortgage Bankers Association Refinance Index decreased by 11% after jumping by a similar amount the prior week. It goes up and down according to the exact movements of the longer-term rates. There has, however, been nothing more impactful than that in terms of correlation.

Allen Zwickler

What are your expectations for the balance of the fiscal or calendar year for a debt reduction versus share repurchases? What are your cashflow expectations?

Paul Brooks

At the half year, we reported net debt of $2.6 billion, which was towards the top end of our target debt range. During the second half, we have seen good cashflow, so we will see a good reduction in that net debt level during the course of the second half. When we announce our full-year results next month, we will update the market on the net debt position and on our strategy going forward.

Allen Zwickler

Will net debt be down from the prior period?

Paul Brooks

Yes, absolutely.

Allen Zwickler

Finally, in terms of Data Analytics and software sales, is some of the growth that you saw related to one-time software sales? How recurring is this Data Analytics business becoming? The growth rates are significant, given the world that we live in.

Paul Brooks

The majority of our software sales are done on an annual licence basis. Once we install the software, then, there is a recurring revenue stream from licences and maintenance. The rider to that is that, often, upfront implementation costs are involved in delivering the software. Some of our revenue comes from one-off deals. Occasionally, we offer perpetual deals; generally, we try to avoid them. While there is a degree of one-off revenue, our strategy is to try to make as much as possible of our revenue recurring within Decision Analytics.

Carter Malloy

Consumer Direct products represent a 'home run' for you, and present growth rates have been higher than expected for the last several periods. How far do you think the US and UK markets are penetrated? How long do you expect this growth to last for?

Don Robert

As you correctly observed, the business continues to grow strongly, and by over 20% this last quarter. We all live with the 'Sword of Damocles' hanging over us, which is the law of large numbers. The business is very big now, with over nine million members in both countries and revenues approaching $700 million. We live in a world where we expect growth in Consumer Direct to slow. We are pleased when it continues at very strong rates.

In terms of how penetrated the population is, you could argue that the eight or nine million members in the US versus a credit-active population of more than 200 million is not that great, but it is a very difficult calculation to make, given that people tend to come and go. They sign up for the service and use it when they have a particular need in their life, before dropping out and coming back again. The average term of a membership is just under a year, so market penetration is difficult to measure.

Our strategy in terms of keeping the business growing is to continue to add value to these memberships by introducing additional products to the market that we can cross and up-sell to members, or even replace, as members decide that they might not need the online credit report. This includes services related to monitoring, fraud and family identity. We continue to improve in terms of advertising and making opportunistic media buys. We are doing everything that we can to maintain strong growth and we hope that it continues.

Carter Malloy

Do you have a general sense of what your churn levels are and the percentage of those who return?

Don Robert

We have a very good sense of that, but we do not disclose it, given how sensitive a metric it is.

Michael Meltz, JPMorgan

First, in terms of what you are seeing currently, while I understand the need for caution in the current environment, what factors would point to a slower performance in the June quarter versus the March quarter?

Don Robert

The main point to make is that we are watching the UK business, which historically tends to lag behind the US somewhat. More specifically in the UK, we are still seeing dislocation. Most recently, Cattles, a specialised finance lender and a large client of ours, pulled out of the market. The effects of industry consolidation in the UK market are still working their way through our business model. It is still a very cautious market in terms of growth in consumer lending products. The comparatives are going to be tougher, and we still have some way to go in terms of the underlying structural issues in the UK market.

Michael Meltz

Why is that not as much of an issue in the US, given that there has been consolidation here too?

Don Robert

We are a little further down the road in that respect. The bank mergers that have taken place have already settled down. In terms of their relationships with Experian, the outcomes are fairly well-known at this point. There are not many more banks that are necessarily 'on the ropes'. It is just a slightly more stable environment.

Michael Meltz

Your Brazil numbers were very strong; economic data from Brazil has been very weak. What are you seeing there? 'Premium products' and 'countercyclical products' mean nothing to me, so could you talk about what is really doing well there?

Paul Brooks

'Premium products' are reports that include more data. There is a tree of products, starting with basic, negative data reports and working up to comprehensive reports with much more ancillary information on the consumer or the business, topped off with a score. These premium products are what we are moving the customer base towards and which they are showing more desire for, particularly given that everyone is being more cautious in this more challenging environment.

In terms of 'countercyclical', this applies more to the consumer business. It relates to the collections notices that we send to consumers in response to delinquencies. Because there have been increasing delinquencies, that side of the business has been growing and will continue to do so as delinquencies continue to rise.

Chetan Jindal, Altrinsic

In terms of your growth rate, you have now had half a dozen quarters of very healthy growth in a terrible environment. Perhaps this is a good time, then, to look ahead to when the global economy starts to emerge from this macro-trough. What kind of growth rate do you aim for in a more normal environment?

Don Robert

Historically, we have always guided towards an organic growth rate in the mid-to-high single digits. We reach that by looking at the core characteristics of each of our segments, and the investments, expansion plans and innovation around products that we have in each of those segments. It continues to add up to something in that 5-8% organic growth range. We still feel strongly that, when the market returns to normal, we will return to that range.

Chetan Jindal

What would the drivers of that growth be? I assume that direct-to-consumer would continue to be a contributor; what else do you see making an impact?

Don Robert

The highest potential growth rate businesses in the portfolio will continue to be emerging markets, led by Brazil and Asia-Pacific. On the product side, Consumer Direct and Decision Analytics will probably be the two strongest. Vertically speaking, our move into new vertical markets such as healthcare, telecommunications and the public sector would also be important fuel for the organic growth rate going forward.

Concluding Remarks

Don Robert

Thank you for joining us today. We look forward to talking to you again when we report our full-year results in May.