

Third Quarter Interim Management Statement – 18 January 2011

Opening Remarks

Don Robert
Chief Executive Officer, Experian

1. Introduction

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

2. Overview of the Third Quarter

I am very pleased with the growth that we delivered in this quarter. We delivered mid-single digit growth or better across all four regions and all four of our principal activities. On a global basis, total revenues were up 12% at constant exchange rates while organic revenues were up 8%. This performance reflects continued progress against our global growth strategy and was helped by a gradual broad-based recovery in most of our markets.

Credit Services trends are generally moving in the right direction across most markets, while there was a marked improvement in Decision Analytics, as client activity levels started to pick up.

Marketing Services again delivered double digit revenue growth, reflecting strong client appetite for digital products, and Interactive performed well.

There are no real surprises in our performance this quarter and our results were very consistent with our expectations. I would like to focus my comments on three new items that occurred this quarter and then Paul will take us through the financials.

3. Positive Data - Brazil

Firstly, a quick update on positive data in Brazil, something we have been talking to you about since we bought Serasa three years ago. On 31 December, President Lula signed into effect a Provisional Executive Act regarding the use of positive data in Brazil. This is a major step in moving the Brazilian Credit Bureau structure to a data model similar to mature markets, such as the US and the UK. We are not quite there yet as the Act requires that the Brazilian Congress sets specific regulations about consumer rights, obligations of credit bureaus and requirements for data sharing. Until we receive those regulations, we will not have a full assessment of the requirements for positive data. However, as you would expect, we are moving forward with our plans to build a robust positive data file which will support even more sophisticated consumer credit products for the Brazilian market. Ricardo Loureiro will provide you with a more complete update at our investor day that we will be holding later this month.

4. US Consumer Direct

Secondly, I want to make a few comments about our progress in the US Consumer Direct business. This has been a year of transition in Consumer Direct as we implemented new consumer marketing brands and integrated the recent acquisition. The team at Consumer Direct has performed very well. In fact, the business returned to modest organic growth in the quarter, ahead of our expectations. Mike Dean, who

runs our UK Consumer Direct business, will also present at our investor day and give you more colour about the performance of this important business unit.

5. The UK Government Austerity Programme

Finally, just a quick update on the UK Government austerity programme and the impact on our business. We have now signed a memorandum of understanding with the Efficiency and Reform Group, along with other top suppliers to the UK Government. It means that we have agreed to some price concessions, consistent with the Government's objective to reduce costs with all top suppliers. The good news is that with this agreement in place, we can now move forward with new opportunities. The work we do with the UK Government is about creating efficiencies and reducing fraud losses; as a result, Experian products are in demand. We believe that over time these new initiatives will more than offset the impact of price concessions and will continue to deliver growth from this important vertical sector.

With that, let me turn to Paul who will take you through the details of our financial performance in the quarter.

Financial Review

Paul Brooks
Chief Financial Officer, Experian

1. Trading Performance Highlights

Thank you, Don. So turning now to trading performance in the quarter, at actual exchange rates, reported revenue growth for the third quarter was 12%. At constant rates it was 12%, and organic revenue growth was 8%. All four of our business segments showed strong organic revenue growth in the quarter. Marketing Services grew by 11% reflecting the success of our repositioning of the business to focus on digital marketing. Interactive grew by 9% as our US consumer direct business returned to modest organic growth. Credit Services' organic revenue was up by 7% and Decision Analytics grew by 7%, a major improvement from previous quarters, reflecting early signs of some recovery in clients' demand for scoring analytics and software products as they move forward with their new compliance initiatives and begin to return to growth.

