

Experian plc

Q3 Interim Management Statement – 17 January 2012

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Part I: Opening Remarks and Financial Review

Don Robert
Chief Executive Officer, Experian

1. Introduction

Good morning, ladies and gentlemen. Thank you for joining us on today's call to discuss our third quarter performance. Before we start, can I just say thank you for all of your many warm-hearted tributes and messages of condolence for Paul. Paul was a truly exceptional guy and a great personal friend of mine who worked side by side with me and others for the last 10 years to shape Experian into the high-performing global organisation that it is today. I know you all respected his considerable intellect and depth of insight. Let's not forget he was a lot of fun to work with as well. He will be truly missed by everyone who knew him.

For today's call I will provide a brief overview of the highlights of the quarter and then we will open up the call to your questions, for which I will be joined by Nadia Ridout-Jamieson and Peg Smith of our investor relations team.

2. Third Quarter Highlights

On a global basis, in the third quarter we delivered total revenue growth of 11%, constant exchange rate growth of 12%, while organic revenue was up 7%. Growth was broadly-based with positive organic growth across all four regions. Credit Services was the real stand-out performer with 15% organic growth, led by exceptional strength in Brazil, which was up 28%, and improving trends in the US.

Strategically, we made further progress against our growth programme. In particular, we saw good performances in our vertical markets including US healthcare, automotive and telecommunications. We also completed the acquisition of Computec in Colombia and announced a few bolt-on acquisitions which add further strength to our Consumer Direct and Decision Analytics businesses.

3. Regions

North America

Total revenue growth was 3% and organic growth was 2%. Market conditions there are improving gradually. The unemployment rate has declined slightly in each of the past three months and over time that should help underpin consumer demand. For now we are still not getting much help from the economy and our performance is instead a reflection of the benefits we are getting from investments in new products and diversification of the customer base.

- Credit Services delivered 7% organic growth, driven by strong performances in business information, automotive and healthcare, and modest improvement in consumer information.

- At Decision Analytics, organic growth was 9%, with good growth in fraud prevention services and risk management software.
- Marketing Services performance remains strong, driven by digital activities.
- At Interactive, organic revenue growth declined 4%. While Consumer Direct continues to make progress on its brand migration, growth was offset by continued decline in the lead generation business, although the rate of decline moderated as we lapped easier comps.

Latin America

Once again, our business in Latin America moved from strength to strength. Total revenue growth was 42%, reflecting the acquisition of Computec and Virid, and organic growth was 27%.

- In Brazil there was very strong growth to Credit Services. Organic revenue growth was up 28%, with excellent growth in both consumer and business information driven by growth from the major banks, who are focused on expanding lending into the SME sector and low income consumer segments.
- There was an exceptional boost from authentication services as Brazilian businesses rushed to comply with the 31 December deadline for digital certificates.
- We are beginning to gain traction in Decision Analytics, where organic growth was 60%, reflecting further progress in scoring and analytics.
- Computec has been included in our total revenue numbers effective 1 October, with growth of over 20% on a pro forma basis. Integration is well underway and we are delighted to add this important business to our Latin America region.

UK

Conditions in the UK lending market are stable but tough. We delivered total growth of 10% and organic growth of 7%, with growth across all four of our business segments.

- Organic growth at Credit Services was 2%. Banks remain focused on customer retention and integration. New market entrants are in early stages of product launch and new vertical markets like telecoms and utilities are yielding strong results.
- Organic growth at Decision Analytics was 4%. As the banks restructure their branch and lending platforms, they are standardising on Experian software products. We are getting good take-up of collection software and fraud prevention services from telco and utilities.
- Organic growth at Marketing Services was 2%; good growth in digital marketing partially offset muted performance in the public sector.

- The star performer in the UK was Interactive, with 29% growth. While the rate of growth was exceptionally strong, we have seen good take-up of the new, enhanced CreditExpert product at a higher price point, and we have significantly improved member retention.

EMEA and Asia-Pacific

We saw good overall progress in EMEA and Asia-Pacific, with total revenue growth of 19% and organic growth of 7% as the business continues to demonstrate resilience in a very turbulent economic environment.

- Credit Services delivered 6% organic growth, driven by new business wins in collections, account management and in new vertical sectors like telecoms.
- Decision Analytics declined 9% as European financial services clients remain internally focused and continue to delay decisions on software projects.
- While organic growth in Marketing Services was 17%, driven by the take-up of digital marketing services.

