First-Quarter Interim Management Statement – 15 July 2011

Opening Remarks

Don Robert
Chief Executive Officer

1. Introduction

Good morning, ladies and gentleman, and thank you for joining us to discuss our first quarter performance. I will start with a few brief comments before handing over to Paul, who will take you through the financials. After my concluding remarks, we will open up the line for your questions.

On a global basis in the first quarter we delivered total revenue growth of 15%, constant exchange rate growth of 10%, and organic revenue growth of 6%. We saw good performances across the core of our business, while facing tough comparables in Latin America and some headwinds in our North American lead generation business. Strategically we made further progress against our growth programme, with new production introductions, a major step forward in our health care vertical and steady progress in second half completion of the Computec acquisition in Columbia.

2. Major Trends and Strategy Developments

Paul will take you through the trading detail shortly. In the meantime let me walk you through some of the major trends and strategy developments in our major markets.

North America

I would describe the external environment in North America as tepid. We are certainly not getting a lot of help from the economy. There is modest recovery in the financial services sector as lenders gradually expand prospecting and underwriting programmes. Lending standards are still fairly tight, with banks focusing on quality growth. The good news is that delinquency trends are improving, which is a necessary precondition to wider credit extension.

Our business is benefitting from the product and service investments that we are making, as clients seek greater sophistication and put greater emphasis on value-added and digital services. This was particularly visible in our Decision Analytics business in the quarter as well as Marketing Services. Strategically we were also pleased to complete the acquisition of Medical Present Value, which gives us real scale now in healthcare payments, which is an attractive, high-growth vertical for Experian.

At US Interactive, Consumer Direct is performing well. MightyNet, which we acquired in September, is now fully integrated in our business, and CreditReport.com is proving to be a great asset. And our protection products, under the brand ProtectMyID, are building nicely.

As we previously flagged we do face significant challenges in lead generation in the first half. We are up against very strong comparables, as our education vertical grew by nearly 80% this time last year. In addition to that we saw spending cutbacks at the for-profit schools in the education vertical ahead of the new Title IV regulations. Now, the good news is that these new regulations imposed on the schools have been finalised. We are now focused on course correction and making the required changes to clients' marketing programmes. Our aim is to return to growth overtime by positioning the business as the preferred source of top quality leads.

Brazil

Our business in Brazil continues to go from strength to strength, with strong growth in both consumer and business information.

While we are very cognisant of the speculation about the health of the Brazilian economy, our business is structured to sustain growth. We are well diversified by vertical market and by size of customer, with financial services accounting for just one-third of our revenue in Brazil. Our market penetration for our products, particularly amongst small- and medium-sized businesses, is still very low. We continue to drive growth by upselling higher-value products to our largest clients, while also further penetrating the SME sector.

The way we see it, the current debate should be a catalyst for adoption of positive data in Brazil. We are actively pursuing data-sharing agreements with all of our lenders to build a comprehensive positive data file. Over time, positive data will provide greater transparency about consumer indebtedness and help banks to control levels of risk, which in turn will help reduce the cost of debt and make credit more affordable to consumers and businesses.

UK & Ireland

Conditions in the UK lending market are stabilising, and I would describe client sentiment as gradually improving. There has been a slight pick-up in activity among lenders, CAPEX budgets are seeing some relaxation, and we are starting to see a greater growth appetite by some clients. We see the benefits already in our Decision Analytics business, and we expect it to become more visible in UK credit services later in the year.

Elsewhere we are slowly breaking through the log jam in the public sector brought about by the austerity measures, and we're beginning to convert a good pipeline of opportunities for fraud prevention and authentication products. In the near term we will continue to face some pressure in Marketing Services for products sold to the Government.

EMEA/Asia Pacific

We saw good overall progress in EMEA/Asia Pacific. We made excellent progress in marketing services due to the adoption of digital products, and we saw a return to modest growth in Credit Services, which offset a decline in Decision Analytics.

3. Concluding Remarks

I would summarise the quarter by saying that we are delivering against a strategy and continuing to perform well, even though we are not getting help from the macro environment. With that let me turn the call over to Paul, who will take you through the details of our financial performance in the quarter.

