Experian plc

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Don Robert
Chief Executive Officer, Experian

Introduction

Good morning everyone. Thanks for joining us today at our first half results presentation. We have a good set of numbers to present today, and we are very pleased to do so. In particular, we are feeling very good about the top line growth, about the margin. Cash conversion was excellent in the half, and of course, EPS growth: it is always nice to be back in double digits. When I think about the shape of the results, I cannot help but reflect on the breadth, depth and diversity of the Experian portfolio that has really allowed us to withstand a couple of body blows from the emerging markets. These things are going to happen from time to time, but the moves that we have made, the investments that we have made in prior years have really served to smooth out and protect us from some of those gyrations. We are very focused on a specific set of growth opportunities right now, I would say maybe even a smaller subset than we have spoken to you about in the past. One of those is the healthcare segment, and we will be spending some time today on the acquisition that we announced of Passport Health Communications in the US.

Highlights in the Half

Organic revenue growth was 6%. The breakdown of that was 7% in the first quarter, 5% in the second. Pleasingly, the growth came from all of our geographic regions, and each one of our principal activities. Margins held firm at 26%. That was consistent with the guidance we gave you the last time we got together. We made strong margin improvements in three of our four regions, the outlier, of course, being EMEA Asia Pacific, where we have some restructuring, realignment activities underway. We will talk more about that. Strategically, our global growth programme has continued to serve us very well, and of course, during the half, we made a couple of significant acquisitions just after the end of the second quarter, the first one being in the fraud space – 41st Parameter – and of course the second one the agreement to acquire Passport Health.

Numbers

Total revenue growth was 6% at constant currency, 3%, at actual rates. Organic revenue growth was also 6%. EBIT earnings were up 7% at constant currency, at 3% at actual rates, the differential being weakness in the Brazilian Real versus the US dollar. EPS, again, up 10% at actual rates, and we are pleased to raise the dividend today – the first interim dividend – by 7% to 11.5 cents a share.

Regions

North America

Now I will give a quick trip around our regions, with less commentary about macros issues and more commentary about Experian specific issues. Top line growth was 5% in the half for North America. We are pleased with that, but there is room for improvement. The recovery in the US, the general economic situation, still feels a bit mixed and fragile to us, but despite that we are seeing some acceleration in spend on credit marketing, which is always a good sign. We made great progress in the half in key verticals: automotive, healthcare, and the public sector. I should also add that in the core credit services business, this vertical progress and the acceleration in credit marketing very much helped to overcome a sharp decline in mortgage activity.

Our sales pipelines in the US look remarkably strong right now, especially in the decision analytics space. Our fraud products are very much in demand. Our power curve suite of decision making tools and management tools are very strong. Because of that, we are adding sales resources in a significant way to be able to capitalise on all the opportunity that we see.

In Consumer Services, the Affinity story is still a very good one. We are very focused right now on on-boarding a major Affinity client, and since we last spoke to you we won a top five US financial services Affinity client. These will drive growth in future periods.

Latin America

Much has been said and written about the gyrations in the Brazil economy. We are certainly not immune from that. When you consider the fact that the Brazil economy is still growing – albeit at a fairly tepid rate – it is interesting that growth is coming more from the manufacturing sector and the industrial sector than it is from consumer-facing activities. We have seen quite a slowdown in consumer lending and retail lending in Brazil, and that has touched us. Despite that, consistent with what you will hear about some of the other areas of the company, we are investing where we know we can win. Decision analytics in Brazil is one of those great, able-to-win spaces, and we have made a lot of investment in SME, product features and enhancements, which are starting to pay off.

UK

We are huge UK bulls. Let me just say that. We are very pleased to have a UK business that's growing at 7%. I do not think there are many organisations that can say that. A lot of this is as a result of substantial investments made in prior periods in our UK business around core platforms, new sources of data, staffing up with deep industry expertise and certain verticals: telco, utilities, public sector being three of those. Of course, it has also been a star performance again from our Experian Consumer Services business in the half as well.

EMEA/Asia Pacific

You may recall 18 months or so ago that we began a restructuring of our EMEA business, which was as simple as moving resource out of Western Europe and into places we could win in Central and Eastern Europe. That has paid off quite well for us, so we are now undertaking a similar exercise in Asia. We are exiting or reducing our exposure to markets that have been difficult for us, re-aligning resources, in general going where the action is and where we have a greater confidence in our own ability to win. All of this was under the direction of a new leadership team in Asia Pacific.