4. Summary

To summarise, the business is executing well and we are pleased to have delivered another quarter of good growth. We are making good progress against our global growth programme, and that is enabling us to find new sources of growth despite the economic turmoil in some of our regions. Looking ahead, we expect the second half to be at least as strong as the third quarter while, for the year as a whole, we reiterate our expectations of modest margin improvement and strong cash conversion.

With that, I will turn the call back to the operator and we will take any questions that you might have.

Part II: Questions and Answers

Michael Meltz, JP Morgan

Good morning and, obviously, my deepest condolences to Don and his team on Paul's passing. Quite frankly, these calls are not going to be as much fun without him.

Don Robert

We agree, Michael.

Michael Meltz

I will still ask some tough questions though, hopefully. Let me ask you on the organic acceleration in Latin America. I am not surprised that the business is strong, but I am surprised to see such acceleration. Can you give us a bit more detail on what is going on there? I had thought that the digital authentication business was going to be lapping some tough comps and the way you were accounting for it it was going to start to become a headwind. How should we expect that to play out? Then I have one follow-up for you.

Don Robert

First, let's just remind ourselves about the digital certificate business. This relates to a Government rule that began being developed quite some time ago that requires all businesses in Brazil, by a deadline that was 31 December, to authenticate themselves and the person filing their tax records online or with the Government. Experian was only one of two or three approved providers for these authentication services involving digital certificates, so we did see implementation of this start probably 18 months ago, but it began as quite a trickle. Momentum has been building, so you are right we did have some fairly aggressive comps to lap but then there was a big rush of activity towards the end of the calendar year. Without that, our growth in Latin America still would have been in the low 20 percents organically; this put it up to 28%.

Michael Meltz

You are saying the second half will be at least as strong as Q3 in terms of organic revenue growth, so that is a modest tick up in guidance I think for the half. What is different in Q4 versus Q3? Can you remind us whether there are any unique items? I guess Interactive perhaps might have an easier comp, but what else should we think about there?

Don Robert

We see several things are underlying our confidence there, Michael. First of all, we do expect Brazil to remain strong, although probably not as strong as Q3. We do see continued improving trends in the US and UK Credit Services. We do see a bottoming out or a moderation in the rate of decline in the educational lead generation business. Then there is always this lumpiness in Decision Analytics pretty much everywhere in the world, but this time especially in the UK, where we look down the Decision Analytics sales pipeline and that is looking pretty strong for the fourth quarter as well. A combination of all of those things causes us to be pretty optimistic.

Carter Malloy, Stephens

Following up on the last question looking at your US lead generation business, can you tease out the growth in your lead generation versus your Consumer Direct business, what the actual headwind you saw in education this quarter was, and how that plays out going forward?

Don Robert

We did experience mid single digit growth in the Consumer Direct business, Carter. The educational lead generation business was down, pretty much in direct proportion to the for-profit education industry enrolment numbers, so call that mid-teens. The industry will be stabilising and we expect our business to stabilise right along with it. Our PriceGrabber business had a very strong quarter, a strong holiday shopping season, but a lot of that activity was on lower margin business. Without being too specific, there are hopefully a couple of data points for you to use.

Carter Malloy

Going back to the authentication business: given the 31 December deadline there, will that not go from a revenue contributor to a detractor from growth this quarter?

Nadia Ridout-Jamieson, Director of Investor Relations & Communications

Carter, I think the way we would expect that to work out is: we did see this spike in authentication in the third quarter; we would not expect that spike to repeat in our fourth quarter. We would expect the trend rate in Brazil to be pretty consistent with that that we saw in the first half, so something like mid-teens or low twenties. Looking ahead, the deadline for compliance for the social security requirement is in June, so it is possible that we may see a little lump in June as well.

Carter Malloy

That is very helpful, thank you. Again, from us as well our thoughts and prayers are certainly with you guys and, as importantly and much more importantly, to Paul's family.

Don Robert

Thanks, Carter.

Andrew Ripper, Bank of America Merrill Lynch

Good morning, everybody. I have just a couple of questions on Brazil, where the growth rate is pretty stonking despite the slowdown in the economy. Don, can you make some comments about why the credit statistics are still so strong despite the slowdown in GDP growth and issues in relation to the affordability on cost of debt? It seems like the multiplier on credit growth to GDP has widened quite considerably in recent quarters.

Then, with reference to your own business, can you give us an update on where you are in relation to positive data. I think the last comments were that you had over 100 contributors on 20 million-odd consumers, but the big strategic necessity was trying to get the big lenders on board and they were waiting for the finalisation of the consumer regulation. Can you maybe just address those two points, please?

