

# **Interim Management Statement – Third Quarter – 15 January 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 Third Quarter Interim Management Statement. I will start the call today with some overview comments before handing it over to Paul. Of course, after my concluding remarks, we will open up the line for your questions.

### **2. Third Quarter Highlights**

Experian delivered positive organic growth for the quarter, in line with our expectations. On a global basis, total revenues were up 2% at constant exchange rates; again organic revenues were up 1%. We again benefited from a strong performance in Latin America, and at Interactive, which more than offset lower revenues in North America, as well as UK credit and marketing. Paul will take you through that trading detail shortly.

### **3. Different Patterns and Prospects in Major Markets**

We continue to see different patterns and different prospects across our major markets. In North America, market conditions have stabilised, and we are beginning to see improvement in some areas, notably across the retail sector. In the UK, we remain cautious. The outlook for Latin America and Emerging Markets is robust.

#### **North America**

Taking a closer look at our main regions, starting with North America, the supply of credit remains tight and banks remain reluctant to spend on new initiatives, but we are cautiously optimistic of some improvement going into the next fiscal year. Once the banks are in compliance with new credit card regulations, we do expect to see a long and slow recovery in the financial services market. At Consumer Direct, we performed in-line with the prior year, against an exceptionally tough quarterly comparative, as we expected. While it is still early days for our investment in ProtectMyID, we are pleased with the progress and we are performing to plan. Meanwhile, strength in consumer purchasing over the holiday period helped improve performance in Marketing Services and at PriceGrabber.

#### **The UK**

Turning to the UK, our stance is still cautious. While there is some improvement in sentiment, conditions are about the same as they were when we spoke to you in November. New lending levels remain low. We are investing in a series of products in data enhancement to strengthen our market position in the financial services sector. Elsewhere, we continue to secure new wins and see growing momentum in the government and telco verticals.

## **Latin America**

In Latin America, the outlook for credit growth is strong and delinquency rates are declining. While we are benefiting from the strength in market conditions, we are also placing a lot of emphasis on enhancing our product mix, broadening our range through new product introductions, and deepening penetration across all major channels.

## **New Markets**

We made good strategic progress in the quarter in new markets, for example: in Russia, where Sberbank has joined our credit bureau joint venture; in India, with the creation of our JV there; and in Japan where we made a small acquisition of an email marketing business.

## **4. The Impacts of New Legislation**

As we come closer to the 22 February effective date of the Credit Card Reform Act in the US, let me just take a minute to remind you of some of the key changes that will impact the market. Most of the provisions of the Act are aimed at providing consumers with clear disclosure about the interest rate and fees on credit cards, and they restrict lenders' ability to re-price risk once a card has been issued. As a result, card issuers are going to be even more diligent in originating new accounts and in account reviews. This is causing our clients to rethink who their new customer is. That means more data and more analytics will be brought into the lending decisions, and of course that is good news for us.

This week the Federal Reserve published the final rules for card issuers for considering a consumer's ability to repay. The new rules specifically allow the use of modelled income data for this purpose. As a result, they expand the addressable market for our credit and decision analytics products. Our Income Insight model, announced in November, hits right in the sweet spot of this requirement and we are seeing good early interest from clients.

We are also awaiting the final rules from the Federal Trade Commission on requirements for further disclosure in advertising at Consumer Direct. As most of you know, we are well-versed at adapting our business and creating new opportunities while complying with new regulatory requirements as they come along from time to time. The Credit Card Reform Act is just another example of that.

## **5. Growth Initiatives**

In November, we referred to our growth initiatives, where we are seeing good progress and we are putting a lot of emphasis on execution. While we would not expect a meaningful contribution to revenue this fiscal year, we are encouraged by the opportunities we see and expect to begin to reap the benefits in Fiscal Year 2011.

To give you some flavour of early returns on those growth initiatives in the past quarter, we extended geographically with a number of our marketing products, with good progress, for example, in building our global email footprint in Germany and Japan. We see a lot of momentum in new verticals, with several contract wins and a

growing pipeline in the US public sector. We are making progress with multinational telecom and utility providers where we are addressing the need for fraud prevention, application processing, and customer management systems. In Brazil, we are seeing good growth in our identity authentication products.

