

# **Interim Management Statement**

**First Quarter – 12 July 2013**

**Experian plc**

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## **Part I: Opening Remarks**

**Don Robert**  
**Chief Executive Officer, Experian**

### **Preamble**

Good morning, ladies and gentlemen, and thank you for joining us on today's call to discuss our first-quarter performance. I am joined by Brian Cassin, who will take you through the financials shortly. After my concluding remarks, we will open up the line for your questions.

### **Introduction**

I am pleased to announce another quarter of good growth. On a global basis, in the first quarter, we delivered total revenue growth of 7% at constant exchange rates, and organic revenue growth was also 7%. We saw growth across all four of our global business lines, with three of the four delivering growth in the high single digits or better. We also saw good geographic balance, which, once again, underscores the importance of the diversity of our portfolio.

We attribute most of our strong performance to successful execution of our global growth programme; in other words, more self-help than help from the market. This has enabled us to significantly outpace GDP growth in the major economies in which we operate. Through our global programme, we continue to focus on the big growth opportunities that will make a difference both now and in the future.

### **Regional Breakdown**

#### **North America**

Let me share some of the main trends that we are seeing today, turning first to North America, where growth in Credit Services and Decision Analytics continues to be underpinned by our success in opening up new markets. Healthcare payments, automotive information and business credit were all bright spots during the quarter, as was the US public sector, where we continue to win new mandates for identity and authentication services. We have made significant progress in the core US consumer-bureau operation, where we are continuing to expand the business by adding new sources of data and bringing more value to clients.

In Marketing Services, while it is still relatively early days, we have had a positive reception to our new Cross-Channel Marketing platform. We are winning major contracts against our toughest competitors in that space and will begin to recognise new revenue from these deals in due course, as we bring the contracted clients onboard.

In Consumer Services, I am delighted to announce that we have signed yet another new affinity contract with a top-five US bank, which will benefit us as we move into FY15, and we continue to work more deals in the pipeline. Progress in developing the affinity channel continues, as we help our clients get into compliance with the new requirements.

### **Latin America**

Our Latin America operations delivered double-digit growth, despite headwinds in Brazil. The Brazilian economy remained weak, with a general slowdown in lending activity. Our growth was driven by our own expansion efforts in Brazil, and we are now starting to see the benefits of our wider regional footprint as our bureaux in Colombia and Peru grow in scale. Also worthy of mention is Decision Analytics, now an increasingly meaningful growth lever as we expand our regional presence and introduce a wider product set into key markets.

More recently, the political situation in Brazil has become more volatile. Recent civil unrest has led consumers to become more cautious, affecting trading conditions in consumer-facing sectors like retail. We are not immune to these effects, and it could temper performance in Brazil if the situation continues for any length of time.

### **UK & Ireland**

Turning now to the UK, where things are generally improving, we have put a big focus on our UK operations over the past year or so, and we are starting to see good results. We have been broadening our data assets to include things like property, rental and collections data, introducing new products like Business IQ, Power Curve and Cross-Channel Marketing, and we are steadily addressing new growth opportunities in telco, insurance and the public sector.

All this puts us in a good position to address some of the emerging themes in the UK, where there is a big focus on enhancing financial conduct in banking, understanding better a consumer's ability to pay, and dealing with the growing demands for identity management and fraud prevention – all positive drivers for our business. Of course, the star performer again was Consumer Services, with organic growth of 30%, exceeding our expectations.

### **EMEA/Asia Pacific**

Finally, while EMEA/Asia Pacific remains a weak spot in the portfolio, performance has been relatively stable. Decision Analytics has steadily recovered in EMEA, following the actions we undertook to refocus the operations, and we continue to see exciting prospects in those refocused markets like Russia, Turkey and South Africa.

With that overview, let me turn the call over to Brian, who will take you through the financials.

## **Part II: Financial Review**

**Brian Cassin**  
**Chief Financial Officer, Experian**

### **Trading Performance**

Thanks, Don. Turning now to trading performance in the quarter, at constant rates growth was 7% and organic revenue growth was also 7%. Due to currency-translation headwinds, total revenue growth at actual exchange rates for the quarter was 5%. We saw growth across all four of our principal activities:

- At Credit Services, organic revenue growth was up 8%.
- We were very pleased with the performance in Decision Analytics, which was back in double digits, up 10%.
- Marketing Services was up 2%.
- Consumer Services growth was 8%.

