Questions and Answers, Part I

Don Robert

Thank you Allen. That is a great story. As Allen said, Business Information is a big part of our US strategy and our US growth. We are now going to move to the first Q&A portion of the programme today, so if you can be thinking about any questions you might have, that would be great. I will chair this session; we have people with microphones that can come to you. I would like to invite our two presenters, Kerry and Allen, to join me, as well as Paul Brooks, our CFO, and Chris Callero, our Chief Operating Officer. Just as a minor point of clarification, Allen, we have 1,000 clients now on BusinessIQ?

Allen Anderson

That is correct.

Andrew Ripper, Bank of America Merrill Lynch

I have a question for Kerry, if I may. You addressed geographic expansion opportunities, and I was interested to note there are about nine countries that you did not identify but pulled out in various regions as possibilities for developing new bureaux. Could you put a bit more colour around that in terms of how you go into those markets – I think you mentioned by build or JV – and what sorts of phasing you might see? The reason I make the point is that nine sounds quite a lot relative to what you have done recently, and given the points you were making about having a platform that could be rolled out more easily, is the expectation that the ROI, if you were to build bureaux from scratch, would be a lot quicker than it has been in the past?

Don Robert

Kerry, you were being a bit cagey in your presentation about where you are going and what you are doing, but what can you tell us about how you like to expand?

Kerry Williams

If you remember the third or fourth slide I showed, the 16 different consumer credit bureaux we have across the globe and the commercial bureaux, it was actually nine different bureaux there that are new since I joined the company eight years ago. We average a little over one per year, and that is even during these last two or three years, with the severe recession going on around the globe. I think you can use that as a benchmark; we would expect it to be maintained at that pace or maybe a little bit better, depending on how things progress. We are not talking about nine all at once. As I said, some are in discussion; some are in detailed negotiations. Discussion would be the ones further out on the time horizon. I do think that, when we look at buying into a market, you would see that as being something that would meet our financial discipline and meet it very quickly, and be positive in terms of our earning streams. In terms of building bureaux in the marketplace, yes I do believe that the technology we have in place will allow us to do it better. I think we have also learnt that you need to have the banks brought in from day one. There are ways to have them brought in from day one, and a lot of the focus we have is making sure we have that in any new organic build. Richard will talk about that later on this morning and show you examples of making sure that the banks are brought in from the beginning. I would say that we have essentially de-risked our technology platforms. Having the banks brought in from day one is another way we de-risk, and then of course our normal due diligence if we were actually acquiring a credit bureau. We would de-risk it through the normal due diligence process. I think that is how we end up looking at things.

Don Robert

I would add that if we are opening about one bureau or expanding into one country, we also usually say no about once a year to a bureau acquisition opportunity, often because the bureaux have been owned by private equity, who have starved them of capital and who have irritated all their clients.

Andrew Ripper

If I could ask a quick follow-up, you also mentioned that attitudes in the Asia Pacific region were changing, and a number of markets that had previously been closed to you in terms of operating a bureau might open up. Can you elaborate on that?

Don Robert

I will elaborate on that a bit. We have certain markets in Asia that I do not think will change. China is a great example of that, where the central bank, the PBOC, wants to own and operate a national bureau. I think there are other markets in Asia where there have been small, government-owned databases: you could not really call them bureaux, but more reference databases that are being privatised. Some of those processes have been public: Vietnam ran a public process to privatise their bureau a couple of years ago. Nothing is of much scale in Asia because all those opportunities need to be developed, but there are spot opportunities, mostly in the privatisation sector, here and there.

Andrew Ripper

Really finally, if you look at the credit business worldwide, the US, Brazil and the UK dominate, and then you have a lot of smaller countries as a tail. If you were going to pick out one or two of those, apart from India, which we are going to hear about later, as offering the best opportunities for growth, what would you highlight to the audience?

