First-Quarter Interim Management Statement – 15 July 2010

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-quarter performance. I will start the call today with some overview comments and then I will hand over to Paul, who will take you us through the financial details. After my concluding remarks, we will open the line to your questions.

2. First-Quarter Performance

Overview

The growth we delivered in the quarter was the strongest we have seen in three years, with improved performance across all four of our regions. On a global basis, total revenues were up 7% at constant exchange rates, and organic revenues were up 6%. Over the years, you have seen us build a strong portfolio with continuous investment in long-term growth opportunities, and we have executed well. Now you are seeing the benefits of that.

Financial Services Sector Environment

In this quarter, we again delivered strong growth in Brazil and from parts of Interactive. We also delivered clear improvement in our Market Services business with a return to growth in all four regions.

We continue to see signs of modest and gradual recovery in the US and UK, consistent with the slow rates of economic growth now being predicted by economists. We have said all along that meaningful recovery would be unlikely, while unemployment remains high.

Our position has been and continues to be that we cannot solely rely on economic tailwinds to generate growth, so instead we continue to take active control of our growth by investing in various self-help initiatives. These include new data sources and products, upgrading our delivery platforms and investment in our best-in-class sales force.

The fruits of these efforts are increasingly visible in our performance, in areas such as: Automotive, where our investment in accident data has proven to be a real differentiator in the US market; and Business Information, where this week we launched our new Business IQ delivery platform.

3. Major Trends

Paul will take you through the trading details shortly, but first let me make some comments on the major trends and developments in our larger markets, starting with our Global Credit Services and Decision Analytics businesses.

Credit Services

In North America, we continue to see signs of gradual recovery in consumer and commercial lending. Many of our card issuers have initiated credit card marketing programmes targeted at the prime and super-prime consumer. To date, response rates have been fairly modest as high unemployment and a weak housing market are tempering consumer demand for new credit. We are still seeing good growth in account management, and we expect that to continue, in part because of the new regulations such as credit card reform that mandate tighter risk controls. As financial services clients return to growth and we continue to gain momentum in non-financial services verticals, we expect Credit Services to return to positive growth in the second half of the year.

In the UK, the pace of recovery remains six to 12 months behind the US, but the consumer lending environment has stabilised. We continue to make good progress in diversifying the business outside of financial services. While the impact of the government austerity programme remains to be seen, most of our public sector sales are aimed at improved efficiency and controlling losses, so our business with local and central government remains robust and the outlook is good.

In Latin America, our business goes from strength to strength. Market conditions are very good, and the benefits of our investment in our sales force, our delivery platforms and new products are increasingly visible. The highlight of the quarter was an exceptional growth in Authentication Services, as clients act to meet government deadlines for the use of digital identification.

Putting that all together, Experian is the clear global market leader in Credit Services and Decision Analytics. Our ongoing investments in innovation and business development mean we continue to put greater distance between our competitors and ourselves.

Marketing Services

The benefits of our investment in repositioning the business are now becoming more visible. Our focus remains on leveraging our data, analytics and marketing expertise into the digital marketing space, and we are beginning to see real momentum coming into that part of the business. The US business is off to a fast start this year, delivering 11% growth and improved performance across the business. In all other regions, Marketing Services returned to growth. We expected momentum to continue as we continue to roll out global products into all of our regions. Our clear objective is to help our clients move an increasing amount of their marketing spend to digital channels, resulting in higher returns on their marketing investment and faster growth at higher margins for Experian.

Interactive

We are making very good progress in what I consider to be a year of transition for our US Consumer Direct business as we migrate our brand to the FreeCreditScore.com brand and url. We remain the market leader in this space by a very wide margin, and I am confident of our ability to manage this transition over the coming quarters.

Financial Review

Paul Brooks
Chief Financial Officer, Experian

1. Trading Performance

Revenue

At actual exchange rates, reported revenue growth for the first quarter was 9%. At constant rates, it was 7%; and organic revenue growth was 6%.