### **North America**

Turning to performance by region, both total and organic revenue growth was 6% in North America.

- Credit Services grew by 9%.
- In Decision Analytics, organic revenue growth was 10%.
- Marketing Services was up 3% organically.
- Consumer Services growth was also 3%.

Trends in Credit Services have remained fairly consistent. We saw good growth overall, with strong contributions from our investment initiatives. As anticipated, there was some tail-off in mortgage-related revenue towards the end of the quarter, as interest rates rose, but this was more than offset by the strong performance in Prescreen.

Decision Analytics had another good quarter, driven mainly by decision-management-software deployments.

In Marketing Services, we saw growth overall in digital and in data quality. Data revenue was down in the quarter, largely due to residual traditional activities.

In Consumer Services, there were a few moving parts. We saw growth in the affinity – or white label – channel, which offset slight moderation in direct-to-consumer. Direct-to-consumer is still being held back by our decision last year to enhance member-order quality, when we ceased new customer acquisitions through affiliates or resellers. We are now revamping the affiliate channel but it is taking time to build.

## **Latin America**

In Latin America, at constant exchange rates, total and organic revenue growth was 10%.

- Organic revenue growth was 9% at Credit Services and 81% at Decision Analytics.
- Marketing Services declined 7%.

Growth in Credit Services was driven by strong performances in Brazil, Colombia and Peru. Notwithstanding the soft macro environment in Brazil, we saw good growth across both consumer and business information, with growth in the financial-services vertical as well as in newer customer segments.

We made strong progress in Decision Analytics, which reflects growth in Brazil, as we build out our product capability, plus some good progress across other parts of the region, including Colombia.

The decline in Marketing Services was mainly due to the phasing of some one-off data contracts in Brazil, and some weakness in the document-outsourcing business in Colombia.

## **UK & Ireland**

Turning to the UK, total revenue at constant exchange rates grew by 7%, and organic revenue growth was also 7%.

- Organic revenue growth was 3% in Credit Services and 2% in Decision Analytics.
- Marketing Services declined by 1%.
- We had another outstanding quarter in Consumer Services, which grew 30%.

Credit Services is continuing its upward trajectory, with some uptick in transactional volumes in financial services, as well as growth in newer segments like utilities, telecoms and public sector.

While growth in Decision Analytics was low, we do see good pipeline and there is good demand for identity and fraud-management services.

The decline in Marketing Services reflects a moderation in contact-data management, partially offset by good performances in email and data services.

Once again, Consumer Services had very strong growth, as product enhancements drove further membership growth and improved retention rates.

## **EMEA/Asia Pacific**

Finally, in EMEA/Asia Pacific, total revenue growth at constant exchange rates was 4% in the quarter, with organic revenue growth of 3%.

- Credit Services was flat, while Decision Analytics grew by 1%.
- Marketing Services delivered organic revenue growth of 6%.

In Credit Services, we saw strength in Asia Pacific across our business information operations in China and Singapore. While continental Europe was still down in the quarter, we have seen sequential stabilisation.

Decision Analytics was back to growth in the quarter, although modestly so, and we have seen good results from the actions that we have taken there.

Growth in Marketing Services was largely driven by Asia Pacific. Our EMEA business was down in the quarter, and we are winding down a large email contract in EMEA, which has gone in-house this year, so we expect that to be a drag for the majority of the year.

### **Financial summary and outlook**

To summarise, we are pleased to have delivered good growth in our first quarter. Looking ahead, we continue to expect the strength and balance of our portfolio to support premium growth. Notwithstanding recent political unrest in Brazil, which is affecting some consumer-facing sectors and may temper growth in Q2, our full-year guidance is unchanged. We expect mid-to-high-single-digit organic revenue growth, modest improved margins at constant currency, and cash-flow conversion of 90%.