Kerry Williams

Clearly India is going to be a fantastic opportunity for us as we move forward. I also think you have to look at positive data in some of the markets. Even though Brazil is one of the large ones that you mentioned, you have to look at that as a very exciting opportunity for us, and also a new leg forward, not just the traditional negative data there. I would look at those two as being very exciting in terms of inside Experian and the way we look at things.

Rob Plant, JPMorgan

Given you are in the business of data, how worried are you about WikiLeaks and increased cyber-attacks on data sources? Do you think you could suffer from reputation hit?

Don Robert

We are very concerned and we most assuredly would suffer from a reputation hit. Chris, do you want to comment on global data security practice and the kind of things we do to protect us from harm?

Chris Callero

It is a great question. In fact, that is the number one worry that you always have, day in day out. In our case, after Don came on board and a few of us followed him, give or take eight or nine years, we recognised this as an area that had been underinvested in, and we have made significant investments since the early 2000s and have continued to do so. In the area of overall risk management, of which information security is one of the heart and souls, we have gone ahead and brought in top-notch industry talent to lead our efforts. We have built programmes around that from a standpoint of managing our operating environment, making the investments in tools and techniques to improve our processes and controls. We look at external experts to help us in managing our overall information security. Then we have an overall risk management governance process that, depending on which direction you want to take it, starts at the region and the business and works all the way up to the Board, by which we have very strong governance around our risk assessments and around information security management, and we feel that it is an area that we need to continue to invest in and stay in front of. We use a lot of techniques to ensure that we are as fortified as possible, but we always have our eyes wide open and we feel very good about the programme, the governance and we feel great about the talent and the accountability that our people have with respect to delivering upon that.

Rob Plant

Have you seen an increase in the number of cyber-attacks on your databases, and have you had any leaks of note?

Chris Callero

I would not comment on anything in particular. I would say that we have done a great job of managing our information security over a period of time. I think everybody is challenged in a variety of different ways, and we manage those as effectively as possible. Where we see something that is of a minor nature and needs an adjustment, we go ahead and correspondingly make an investment or change a process. We put controls in place as necessary. I have great comfort right now in what we have been doing and what are continuing to do, and our commitment to reinvesting in that front.

Andy Chu, Deutsche Bank

A couple of questions: firstly, Don, in your opening you talked about modest investment. I wondered if you can confirm the ranges of investment for 2012 and 2014: is it right to assume $90 million of P&L investment, and around $370 million of CAPEX? Given that the investment is relatively modest, I wondered if you could walk us down through the options in terms of acquisitions. Clearly the focus is on organic growth, but after the MightyNET acquisition, what else might there be in the pipeline? Is it fair to assume, from the very strong cash generation and balance sheet that you currently have, that further share buy-backs might be expected at May results?

Don Robert

The slide that you referenced refers to P&L and CAPEX for expansionary growth purposes, so not necessarily M&A. Your question is a good one. Although this is not necessarily meant to be a financial meeting, I will tackle it. I would expect CAPEX and P&L investment to roughly trend as you saw depicted on that slide, and as you can imagine, we have Paul's blessing before we put it up there. So that is good enough for me. In terms of the M&A pipeline, I think you have seen our M&A activity drop off markedly over the last couple of years, and I think that is reflected in an increased focus on things that are absolutely close to the bull's-eye of the business, unique sources of data, analytics, bolt-ons, in-fills – nothing too far outside of the core. We do have an active M&A pipeline right now, but I do not think there is anything you would consider shocking in there in terms of size. The wildcard is always the timing of opportunities; when things might come together and in what sort of a combination. Did I leave anything out?

Andy Chu

In terms of share buy-backs?

Don Robert

I think we said we would update the market in May at our Prelims on further thoughts about capital structure, including share buy-backs and dividend.