Financial Review

Paul Brooks
Chief Financial Officer

1. Introduction

Thank you, Don. Turning to trading performance in the quarter. At actual exchange rates reported revenue growth for the first quarter was 15%. At constant rates it was 10% and organic revenue growth was 6%.

By principal activity:

- Credit Services, organic revenue was up by 9%;
- Decision Analytics grew by 6%, with the North America region following the UK business into recovery;
- Marketing Services was once more our fastest growing segment, with organic revenue growth of 10%, and with growth across all regions;
- And Interactive declined by 2%. Here Consumer Direct performed well, but as Don referenced there was a significant decline in lead generation revenue.

2. Performance by Region

North America

In North America total revenue grew by 6% and organic revenue by 2%. Organic revenue growth was 4% at Credit Services, while Decision Analytics grew by 13%. Marketing Services was up 10% and Interactive declined by 4%. At Credit Services we saw growth in consumer information driven by higher prospecting and non-mortgage origination activity, as well as continued strength in account management.

At Decision Analytics we saw recovery in software and good growth in analytics and fraud prevention. At Marketing Services our performance remains strong, driven by our digital activities. Within Interactive both Consumer Direct and PriceGrabber delivered single-digit growth in the quarter. However, as flagged at our results announcement in May, the performance of our education lead generation business was significantly impacted by client spending cutbacks ahead of new rules on student funding, set against a very strong prior year comparative.

Latin America

In Latin America total and organic revenue growth at constant exchange rates was 19%. Credit Services organic revenue growth was 18%. Both consumer and business information performed strongly, while authentication revenue was down, as previously flagged. Growth was broadly based across financial and non-financial verticals, and we also benefited from analytics-based product upgrades. We are also seeing good traction in Decision Analytics, where revenue more than doubled in the quarter.

UK & Ireland

Turning to the UK, here total revenue at constant exchange rates grew by 6% and organic revenue by 4%. Organic revenue declined by 2% in Credit Services. Decision Analytics grew by 9%. Marketing Services grew by 1% and Interactive delivered growth of 15%.

While Credit Services remain slightly down year-on-year, we are now seeing a stabilisation in volumes. In Decision Analytics value-added product sales are growing, and the trend of major lenders looking to invest in systems infrastructure continues. We are also benefiting from new entrants coming into the banking sector.

Growth in Marketing Services reflected strong uptake of digital services, which more than offset ongoing weakness in the public sector. At Interactive, growth accelerated following the successful launch of the enhanced CreditExpert product.

EMEA/Asia Pacific

In EMEA/Asia Pacific total revenue at constant exchange rates was 16% for the quarter, with organic revenue growth of 7%. Organic revenue growth was 3% for Credit Services and 24% for Marketing Services. Decision Analytics declined by 10%. Credit Services delivered a solid growth performance, despite the challenging conditions in parts of Europe. We saw strength in emerging market bureaux and good progress generally across the telco vertical.

Decision Analytics had a tough quarter following a very strong performance last quarter; we saw several deals closing towards the end of the fiscal year. This is inherently a lumpy business but we did see some referral of client delivery to Southern Europe. There was a stellar performance at Marketing Services, helped by strong growth in digital services, and in particular email marketing.

With that, let me hand back to Don.

Concluding Remarks

Don Robert

Thank you, Paul. We are pleased to have delivered good growth in our first quarter. We are confident of our strategy and our ability to execute, but mindful of the macroeconomic environment. Looking ahead we expect organic revenue growth for the second quarter to be similar to that for the first quarter. For the full year we expect organic revenue growth in the mid- to high-single-digit range, modest margin improvement and strong cash flow conversion. 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

Michael Meltz, J.P. Morgan

I have three questions for you. Firstly, can you talk about Brazil? I think you had guided to moderation there; it seemed to have a very strong quarter. Do you think the regulatory and central bank efforts are not slowing credit growth, or are you just seeing really good demand across the portfolio? That is my first question.

Paul Brooks

Generally in Brazil, as you can see from our numbers, things are still very strong. Compared with our expectations for the quarter, authentication revenue, although down year on year, was not down as much as we expected. There were some new deployments of our digital certificates in certain areas, such as payroll-tax verification, which helped. Also, even adjusting for authentication, we had a very strong quarter. We grew over 20%, adjusting for authentication. So I would say we are still seeing things as pretty buoyant there. However, a lot of the growth is down to our own initiatives. We are seeing very good growth from some of our higher value-add, higher price-point products particularly, both on the consumer credit and the business credit side. We are seeing migration to higher value products. We are also seeing this continued penetration of the SME vertical. So I would say it is a mixture of buoyant market conditions and the actions we are taking that is driving this very strong growth.