Finally, just as you are working through your models, keep an eye on currency; in particular, the Brazilian Real. We would expect to have translation impact from FX, particularly if rates stay where they are for the rest of the year. I know some of you have already adjusted for this.

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

### **Concluding Remarks**

#### **Don Robert**

Thank you, Brian. We are pleased with our performance this quarter, as we capitalise on the growth opportunities for our business. While there are macro headwinds in some markets, the geographic diversity and balance in our global portfolio acts as a great counterweight, which means that we expect a good outcome for the year as a whole.

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.

## **Part III: Questions and Answers**

### **Carter Malloy, Stephens**

Within the core US Credit Services business, can you describe, ex-ing out the key investment areas, the core credit-bureaux growth and whether that seems to be strengthening? I think you made a comment around Prescreen, so should we expect the cards business there to continue to be a driver?

### **Brian Cassin**

We had good growth in the core bureaux. It is not dissimilar to the outlook that we gave you at the year end: high-single-digit growth in the core bureaux, boosted by stronger growth in the other verticals. I would say mortgage was neutral for us in the quarter. You will remember that, last year, we had a bit of a positive impact from that, so we have seen a bit of a pickup in some of the other segments to compensate a little for that – mostly Prescreen and some other areas, which is indicative of a modest improvement in underlying conditions.

### **Carter Malloy**

Does Prescreen serve as a precursor for the card channel there, going forward? Is that not a good leading indicator, seeing as you are seeing strength there?

### **Brian Cassin**

Yes, a little. I would temper it by saying modest. We are also benefiting from onboarding new clients in there too, so there is some self-help in there.

### **Carter Malloy**

I also saw a surprisingly good quarter of growth out of UK Consumer. Can you just help me understand why that is still occurring and whether or not that is sustainable?

### **Brian Cassin**

We had a very strong finish to the year. We onboarded a lot of new members, which helped us coming into FY14. We continue to onboard new members. We continue to improve retention. Every metric on the business is doing extremely well. New products like DataPatrol are really helping us in all that effort.

### **Carter Malloy**

Given the subscription nature of a lot of that product, is that something that is at least sustainable on a run rate if not able to continue to grow sequentially?

## **Brian Cassin**

I think 30% is a really great rate of growth. It is not what we expected. It is exceeding our expectations, so we are happy to take it, but we think that it will be difficult to sustain that rate for the year.

## **Andy Chu, Deutsche Bank**

First, could you give us an update in terms of how you see data compliance from the banks shaping up ahead of the August bank deadline?

Second, within Latin America Credit Services, I noticed there is no comment in terms of strong growth in Venezuela; I just wondered whether that is a small part of the business via the Computec acquisition.

Third, could you give us a quick update, if possible, as to how the review is going with your new regulator?

## **Don Robert**

In terms of the 1 August deadline, I take it that you are talking about Brazil. 1 August is the deadline by which banks and the credit-reporting community need to come into compliance with the new positive-data laws. I just finished a round of meetings in Brazil, including with several of the largest banks in the country. I think everyone is ready. All the requisite systems and procedures are in place.

What has continued to become very clear to us is that this is going to move at a glacial pace, mostly because of the fact that, for a consumer to have their positive data included in their credit-bureau file, they have to physically sign a piece of paper directing the banks to release their data to credit bureaux. It is going to take a lot of marketing and outreach procedures to get any kind of critical mass there. So far, the banks, while they understand the value of this and are fully in compliance, do not appear to have this as a priority in terms of very aggressively getting those opt-ins out there to the consumers, so do not expect much any time soon.

We do have a bureau in Venezuela that we picked up when we acquired Computec a couple of years ago. We have bureaux in Peru and Venezuela. The Venezuela bureau, while successful and growing, is de minimis in size. We do not talk about it much because of that.

Finally, on the new regulator, CFPB is going along as usual. They have asked us to be very confidential about their activities and our reaction to those, and their reaction to us, so we do not have anything more to say, other than I think that that is just the new state of play with our new regulator.