Andy Chu

Just another question, if I may? I wonder if it is possible to give us an update: a couple of years ago at a similar event you broke down Credit Services in the UK and the US between business, consumer, automotive, mortgages; can you give us a split of UK and US Credit Services by these major categories? I think you have already mentioned that Business Information is round about 30% of global Credit Services, but for those two major services regions, can you give us a flavour of what Business Consumer Information looks like?

Paul Brooks

In the UK, very roughly, you have a small automotive and insurance business, maybe 10% or so of the revenue. Of the balance, more that half is Business Information, and less than half is consumer credit.

Participant

Just a few questions. Firstly, on that business info and the $75 million I think you said you are generating at the moment, is that your FY11 projection or is that FY10?

Allen Anderson

FY11.

Participant

Can you give us a sense of how that has trended over the last two or three years, because it sounds like you implemented quite a few new initiatives two or three years ago and growth has picked up. Can you just give us a flavour of how growth is progressing?

Don Robert

Without giving exact numbers, Allen, are you comfortable with the growth?

Allen Anderson

I am very comfortable with the growth. It has been robust up to now and we would expect that to continue with the strong investments we have made and continue to make.

Participant

Equifax is obviously a lot smaller than you there, but if you strip out Equifax's Canada commercial business and you just look at their US progression, they have been seeing really strong double-digit growth of late. I just wonder if you are seeing the same kind of thing as well?

Don Robert

I think we are comfortable in that kind of range. We have to be careful: Allen is right in the middle budgeting and getting targets laid on him, so you will be understanding if he is admittedly cautious.

Participant

Sure. Just following up on Andrew's point in terms of entering new countries, I am just thinking, going back quite a long way historically, but obviously the previous times, when Experian tried to enter Argentina, Canada, Japan and Germany, if you already have a strong incumbent there and you do not go for the buy strategy, then it seems that it is pretty difficult to get in. I was just wondering, in terms of the new countries that you are now targeting, for example, if you take Lat Am, I cannot think of a single major Lat Am country that does not have a pretty well-established credit bureau infrastructure. So how do you avoid a similar outcome to Canada, Argentina etc?

Don Robert

I can take that, and you do have a long memory; Argentina goes back a way. You just referenced a whole range of different scenarios. I think the Argentine bureau was quasi-nationalised about eight or nine years ago. Japan was an issue with a partner and changing regulations, and Canada was a poor decision on our part to enter a geography as a third-place competitor. What we have taken away from that is to compete when we think we have a very high probability of winning. We will always take on a market where we will enter in second place, but I think we would think pretty hard about a third-place proposal. Of course, there are a variety of other factors from client usage to technology to regulatory forces that we always look at as well.

Participant

So Lat Am, for example, would it be fair to say is probably more buy than build in terms of those two country opportunities you are talking about, without identifying the countries?

Don Robert

Latin America is a patchwork quilt, where you have countries that are little bit scary, like Mexico, but with a lot of opportunity, and then you have places where we already have a heck of a good market share, like Brazil, and then everything in between from Peru and Ecuador to Columbia, so there is a little bit of everything in there. I think we have buy and build opportunities off on the horizon in that region.

Participant

Lastly, on the concept of trying to bring more synergy across your different databases and data centres, so the global credit bureau platform, for example, is there ever a scenario here, or is it, from a regulatory perspective, just too difficult to envisage, where you can have on almighty data centre for all your credit information, in the way that the GDS industry has that for travel-related information?

Don Robert

Kerry, do you see that as an eventuality?

Kerry Williams

There is one region that is discussing that, Europe with the EU, so that has been kicked around for three or four years, and continues to be discussed. We are engaged in those conversations. Other than that, I do not see that happening in any of the other regions any time soon, and I am not aware of any discussions around that in other regions

Participant

So all UK data into a US data centre is not likely, and vice versa?

Kerry Williams

I would not say that that is the case. I do believe that we will store data in our large data centres in the UK. For instance, I do not want to steal Richard's thunder, but India will be stored in the UK infrastructure, so we do have opportunities to leverage our scale in that manner.

