

**Bond Investor Presentation**  
**Preliminary Results for Year Ended 31 March – 19 May 2010**

**Opening Remarks**

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

**1. Preamble**

Welcome to Experian's full year results call for our bond investors. For those of you who have dialled into the call, the slides for this presentation are available on the website at [experianplc.com](http://experianplc.com). There is a link on the home page that will take you directly to the slides.

**2. Agenda**

I will start today's call with a brief strategic and operational review. I will then take you through the financial performance and, following that, will open the lines for your questions.

**Strategic and Operational Review**

**1. 2010 Highlights**

**Summary**

We delivered a good financial performance for the year. We grew our business, strengthened our organisation and executed strongly on our cost efficiency programme.

**Revenue growth**

In the year ended 31 March 2010, we delivered total and organic revenue growth of 2%. Organic revenue growth was driven by geographic and vertical balance in our portfolio, including strong performances in Brazil and our Interactive businesses. Those offset the declines in US and UK credit services and marketing.

**EBIT**

We saw good growth in our EBIT margin, with an 80 basis point improvement to 24.4%, with continuing EBIT growth of 6%.

**Cash conversion**

Our EBIT conversion into operating cash flow was again very strong at 98% and free cash flow of \$118 million was up 11% on the prior year.

## **Balance sheet**

Benchmark PBT was up 8%, and benchmark EPS also grew by 8%. We further strengthened our balance sheet with very strong cash conversion, and a significant reduction in net debt, which allows us to announce today an increased dividend and share buyback programme, while maintaining our commitment to a prudent balance sheet and strong investment-grade credit ratings. We increased our dividend by 15% to 23 cents. This comprises a first interim dividend of 7 cents and a second interim dividend of 16 cents.

## **2. Strategic Progress**

Strategic progress in the year included geographic progress, including further expansion in emerging markets, which now make up nearly 20% of group revenue. There was an increased contribution from new verticals, and the UK public sector, US healthcare, as well as elsewhere. We now generate over 60% of our revenue from outside the financial services vertical. We introduced new products, including ProtectMyID, which is trading right on plan. On the portfolio, we have engineered the successful unwinding of the 10 year FARES joint venture, with a great cash outcome for Experian.

## **3. Financial Highlights**

In fiscal year 2010, we continued our strong track record of revenue and EBIT growth, once again expanded margins and delivered EPS growth of 8%.

## **4. Key Market Trends**

### **North America**

In North America, conditions are improving. Most economists are expecting modest growth and consumers are spending again. On the other side, there is continuation of a very weak housing market and unemployment has stabilised, but remains near 10%. Therefore, we continue to expect recovery to be gradual with no return to former exuberance.

### **Latin America**

In Latin America, the market and our business are growing strongly. Fundamentals for economic activity are good and banks are looking to expand credit portfolios.

### **UK**

In the UK, there are beginnings of recovery in the retail banking sector although demand for credit remains low. We see banks overhauling their risk machinery. There is better sentiment now in conversations with clients, although not yet translating into real numbers. We have said that trends in the UK are six to nine months behind the US, and that continues to hold true.

### **EMEA**

In EMEA, market conditions are mixed. Despite the sovereign debt issues, emerging markets still look strong, offsetting softer demand in the more developed countries.

## **Asia-Pacific**

In Asia-Pacific, economies are strengthening, with growth in demand for credit. We see major banks focusing on further regional expansion and on platform standardisation.

### **5. US Regulatory Update**

In January, we highlighted some of the regulatory shifts occurring in the US. Let me update you on what we see today. There are a number of regulatory changes occurring that are impacting our markets as Congress moves to reform the financial services industry. In most cases, like the Credit Card Reform Act, we see many opportunities to grow our business as a result of new requirements imposed on our clients. Clients need us more than ever to meet their obligations in managing risk. Greater transparency in consumer and business lending will require better data and analytics, and that bodes well for Experian.