## **Andy Chu**

In terms of the way that the consumer has to physically sign for data release in Brazil, just remind me whether this is very different to what happened, say, in the UK in the



1980s or Hong Kong in the mid 1990s. Is the process different and, if so, why is it different? Is it government legislation mandating it to be done in a different way?

**Don Robert**

Yes, it is completely different than any other country that we have seen move to positive data. We have never seen a physical opt-in process before. This was part of the rulemaking that happened post the Brazilian legislative change and the President's signature on the legislation. The rulemaking that followed mandated that this physical opt-in procedure become part of the law.

**Andrew Ripper, Bank of America Merrill Lynch**

I wanted to start by asking about US credit, because I think Brian referenced that mortgage was neutral in the quarter, and expectations for refinancing activity are pretty cautious for the next few quarters on the back of rising rates. Do you expect US credit growth to slow down over Q2 to Q4 if mortgage activity reduces and, therefore, it to become a small negative on growth? How is that likely to balance off against all the good stuff that you are doing on non-financial customers and the general thesis that the US economic backdrop and activity is improving?

**Don Robert**

There are several points to make on that: first of all, keep in mind that mortgage, as a percentage of North America Credit Services, is fairly small. We have intentionally reduced our exposure to the mortgage business through resellers over the years, so there is not a whole lot there to begin with.

Second, as you correctly point out, new verticals that feed into core Credit Services are continuing to have a greater and greater impact. Part of the global growth programme, indeed, has been to accelerate growth in things like healthcare, automotive and utilities, for example, so you are seeing the effects of that.

The growth in Consumer Credit in the banking sector will be modest in the next couple of quarters, but nonetheless it is there. Banks are balancing their desire and ability to grow with continuing concerns from regulators over quality and suitability – everything that faces the consumer. It is a little bit of a web of different factors that are sometimes at odds with each other there.

In terms of the economic backdrop in the US, low rates have been fuelling recovery in the housing market in the US, but there is still a pretty substantial level of unemployment there. We would say that it does not feel euphoric; it feels recovering or improving, but that could be fairly fragile. Net-net, however, we would be modestly positive for consumer credit in the next couple of quarters.

**Andrew Ripper**

The feature of the Fed's statistics on consumer credit has been very strong growth in non-revolving and things like student loans, but my impression has been that your

exposure is more on the revolving side. Can you just remind us of the balance of the importance of those two components of the consumer credit numbers?

**Don Robert**

We do not disclose the volume of our activity by product type, but suffice it to say that the card market would make up the largest part of transaction, account-management and Prescreen volume. You then have fixed-term products for autos, mortgages and second mortgages. Finally, the smallest portion, product-wise, would be for unsecured revolving loans to consumers.

**Andrew Ripper**

I just wanted to ask again about the US: on the Consumer Services side, is the reseller channel done now and has it been revamped? If it has, how much benefit would you expect to get in the next quarter or so, as you start to bring in subs through that channel again?

Second, on the affinity win, you talk about getting a benefit in FY15. Maybe you could just remind us as to why it takes quite a long time to onboard subs, having signed the contract with the top-five bank.

**Brian Cassin**

On the reseller channel, it is revamped in terms of new procedures and onboarding people through that channel. We have, effectively, gotten down to the preferred resellers that we want. It is taking longer to build the volumes back up through that, and that was a drag for us in Q1. The comps there do get a bit easier as we go through the year, because we are now starting to lap the point at which we closed it down. I think we would expect it to get modestly better from here. To your question, in terms of whether we expect an improvement in Consumer Services, we do expect a modest one.

On the affinity win, the reason why they take long to ramp up is, first, when you sign the contract, you then have to build the capability to onboard that client, which is a process of extending our operational capability to cope with new volumes, and then going live with the contract at a later point, all of which has to be tested and validated etc. These contracts have very long gestation periods: first, in the winning, because we do testing in the winning; and second, when we sign, they then take a long time to get operational.

**Andrew Ripper**

You need a lead time, then, to put in place the IT architecture to onboard large groups of subscribers with a new brand, essentially, and that, presumably, given you talked about FY15, is nine to 12 months or something like that.

**Brian Cassin**

Yes, it is, and that is a typical period.