## **6. Conclusion**

These are just some of the highlights. The key point is that we are not simply waiting for economic recovery. Instead, we are putting the support, the resources and the accountability all around these initiatives, with the aim of enhancing organic growth. With that, let me hand it over to Paul.

## **Financial Review**

**Paul Brooks**  
**Chief Financial Officer, Experian**

### **1. Trading Performance**

#### **Highlights**

Thank you, Don. Turning to trading performance in the third quarter, reported revenue growth at constant exchange rates for the quarter was 2%, and organic revenue growth was 1%. At actual rates, revenue increased by 8%, reflecting movements in exchange rates against the US dollar.

#### **Organic growth**

For the quarter, looking at performance by business segment, organic revenue growth at constant currency increased 8% at Interactive, with good growth in both the US and the UK. Credit Services organic growth was 2%, with continued strength in Latin America and EMEA offsetting decreases in North America and the UK. Decision Analytics revenue was down by 9%, reflecting lower transaction volumes and client capex constraints. There was a slower rate of decline at Marketing Services where organic revenue declined by 1%.

### **2. Performance by Region**

#### **North America**

Now turning to look at each region, in North America total revenue was flat, with organic revenue down by 1%. Organic revenue declined by 6% in Credit Services, by 3% in Decision Analytics, and by 5% in Marketing Services. Interactive delivered growth of 6%.

In Credit Services, both Business Information and Automotive delivered growth in the quarter. There was a small contribution to organic growth from SearchAmerica which

annualised in December. Consumer Information was down due to reduced origination volumes, including mortgage, and lower pre-screen revenues. Decision Analytics saw weak demand for origination products, which was largely offset by growth in Analytics and Consulting, and authentication products. In Marketing Services, we saw a reduced rate of decline in the traditional activities and continued strength in New Media, due to channel shift. In Interactive, there was strong growth in lead generation, largely due to the education vertical. PriceGrabber also grew in the quarter, reflecting strength across our co-brand channel. As expected, Consumer Direct was broadly flat, reflecting the exceptionally strong prior year comparative when revenue growth exceeded 30%.

### **Latin America**

In Latin America, total and organic revenue growth at constant exchange rates was 16%. Credit Services again performed strongly, up 18%, due to volume growth, enhanced product mix, and further penetration of the SME channel. We also benefited from growth in authentication revenues.

### **UK and Ireland**

Turning to the UK and Ireland, total revenue at constant exchange rates declined by 3%, with organic revenue down 2%. Organic revenue declined by 5% in Credit Services, 13% in Decision Analytics, and by 2% in Marketing Services. Interactive delivered growth of 27%.

The decline in Credit Services reflected ongoing reductions in origination volumes, as well as the financial sector consolidation impact which is yet to annualise. Non-financial verticals, including public sector and utilities, performed well. Lower transaction volumes were also a factor in the decline at Decision Analytics, in addition to bank hesitancy with regard to software installations. At Marketing Services, there was strength in new media, such as email marketing, which helped to offset declines in more traditional businesses. Interactive delivered good growth against a larger base.

### **EMEA/Asia Pacific**

In EMEA/Asia Pacific, total revenue growth at constant exchange rates was 7% in the quarter, and organic revenue growth was 2%. Organic revenue growth was 3% at Credit Services, and 10% at Marketing Services. Decision Analytics declined by 6%.

Credit Services performed well despite difficult economic and lending conditions, with robust performances in all markets. The decline at Decision Analytics largely reflected adverse phasing of software deliveries. Marketing Services continues to grow well as we further develop our business.

## **3. Acquisitions**

There are a couple of other points to mention. We completed two small bolt-on acquisitions in the quarter, and we announced earlier this week that we have mandated book-runners for a proposed bond issue which we expect to proceed, subject to market conditions. This bond would represent the first stage of refinancing

our syndicated bank facility. It will hence diversify our funding sources and lengthen the maturity profile of our debt.