Certain provisions of the Credit Card Act require changes to our advertising of Consumer Direct. We have made the changes to clearly distinguish between free reports offered on our sites versus those available under federal law and switched advertising to a new consumer brand, FreeCreditScore.com. Although it has only been six weeks since implementation, we are encouraged by the results. The legislative environment in the US remains fluid, and we are remaining very close to developments in Washington to assess risks and opportunities. You can be sure we will adapt our business as needed to any regulatory changes.

### **6. Outlook**

Our expectations are for a gradual recovery in our core markets although not likely to reach the levels of activity we saw prior to the downturn. As markets recover, our leading position means we will be prime beneficiaries. We will accelerate growth through superior execution of our global growth initiatives. We expect the initiatives to add roughly an incremental one percentage point of revenue growth in this financial year, with the contribution increasing as the year progresses. Our aim is to maintain or improve our margins with funding growth investment, including targeting intel acquisitions.

## **Financial Review**

### **1. Performance by Region**

Organic revenue growth of 2% benefited from an excellent performance in Latin America and modest growth in EMEA/Asia-Pacific. North America held steady, although there was a modest decline in the UK and Ireland. Total revenue growth of 2% translated into EBIT growth in direct activities of 5%. Including FARES, EBIT was up 6%. Regionally, there was very strong improvement in margin in Latin America and the UK, while margins were broadly flat in North America and EMEA/Asia-Pacific. Overall, margins increased from 23.6% to 24.4%.

## **2. Performance by Activity**

### **Credit Services**

Total revenue was up 2% and organic growth, 1%. The difference relates to the Creditinform and SearchAmerica acquisitions, both of which are performing well. Overall, growth in Latin America offset declines in North America and the UK, while EMEA/Asia-Pacific was flat. Margins improved by 150 basis points to 33.5%, reflecting positive operating leverage in Latin America, as well as actions on costs in the North America and the UK, which more than offset the negative operating leverage.

### **Decision Analytics**

Total and organic revenue declined by 7%, reflecting lower transaction volumes and client reluctance to commit to large software deals. These are our higher-margin activities, and so were the main drivers behind the margin decline of 27%.

### **Marketing Services**

Total revenue declined by 3%, and organic revenue declined by 4%. In North America, the revenue decline reflected contraction of retail spending in the early part of the year. Traditional media activities showed signs of stabilisation towards the end of the year, while digital media performed well throughout. Growth in EMEA/Asia-Pacific partially offset the revenue declines elsewhere. Cost actions and positive mix helped improve margins in North America and the UK up to the mid-teens. Overall margin was 11.8% due to increased investment in EMEA/Asia-Pacific, but was still 30 basis points higher than last year.

### **Interactive**

Both total and organic revenue grew by 11%. There was good growth in North America, with organic revenue growth of 8%. Consumer Direct delivered growth for the year, although there was some slowdown as the year progressed, due mainly to lower data-rich revenue. There was strong growth in lead generation, particularly in the education vertical, as well as at Pricegrabber, which benefited from new partnership arrangements. Meanwhile, the UK again delivered strong growth, although we are seeing some moderation in growth as the business increases in scale. Margins improved by 90 basis points to 23.5%, despite a negative mix impact and strong growth in the lower margin Lead Generation activities. This was due to improved subscriber retention and more efficient marketing spend with Consumer Direct.

## **3. Group Benchmark Earnings**

Total EBIT for the year was \$991 million, which is a 6% improvement at both actual and constant exchange rates. Net interest came down to \$81 million, due to reduced net debt and lower average interest rates. Interest remains covered over 12 times by EBIT, substantially in excess of our covenant of three times cover. The benchmark tax charge of \$184 million was at the reduced rate of 20.2% on benchmark PBT, as a result of a credit in respect of an historic issue that has now been agreed. The minority interest of \$45 million relates mainly to Serasa and reflects a strong profitability and low tax charge. This brings us down to benchmark earnings of \$681 million – an increase of 8% on last year. EPS growth in US cents was up 8% to 67.1 cents, and dividend per share has increased by 15% to 23 cents.

