

Experian Preliminary Bond Investors' Call – 18th May 2011

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1. Introduction

Good afternoon everyone, and welcome to Experian's preliminary results bond investors conference call. For those of you that have dialled into the call, the slides for this presentation are available on the website at experianplc.com. There's a link at the bottom of the homepage that will take you directly to the slides

2. Agenda

With me on today's call is Antony Barnes, Group Treasurer of Experian plc. For our agenda today, I will run through some of the strategic and operational highlights, I will take you through the financials and then we'll move to questions.

We're very pleased with the financial results we're presenting today, which represent successful delivery against our strategic and financial objectives in the year.

They also serve to illustrate the inherent growth prospects of the business and the return on our growth investments.

As usual, as I run through the details, all growth rates down to EBIT are expressed in constant currency.

3. Highlights

Firstly, the financial highlights:

- In the year ended 31 March 2011 we delivered total revenue growth of 10% and organic revenue growth of 8%, with 7% growth in the first half and 8% in the second
- EBIT margin expansion was slightly ahead of our expectations, up 30 basis points to 24.8%, helping us to achieve continuing EBIT growth of 11%.
- We delivered double digit growth in both benchmark PBT and EPS - up 14%, and 10% respectively
- We increased our dividend by 22% to 28.0 cents.
- And we have spent a net \$349m on repurchasing shares.

4. Seven year performance trend

This chart sets out our performance trends over the last 7 years. During a period that encompasses the financial crisis and recession, we've averaged 7% organic revenue growth per annum, and more than doubled EBIT. We have improved margins every year and by over 400bp's in total. And this year we have again converted virtually all our EBIT into operating cash, as we have over the last 7 years.

5. FY11 – progress of global growth programme

A lot of our success is down to our global growth programme, which has taken shape over the past two years - - and we're delighted with the results.

- It includes 20 or so discrete initiatives and collectively they contributed 2 percentage points to organic revenue growth in the year, in line with the guidance we gave in November
- The biggest contributors were;
 - Fraud and ID management, where we've adopted a more unified product approach to the market
 - ProtectMyID - as we grow the consumer protection vertical
 - Great progress has been made in the telecoms and utilities segments, growing with marquee clients, like Vodafone
 - And selling to small-to-mid-sized businesses, particularly in Brazil,
- I'd like to emphasise that while it's all about growth, it's also about being selective. Prioritising the right initiatives to deliver maximum returns.

6. Strategy – Goals

Turning now to strategy, we've placed a lot of emphasis on controlling our own destiny to deliver sustained growth. The five strategic goals we aim to achieve are –

- We're the global leaders in credit information and analytics and we aim to extend that lead through a whole raft of measures - -from data enhancements through introduction of new technology
- We want to drive greater growth from new customer segments – solving problems universal to a whole range of industries, like fraud avoidance
- It's about building scale and profitability in major emerging consumer economies like South Africa, India and China - - and soon Colombia
- We see big opportunities in digital marketing and we're very well positioned in that space
- And we've made good progress this year further strengthening the brand consumers turn to for credit information and identity protection services

We're pursuing growth through both organic investment and highly selective M&A. Let me spend a few minutes on one of our key initiatives – global expansion.

7. Global bureau expansion (Computec)

We've had a tremendous start to the year, with announcements about prospective entry into two new markets for Experian: Colombia and Australia. Let's take a quick look at Colombia.

- On May 3rd we announced a definitive agreement to acquire a majority stake in Computec
- This will bring the market leading credit bureau in Colombia, known as DataCredito, into the Experian portfolio, along with smaller bureau operations in Peru and Venezuela

The asset we're buying is unique

- The Colombian bureau is the market leader, with about a 60% market share
 - It has high brand recognition in Colombia.
 - It has the most extensive database in Colombia, with credit information on c. 20m individuals
 - It is very well integrated into the Colombian banking sector - - all the major banks in Colombia are data contributors and customers
 - And it's financially strong, with all the usual characteristics of a credit bureau – high barriers to entry and high cash generation, and good margins
- So we're attracted to the business and we see a lot of opportunity to bring our global expertise to the Colombian marketplace
- The transaction itself is complex and will take time to complete. We expect to own a sizeable majority in Computec by the end of this calendar year.

8. Global Bureau expansion (Australia)

- Moving on to Australia,
- Two weeks ago, we announced our intention to launch a bureau in Australia in joint venture with six leading Australian banks, subject to regulatory approval. These banks account for about 90% of the retail banking market,
- We know the Australian market very well- -we've been in there for over 15 years - - our Decision Analytics and Marketing Services businesses are very well established and have critical mass

- So we have strong links with the banks and we know there is an appetite for greater choice in credit bureaus, and we're excited about the opportunity

Now let's turn to the details of our financial performance, starting with revenue and EBIT by geography

9. Revenue and EBIT by geography

Organic revenue growth in FY11 of 8% reflected an excellent performance in Latin America, good growth in North America and EMEA/Asia Pacific, and a return to growth in the UK and Ireland.

Total revenue growth of 10% translated into EBIT growth from continuing activities of 11%.

And EBIT margin increased by 30 basis points to 24.8%.

Business Segments

10. Credit Services

Now let's review the numbers for the four business segments for the year to 31 March 2011, starting with Credit Services, where both total and organic revenue growth was 7%.

In North America we've seen a slow steady recovery in prospecting and origination in consumer information, and we saw very good growth in both business information and automotive on the back of our investments in those businesses

Strength in Latin America reflected further progress in SME sector penetration and retail credit expansion in Brazil. The depressed financial services sector led to a subdued performance in the UK. And in EMEA Asia Pacific, we saw strength in South Africa which helped offset some of the challenges we faced in the more developed European markets.