Revenue by Business Segment

Organic revenue growth by global business segment was:

- Interactive grew by 11%;
- Marketing Services grew by 9% – a strong result reflecting our repositioning of the business and slightly better conditions in the sector;
- Credit Services organic revenue was up 4%, with continued strength in Latin America offsetting declines elsewhere;
- Decision Analytics was down by 3%.

Revenue by Region

All four of our regions saw a stronger performance in quarter one than the last quarter of the last fiscal year.

In North America, both total and organic revenue grew by 5%. Credit Services and Decision Analytics declined by 3% and 8% respectively, while both Marketing Services and Interactive delivered growth of 11%. At Credit Services, we saw good growth across Automotive, Healthcare and Business Information, while Consumer Information declined as a previously flagged tough prior-year mortgage comparative. At Decision Analytics, demand for software installations remains soft, but this was partially offset by good growth in Analytics and Fraud Prevention. In Marketing Services, performance was strong in most areas, including a return to growth in the more traditional activities. Within Interactive, Consumer Direct was broadly flat, in line with our expectations. There was very good growth in the Lead Generation business, particularly the education vertical.

In Latin America, total and organic revenue growth at constant exchange rates was 22%. Credit Services delivered an exceptionally strong performance, with organic revenue growth of 22% helped by a surge in Authentication revenues. Consumer and Business Information performed well, reflecting strong underlying market conditions and further penetration of the SME channel.

In the UK and Ireland, total revenue at constant exchange rates declined by 1% with organic revenue also down by 1%. Organic revenue declined by 6% at Credit Services, and 6% at Decision Analytics. Marketing Services grew by 2%, and Interactive delivered growth of 13%. At Credit Services, a decline in the financial services segment was partially offset by growth in other verticals. Decision Analytics was down largely due to lower transactional volumes. Marketing Services returned to growth, helped by actions we have undertaken to reposition the business and some improvement in underlying market conditions. There was some slowdown in Interactive growth, as we had previously flagged.

In EMEA/Asia-Pacific, total revenue growth at constant exchange rates was 10% in the quarter, with organic revenue growth of 2%. Organic revenue growth was 9% at Marketing Services and 5% at Decision Analytics. Credit Services declined by 4%, largely attributable to weak economic conditions in the more established European markets. Decision Analytics benefited from growth in emerging Europe and Asia-Pacific, and there was good growth in Marketing Services, helped by new product offerings across Asia-Pacific.

2. First-half Outlook

We continue to expect some margin challenges in the half. Let me just remind you of three factors we outlined at our preliminary results in May:

- First, we continue to see some negative operating leverage in our North America and UK Credit Services, and UK Decision Analytics businesses. Some of the strongest revenue growth we are seeing is in our lower margin of activities, such as Lead Generation and Marketing Services.

- Second, we have headwinds from one-off factors, including the non-recurrence of one-off benefits in North America last year, and the restoration of some employee benefits that were temporarily suspended.

- And thirdly, we are stepping up investment, especially in emerging markets.

For the half, we are targeting mid-single-digit organic revenue and EBIT growth (from continuing activities at constant currency).

Concluding Remarks

Don Robert
Chief Executive Officer, Experian

We remain focused on driving growth across our regions, and we are making excellent progress in many areas, as evidenced by the strong performance we just delivered for the quarter. We believe we have created a unique position within our industry to capitalise on the opportunities we see in our markets. We are executing well, and we expect to make continued progress throughout the year.

Questions and Answers

Carter Molloy, Stephens, Little Rock, Arkansas

Congratulations on the quarter. Looking into the US consumer credit business in more detail, can you give us some idea of how much volumes fell and how much of that weakness was attributable to year-on-year mortgage changes? What is the pricing component of that business?