Charles Wilson, Goldman Sachs

With your more complex credit checking services you are selling to the banks, like the income model, can you talk about banks' willingness to pay, or you would have pricing power on this increased complexity, and also talk about the relative competitive advantage you might have with these products?

Don Robert

In which markets?

Charles Wilson

In the US.

Kerry Williams

The income model was a completely new service that we offered, so that was all incremental. It was a score that we attached to the credit report being provided, so essentially you can classify that as a new product or as a price increase regardless. For essentially the same amount of work we were doing, we were getting more revenue. As I said, just in the last six or seven months it has been several million dollars because the banks had to implement that, and we were the first ones to have that capability out there, modelling it all for the IRS data, so it was a good win for that. I think we classified as a new product, but you could clearly think of it in terms of margin expansion in the way the financials work with that.

Colin Tennant, Nomura International

Thinking about pricing power, when you look at the new segment strategy you talked about moving up to 65%, could you comment on the pricing power across some of those new segments, and what the margin differential might be across those segments relative to financial institutions?

Paul Brooks

Pricing trends are generally very similar. It comes to the use of credit reports. It tends to be volume-based pricing, so pricing is related to the size of the customer's off-take of reports. In terms of margin, the different nature of the cost for the new verticals tends to be in the main having a specialist sales force to actually sell the products into that sector. But I would say in general one would not expect to see big margin differentials as a result of moving from financial services increasingly into the new verticals.

Karl Green, Co-operative Asset Management

You talked about the customer's need for a more holistic view of consumers and businesses, and two areas within that, wealth and capacity. Firstly, you have talked about being able to access current accounts and checking accounts for American listeners. Are you going to be able to mine those accounts, so in terms of looking at individual items of expenditure or income to get a better sense of what people are spending money on and where the liabilities may lie? Secondly, on the capacity to pay, could you just talk about your medium to longer term ambitions about holding genetic information on people, which is becoming increasingly accessible given the speed of computation?

Don Robert

I will handle the genetic question, that is an easy one, and then I will ask Kerry to deal with the data-mining question. We are looking at various types of asymmetrical data for various databases and business lines around the world; genetic data is nothing that we understand or have any use for or are comfortable acquiring at this time. Kerry, do you want to talk about mining things like transaction data at the current account level?

Kerry Williams

It varies by country. In the US the answer would be yes on a specific customer basis in terms of our conversations that we are having today, and working through the contractual agreements. In the UK it is a little more summarised information. Again, back in the US on the credit card information, very detailed; it is all of the attributes, transactions on the cards over the past three years. So each instance is a little bit different and we will end up being able to mine it based on how the agreement works with each one of those instances.

Jessica Alsford, Morgan Stanley

I just have a question on the financial services end market. If you strip out Latin America, I think that that end market has probably fallen by about 40% from its peak. I was just wondering what your views were, and how much of that is cyclical and how much of it is structural in terms of differences in consumer credit behaviour?

Kerry Williams

I am not sure I understood the question.

Don Robert

The question is, that if you strip Latin America out of our Credit Services business and you look at where the business peaked and where it is today, how much of it is cyclical and how much of it is down to behaviour of consumers? It is a tough call to make.

Kerry Williams

I am not sure how to answer that one.

Paul Brooks

I think it is tricky. Clearly we are talking about coming down from an incredibly booming credit market in the US and UK to much more subdued conditions now. So really you have to take a call on the pace of recovery from here, really, to answer the question. Of the 40%, which is probably roughly right, there is a price component there because we did have the impact of the bank mergers in the US and the UK. So that bit of price concession, I would say, has gone. Of the remainder, I think it just depends on the pace of the recovery. But our view would be that we are going to see a very slow, steady recovery, and it is going to take a long time before we get back to the levels of 2006 when it comes to credit activity in the US and UK.