Don Robert

Sure. On the macro side of things in Brazil, as everyone is we are noticing that monetary policy seems to be shifting a bit from one of trying to contain or moderate

growth to the Government now taking various measures to stimulate growth. What we are seeing from the banks specifically is that they are really targeting SMEs to drive growth and really starting to also target emerging classes of consumer to help them gain access to credit. We are benefiting from those two underlying trends as well as this relationship that we told you about in our November interims that we have struck with the largest retail association in Brazil, where we took all of their credit data and put it on our system. The sum total of all of those things, plus very strong growth in our fairly nascent Decision Analytics business there, is all adding up to a very strong growth equation.

In terms of positive data in Brazil there is nothing new to report. We are working very aggressively with all the lenders in our book – big ones, medium-sized ones and small ones – to get them to agree to give us data. We have a lot of it already; there is not a lot of preparation to be done, but this rule-making process just needs to be completed as prescribed by the Government and it is taking a long time.

Andrew Ripper

Do you have any visibility on when that process might complete?

Don Robert

We do not, but as you have noticed in the wonderful use of the word 'stonking' – and Paul would be very pleased at that one, Andrew – we really do not need it any time soon, that being positive data, to continue to grow the business aggressively.

Andrew Ripper

Then, maybe just thinking about the investments that are going in at the moment on the capex side – I know we do not tend to focus on cash flow on these quarters, but thinking about the growth payback from those in areas like analytics, which I suppose was the one area of softness for group in this quarter, and marketing – do you have any meaningful product launches coming through in terms of the Decision Analytics refresh or new platforms for the products within the marketing business that could influence growth in the next couple of quarters?

Don Robert

I would say we are launching a lot of products that relate to that capex. The Business IQ suite that you have seen is, as a result of some significant capex expenditure, making great progress. We have over 6,400 clients on that system now. About a third of those are new to Experian, half of those new ones are D&B knock-outs and the pipeline looks great, so that is very good. Specifically, to answer your comment about Decision Analytics, we are rolling out the first modules of that system now, that we call Anaconda. There have been very enthusiastic reviews from clients and we are staggering the rollout of those other phases over the course of the next several quarters, so that is going very well.

Then, of course, in our digital marketing suite we have had a massive redesign of our email marketing platform that has been going on for quite some time. The first phase of that was released about three months ago to great success as well. Therefore, it is

all there; it is all paying back. It is a lot of capex, but my own view of it is it has been very well placed and the stewardship of those capex dollars has been excellent.

Andrew Ripper

And the Decision Analytics point that you made about the UK, which is I guess the most important part of that division – was that more to do with public sector pickup or was it a combination of new products coming into the UK as well as public sector in terms of thinking about the pipeline for Q4?

Don Robert

The public sector wins that we have had have not been software related. They have been more fraud and authentication related. The Decision Analytics contracts that are in the pipeline in the UK would be from a variety of industries, including financial services, retail and telco.

Andrew Ripper

Finally from me: two of the businesses which are accelerating are at the higher margin end of what you do, thinking about Brazil/Latin America – 34% EBIT margin – and US credits, margin improved I think 20 basis points in the first half of the year. Do you feel that the pace of margin improvement is going to increase in the second half, without being too specific?

Don Robert

No, we really do not. We have guided all year long to modest margin improvement. We are very comfortable sticking with that, and let's not forget that Computech in Colombia, which is a decent-sized business, is going to be modestly dilutive to Latin American margins, so there is a little bit of a drag there. Nadia, do you want to add anything to that?

Nadia Ridout-Jamieson

Andrew, the only thing I would add to that is, obviously, we are seeing strength in Latin America, which is higher margin. Against that we do have a little bit of FX headwind, particularly in the second half of the year. That FX headwind obviously counteracts that slightly.

Andrew Ripper

Thanks very much for your answers, guys.

Will vanderPump, UBS

Good morning, everyone. I just have a couple of further questions on the US Credit Services business. You have obviously gone 4%, 6% and then 7% in terms of organic growth and Don's comments implied that there has not really been any help from the economy, even that falling unemployment rate, just yet. Can we expect to see that

sort of high single digit or above in the coming quarters, particularly given easier or easyish comps for a couple of quarters?

Secondly, on the US as well, there was a new person finally appointed in the consumer protection board. I just wondered whether you had any view on that appointment and what that might mean for the regulatory environment.

Don Robert

On US Credit Services, I think we are comfortable staying in that zone of growth we find ourselves in currently, but it is not necessarily because of the core consumer credit banking franchise. It is more due to very strong growth from our own initiatives around business information, automotive and US healthcare. Those are all growing very strongly and consumer credit in the financial services sector is growing but at a much lower rate. All of that will continue to add up for the foreseeable future to the mid to high single digit growth rate.