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

## **Concluding Remarks**

### **Don Robert**

Thank you, Paul. In summary, we have delivered another quarter of positive organic growth, and in these market conditions that is a good performance. As we look forward, we expect modest improvement in the organic growth rate in the fourth quarter; and for this year as a whole, we remain on track to grow profits at constant currency and deliver strong cash flow.

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.

## **Questions and Answers**

### **Andy Chu, Deutsche Bank**

Good morning, everyone. A few questions, if I may please. Firstly, in terms of Account Management and Collections, are you able to tell us where that growth rate is sitting at the moment please?

### **Paul Brooks**

You are referring to the US credit business there, Andy?

### **Andy Chu**

Well, just across the board. I think, before, you have kind of said that Account Management and Collections is 20% of the business, and at the peak rate is 20%. I am not aware where we are.

### **Paul Brooks**

I would say, as a general point, if we are looking across the markets, I would say Account Management remains strong throughout all markets. That is both in terms of credit reports which are used, or credit products which are used for Account Management, and also our Account Management software, which is primarily our Pro product. I would say that is strong.

I would say Collections has weakened and levelled off, in most markets. What is happening now is: the returns from Collections activities are diminishing, so that is certainly levelling off now. But Account Management remains strong.

**Andy Chu**

Overall, Paul, is that sort of double-digit growth?

**Paul Brooks**

I would say, across the business, it is probably just about double digits, overall.

**Andy Chu**

Just in terms of PriceGrabber and Yahoo! Shopping, I am not sure that has formally been announced, but clearly there is a lot of blogging online in terms of Yahoo! Shopping and a deal with PriceGrabber. I wonder if you can maybe elaborate on that in a little bit more detail and what that might mean for PriceGrabber in terms of top-line.

**Paul Brooks**

Sure, Andy. You are referring to the fact that Experian PriceGrabber signed a partnership agreement with Yahoo! Shopping. Under the terms of that agreement, we will be the provider of Yahoo! Shopping's merchant network. Yahoo! notified their merchants on Monday, I believe, and we will begin seeing revenue from that on 1 April. As with any of our client agreements, we certainly would not disclose the value of the contract. I think it is a good, solid piece of new business for us, which will help sustain the growth we have been seeing lately in PriceGrabber. It is interesting and very gratifying to us that we are becoming somewhat of an industry utility for this bit of online comparison shopping information. So a very nice deal; a nice win for us.

**Andy Chu**

A last question, just a small question on numbers. Paul, is it possible to just fill us in with the LatAm growth for Decision Analytics and Marketing Services please?

**Paul Brooks**

Yes. Obviously these are pretty small businesses.

**Andy Chu**

Sure.

**Paul Brooks**

In the third quarter, Decision Analytics was down by 36%, 37%, but in terms of numbers, you are talking about \$200,000. Marketing Services was down by 5%, which again is just a few hundred thousand dollars.

**Andy Chu**

Thank you very much.

**Jessica Flounders, Morgan Stanley**

Good morning. In terms of Decision Analytics, obviously you are expecting that to get better in the fourth quarter. In terms of the UK though, where it has been particularly weak, is that an improvement in the rate of decline or actually do you think you will see year on year organic growth?

**Paul Brooks**

Well we were at minus 13% in the UK in the third quarter. I would not expect us to get back into positive territory, but I would expect to see a decent improvement on that growth rate in the fourth quarter. As you know, there are two elements in Decision Analytics, particularly in the UK. We have the transaction revenue, which is things like scores and fraud checks, which are sold alongside credit reports, and we also have the software products that we sell. Our current expectation is: both of those should improve a bit in the fourth quarter.

**Jessica Flounders**

Thanks. In terms of Consumer Direct, both in the US and also the UK version, in the US, with it being flat in the Q3, obviously easier comps for Q4, but would you expect just a low level of organic growth going forward in this business, given that penetration rates have increased, and maybe also the counter-cyclical parts of that business? And then in the UK, the growth rate there is obviously fading on a quarter by quarter basis. What is your medium-term outlook for that business?