Paul Brooks

Overall, volumes were down by a little less than 5% in the first quarter. Mortgages were a big part of that. Our overall mortgage revenue was down by around 30%, year on year. Those are the basic trends within consumer credit.

Pricing was down by mid-single digits, but the key area there was the mix effect. We were seeing that the sectors most under pressure, particularly mortgages, were at a higher price point, whereas the growth areas, including insurance, telecoms, cards, etc, tended to be at a lower price point. We saw a large adverse mix effect on price during the quarter.

Carter Molloy

I assume that Prescreen was due to some of that price pressure as well.

Paul Brooks

I am just referring to the profiles; Prescreen is separated from that. Our Prescreen revenue was broadly flat, year on year.

Carter Molloy

Can you give us a sense of how much UK public sector work you have in your business?

Paul Brooks

Overall public sector is almost $100 million of revenue a year, spread across all sectors – Credit Services, Decision Analytics and Marketing Services.

Carter Molloy

Can we attribute the strength of the US Interactive business to new partnerships and Pricegrabber or was that also due to the education vertical? I am looking for more detail of that growth.

Paul Brooks

The main growth drivers were in our Integrated Media or Lead Generation business. We operate in three vertical markets there, which are education, lending – which is the old LowerMyBills business – and automotive insurance. All three of those sectors were up strongly. The most important was education, which is the biggest and had the strongest growth during the quarter.

Dan Leben, Robert Baird, Milwaukee

Can you update us on the month-by-month progress of the transition to the new FreeCreditScore.com url? Have you seen any trends as consumers became accustomed to the change?

Don Robert

Generally speaking, what we said at our preliminary results presentation has come true, which is that the Consumer Direct business would be broadly flat while this transition was happening. It is still too early to give much more guidance than that. We are still receiving a lot of traffic on the FreeCreditReport.com site, and we are working hard to monetise that. Our transition to FreeCreditScore is going well, very much in line with our expectations. There are a lot of moving parts. Retention continues to improve. There will be an increase in FreeCreditScore branding costs as we launch the new campaign, but overall it is going very well.

Dan Leben

You mentioned some of the lower response rates in credit card marketing. What is your experience of what types of consumers are responding? What are the reasons for the low response rates and how are they reacting to change their programmes going forward?

Don Robert

In general, we are targeting prime and super-prime consumers. The substance of the issue is that campaigns are not broad in scope, but are very much targeted at the high end. At the same time, the consumer is still very anxious about the value of their house and their job stability. They are still paying down balances, paying off trade lines and deleveraging a bit. It is a very cautious mood, and trends are very much at the high end, so response rate numbers are a little soft, but activity levels are very good.

Dan Leben

Can you update us on some of the austerity measures in the UK? Are there any incremental opportunities there or discussions on how you can help lower costs to maximise those changes?

Don Robert

It is all good, as far as the public sector is concerned. The new coalition government is very focused on public sector costs. We work closely with them, and have said we can identify at least $1 billion of fraud, as an example of costs that are in the public sector. There is a tremendous amount of fraud associated to housing, employment and pension welfare benefits. We think we can target that. We are very encouraged by what we see. We just held our annual public sector conference here in the UK, which had a record number of attendees. The quality of the interaction was excellent. I spent some time with our public sector team here two weeks ago, and they are very encouraged. The pipeline looks good.

Dan Leben

You mentioned fraud being one of the big drivers of the UK government business. Is there an opportunity with the new US healthcare reform legislation around fraud? Have you had any discussions about your potential to be involved there?

Don Robert

We offer some fraud and authentication services at the provider level in the US, but we could be doing a lot more. I agree with you that it represents an area of opportunity for us, so we will definitely be targeting that as a growth area.

Michael Meltz, JP Morgan, New York

Could you discuss near-term trends? Your September quarter comparative was similar to June. This is just splitting hairs; I know you are giving first-half guidance. Is there a reason or factors we could point to for why growth might moderate in September?