Michael Meltz

I am not sure if he has left yet, but I believe that Valim was departing. Can you give us an update on the management of Latin America? Also, about a month ago Equifax announced the joint venture with the Chamber of Commerce business. What are your expectations for the competitive environment there?

Don Robert

On the issue with Valim, he did leave, or he is leaving shortly. He has been hired as President of Oi, which is the largest Telco in Brazil. That speaks highly of him and the quality of the kind of people that are in the top echelon here at Experian. On a day-to-day basis, the business has been run for quite some time by Ricardo Loureiro, who has been with the Serasa business for 12 or 15 years. We are expecting everything to continue to tick along nicely.

In terms of the Equifax joint venture, we have not seen, nor do we expect to see, anything changing on the competitive landscape. We like having Equifax in that market. Overall I think it has been good for us.

Michael Meltz

I have a question for Paul on Forex. Is the 500 basis points of revenue growth from Forex generally good or bad for margin?

Paul Brooks

Last year the Forex was positive because it related mainly to the stronger Brazilian real against the dollar, and, as the Brazil margin is now higher than our average, that was positive. This year we have the dollar weakening against both the real and sterling, and as a result those two roughly cancel each other out. Last time we looked at it, the impact of exchange on the margin in the first half was zero.

Michael Meltz

Thanks for your time.

Andy Chu, Deutsche Bank

Good morning, everybody. I have a couple of questions. I will just start with Interactive and US Interactive. I wondered if you might be able to give us a flavour of the breakdown of the revenues between Consumer Direct, PriceGrabber and the lead generation businesses. Also, could you just give us a bit of help in steering the two component parts that drive the growth rate? Would you expect Consumer Direct to be a mid-single-digit-growth business for this year before returning to a high-single-digit-growth business?

Paul Brooks

The relevant number is a year ago if you are looking to work out how the growth rates are moving. A year ago, which was obviously before we acquired Mighty Net, I would say Consumer Direct was a bit under 70% of the business and the interactive media or the lead gen business was about a quarter of it – the remainder was PriceGrabber.

Andy Chu

In terms of the -4% for US interactive, how do we think about that growth rate as we go through the remainder of the year? Obviously within that there is the lead gen business falling off and Consumer Direct at 5%. Is 5% the right starting point for Consumer Direct growth?

Paul Brooks

We are in mid-single-digit growth at the moment on Consumer Direct. We would expect the second quarter to be quite similar to the first quarter; we still have tough comparatives in the education vertical. We are seeing the revenue sequentially levelling off now, which is a good thing, but it does mean year on year we are going to see another big reduction in Q2. So overall I would not expect to see much impact in Q2. In the second half, particularly as we move through the second half, the comparatives get easier in the lead gen business, and we will also be looking to get it back to a positive momentum. So I would certainly hope and expect that, as we go through the second half, things will improve.

Andy Chu

Okay, that is helpful. Just going back to Brazil again, obviously a very strong performance was highlighted throughout the call, and I just wanted to ask about expectations for Brazil, because that caught the market offside, with over 20% underlying growth rate and very strong comps. How should we think about that growth rate into Q2 and for the remainder of the year?

Paul Brooks

There is no question it was exceptionally strong in the first quarter. If you adjust for authentication, it was the strongest quarter we have ever had in Brazil. We would not expect to stay at these kinds of levels. Typically the underlying growth has been in the low teens, and we are certainly happy with a good double-digit rate of growth in Brazil. I would expect to see some slowdown in the rest of the year, but obviously we will be trying to grow it as fast as we can.

Andy Chu

Okay, thanks very much.

Jamie Brandwood, UBS

Good morning, Don and Paul. In your commentary to an earlier question on Brazil you alluded to this, but can you be a bit more explicit in terms of breakdown of the Brazilian growth between volume and product mix, or average revenue per transaction?