Jessica Alsford

Just following up on that, some of the account cyclical patterns actually helped with the growth, so it was not as bad as it could have been in terms of incremental account management. Would you expect some of those changes in behaviour to stay and not revert back to the lower levels?

Kerry Williams

One of the benefits of the crisis and the recession is that there were many customers that would do their account management programmes even quarterly, and with the regulatory pressure, with the board of director pressure, whether they have gone to monthly or bi-weekly or whatever their particular need is, we do not see that reverting back to quarterly any time in the near future, and so yes, that actually is a benefit out of the crisis, that there will be those elevated levels of business in that area.

Don Robert

Any other questions? Alright, that brings us to a 30-minute break, so let us plan on being back here at 10.40. There are the products and applications that are being demonstrated outside this room, so we hope you get a chance to get around and see them, and to meet us and talk with us as well. Thank you.

Questions and Answers, Part II

Don Robert

With that, let me invite the three presenters onto the stage for Q&A, as well as Paul and Chris again.

Ed Steel, CitiGroup

A couple of questions on Consumer Direct: on the URLs that you showed us the videos for, what does this mean for FreeCreditReport.com? Is that being phased out? Should we think about it as two URLs from here on?

Mike Dean

We are not advertising outside of search and direct access to it, but it still has a large customer base that we are supporting. I would call it a sister company to CreditReport.com. It is a nice marriage of the two.

Ed Steel

That is clear, thank you. You talked about the split between affinity and non-affinity revenue. How has the relative growth performed between those two in the last few years, and is there a margin differential?

Mike Dean

The growth has been equally good between the two, as far as we have been continuing to add to our Affinity base. Then the growth with the latest economy on the consumer side has been a little bit flat, but for the most part we see promise in the future. What was the second part of the product differential?

Ed Steel

Is there a margin differential between the two streams?

Mike Dean

They are the same within the marketing side of our business, relatively. We do not pay for marketing or customer care and things like that on the affinity side, things that we have to do on the Consumer Direct side.

Ed Steel

Are these long-term contracts on the affinity relationships? Have you had much churn?

Mike Dean

Some are long term. We have had no churn since the companies we started back in 2004. Some are long term and some are shorter term, but they are usually one- to three-year contracts.

Tom Walsch, Baillie Gifford

On Consumer Direct and your assessment of the marketplace, the 26 million subscribers: how many of those, if any, are offline, as opposed to online? When you look at that 26 million, that is a frozen point in time. How many lives are being touched every year by these types of products? Is it 60-70 million Americans logging on to this every year?

Mike Dean

For the affinity group, a large chunk of them are offline. That is typically the way financial institutions work with their consumers. They have been working with us to bring them online. It is part of the attraction for them working with us.

As to lives touched, if you have 26 million people and you have people coming in and out of the market, it is somewhere in the 40-45 million range. I do not have anything specific on that.

Tom Walsch

Do you think there is still penetration to go for, or do you think that anyone that is likely to want to use this is already using it?

Mike Dean

Absolutely, when I said 30-40% have been past customers of ours each month, it is has not been past customers of a month before; it has been years past or whatnot. It is a population that is revolving from that perspective.

Tom Walsch

One quick question: obviously the acquisition of MightyNet looks good so far. There are a few other resellers out there; you have Intersections and a few others. MightyNet was partly about getting CreditReport.com, but is it part of a longer term plan of vertical integration of these resellers over time?

Mike Dean

I think at this point our strategy going forward is going to be to stick with our three-pronged approach, and we will address the market and go to it via our affinity programmes rather than the other integration of those resellers.

Tom Walsch

A couple of quick questions on Brazil, I think we had a slide for India where you showed some of the P&L investment that is going through India at the moment. On Brazil, and particularly with positive data coming in and some investment required for that, what kind of P&L, incremental OPEX might we expect in Brazil over the next 18 to 24 months to then start to get that financial benefit from positive data?