**Paul Brooks**

If we take the UK first, the slow down was to 26%, so we are not at all dissatisfied with 26% growth rate. Clearly the numbers are getting bigger. We are still seeing very good absolute improvements in the revenue, quarter on quarter. So we continue to see this as a good growth rate. Certainly 20% we regard as a good growth rate in UK Consumer Direct.

In terms of North America, we are seeing some interesting trends, which are moving in different directions. I think we are definitely seeing some weakening in new order volumes. I think probably some of it is just due to the maturity of the business; some may be due to the general economic environment. We are also certainly seeing less data breach revenue than we have done historically. There have been fewer data

breaches. I think probably because of increased use of encryption, there has just been less available business out there.

Against that, the two positive trends are, first of all, we are seeing a clear improvement in our retention rates. That is significant because obviously improved retention is, well, that is virtually all margin to us, so that is a very good trend. Also, we are seeing nice traction with our ProtectMyID product, which is delivering to plan. We see that as being a key area of future growth. We have those kinds of mixed trends going on with the Consumer Direct business. To answer your question, I think a single-digit growth is to be expected in the immediate future.

### **Jessica Flounders**

Finally, just one other question. Just in terms of the difference between organic growth and total, at constant exchange in the UK, as another minus 1%, I am not quite sure what that is. Could you just elaborate please?

### **Paul Brooks**

Yes. It is quite complex, but I will try. It refers to the fact that when we talk about our normal growth at constant exchange rate, we are referring to the translation of the results. So the dollars against dollars, pounds against pounds, reals against reals. What this refers to is: in one or two of our businesses, we have a different functional currency from the currency in which we bill the customer. This particularly relates to our Hitwise business, which has a dollar functional currency. So in fact our Hitwise business in the UK actually accounts in dollars, so we get an exchange difference there. Rather than adjust it in our constant currency numbers, we actually adjust it within the underlying numbers to give an accurate, year to year, indication of what is going on.

### **Peg Smith**

Jessica, just sort of to follow up on that. This is the first time that it has been material. That is why it has been visible.

### **Jessica Flounders**

Okay. I will have a look at that then. Thanks very much for the answers.

### **Michael Meltz, JP Morgan**

Thank you. Good morning. Don, I missed the first four minutes of your intro, so I apologise, but is your guidance of things a little bit better in calendar Q1 than Q4? What is the driver of that, if your comparable is a little bit easier? What are you seeing a little bit better in your business?

### **Paul Brooks**

If I take that one, Michael. The areas where we expect to see improvement in the fourth quarter, which we would point to, are, first of all, in our Decision Analytics



business, where, based on the pipeline as we see it for the fourth quarter, we expect to see improvement for that quarter compared to the third quarter, and particularly in the UK and in EMEA/Asia Pacific. So that is one area.

The other area is in Interactive, where we did have this very strong comparative in Consumer Direct in the US in the third quarter, and that gets a bit more normal in the fourth quarter. So those are the two areas where we would expect to see improved growth in the fourth quarter.

**Michael Meltz**

Okay. Can you quantify what was PriceGrabber actually up in the December quarter?

**Paul Brooks**

It was sort of single-digit, up mid-ish single-digit.

**Michael Meltz**

Okay. The comment in the press release about the income estimation rules, the Fed clearly defines some of the language. I think you said 'the lender has the option of using,' what else would they be doing if they are not using a tool from you or Equifax or someone else?

**Paul Brooks**

They would probably be doing manual income verification; asking the applicant for pay stubs or tax returns, or calling the employer with some sort of authorisation to verify employment and income.

**Michael Meltz**

Can you say: your Income Insight tool, how is that priced? I mean, generally speaking.

**Don Robert**

Just priced similar to an add-on credit score or fraud check to the credit report, so a few cents.

**Michael Meltz**

The last question for me. The press release says, 'For the full year, profits up ex-currency.' I would think currency is the tail-end at this point. Paul, are you expecting profits up on a reported basis, year over year?