**Andrew Ripper**

Your outlook is based on the full-year guidance. In terms of the shorter term and the second quarter, do you expect growth to be similar to Q1, and do you expect any of the major businesses to be materially different over the next three months or so?

**Brian Cassin**

There are a few factors in there that we have referenced, like the uncertain element around the Brazilian protests, so we could see Q2 Group growth dipping a little. I think it is more likely somewhere in the 6-7% range, which will determine what happens in the short term. We are very comfortable with the overall outlook for the year, in line with the guidance we gave at the year-end, which is mid-to-high, modest margin improvement, and we are still on track for that.

**Robert Plant, JP Morgan**

With the backdrop of a weakening Brazilian economy, which you have faced over the last year or so, and the civil disturbances, has it changed your appetite for Brazil or affected how strategically or tactically you would approach the Brazilian market?

**Don Robert**

The answer is that our appetite for Brazil remains huge. Despite anything that is going on now or in the short term that might be causing a bit of volatility, the long-term structural drivers of growth in Brazil remain extremely enticing; specifically, the upward movement between classes and the emergence of a growing high-consuming middle class in Brazil will really be a big driver of our success there, not to mention the opportunities that we have to verticalise the business and the increasing contribution of our Decision Analytics business in Brazil that Brian referenced. We have a lot of ways to win there in a great country, with great people and a substantial position of market leadership to capitalise on.

**Iain Armstrong, Brewin Dolphin**

Robert just asked about Brazil, but there are another two BRIC countries that are not doing particularly well either. I know that India is very small for you at the moment, but has the situation there made you have any second thoughts on growth going forward in that country?

**Don Robert**

No, not at all. We have the same issues in India, just 40 years earlier than Brazil – or 40 years less advanced. We enter these geographies for the long term, and it is pretty rare for us to lose interest when all of those big structural components are in

place. We are doing great in India, particularly in areas like fraud. We have a fraud bureau there, where several banks are contributing data to us for that. We are doing very good in Marketing Services in India. Our appetite is still strong there too.

**Iain Armstrong**

What about Australia? The Australian economy is also going through a rapid change at the moment too; i.e. downwards. You are just establishing a new credit bureau there, are you not?

**Don Robert**

Yes, that is correct. In partnership with the six largest Australian banks, we launched the bureau in the March timeframe. We have a lot of customers signed up and a lot contributing data. We already had quite a substantial Marketing Services and Decision Analytics business in Australia to build from.

**Iain Armstrong**

Do they positive data over there?

**Don Robert**

It is just coming onto the horizon.

**Iain Armstrong**

Would you expect a glacial pace there as well or might it be faster than Brazil?

**Don Robert**

I would not say glacial, but, because of the size of the country in terms of numbers of consumers who could ever be subjects of credit files and information, it is never going to be a needle-mover for us.

**Iain Armstrong**

Finally, following yesterday's comments from the Ministry of Justice with regard to Serco and G4S, looking through the statements it looked as though the Government is looking at all of its outsourcing contracts that have been given in the last few years. Are you part of that investigation?

**Don Robert**

Not as far as we know.

**Brian Cassin**

Not to our knowledge, no.

**Don Robert**

We would be happy to be, if they wanted to.

**Ian Armstrong**

It is far too early to say, but when you look at some of the contracts that G4S and Serco have been involved with or are bidding for just now, do you think that you may have a slight advantage versus them now going forward, given what has happened?

**Don Robert**

I think that that question is probably pretty far afield from the purpose, intent and benefit of the call. I am not even sure if I could answer it. We are in separate hemispheres there.

**Brian Cassin**

They are operating a very different business model to us, so you cannot really read across what they do to what we do. We have a lot of business with Government, but we are largely providing services, not doing outsourcing.

**George Gregory, UBS**

Referring to Latin America, and particularly Brazil, could you give us a little more colour as to precisely how the protests disrupt your business, and also how the planned strikes might do in the coming quarter?

Following on from that, is there any way you could give us some sense as to the relative magnitude of protest or other disruptions against what appears to be a continuing weak economic environment?