Paul Brooks

I think the answer to that, Tom, is that we are still formulating our plans on positive data. We have obviously only just had the news that we have the ability to use it. As yet we have not dimensioned it. As Ricardo said, we already hold some positive data on file; we certainly have the technological wherewithal to house the data. So I would not expect to see a massive incremental P&L investment in order to harvest the benefits of positive data.

Tom Walsch

You have given us a sense of some of the subscription products that you have with some of the SMEs and the prices per subscription and so forth, but just thinking in broader terms comparing Brazil with the US, can you give us a sense of roughly how many credit reports you sell per annum in Brazil versus how many in the US? I think in the US you sell about 600 million per annum.

Ricardo Loureiro

I am not sure about SME but it is around 2 million per day.

Paul Brooks

It is similar to the US, because pricing is broadly similar.

Tom Walsch

Sorry, so for the US, I was completely off then for that 600 million number; is it much less than that?

Paul Brooks

No, I am saying that it is similar, because the revenue now is similar between the Brazilian and American credit businesses.

Tony Foster, Scottish Widows

The Brazilian business sounds very exciting, but how will it cope with a slowdown in the growth of the economy, or even a downturn? What would be the cyclical impact on your business?

Don Robert

Ricardo, what would happen in the event of an economic downturn? Could you continue to grow?

Ricardo Loureiro

Sure. Much of our business is still based on origination, and so we have a lot of room yet to enlarge our business based on triggers, alerts, fraud prevention, and also marketing services and data analytics. So we have plenty of room yet to face that kind of situation.

Don Robert

So more market penetration?

Ricardo Loureiro

Yes, that is a good summary.

Hector Forsythe, Oriel Securities

Could you give us an outline of the lessons that have been learnt from the wider Experian Group from the way that Serasa has operated in Brazil? In the SME channel there is clearly a lot of activity of using resellers; is that the kind of message that you have taken elsewhere into the group and you are accessing in a similar way to those markets?

Don Robert

Just so I understand, would you like to know what Ricardo has learnt from Experian, or what Experian has learnt from Ricardo?

Hector Forsythe

You are all in Experian; it is the rest of Experian from Ricardo.

Don Robert

First and foremost, the culture of the Serasa business that we purchased is unique and phenomenal. It is truly an award-winning place to work, and year after year it is voted as one of the top-five employers in Brazil. So I think lesson number one that we have learnt is that we are trying to fashion more of the Experian culture from the Brazilian culture in order to create more high performance work environments for the people of Experian. We have certainly taken the SME project and success away to the broader Experian network based on what we have seen happen in Brazil, so that is a direct learning from that environment. I think the third thing is we are watching how our Brazilian clients are using a lot of our Decision Analytics tools in a service bureau environment, and that is very interesting for us as well. It may have broader application throughout the company in the future.

Teresa Watkins, Comgest

On the Indian market, you mentioned you have loaded 90% of the data. How much data is there in terms of millions of consumers? Is it negative and positive?

Richard Fiddis

Yes, I think that statistic is to demonstrate that the data is available in the market, we have done a lot of work on data matching – in India it is unique – and being able to load the data means that you are able to categorise it in such a way that it can be loaded onto the database and subsequently retrieved. So the fact we have been able to load 90% is a very good sign. In many emerging markets the data quality is not that high. As a result, you cannot load the data and therefore you cannot drag it back. In terms of the data we are getting from the clients, what the clients are doing is essentially giving us the same files they have been sharing with the existing bureau. Over time, with clients signing up and with that data coming available, we would hope to have a database that would match the incumbent, CIBIL, in terms of the number of records.

Don Robert

I think we have no further questions, so can I just say how much we have appreciated you spending the morning with us? The turnout has been phenomenal. We have enjoyed talking to you and enjoyed your questions. We invite you to stick around and join us for a light lunch outside and to take a look at any of the product demonstrations you have not yet seen. Beside that, I would just say we look forward to talking to you again in May when we announce our full-year results. Thank you.