## **4. Cash Flow**

### **2010 performance**

We have again generated very strong cash flow, converting 98% of EBIT into operating cash. Capital expenditure of \$314 million was in line with our guidance at the interims and represented 114% of depreciation for the year. We received net cash inflow of \$30 million from the sale of facilities as part of our cost efficiency programme. \$17 million of profit was retained in associates, and working capital reduced by \$11 million. This brings us to operating cash flow of \$976 million. Net interest paid in the period was \$68 million, and tax paid during the year was just \$48 million, due to tax-deductible items not reflected in benchmark PBT, principally good will amortisation. The dividends paid to minorities was \$42 million, bringing us to free cash flow of \$818 million, up 11% on last year and representing a cash conversion rate of 120% of benchmark earnings.

### **Performance since demerger**

Consistently strong cash flow is a key feature of the Experian business. A summary of our cash flow performance over the past four years shows we have increased cash flow every year since demerger, despite the credit crunch, ensuing financial crisis and recession. In total, we have generated nearly \$3 billion in free cash flow over the four year period.

## **5. Net Debt**

### **Reconciliation**

Closing net debt at the end of the financial year was \$1.6 billion, nearly \$0.5 billion less than last year. This was driven by the strong free cash flow of \$818 million. Exceptional cash outflows amounted to \$62 million, nearly all of which related to the cost efficiency programme. Share purchases in respect of employee equity plans amounted to a net \$114 million. There was a net outflow of \$52 million from acquisitions, net of disposals in the year. Acquisitions included the email marketing businesses, United MailSolutions in Germany and A-Care Systems in Japan. Cash proceeds were received from FARES, as I shall describe shortly. Foreign exchange and others total \$19 million. The total dividends paid out during the year were \$206 million. This takes us to a net debt of just over \$1.6 billion.

### **Net debt/EBITDA**

Our target net-debt-to-EBITDA ratio remains unchanged at 1.75-2 times, including the value of the Serasa put option. This is consistent with our objective to maintain a strong investment-grade credit rating. During fiscal year 2010, the value of the Serasa put option increased by \$237 million to \$661 million, due mainly to the exchange impact of a much stronger Brazilian Real and an increase in the estimated value of the business. Adjusting for the Serasa put option; we ended the year with a net-debt-to-EBITDA ratio of 1.8 times, which is towards the lower end of our target range of 1.75-2 times.

## **6. FARES Joint Venture**

Next I will summarise the various components of the FARES transaction and the timing of receipt of proceeds, including those to come in fiscal year 2011. During the year, we received \$48 million from the sale of two FARES assets, Data Trace and Data

Tree, and \$70 million from the sale of First American shares. Four weeks ago, First American exercised a call option over our residual interest in FARES. They are due to receive \$314 million for this part of the transaction on 31 December 2010. Tax of about \$62 million will be payable, so net cash receivable amounts to about \$252 million. In aggregate, we will then have received \$432 million gross and \$370 million net for our 20% in the joint venture. Going forward, FARES will be accounted for as a discontinued operation and the profit contribution will be excluded from benchmark items.

## **7. Capital Strategy**

We start fiscal year 2011 with net debt towards the bottom end of our target range, and with the expectation of receiving the proceeds from the FARES divestment during the year. We look to invest in the business in three ways: organically through the P&L account, where we continue to invest around 200 basis points of margin; organically through capital spend, where we expect spending to rise by about 15% in fiscal year 2011; and inorganically through acquisitions, where we do see more opportunities than we have over the last couple of years. Looking ahead, we think our cash flow is likely to be more than sufficient to fund these needs. As a result, we have decided to increase our dividend payout ratio from at least three times cover to approximately 2.5 times cover, for about 40% of benchmark earnings. We intend to fully implement this in respect of the dividend for fiscal year 2011. Approximately one third of the dividend will be declared in the first half, with the balance in the second half. In addition, we are currently planning a share buyback programme over the next 12 months of around \$300 million, plus an additional \$50 million to satisfy employee share plans. This will be kept under review during the year in the light of acquisition activity and movement in the other factors that drive our debt ratio. Finally, we expect our fiscal year 2011 year-end to be within our target debt range of 1.75 to 2 times net debt to EBITDA, and to retain our strong investment-grade credit rating.