Paul Brooks

I can try. It varies from quarter to quarter, but I would say that, of the 18% published growth in the first quarter, roughly half of that would be down to volume and roughly half would be down to a mixture of price and mix. The mix is largely engineered; it comes down to the point I was making about selling richer products, higher value-add products, which are a higher price-point. So that, combined with price rises, represents roughly half the growth.

Jamie Brandwood

On the point on Brazilian outlook, presumably you would feel pretty confident about being able to maintain the half of that growth that relates to price and mix over the remainder of the year?

Paul Brooks

Yes, I guess.

Jamie Brandwood

Regarding your commentary around UK Marketing Services and the weakness in public sector, how much of UK Marketing Services is public sector and roughly how much was it down in the quarter?

Paul Brooks

The public sector in UK marketing would be the best part of a quarter of the business; it is the second biggest vertical after retail. I have not got the exact number, but it would have certainly been down the best part of 10%, or something like that.

Jamie Brandwood

You said the biggest sector is retail. I thought quite a big sector for you was financial services?

Paul Brooks

That is third. One of our success stories has been the way we have grown the public sector in UK Marketing Services.

Jamie Brandwood

Lastly on US Consumer Direct, I know you are now more aggressively chasing some of these affinity partnerships. Can you give us any sense of your pipeline there? Is there any way of sizing the potential opportunities that might be convertible on a 12-month view?

Paul Brooks

As you know, we have previously had a non-compete in this area, which has now lapsed, so we are in a position to talk to some of the big card issuers and some of the major banks. Obviously we would see these as being potential opportunities over time, but this is not something that will benefit us this year; even if we were to do one of these deals, there is a long lead time in bringing it to implementation.

Jamie Brandwood

Is there an active pipeline and can you give any quantification of how many millions or hundreds of thousands of subscribers we could be talking about?

Paul Brooks

I would not want to go into any more detail.

Jamie Brandwood

Okay, thanks very much.

Dan Leben, Robert W. Baird

Good morning. You mentioned US origination activity on the non-mortgage side. Are there any areas of strength there you would point to that are driving that?

Don Robert

Dan, what we are mostly seeing as a good first sign is continuing prospecting activity in the normal card, personal and secured product areas of retail banking. So that is always a pretty good find, especially when combined with the improving quality of the underlying loan portfolios.

Dan Leben

You did not mention the business information side. As we come to the anniversary of the launch of Business IQ, where do we stand on customer accounts?

Don Robert

We have about 3,000 new Business IQ customers on the books; about a third of those are brand new to Experian. The pipeline looks very healthy and we expect the second quarter to be even better than the first.

Dan Leben

The last one from me is on MPV. Could you talk a little bit about what the market opportunity there is and what the margin profile of that business looks like relative to the other US businesses currently?

Don Robert

MPV is very similar to the SearchAmerica business that we acquired about three years ago, which is also in the healthcare space. Basically what MPV does is get in between the physician practice groups and individual physicians and all of the health insurance providers in the US and helps the physicians assess what they are likely to get paid on individual claims by individual insurers. They maintain a database of claims, activity, behaviour and propensity in all of that. So it is very similar to what SearchAmerica does for the hospital group. It is a very fast growing business; it is data intensive and data rich, which is something we love because it also allows us to model on the data, and the margins would be accretive to the group margin profile.

Dan Leben

Great, thank you.

Carter Malloy, Stephens Inc., Little Rock

Turning back to the lead gen business, did this just decline in the education side of the house or did you see that in LowerMyBills as well? In the non-education piece, as you visit with your customers there do you expect to see that sequentially improving throughout the year, or are we set at a new run rate and this is what it is?

Paul Brooks

No, we did see growth in LowerMyBills in the quarter, so the issue is very much confined to the education vertical. In terms of the sequential movement, I mentioned earlier that we are seeing our activity levels plateauing now; we are not seeing any further degradation, which is good. Obviously our focus now is to get on to these very high quality leads, which the schools are now looking for. So the focus is very much on quality, and with that our intention is to get back into sequential growth mode over time. As I say, in the second quarter I think the situation is going to be similar year on year to the first.

Carter Malloy

So as far as their demand and appetite post-implementation of the new regulations, you are not really seeing any change on the advertiser's hit?

Paul Brooks

I do not think so, because essentially what the schools have done is to cut back on enrolments, so I think that is a step change in enrolments. They have reduced their marketing spend accordingly and really focused it on quality leads, so that is now the space that we play in.