In terms of the CFPB, they have appointed this guy called Richard Cordray to be the Director. He has a lot on his plate including about 250 congressional rules and decrees of one kind or another to interpret and implement. It also looks like one of his early targets that was announced last week will be buy here, pay here automobile dealers/lenders. The consumer credit information industry does not really appear to be high on his radar screen as a target. That said, we have met with his people on a couple of occasions; they have been out to see us; we have had very productive conversations. So far, all is peaceful.

Will vanderPump

Sorry, just on the first part of my question again, if you say the strength is more in the other non-financial services areas, do you expect the financial services business to improve over the coming months once you get the benefit of falling unemployment rates, which you have traditionally indicated is a good lead indicator for your business? Is there more growth potential to come in that core banking business in the US?

Nadia Ridout-Jamieson

William, we have always said that we are delighted in the consumer information part of the business if we see low to mid single digit growth, and we are in that range at the moment. We would be very happy going into next year with that level of growth.

Will vanderPump

Fair enough. Thank you very much.

Matthew Walker, Nomura

Good morning. I just have one small question, which is really about Marketing Services in Latin America. It went from a big positive to a decline due to phasing, and I was wondering if you could tell us whether in Q4 that business will be back to double digit growth.

Nadia Ridout-Jamieson

The thing here, Matthew, is that that is a really small business line for us. Basically, what can happen from time to time is if you just get one contract that signs in a different quarter it can affect the numbers. I really would not read too much into it from quarter to quarter. It does tend to bounce around quite a lot.

Matthew Walker

Okay. Just a quick follow-up on the Decision Analytics business in North America: do you think that is going to see an improvement, as you might have hinted already, in Q4 as well, up from 9%?

Don Robert

I am not sure we can get a whole lot more aggressive with that. 9% for that business is a darn good performance. Again, just as with the UK and Europe – depending on how contracts come through; things do bounce around in the Decision Analytics business – but we are seeing very good strength though in software sales and in the fraud business there. I think it stays in that zone, give or take a couple of percentage points.

Dan Leben, Robert W. Baird & Co

Good morning. Most of my questions have already been answered so there is just one from me. There has been a little bit of a slowdown sequentially in the North American marketing business. What were some of the drivers behind that? As you mentioned, digital was pretty strong.

Don Robert

Mostly, it is tough comp there, Dan, and some of it involving the ADS Epsilon situation.

Rajesh Kumar, HSBC

Good morning everyone. My condolences for Paul. Basically, I have three questions. If we look at Brazil, the comments clearly suggest that volumes in credit origination were strong. Could you give us a sense of the split between price and volume in terms of the growth that is coming through? Secondly, could we have a bit of an update on how data collection is progressing in Australia and, thirdly, on the current loss rate in India?

Don Robert

Price/volume relationship in Brazil is about 50:50, as it has been. Moving on to Australia, we are in the process of collecting data and doing the physical development work on the credit bureau infrastructure there. All of our partners are on board. All the Government approvals have been obtained and we expect to be operational some time in the late summer of this year in Australia. Things are clipping right along just according to plan.

In India there has again been great progress there. I think we have a couple of hundred lenders contributing data to us. We are fully operational; we are selling information there; we are bringing new value-added products into India and, without over disclosing on a micro level, these are not huge numbers. I would say in India and Australia combined the start-up bureaus are losing \$10 million to \$15 million a year.

Fernando Delgado, AKO Capital LLP

Good morning and condolences for Paul. I just have one quick question on US Interactive, specifically on the underlying dynamics of the business and the progress of the transition from Free Credit Report to the new brands. Thank you.

Don Robert

The transition is going well and the new brands are growing at an exceptionally strong rate. We just have this very powerful declining tail from freecreditreport.com that had been marketed so aggressively for about 15 years, which is just causing a bit of a drag on growth. Overall though, new brands are kicking in well and new products are doing nicely. Freecreditreport.com is just a heck of a lot stronger than I think any of us had ever anticipated it would be. Net-net that all adds up to low single digit growth.

Fernando Delgado

How big is Free Credit Report at the moment as a proportion of the whole business?

Nadia Ridout-Jamieson

Fernando, we do not really split the revenue down at the level of the brand. What I can tell you is that for North America Interactive as a whole, the Consumer Direct business makes up about 70% or just over of the total revenue.

Closing Remarks

Don Robert

Thank you, everyone, for joining us on the call today and for your enthusiastic reception of our results. We will look forward to talking to you again in May when we present our preliminary results. Thanks a lot.