## **8. Debt Funding**

In February, we successfully launched a €500 million Eurobond issue. This was the first stage of an 18-month programme to refinance and spread the maturities of our bank and bond facilities. We plan to continue this programme over the next 12 months, with a further bond issue and the refinancing of our 2012 bank facility. The marginal cost of new funding facilities is higher than the funds being replaced. As a result, we expect an incremental interest charge in fiscal year 2011 in the range of \$10-20 million. This includes additional interest relating to the planned share buyback.

## **9. Financial Summary and Outlook**

We are very pleased in a challenging year to have again delivered revenue growth, margin enhancement and very strong cash flow generation. We ended the year comfortably within our target debt range and, following the evaluation, we are enhancing our distribution policy to increase dividend payout and a new share buyback programme. As we move into fiscal year 2011, in the first half we expect organic revenue growth to be slightly stronger than the fiscal year 2010 exit rate. For the year as a whole, we are targeting mid-single-digit EBIT growth, continuing activities and constant currency. Our performance reflects our global leadership position, our representation in growing markets and the actions we have taken on costs. Markets are slightly improving and we believe our clients are prepared to begin to move into gradual modest growth. We will benefit from market recovery and will

create new sources of organic revenues for our global growth initiatives. We always aim to manage capital efficiently, balancing investment needs, shareholder returns and the need for a prudent balance sheet. Putting that all together, we are well positioned for another good year.

## **Questions and Answers**

### **Joanna Dormer, Standard Life**

Could you give us more detail about the cost cutting initiatives? How much more are there and how much benefit do you expect to retain within the business? You also commented that the M&A opportunities were better than what they have been recently. Could you give more detail in terms of your intentions both geographically and whether they are more bolt on or if you are looking at a new leg to introduce into the Group?

### **Paul Brooks**

We have had a cost-efficiency programme that has been running for three years now. That is just about reaching its end. That programme has probably generated cost savings in excess of \$170 million a year, and we expect to maintain those savings going forward, because they are of an efficiency nature, so they included de-layering the organisation, greatly increasing the use of offshoring and outsourcing, and also significant integration of our technology infrastructure and data centres. Generally speaking, we expect those savings to be sustained. We have also of course taken other costs out of the business, some of which will return, particularly in the employee area. For example, bonuses have been depressed and there pay rises have been few. We have also reduced the 401(k) match in the US a little. Those will gradually return to the business, but the big savings and the cost efficiency programme should be permanent.

In terms of M&A, certainly all the opportunities we are looking at exactly meet our existing strategy. We are very much focused on data and analytics. They essentially involve either broadening our data and analytics resources or taking the existing capabilities into new geographic markets. I would characterise the acquisitions generally as being of a bolt-on type.

### **Rob Orman, RBS**

You mentioned that you are committed to an investment grade rating. Is that flexible? Could you take it down to a mid BBB or a low BBB? Indeed, is there upwards flexibility to low A?

### **Paul Brooks**

From the time that we demerged all the way through, our target has always been a strong investment-grade credit rating of BBB+ or Baa1, so that is very much where we see ourselves staying. The target debt range that we stated is very much consistent with that, so we would always seek to gravitate towards that range. It is possible that something might emerge to take us out of that range, because we acquired Serasa three years ago, which took us outside the debt range. We said we would immediately return to within range, which is what we have done. Having said

that, frankly there is nothing remotely the size of Serasa out there. That was a one-off. The next-biggest credit bureau opportunity in the world is probably only half the size of Serasa. In reality, it is most unlikely that there would be an acquisition that would take us there, in any event.

### **Closing Remarks**

#### **Paul Brooks**

Thank you for your interest, everybody. We look forward to talking again to the market in July, with our quarter-one IMS.