**Brian Cassin**

To give you a practical sense, on the days of the protests, the economy virtually comes to a halt. There are no shops open, so volumes through the retail channel are impacted by that, and that goes on for a few days around those protests. It is a pretty practical impact. We do have some more disruption coming our way in Q2 – we know about that. It is very hard for us to size that precisely. We know that, in the days around it, it does cause some issues, but I think that that is just part of the current environment at the moment.

### **George Gregory**

In terms of your outlook and in giving any sense of the magnitude of disruption relative to, I presume, your prior expectation of an H2 economic recovery, how do both of those fit into your outlook for Brazil?

### **Brian Cassin**

It is very hard to judge how long that kind of unrest goes on for, so that is a bit of an unknown. I would say our targets are unchanged for the year. We could possibly see some softening from that, but we do not think it is material.

### **Raj Kumar, HSBC**

In terms of the Brazilian competitive landscape, could you give us some colour as to what is going on with Boa Vista also trying to build up a database? How do you see yourselves compared to your competitors there?

### **Don Robert**

Boa Vista is really the only main competition that we have there. They combined forces a couple of years ago, some people might recall, with Equifax, which had a struggling business there, so the two of those combined really comprise the primary competition. A couple of years ago, we invested substantially to get all of the information from a broad network of affiliate credit bureaux outside of the main metropolitan areas of Brazil, which has only served to strengthen our position in terms of having the richest information in our database versus Boa Vista. The combination of our existing scale, of Boa Vista's orientation in other parts of the market, and our data differentiation means that we continue to outpace them, I would say, in every way. We do not think that they are making a whole lot of progress in the market right now.

### **Raj Kumar**

In terms of pricing, do you see them trying to come at a lower price point at all, in terms of their offering?

### **Don Robert**

It is very hard to generalise. There are so many sectors, products and segments. I am sure that, from time to time, we see them undercut us in specific bid situations, and we probably do the same to them.

### **Pierre-Emmanuel Causse, Exane BNP Paribas**

First, regarding Latin America, during the full-year presentation you said that low-double-digit organic revenue growth would be achievable this year. Is that still a target that holds at the moment?

Second, could you quickly explain why we had such a big deceleration in organic growth in Marketing Services in the US?

Finally, could you let us know where we stand on the buyback?

**Don Robert**

You were coming through a little faint on the line, so let me see if I can reiterate what I think your questions were. First, we guided to low-double-digit growth in Brazil earlier; do we still feel that that can be the case?

**Pierre-Emmanuel Causse**

Yes.

**Brian Cassin**

As I said in the answer to the previous question, that remains our target. In terms of whether we could see some softness to that if some of the disruption continues, we could, but we still feel pretty good about where the business is.

**Don Robert**

I believe your second question was on Marketing Services.

**Pierre-Emmanuel Causse**

In the US – the reason for the sequential slowdown from Q4 to Q1.

**Don Robert**

You may recall, if you attended our Investor Seminar in January, or if you saw a replay on the internet, the thrust of our whole Marketing Services strategy, including in the US, has to do with us moving from an email-delivery organisation to a true Cross-Channel Marketing group. We have invested a lot of time and resource in building a new platform. We showed a demo of that product in January. The numbers do not show it yet, but we are seeing very good momentum in that transition from single-channel to cross-channel. In fact, just in the last couple of months, we have had about 50 new client wins with that new platform, so the pipeline looks very strong to us. The rather anaemic numbers that you reference are reflective of that transition, but we think that that is turning around. As we continue to move further away from some of those legacy activities in the US, which are a bit of a drag, things will pick up in terms of the growth rate.

**Pierre-Emmanuel Causse**

Could we see a pickup as soon as in Q2, or is it still too early?

**Don Robert**

We feel that Q2 will not be any worse than Q1, and there is certainly a chance that it could be better.

Your final question was regarding the buyback. What I can say about that is that it is ongoing. Just to remind everyone, it was a \$500 million share buyback that we announced in May. We plan to execute that over the course of the full year. We are executing it and it will just be ongoing.

**Concluding Remarks****Don Robert**

Thanks for your questions, everyone, and for dialling into the call today. We look forward to speaking to you again in November, when we report our half-year results. Thank you.