2. Performance by Region

North America

Now let us look at performance by region turning first to North America, where total revenue grew by 13% and organic revenue by 7%. Credit Services improved slightly to 5% while Decision Analytics grew by 1%. Both Marketing Services and Interactive delivered growth of 9%. At Credit Services, we saw good growth across automotive and business information, and consumer information showed modest growth despite a weakening mortgage environment. At Decision Analytics, we saw good growth in analytics and fraud prevention. Marketing Services' performance remains strong driven by strength in our digital activities, and within Interactive, consumer direct returned to modest growth in the quarter. Transition to a new consumer brand is proceeding well and integration of Mighty Net is on plan. As we expected, there was some moderation in the growth rate in lead generation against strengthening

comparatives. PriceGrabber delivered good growth in its important holiday shopping quarter.

Latin America

In Latin America, total and organic revenue growth at constant exchange rates was 18%. Credit Services organic revenue growth was 16%. Consumer and business information continued to perform well reflecting strong underlying market conditions and further penetration of the SME channel. As previously flagged, the exceptional boost from authentication services has now ended which creates tough comparatives for the next three quarters beginning in quarter four.

UK and Ireland

Turning to the UK, total and organic revenue at constant exchange rates grew by 4%. Organic revenue declined by 1% at Credit Services, Decision Analytics grew by 10%, Marketing Services grew by 2% and Interactive delivered growth of 9%. At Credit Services, a decline in consumer information was largely offset by growth in business information. Lenders remain cautious though some are planning for modest growth as we proceed through this calendar year. Decision Analytics delivered strong organic growth driven by good demand for analytics and fraud prevention and some improvement in software sales. The growth rate in Marketing Services was 2% as clients' budgets stabilised. And in Interactive, CreditExpert growth remains strong on the back of membership growth.

EMEA/Asia Pacific

And finally, in EMEA/Asia Pacific, total revenue growth at constant exchange rates was 14% in the quarter with organic revenue growth of 7%. Organic revenue growth was 24% at Marketing Services and 5% at Decision Analytics. Credit Services declined by 3%. Credit Services performance reflects the weak economic conditions in the more established European markets. Decision Analytics continues to benefit from growth in emerging Europe and Asia Pacific and there was exceptionally good growth in Marketing Services helped by new product offerings across Asia Pacific.

3. Looking Ahead

Looking ahead our expectations remain unchanged. For the full year, we continue to expect similar rates of organic growth for those in the first half and we are targeting modest improvement in EBIT margin.

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

Concluding Remarks

Don Robert

Thank you, Paul. As the end of our financial year is fast approaching and the entire organisation is focused now on closing strong, we are executing well against our global growth programme and continuing to build on the strength of our performance.

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, London

Good morning. I have got two questions please. Don, just in terms of US Consumer Direct, obviously you are going to give more information in nine days' time at the investor days, but I wondered if you could just give us a flavour of what is happening in terms of the transitioning and, you know, why it is sort of faster than your expectations. I am not sure you can wrap any sort of numbers around, transition numbers, and I guess, you know, we were looking at, or you were indicating that this business would not grow for this year to the end of March, and I just wondered what your expectations medium term would be, maybe on a one-on-one one-year view and medium term. Secondly, maybe one for Paul just in terms of any headwinds that you would like to point out, if there are any at all for Q4. Clearly the Brazilian authentication business fell out and might become a little bit tougher for LatAm this quarter but is there anything that we should be aware of, please, for Q4? Thank you.

Don Robert

Okay, Andy. I will let Paul address the forecasting question with regard to Consumer Direct. In general I would just say that what you will hear about at our investor day is a lot about the overall strategy of running a portfolio of consumer brands and segmenting our audience and talking to them very specifically about their own needs according to how the segmentation scheme and the brands match up. So overall I would say that that strategy, along now with the addition of the new URLs that we got with the Mighty Net acquisition, is all performing very well. Just specifically with regard to Mighty Net, that integration is progressing very well, probably ahead of schedule. All of the Mighty Net traffic is being processed on the Experian platform, the integration savings are coming through as advertised, and again, being able to add CreditReport.com and CreditScore.com to the existing portfolio of brands has proved to be a very, very important offering. Paul, do you want to comment on growth expectations going forward from here?