**Paul Brooks**

Well obviously we still have a couple of months to go, but if the current exchange rates carry through to the end of the year, I think the impact of exchange on the full-year EBIT is going to be negligible. So it might be slightly positive; it might be slightly negative. But it is going to be a small number.

**Peg Smith**

Essentially, Michael, that is no change in guidance to what we were saying at the Interim Results in November.

**Michael Meltz**

So profits up, year over year, on a reported basis?

**Paul Brooks**

So in that case, if the rates do hold the same, yes, the constant currency would also apply to reporting.

**Michael Meltz**

Thank you for your time.

**Jamie Brandwood, UBS**

Morning. I was just wondering if you could talk about to what extent the improved growth in Brazil was more to do with your enhancements in product mix. So, if you like, an improvement in average revenue per transaction as opposed to an improvement in volume growth. Which was the more important of the two?

**Paul Brooks**

If we look at what has been driving the growth in Latin America and Brazil, I think on the consumer side of the business, clearly we have seen a pick-up in lending, particularly in the retail sector, which has been helpful. The other factor there has been a trading up in products, where our credit bureau – which is our top of the range product – has seen very good growth, at the expense of some of the more basic products. We have also seen a reduced growth in the counter-cyclical products, which is the notification letters. It is more of a mix effect. It is a price effect, but it is a mix effect as well.

In Business Information – and I would say the recovery on the Business side has not been as strong, market-wise, as the Consumer – our growth is still mainly being driven by our penetration of the SME channel, which continues to show very, very strong growth.

The third element has been this authentication revenue, which, from a low base, has been growing very strongly for us as well. That has also helped. In fact, that was one of the main factors behind the improved growth rate in the third quarter.

### **Jamie Brandwood**

Can you talk a little bit about price versus volume trends in the US and UK Credit Services businesses? Obviously you had that pricing step-down with all of the banking consolidation in the US, and particularly in the UK. Has that fully worked its way through? Are we seeing more stabilisation in price per transaction or revenue per transaction?

### **Paul Brooks**

I think the general comment in pricing is: the environment, particularly with the big lenders, remains tough, but it has not got any worse. It probably got to its worst point a few months ago. The impact of mergers is still working its way through, and that will continue to have an impact through to the first quarter of next year.

Then if we look at the US and the pricing trend, the average unit price is down sort of mid single-digit in the third quarter, which is pretty similar to the first half, actually slightly weaker. That is very much concentrated in the major accounts, the strategic accounts.

### **Jamie Brandwood**

Obviously this would be an oversimplification, but as I look at your US Credit Services division, you could actually say that the volume was only slightly down and actually most of the decline was price related, the minus 6%.

### **Paul Brooks**

Yes, but remember you have other things.

### **Jamie Brandwood**

As I say, it is a gross oversimplification, but broadly-speaking, that might be not too far from the truth.

### **Paul Brooks**

There was a volume decline on top of the price; probably not quite as much as the price decline, but there was a volume decline as well.

### **Jamie Brandwood**

Then just lastly, can you talk a little bit about where you have got to now in terms of subscriber numbers for Consumer Direct, in both the US and the UK? Roughly where are you at today?

**Paul Brooks**

The numbers are similar to the ones we have given you before. Certainly in the UK, Direct and Indirect is approaching 1.5 million. I think the Direct number is a little under a million. In the US, you have to be careful with the numbers because we have quoted nine million, but a large number of those are Indirect. So I think a little over three million are Direct members.

We tend to see the pick-up in numbers at the beginning of the year because January is always the month where we see the big pick-up, when people make their new year's resolutions to manage their credit more actively. So that is when we see the step-up.

Of course we are beginning now to build up membership in ProtectMyID. It is still early days, but that is building up nicely.

**Jamie Brandwood**

You sounded reasonably bullish on the point of increased retention in US Consumer Direct, that that seems to have really started coming through. Does this make you reasonably positive on margins for Interactive for the second half of this year? Or is there an offset because you have had quite a lot of growth in the online lead gen?

**Paul Brooks**

Yes to both questions. The improved retention is definitely good for Consumer Direct margins. But the strong growth we have been getting of course has been in the lower margin businesses in the Interactive. We get an adverse mix.