Margin improved by 10 basis points with a strong improvement in Latin America more than offsetting declines in the UK and EMEA/Asia Pacific.

11. Decision Analytics

Moving on to Decision Analytics, here both total and organic revenue increased by 4%.

The big turnaround was in the UK, which had a very strong second half as value-added products and software returned to growth while analytics and consulting stayed strong.

And in EMEA /Asia Pacific we benefited from new business wins in emerging markets such as Turkey and Russia. These more than offset the slight decline in North America.

Margins improved in all regions due to the return to revenue growth and improved revenue mix.

12. Marketing Services

At Marketing Services, total revenue grew by 14% and organic revenue by 11%. The difference relates to a number of small acquisitions.

We delivered growth across all regions. In North America there was particular strength in email and contact data, driven by strong volume growth from existing clients and new business wins. While in EMEA /Asia Pacific we're benefiting from the expansion of our digital marketing footprint. Growth in the UK was slower, held back by cutbacks in the public sector.

EBIT margin improved 350 basis points to 15.9% benefiting from operating leverage and the mix shift to targeted, digital services as we've re-engineered the business.

We are very pleased with the progress we've made on margin – just 3 years ago it was in single digits. And the combination of excellent revenue growth and margin improvement drove a 47% increase in EBIT.

13. Interactive

At Interactive, total revenue grew by 14% and organic revenue by 9%. The acquisition contribution related to Mighty Net, which was acquired at the end of September

Organic revenue growth in North America was 8%. The transition to new consumer brands at Consumer Direct has progressed well, reflected in the accelerating organic revenue growth during the year. The Mighty Net acquisition has also performed well.

There was an exceptionally strong performance in lead generation, particularly in the education vertical, although growth has slowed significantly as we hit tougher comparatives and following some client cut-backs ahead of the implementation of new regulations in July. Growth in this vertical peaked at over 80% in the first half of FY11, so this will impact growth in the first half of the new fiscal year.

And in the UK organic revenue growth was 10% driven by new members and improved retention. The decline in margin to 22.0% reflects the reduction in marketing spend at the end of FY10 and build-up in the early part of FY11 as a result of the brand transition. It was also negatively impacted by the mix effect from faster growth in the lower margin lead generation activities.

14. Group benchmark earnings

Moving on to the lower half of the income statement

- Total EBIT was \$1,044m, which represents 12% growth at actual exchange rates
- Net interest was 71m, reflecting lower average debt levels and a net pension credit of 6m
- The benchmark tax charge of \$220m is at a rate of 22.6% on benchmark PBT
- The minority interest of \$52m primarily relates to Serasa and reflects the strong growth in its profitability as well as appreciation of the Brazilian Real
- This brings us down to benchmark earnings of \$701m, an increase of 8% on last year.
- So with the weighted average number of shares in issue reduced to 1,002 million as a result of the share buyback programme, EPS was up by 10% at 70.0 cents

15. Cash flow performance

Turning to cash-flow. We again delivered very strong cash flow, converting 98% of EBIT into operating cash.

- Capital expenditure rose to \$374m, reflecting increased investment in the business, as I'll describe shortly
- After depreciation of 288m, and a net working capital inflow of 55m, operating cash flow was \$1,028m
- Net interest paid in the period was \$92m, and tax paid was 88m, reflecting a cash tax rate of 9% on benchmark PBT.
- Dividends paid to minorities was 56m, bringing us to free cash flow of \$792m, representing a cash conversion rate of 113% of benchmark earnings.

16. Net debt reconciliation

Turning now to net debt - Closing net debt of \$1,501m was down by \$126m. We started the year with net debt of just over \$1.6bn

- After free cash flow of \$792m,
- We spent a net \$349m to buy-in shares
- There was a net outflow of \$301m from acquisitions, the majority of which related to the acquisition of Mighty Net, while most of the net divestment inflow of 291m came from the disposal of our 20% stake in the FARES joint venture.
- Foreign exchange and other was \$36m
- And total dividends paid to our shareholders in the year amounted to 251m
- This takes us to the net debt of \$1.5bn at the end of the year.

17. Net debt/EBITDA

We ended the year towards the bottom of our target net debt to EBITDA range of 1.75 to 2.0 times, including the value of the Serasa put option.

The value of the Serasa put option increased by \$209m to \$870m at the year-end, reflecting growth in the business, a stronger Brazilian real and unwinding of the valuation discount as we get nearer to June 2012.

Factoring in the cost of the recently announced purchase of Computec in Colombia takes pro-forma net debt to \$1.9bn, a little above the top end of our target range, based on FY11 EBITDA.

Given, the current acquisition pipeline and our expectation that the Serasa put valuation will increase in FY12, we do not intend to initiate a buy back program this year, though we will look to make some share purchases in respect of employee share schemes that vest.

18. Funding

During the year, we completed our 18 month programme to refinance our borrowing facilities. This included:

- The arrangement of new five-year committed revolving credit facilities totalling \$1.7bn, with 13 leading banks
- And the issue of a £400m sterling bond, which we swapped into US dollars

This has enabled us to achieve our objective of diversifying our funding sources and spreading the maturities of our debt.

19. Financial Summary and outlook

And so to summarise: We are pleased to have delivered a strong financial performance, with good organic revenue growth, further margin progression and strong cash flow generation.

As we move into fiscal 2012 we expect another year of strong performance:

- We will continue to invest in the business for growth via the P&L account, capex and acquisitions.
- And while we do expect some variability in trends due to some tough comparables in the first half, for the year we expect to deliver mid to high single digit organic revenue growth, modest margin improvement and further strong cash flow conversion.

And with that, I will turn the call back to the operator for any questions you may have. Thanks very much everybody for your interest on today's call.