Paul Brooks

Yes, I think from the fourth quarter, we would probably expect similar to the third quarter, so flat to modest growth, and then as we move into next year, obviously we will be looking to grow the business as we move forward. But just to repeat what Don said, I think the integration is going well, and also I should put out a couple of other positives there. We had some good transactional revenue during the quarter, a bit more than we expected which was helpful, and we continue to see improvements in retention rates which are also helping the business.

In terms of the outlook for the fourth quarter and your other question, Andy, there are two issues to bear in mind in the fourth quarter. The first, as you mentioned is the authentication revenue in Latin America Credit Services. It basically started ramping up in the fourth quarter of last year and then was strong through the first two quarters of the current year. Really throughout this period, the underlying trend has been sort of mid-teens growth. Our expectation is to continue in broadly that kind of level, but it does mean in Q4, as we hit this tougher comparative, that the reported rate for Latin American Credit Services is going to come down more to around the 10% level, so that is one factor for the fourth quarter. The other is that we had a very strong pick-up in lead generation activity in North American Interactive in the fourth quarter of last year. Our Interactive growth in the US is actually up over

11% in the fourth quarter of last year. So again, because of that tough comparative, we will expect the overall Interactive to slow in the fourth quarter. So those are two reasons why we continue to guide to the circa 7% for the year, organic revenue growth.

Jaime Brandwood, UBS, London

Morning, Don. Morning, Paul. A few questions if I may. Firstly just on your North American Credit Services business, now that the growth seems to be reasonably well entrenched, are you seeing the typical relationship between volume and price that you have seen historically, so in other words, volumes are up more than 5% but prices are down year-on-year?

Paul Brooks

Actually, in the quarter, we saw little movement in price, and a bit of volume growth. At the moment there are no big movements on prices in as much as we do see fluctuations year-on-year from quarter to quarter. It tends to be more mix effect than anything else particularly as mortgage goes up and down, but I would say at the moment, the underlying prices are reasonably stable in the US business.

Jaime Brandwood

And do you expect that to hold, or would that normal relationship, at least as it would appear to be the case we have seen historically, come back?

Paul Brooks

As you know, our pricing tends to be volume based so as you see volume improve, expect to see some average price reductions.

Jaime Brandwood

And on the UK Credit Services side, are you still standing by the comment which I think you made back at the time of the H1 results that you expected it to be back to growth within two quarters of US Credit Services which I guess would mean that we might see some growth out of UK Credit Services in this coming quarter?

Paul Brooks

We are down. We are at -1% at the moment so we are very, very close to flat. I think it is very touch and go whether, you know, in the fourth quarter whether we stay at that level or get to flat in that sort of area so I think we are approaching the year-on-year growth. We expect to hit it around the year end. Whether before or after is hard to say. You know there is always a bit of noise in the numbers as well.

Jaime Brandwood

And then to follow-up on US Consumer Direct, could you give us a sense of how much you are ramping up advertising spend in that business, now that you have got the new URLs established and so forth; maybe a sense of year-on-year increase in ad spend or anything like that that we can get a feel for?

Paul Brooks

I would say that we are not seeing a big change in the ad spend. What we are trying to do is to deploy more efficiently; particularly with the new brands now, it gives us the opportunity to optimise the marketing to the greatest effect. So no big changes in the spend itself but our aim, and we begin to see this happen, is to see improvements in the productivity of that advertising spend.

Jaime Brandwood

And very lastly, maybe one for Don as well, I know it is kind of a long term thing, but can you give us a road map for Brazilian positive data: how you are going to prepare for this, what the plans are over the next year or two? I guess we might hear more at the investor day.