Paul Brooks

There are a couple of issues you should consider. One is the Interactive business. We referenced very strong Lead Generation growth in the first quarter. We saw a strong improvement in the second quarter last year, when both the Lead Generation and PriceGrabber businesses returned to growth, so we will be facing a tougher comparative in those businesses. We would expect to see some slowdown in North America Interactive in the second quarter.

The other area I would point to is Latin America, where we had very strong growth of 22% in the Credit Services business in the quarter. That was bolstered by Authentication revenue, which is connected to a deadline with certain businesses having to submit tax returns using our Authentication products. That deadline is the end of July, so we expect this spurt of revenue to continue into the second quarter, but not throughout the second quarter, so that is also likely to lead to a small slowdown in the Latin America Credit business.

Those are the two data points. Aside from those, we see the business performing well and, in most cases, underlying trends are slightly improving.

Michael Meltz

What are the near-term expectations for Consumer Direct?

Paul Brooks

It was broadly flat in the first quarter. We expect it to be broadly flat in the first half.

Michael Meltz

Consensus on your website for EBIT is $998 million. Are you comfortable with that number?

[Nadia Ridout-Jamieson, Director, Investor Relations?]

Yes, we are comfortable with that number. Paul has outlined some margin challenges that we face in the first half. For the full year, our aim would be to at least maintain margins. It is a little too early to make revenue predictions for the second half of the year, but we would go as far to say that we are happy with the current consensus forecast.

Michael Meltz

You had a very strong period of growth in US Marketing. Is there any reason we should think of that as one-time? How should we think about the sustainability of growth, especially in the traditional areas that you have repurposed?

Don Robert

It is not one-time. It is related to the reorientation of the business to digital marketing. From a client's point of view, it is low-cost, higher-return and more effective. This trend is not going to abate. Where we are winning is in the combination of many of the investments we have made, so Hitwise combined with CheetahMail, for instance in the digital marketing platform, is proving to be a big winner. Partnerships that we have put together with organisations like Yahoo! are proving to be extremely profitable and strong, so I think this is a winning approach. It is nice, after all these years of repositioning, to be able to say it is coming good.

Ian Armstrong, Brewin Dolphin, London

With the trend in new products versus old in Marketing, would it be fair to say that, although digital marketing growth was positive, non-digital marketing growth would still be negative?

Paul Brooks

We actually saw slight growth in the more traditional Marketing Services business in North America, which is the first time we have seen that for some considerable time. That is partly connected to the stabilisation of the Marketing Services business or sector, but it is also related to some excellent execution, particularly in terms of the focus of the sales force and some of the products in which we have invested. We are very pleased to say that business has now returned to growth.

Ian Armstrong

Two changes have occurred since your last results. One is a much tougher and more austere public sector budget announced in the UK, but also we have had a fall in retail sales in the US in the last two months. However, Marketing and Lead Generation numbers appear quite strong. Are you of the opinion that the fall in retail sales is a normal mid-recovery slowdown, or do the data from Lead Generation, etc, suggest there is sustainable growth in retail sales and this is just a hiccough?

Don Robert

The trends you are seeing are very real, in terms of the softness in retail sales. We are seeing shifts to different channels and organisations like Yahoo! and others offsetting those trends. Retailers both online and offline are trying new things to stimulate sales, which are all digitally orientated. There is a lot of use of syndicated data for more careful and precise targeting. We are bucking the trend a little, based on the combination of products we have in the marketplace, the shift to digital and the uniqueness of what we have.

Ian Armstrong

Regarding Decision Analytics, when do you think we will see the banks invest in new software? They have put everything on hold at the moment. Is that partly due to a shake-up from the mergers and takeovers that have taken place over the last few years? Are they still getting their acts together or is underlying consumer demand still weak?