Carter Malloy

You talked about modest margin improvement for the year. As far as we step it out in the first quarter, are you on plan, ahead of schedule, or have you made some investments where you may need to play catch up?

Paul Brooks

I would say we are on schedule.

Carter Malloy

Okay, fair enough, thank you.

Iain Armstrong, Brewin Dolphin

Good morning, gentlemen. I have a couple of questions. One was with regard to the very strong numbers in Brazil. Was there a little bit of pre-buying for the positive bureau in that, or is there nothing in that yet?

Paul Brooks

The positive bureau legislation has now been passed, which is good, and we are now in talks with our clients and with the regulators about how that is going to pan out. We certainly do not expect to see any noticeable impact on that in the near future. So the revenue performance you saw in the quarter was very much based on the negative data situation.

Iain Armstrong

Looking across the group, Marketing Services is doing incredibly well. Is there an element of catch up with some of the clients? Do they just suddenly say, 'Right, we just have to abandon ordinary media; we have to go digital – there is no way around it.' Is that momentum going to start slowing down because you are not going to have that big switchover?

Don Robert

This is a trend we have been seeing for seven or eight years. It is not necessarily catch up but it is a decided shift in the way that clients are spending money. It is for the simple reason that the returns on advertising spend or the returns on marketing spend is much higher in digital channels because it is cheaper and more effective to market that way. So we have seen no abating of the trend and we would expect it to continue if anything.

Iain Armstrong

Particularly in the UK and Ireland, although the number was only 1%, your digital marketing was very strong. However, the recent surveys we have been seeing from the advertisers in the UK have been very negative indeed.

Don Robert

What is behind that is when recessionary conditions take hold in companies that are under spending constraint they will naturally start to accelerate a shift from old media to new media in their marketing efforts. Again it is simply because it is cheaper and the ROI in the marketing spend is higher.

Iain Armstrong

Thank you.

Rajesh Kumar, HSBC

Good morning. In the UK you are still getting -2% organics in credit. When should we expect a turnaround in that situation, or is the sequential outlook improving there? Secondly, on Decision Analytics, it is a lumpy business but the growth in the US in the first quarter looks very strong. Are there some one-offs that we should be aware of?

Paul Brooks

On the UK Credit Services, which was slightly negative in the first quarter, we are definitely seeing stabilisation in origination volumes right now, which is obviously a good thing. So we do see it as being headed in the right direction. I would not categorically say it is going to go positive in Q2, but we are on an improving trend there. It is very important when you look at the UK credit business to also take into account Decision Analytics. Particularly if you look at the consumer business, most consumer credit reports are sold along with value-added products. We are seeing good growth in value-added products, which is reflected in the Decision Analytics numbers. When we look at the combined business, we are actually in growth right now.

On the North America Decision Analytics, obviously we are very pleased to see that return to growth. I think we mentioned last quarter that we were seeing an improved sentiment from the banks and a greater propensity to invest. We are now back to a positive growth, and I would hope and expect we would maintain a reasonable positive growth rate in the US business.

Rajesh Kumar

Thank you that is very helpful.

Sanjiv Tumkar, Investec

Good morning, everybody. I was just wondering whether you had any feedback you could give us on the Bloomberg story about the possible regulatory oversight of the industry in the US by the Consumer Financial Protection Bureau, and whether you regard that as likely or potentially significant for the industry and for you?

Don Robert

We do regard it as likely but probably not significant. Regulation for us has been a way of life in the US for over 40 years. The Dodd-Frank Financial Reform Bill did transfer some authority for regulating businesses like ours away from the Federal Trade Commission and over to the Consumer Financial Protection Bureau. So it is no change in the underlying law, and in that sense we do not expect it to be a game changer. We have had various meetings already with CFPB staff. That has been pretty uneventful; it has been constructive. Everybody in that regulatory food chain understands the critical role that consumer reporting agencies play in the US financial services industry.

Lastly I would say, as we have said before, that we have made a career out of adjusting our business model to any kind of new regulations or regulatory oversight. So it is a good question but we do see it as something of a non-event.

Sanjiv Tumkar

Thank you.

Don Robert

Thank you everybody for joining us on the call today and we look forward to speaking to you again in November when we report our half-year results.