Don Robert

Well, you will hear more at the investor day but generally speaking, we have been anticipating this for as long as we have been involved with Serasa and as long as we have been talking to you about it, so I think suffice it to say, you could conclude a lot of the work in terms of everything from data layouts to systems work has either been undertaken or it is in process or completed by now. This issue about final rulemaking that is really common to all positive data environments around permissibility, permitted uses of the data, data sharing, consumer protections, what consumers get for free and disclosure pricing is all still up in the air and that could still have an effect on a lot of the physical arrangements around the data. So we do not have a timeframe for when the final rulemaking will be put into place, but I think once all of that is done, we kind of skip over the top, and we would say that the roadmap would involve new products, especially new analytical products, new scores, perhaps consumer direct or consumer disclosure types of products, hopefully an advantageous effect on pricing but very hard to quantify or to time it at the moment. I would just go back to what we have always said, which is that we would hope that positive data, once it is fully implemented, will simply underpin the long-term robust growth profile of the region.

Jaime Brandwood

Just one final one on Brazil. We have had, obviously, authentication, you know, the benefit that had on your revenue growth. Should we be thinking about authentication's impact on Brazilian margins at all? Is that relevant? Is there an element that the margin was a little bit boosted by authentication as well?

Paul Brooks

Actually it is the opposite. The authentication tends to be lower margin so the answer is no. It will not have a negative effect.

Rajesh Kumar, HSBC, London

Good morning. Rajesh. In UK Decision Analytics, if we exclude the impact of public sector, we should still be seeing a 6 to 5% growth if I have not got it wrong completely. Should that suggest that you are going to see a follow-up growth in Credit Services?

Paul Brooks

Sorry, I missed the number you said there. You said some impact on Decision Analytics?

Rajesh Kumar

Yes, in the UK Decision Analytics, you take out the impact of public sector growth which is growing at 20-25% of a \$50 million business, is it not?

Paul Brooks

Well, the public sector, no. There is much more impact than that. The entire public sector business is spread across all segments so, in Decision Analytics, we did get a slight boost in the third quarter from the public sector, particularly the housing benefit contract that we have. So that helped a bit, maybe a couple of percentage points of the growth, but that was it.

Rajesh Kumar

So the momentum you are seeing in Decision Analytics, when do you expect that to translate to Credit Services momentum?

Paul Brooks

Well, where we are seeing the progress in Decision Analytics, it is mainly in consulting and analytics. We have seen account management on the value-added products side and we are also seeing some work on bank integration of software. So I would say that these factors are all suggestive of the fact that certainly some of the UK lenders are now thinking about growth in the current year. So in that respect, I guess it is a bit of a leap factor, but I think overall, as we said earlier, the environment in the UK remains very cautious.

Rajesh Kumar

Okay, thanks. And the other thing is, in terms of your full year capex guidance, does it remain unchanged or do we increase it?

Paul Brooks

No, it should remain unchanged at the levels that we told you at the interims: 340 to 370 million dollars.

Dan Leben, Robert W. Baird, USA

Thanks. Good morning. First off, could you talk a little bit about the growth rates within the business information portion of Credit Services both in the US and the UK/Ireland?

Paul Brooks

Yes, we saw high single digit growth in the US and lower single digit growth in the UK so both businesses are growing.

Dan Leben

Okay, great, and then just within the lead generation, could you talk specifically about the improvements in PriceGrabber?

Paul Brooks

Yes, we had a good holiday period; we saw high single digit growth in PriceGrabber so we are very pleased with the performance. Obviously it is by far the most important quarter of the year.

Dan Leben

So it is safe to assume that education was about flat then?

Paul Brooks

No, we saw strong growth in both the education and lending verticals in the lead generation business, so both of those are performing well as well.

Dan Leben

Okay, great. And then on the Marketing Services side, were there any specific verticals or products that stood out other than just the transition to digital that you had highlighted as being strong?

Paul Brooks

I do not think so. I think we are seeing, particularly in the US, some uptake in marketing spend and it tends to be increasingly focused in the digital area, so we are seeing very good growth in the email marketing business. We are seeing good growth in QAS customer contact software business in the US and nice growth in Hitwise. We are seeing it across really all sectors right now.