Global Growth Programme

We are four years into the global growth programme. It has been highly impactful, centred on new products, new customer segments and geographic expansion. We are looking at it differently now and taking it a step further, because we have identified a subset of these Global Growth opportunities that are much more attractive to us in terms of potential global impact. We are getting behind those in a big way because, quite simply, we can focus resources behind those, and we think that the pay off will be much bigger.

Fraud

At the top of that list is fraud and identity management. Here you see a list of several different types of fraud. This is by no means comprehensive, but generally we are seeing a global explosion in fraudulent activities. It is driven by e-commerce and driven by so many transactions being done involving mobile phones.

Account Opening fraud

This is self explanatory.

Card Not Present Fraud

This will be important as we continue to talk about the acquisition of 41st Parameter. What that is, very simply, is when a person might be in the comfort of their own home, perhaps buying something from Amazon.com in the evening. They have got the card. They are using it, but the merchant being Amazon, never sees the card itself. This is called 'card not present fraud'; a huge area of unfortunate growth in the fraud landscape.

Online Transaction Fraud

This is generally scamming the e-commerce systems, which is growing just as fast as card not present fraud.

Bust Out Fraud

This is an interesting area. It would typically involve a consumer who establishes a couple of credit relationships with a lender – maybe a revolving line of credit in a credit card. They behave themselves for 12, 18 months, stay under the radar of the bank. Then all of a sudden, they bust out of that pattern and run their credit vehicles up to maximum limits with no intention of repayment. We do a lot in this area, just using predictive modelling to spot these guys before they go bad. There are lots of opportunities to help.

Acquisition of 41st Parameter

Device Identification

41st Parameter is the leader in a fraud technology space that is broadly known as Device ID, or Device Identification. Here is what that means.

In most other forms of fraud detection, we are focused upon determining if the person at the other end of the transaction is who they say they are – for example, if they are the ones that should actually be using the credit card that they are using. In Device ID, we do not care about that. What we care about is ascertaining whether the device being used to make the transaction – that being a mobile phone, a tablet, a laptop, or a desktop machine – is a dirty device. Has it ever been associated with a fraudulent transaction in the past? We have been looking at this space for a couple of years.

Industry Standard

We identified 41st Parameter as the leader; indeed, it is becoming the industry standard. Eight of the largest banks in the US have now adopted 41st Parameter technology. Since we've owned the company, in the last month, we have picked up one of the largest UK banks. Interestingly, of our top 25 clients, currently only five are 41st Parameter clients. We see a big opportunity through the Experian relationships to influence the continued roll-out of this product. This gets to a broader issue, and maybe it is a little bit geekier than you had hoped. Increasingly, the view of fraud experts is that it will take a stack of fraud products and fraud technologies to effectively keep up with the bad guys. It is not enough just to have an identity oriented service, but we will need to be layering on things involving Device ID and perhaps mobile telephony to really spot and prevent this kind of fraud from happening. I was going to share this one statistic with you. It is estimated that e-commerce fraud costs merchants in excess of $200 billion annually. This is the extent to which these problems have gone.

Vertical Strategy

Let us touch, for a minute, on our vertical strategy. A little history lesson: in around 2008, less than half of our revenues came from outside financial services. Fast forward to today: more than 70% of the revenue is coming from outside financial services. This has been a very deliberate strategy for us and a very important one, because it leaves us less vulnerable to the cycles of banking and gives us more areas in which we can win. When we think about the subset of our most exciting opportunities, vertically, we identify four areas: healthcare payments – arguably a US opportunity – automotive information, telco and the public sector.

US Healthcare and Passport

If you had been in the audience at our last investor day in January, you would have heard a presentation on US healthcare. This is a vast market, and it is a tangled web of participants, including the ones that you see here. US healthcare amounts for 18% of US GDP spend right now: a massive number. It is growing and it is highly dysfunctional. American families are now paying about 20% of their own costs, even when they are fully insured by blue chip health insurance companies. They are still defraying a large portion of their own costs. Costs have increased dramatically for the providers: hospitals, physicians and clinics. It is forcing these players to become more automated and more systems driven, and to look for other solutions to get around these challenges to growth, and challenges to profitability. Obamacare has not been helpful.