**Jamie Brandwood**

Thanks a lot, Paul. Cheers.

**Dan Leben, Robert W Baird**

Thank you. In relation to the card act, with the rules coming into effect in late February, could you just give us an update on how potential customers have been handling the decision process? Have they been putting everything off until now, with a mad rush to figure out a solution? Or has there been a lot of work in place until the Fed rules were announced?

**Paul Brooks**

A lot of the work that has been going on, Dan, has just been in the back office, on the systems, reprogramming, re-pricing, monitoring systems. And so that has had an effect of forestalling more strategic decisions on the direction that these guys are going to take with their card businesses. So we think that the mad rush in the build up to 22 February will, when it concludes, then allow everybody to start feeling a bit more strategic about how they want to grow their card portfolios.

## **Dan Leben**

Great. Then, on the Marketing Services side, performance picked up pretty nicely during the quarter. Could you talk about some of the areas that you saw that, in addition to some of the email marketing, but also on the traditional side?

## **Paul Brooks**

Yes, Dan. The improved growth really came from the sequential stabilisation in the more traditional side. So we saw a much reduced negative growth rate for things like our information services or data business or our list-processing business in the US. We continue to see nice growth in the new media activities, but the positive rate of growth there was similar in the third quarter to the first half.

Of course the other impact we get – which is a smaller impact, but it is important – is we get a mix effect as well. Because all the time the new media activities are becoming a larger part of the whole, so they have been contributing to growth.

The main growth drivers have been: in the US, as ever, the email marketing business, in terms of its scale and growth, has been the biggest growth driver. In the UK, that is also true, but it is a smaller business in the UK. Our biggest business in the UK is our QAS, customer contact software business. Although that is a fairly mature business, we have continued to see sort of mid to high single-digit growth in that business as well. That has been the other sort of star performer, if you will.

## **Dan Leben**

Great. Thank you.

## **Carter Malloy, Stephens Little Rock**

Thank you for taking my questions. Looking within the US consumer piece of your credit business, you said pre-screen was done but I assume that is year over year. I was wondering if you guys had actually seen any type of a lift on a sequential basis, and maybe if the current run-rate is sustainable going forward.

## **Paul Brooks**

Pre-screen continues to be very depressed, Carter. It is probably about a third of where it was at the peak. The rate of decline was slightly lower in the third quarter. There was a little bit of improvement in December. Nothing that we would necessarily read as being a trend at this stage. Of course the point about pre-screen is that we do believe that those clients who are interested in making new marketing offers have been waiting for the new legislation to come in. I think the interesting time will be to see what happens after 22 February.

## **Carter Malloy**

Okay, great. Also, within that business, can you talk about the Business Information strength and where the growth is coming from there?

**Paul Brooks**

Yes, we have been very pleased with the Business Information business in the US, which continues to grow nicely for us. The strength, essentially, is outside of Financial Services, as you would expect, and a lot of it is being driven by, first of all, our trade clients and the fact that they are more inclined to monitor the credit-worthiness of people they are advancing credit to. But we believe we have been making good penetration as well. We have been introducing a number of new products, and we have been winning some nice new deals as well, so that has also helped contribute to the growth.

**Carter Malloy**

Have any of those deals been competitive wins? Are you growing it competitively?

**Paul Brooks**

Several of them have been competitive wins, yes.

**Carter Malloy**

Okay, great. I will save the rest for offline. But maybe one other question on your acquisitions. Can you give us any colour on the specific types of businesses or geographies that you are looking at?

**Don Robert**

We are still staying very close to the bull's eye of the business: Data and Analytics. Geographically, when I think about the pipeline, we are still very interested in Europe. There are big parts of the European geography where we could be better represented. Obviously Asia and Latin America are of great interest as well. I would say that most of the activity is tending to be in those markets right now.

**Carter Malloy**

Okay, great. Thank you.

**Concluding Remarks**

**Don Robert**

Thank you for joining us today and thanks for those questions. We look forward to talking to you again in April at our second-half trading update. Goodbye.