Dan Leben

Great. The last one for me; you mentioned the pricing concessions with the UK Government. Could you give us some sense of what the magnitude of those were and then also just the timeframe that you are thinking about to get the volume growth back to where that offsets the pricing concession?

Paul Brooks

The pricing concession is quite modest so it is not going to move the numbers even within the UK Credit Services.

Michael Meltz, JPMorgan, New York

Thank you. Two questions from me. Regarding that last question, Don, in your initial outlook, you talked about the pricing concession in the UK. Are you referring to, going forward, new Fraud Analytics you will be providing or everything you are already doing, such as QAS or whatever else is used by government agencies and then a follow-up?

Don Robert

No, Michael, we were not referring to everything. The UK public sector, the UK Government, just wanted major suppliers to take a little bit of the pain and so there were, as Paul just said, minor concessions on a handful of contracts. It was not necessarily an across the board type of a thing.

Michael Meltz

Okay, and then Paul, just to clarify. I think you said authentication had slowed in Brazil; I think you have been running at mid-teen growth. Are you saying that you did better than the run rate this quarter or was there still a boost in December?

Paul Brooks

It was almost neutral in the third quarter; the reported growth rate is, I think, marginally higher than the underlying growth rate in Q3 whereas, obviously, the reported rate was quite strongly boosted in Q1, Q2 and Q4 of last year. So to give you some numbers on that, we reported I think end of Q4 of last year 21%, and then 22%, 22%. Underlying growth rates were sort of in the low to mid-teens throughout that period.

Michael Meltz

So you were a little above that?

Paul Brooks

We were around the mid-teens in Q3, underlying.

Michael Meltz

And the last point, question. I think North America credit was a +5 with less mortgage benefits this quarter than last quarter it sounds like, so what did better? If you can talk about a few of the sub-segments, which did better in the December period?

Paul Brooks

Essentially non-mortgage origination was a bit stronger year-on-year in Q3 compared to Q2. We got a minor boost you recall from mortgage in Q2 and it was pretty much neutral, pretty much flat, in Q3 so I would say non-mortgage origination, and that is pretty broadly straight across all verticals, financial services and non-financial services. We saw a slightly stronger business information automotive growth as well.

Andrew Ripper, Bank of America Merrill Lynch, London

I was going to ask Don about US credit in terms of looking at some of the indicators like gross lending, credit card solicitations and looking at comments from some of the banks that have already reported such as JPMorgan. I wonder if you can give us a sense of momentum, Don, as we go into the new calendar year. It feels like there is more churn going on in the market and the consumer side of the business is getting stronger. Is your expectation that growth will continue to pick up as a result of that and what are clients telling you right now?

Don Robert

It is hard, Andrew, to equate the current trends to any specific indicators; as we indicated at the half-year results, we almost see the current activity trends in US Credit Services as being a bit disassociated from the broader economic trends and really more related to banks finally deciding that it is time to start to grow again. Now a couple of months on from those comments, I would say that it still feels like we are in an early stage of financial recovery in general and we are seeing delinquencies, moderating in retail loan portfolios, origination activity starting to pick up slowly, and indeed the conversations with our retail bank clients indicate that they do have much more of a growth bias than we have seen before, so they are returning to growth and retail solicitation programs for their products and, of course, that is helping us. In addition, we are still seeing much more measured, targeted ways of finding the clients that they are really seeking and much sharper risk management methodology. So in general, I would say we are not euphoric, but we are feeling good about these trends that have begun and we are expecting very modest levels of growth in North America credit this year going forward.

Andrew Ripper

Yes, okay. Is it an easier environment to sell in products which have a longer lead time in terms of the sales process; so things like VantageScore or some of the analytics products? In terms of the sales guys, do they feel like they are pushing on more of an open door now?

Don Robert

I would say with regards to specifically those Decision Analytic products you just mentioned, those that do have long lead time are far more in demand than anything having to do with software. We are still seeing frozen capex budgets at most of the big institutions in the US and the UK, not so outside of those two markets, and so the more in-demand products are new analytics, analytic refreshes, data mining and

segmentation jobs and tools and related products so long answer to your question, but I would say yes, generally speaking.