Experian in Healthcare

A little history lesson in Experian's own adventure in healthcare. We started studying this space 10 years ago: we did not want to get into prescription fraud; we did not want to get into patient records. We identified a very narrow niche, which is known as 'revenue cycle management' and that is where we play. What does that mean? Well, what that means is that all we do is help the providers of healthcare – doctors, hospitals, clinics – get paid. This is easier said than done. We entered the market in our Fiscal Year '09 with a small acquisition of a company called SearchAmerica, which was focused on providing information and analytic services to hospitals. On the success of that, a couple of years later we acquired a company called Medical Present Value, which did much the same thing but in the physician market. The business has gone on from there, growing in the double digits and producing margins in the high 20%.

We have had a few years to learn, and in the process of that, we became very familiar with Passport Health, formed a relationship with them and, you might say, began stalking them. We have a definitive agreement signed. We do not yet have US antitrust clearance, but the combination looks like this. It about trebles the size of our US healthcare revenue cycle management business. It creates a clear market leader, where we will now touch 2,500 hospitals with at least one product, 9,000 healthcare providers individually, and in groups of clinics. The company also has an exceptionally strong financial track record. It puts us squarely into a position of market leadership in this very important space that looks like a lot of things we do in other vertical markets as well.

Revenue Cycle Management Wheel

We have a three part build slide coming up here, which will help you understand what is actually involved in revenue cycle management. On this wheel you see a total of nine modules, each of which represents a work stream, or area functionality that, say, a hospital could buy from us. A platform goes in and Passport has the most robust and functional platform in the space. Ultimately these nine functional modules can be activated. We are very happy to activate one to start with, and the sales strategy here we call land and expand: get in there with anything and then worry over time about a cross selling and up selling methodology. Back to 2008: our first transaction covered nine spots on this wheel. We picked up two more with the MPV acquisition, and now with Passport we have got all the spots on the wheel covered. These involve things like ensuring that the patient's information is taken correctly into the system, keeping the database clean and organised – because bad information costs organisations a lot of money – and helping determine if the patient is eligible for charitable care, if they are having trouble coming up with the out of pocket expenses. It also involves helping the healthcare provider prioritise their activities around the debtor book, and around patient receivables: who should I work on first? Who should I neglect? We do that through behavioural analytics using a lot of information. It is very, very fundamental to the space. It has big fraud implications as well, opportunities for us, and digital marketing opportunities as well. These hospitals are now very taken with this shocking thought of patient engagement: maybe we should operate a little bit like a hotel, and try to get them to come back. It is all good for us.

Coverage

Our coverage now grows from 500 hospitals to 3,000 hospitals. That is about 45% of all hospitals in the US. As I said, cross sell opportunities are significant: our product range goes from 14 to 28. We have completed the suite that you just saw. It allows clients just to deal with one provider versus a web of several. There are data opportunities here as well that are completely unexploited.

Closing Comments

Just to wrap up my part of the presentation: again, strong performance in the half, despite some very stiff headwinds in our emerging markets. We are very happy with the organic investments that we have made over the years. Nowhere have you seen that more than in our UK business. Because of our optimism in the sales pipeline, we are adding expense in the form of sales resources to capitalise on those and execute them. We are now focused on a smaller set of bigger growth plays, and that is not to say that we are neglecting the others; however, we are resourcing the most impactful ones in a bigger way. Again, a couple of very key, very core, very strategic acquisitions that we expect to power growth, medium and longer term in the business.

With that, I will turn it over to Brian, who will give us some financial commentary.

Part II: Financial review

Brian Cassin
Chief Financial Officer, Experian

Introduction

Thanks Don. Good morning everybody. I am going to take you through the detailed aspects of our half year results. Just a reminder: as usual, all growth rates down to EBIT will be stated at constant currency.

Key Highlights

Let us just recap. We had total and organic revenue growth of 6%. We maintained margins at 26% and we delivered 7% EBIT growth for the continuing activities. Earnings accretion attributable to the Serasa minority buy-in led to growth in EPS of 10% for the half. We had a very good cash outcome, with operating cash conversion of 84%, compared to 74% in H1, equating to 18% growth in operating cash flow. I am going to focus my comments today on the regions to give you an overall perspective on performance.

North America

North America delivered organic revenue growth of 5%. We saw good growth in credit services. Mortgage volumes came off slightly faster than we expected. We did see strong growth across other product lines, including prospecting and account management. We also saw double digit growth across key vertical segments, including healthcare payments. Growth in decision analytics was 4%, and we do expect this to pick up in H2, driven by strong growth recently in public sector authentication volumes. Marketing services was up 2% with growth in email, contact data, and digital advertising offsetting a decline in more traditional data services. We are getting good traction with our new cross-channel marketing platform. We built up a decent pipeline of prospects and we are starting to transition clients on to this platform. Consumer Services lagged our expectations a little. Our partners in the Affinity channel are focused on compliance with new regulatory requirements, and we did see some impact on our activity levels as a result. We saw very good EBIT margin progression in North America – up 70 basis points – which reflects operating leverage, as well as cost efficiency net of re-investment in growth initiatives.