Don Robert

I think it is the former. You have identified the issue: the banks have been through a long cycle, as we have been predicting for a couple of years now. Firstly, they have been identifying the scope of their problems. Secondly, they are raising capital. Thirdly, there is management upheaval. Fourthly are new regulations. Now, what we are seeing at least in the US, although we would expect to see it in the UK, is that we are through all of that. Everyone is breathing a sigh of relief and realising that not to grow is not a good option. Growth conversations manifested by increased activity levels on the retail lending side are certainly manifesting in our business, particularly in the US, and they are starting to be discussed and planned for in the UK, in much the same way we saw a year ago in the US.

It seems utterly logical to me, in terms of the pattern and progression we are seeing in the retail lending marketplace. When all of that is resolved, in order to comply with the new regulation and support a higher level of risk management, they will have to return to investing in core platforms, which would certainly include what we have to offer in Decision Analytics.

Ian Armstrong

Would that mean more off-the-shelf software products, because the regulations will be so uniform, rather than individual solutions, which I suspect have higher margins?

Don Robert

Our software products are all off-the-shelf. On the analytical side, we do a lot of custom as well as generic modelling and building of risk models.

William Vanderpump, UBS, London

In US Credit Services, did you say you expected a return to positive growth in the non-financial services parts in the second half or for the full division?

Paul Brooks

It was for the whole division in the second half of the year.

William Vanderpump

Driving that, do you see improving conditions in financial services, Automotive, Business Information and Healthcare?

Paul Brooks

Automotive, Business Information and Healthcare have all been growing strongly for us and we expect them to continue to grow well. Within the Consumer Credit side of the business, we are seeing slowly improving trends in origination volumes, and expect to see progressive improvement as we go through the year. Consumer Credit will be less of a drag on the overall Credit Services, which should become positive as we enter the second half.

William Vanderpump

What about the account management side? Is there a reason for that to slow in the second half?

Paul Brooks

That is still growing well. Particularly giving the ongoing focus on risk management we are seeing in our customer base, we expect that to continue to perform well.

Andrew Ripper, Merrill Lynch, London

I know that you were planning to increase capex for your SME expansion in Brazil. Has there been much change in the cost base there, when you compare first halves? Should we still see strong positive operating leverage, given the strength of sales growth?

Paul Brooks

The main cost pressure in Latin America is probably connected to Authentication revenue. There is a cost related to purchase and then installation of digital certification equipment, which is a big part of the Authentication business. There will be some cost pressures from that, but overall we would expect to see good margin improvement in Latin America, not necessarily of the scale we saw last year, but certainly good margin improvement.

Andrew Ripper

Your guidance for the first half is mid-single-digit revenue and EBIT. Are you including in that guidance the one-off you had in the prior year, which was about $7 million?

Paul Brooks

It was about $10 million actually. That is reflected in the margin that we are comparing to last year.

Andrew Ripper

When you were talking about mid-single-digit profit growth for the first half did that include the one-off dropping out?

Paul Brooks

Yes, it included the one-off benefit dropping out.

Andrew Ripper

Don, in terms of what customers are saying to you on the origination side in the US, there was some mention of an increase in car marketing programmes at the better quality end of the spectrum. What is your perspective of the backdrop for consumer credit growth? Do you think it will continue to run under GDP for a while, or do you feel the outlook is better?

Don Robert

I do not feel it is better than that. I think we have an excellent chance to outperform that trend, but I think credit origination will be pretty soft. That is related to two issues: the quality mandates on behalf of the government and lenders; and the fairly cautious consumer, who is still concerned about their job and the value of their house. Those two will continue to mean that credit growth is slow and low. Offsetting that is the need for greater transparency, more data, tools and take-up from Experian. Again, we think we are probably over-penetrating a market that is returning to very slow growth. That is how I would summarise it.

Closing Remarks

Don Robert
Chief Executive Officer, Experian

Thank you, all, for joining us. Thanks for those questions. We look forward to talking to you again in November when we issue our half-year results.