Andrew Ripper

Just thinking about the gearing as volume improves in the US. Jaime has already asked about pricing; you suggested that average selling prices are running flat. You have said that costs are starting to pick up a little bit as you resume things like your 401K matching. Is your expectation that you will get some positive leverage on this return to volume growth or do you think we will not notice it particularly in terms of bottom line because there are other elements to the cost equation which are going up?

Paul Brooks

This is a fairly modest growth rate given that we have got some costs coming back in as you mentioned, and also of course, we continue to invest in the business; so I do not expect to see, particularly in the shorter term, much in the way of operating leverage in the US credit business. Obviously, we are seeing good operating leverage in the Latin America credit business so that would be a more significant margin driver.

Carter Malloy, Stephens Inc., Little Rock

Thanks for taking my questions. On the Marketing Services business, you guys have talked about investing additional dollars during last quarter. I am curious if that is playing into the growth rates now, and specifically on the US business, the digital side of the business is going well, but is the traditional list and label type business here in the US picking up as well?

Paul Brooks

It has fluctuated a little bit. In fact, it was down marginally in Q3. It was up in the first half. I think we expected it to be up in the fourth quarter as well, but I would say, in the round, it is certainly holding its own, and as we said before the traditional business is not really a separate business. A lot of it is supporting digital activities and we do see it as an integral part of the business as we move forward.

Carter Malloy

That sounds like CheetahMail, QAS, and Hitwise. Those are all growing double-digits types.

Paul Brooks

That is right. Yes.

Carter Malloy

Yes. I know it is small but can you talk about the EMEA Marketing Services mix as far as geography goes? I was kind of surprised to see that large of a growth number there.

Paul Brooks

Sorry, Carter, I did not quite catch that.

Carter Malloy

On your EMEA Marketing Services business, just a geo mix and what the growth drivers there are.

Paul Brooks

If you look at the overall business, EMEA and Asia Pacific, the main components of it, the biggest is our email marketing business where we are in multiple territories. We are right across Europe and in Asia. That is growing very strongly. The next biggest part of it is our Sinotrust business in China, which is a bit more of a traditional business and is also growing quite well, and then QAS in Hitwise which is also spread over multiple geographies. It is very well dispersed across a lot of countries, mainly developing countries, and you can see very, very strong growth in Q3. We did say it is exceptional. I think the underlying growth is more around the low teens but it is still doing very, very well.

Carter Malloy

In underlying in the US, you said business is expected to stay, here, in high single, medium/low double?

Paul Brooks

Clearly we going to be hitting stronger comparatives as we move forward but you can see the underlying trends are positive so we continue to expect this to be a good growth business for us.

Andrew Grobler, Credit Suisse, London

Good morning. Just one quick question on the EMEA Asia-Pac Credit Services business which has continued to decline, what trends are you seeing in the underlying markets in that operation?

Paul Brooks

It is down marginally year-on-year in the third quarter. In the matured markets generally, we see conditions which are fairly depressed. The main negatives were in Italy, which has been a very tough market for us, and parts of Nordic. Most of the others are more or less stable or in growth mode. Notably, South Africa is growing. We expect the Q4 period to be a bit stronger than Q3 so I think things are trending slowly in the right direction, but there are some tough marketing conditions out there.

Andrew Grobler

It is always difficult to know, but when would you expect that to get back to growth? What are you budgeting for?

Paul Brooks

It was -3% in Q3. It was pretty much flat in Q2. I think there is a good chance that we will be at least flat in Q4.

Don Robert

All right, thank you for your questions everyone and thanks for attending our call today. I am looking forward to seeing all of you I hope in a couple of weeks at our investor seminars: 27th of January, in London, 28th in New York, and there you will have an opportunity to learn more about how we are moving forward with our global growth strategy, so thanks again and Happy New Year. Bye.