Latin America

Organic revenue growth was 7%. As Don referenced, our business in Brazil has been affected by the macro environment, although not all parts of the business were affected equally. Growth in credit services was 7%, which breaks down as mid-single-digit growth in Brazil, and strong growth in our other Latin American bureau markets. Growth in Brazil was driven by business information, which benefited from new features arising from our CNDL data partnership, helping to offset the effects of slower growth in lending, and a reduction in delinquencies, which affected one of our product lines. We had strong growth in decision analytics, really reflecting good implementation on power curve, and good demand for fraud prevention products. Marketing services was impacted by some client postponements in Brazil and some weakness in the document process outsourcing business in Colombia. Since the half year end, we have divested the document outsourcing business, which will be treated as a discontinuing item for the full year. We saw good progression in margin for Latin America: up 120 basis points, largely due to positive operating leverage.

UK & Ireland

Organic revenue growth was 7%. Growth in credit services was 3% with both consumer and business information performing well, helped by new customer segments, and a good performance in the SME channel. While growth in decision analytics was just 1%, we continue to see good pipeline, with several large bids now underway. Marketing services was flat for the half, but in Q2 it posted its first positive growth since early 2012. So, it now appears to be on a good trajectory. Once again, consumer services performed very strongly, really relating to improved customer offers, and reduced churn. While we expect this growth to continue to be strong, we do expect the rate of growth to moderate from the levels that we have achieved in the first half. Overall, UK margins improved by 130 basis points, again due to positive operating leverage, and cost efficiencies net of growth reinvestment.

EMEA/Asia Pacific

Overview

This has been our most challenged business operation. As Don referenced we are undertaking several actions, with the focus of attention now switching from EMEA to the Asia Pac region. Overall, organic revenue growth was 4%. It splits down. The credit services growth was 1%. We have started to see some sequential stability in our European credit bureau, and we continue to enjoy good growth in our business information bureaux in Singapore and China.

Decision Analytics

EMEA reverted strongly to growth, which really follows the actions that we have taken over the last 18 months to reposition that business. That growth was partially offset by weakness in DA in Asia Pacific, and we have embarked on a similar turnaround exercise in that business in Asia Pacific, as we did in EMEA.

Marketing Services

Marketing services has experienced good growth, although again, we are taking some clean up actions in Asia Pacific. The reported loss in EMEA/Asia Pacific is down to really three things: the weakness in some of our markets; the wind down of a large contract in EMEA, which I referenced in Q1; and also some increased investment in the Australian Credit Bureau.

Margin

To summarise the main margin drivers by half, you can see the very strong performance in three of our regions offset somewhat by the swing in EMEA/Asia Pacific to leave us flat overall, year on year. That is as predicted, and a very good performance.

Revenue Performance

Just moving to revenue and performance by business line, it is pretty pleasing to report that three of our four segments reported growth in the mid to high single-digit range. Also, it is particularly pleasing to see acceleration in decision analytics, which is responding to the investments and repositioning actions that we have taken over the last two years. Marketing services was the lowest growth segment, probably the most affected by some of the macro challenges that we are facing.

Group Income Statement

Total EBIT was $608 million, to give growth at actual rates of 3%. Our net interest increased to $35 million, largely due to the additional debt from the Serasa buy out. This gave us benchmark PBT of $573 million, which was up 2%. The benchmark tax rate rose to 27%, in part a result of growth in higher tax jurisdictions. There was a reduced charge in non-controlling interests as a result of the Serasa buy in last year, which gives us benchmark earnings of 418 million, up 9% on the prior period. Benchmark EPS for the half was 42.5 cents, up 10%, which reflects the impact of the buy back. H1 is traditionally the weaker half for cash flow.

We are very pleased to convert 84% of EBIT into operating cash. That is up from 74% this time last year. It is largely as a result of a reduction in our expenditure and capex. Capex was $182 million, and after depreciation of $177 million, and a net working capital outflow of $92 million, our operating cash flow was $511 million, which is up 18% on last year. Net interest paid in the period was $32 million. Tax paid on continuing operations was $77 million, which after dividends paid to minorities brings us to free cash flow of $400 million, up 27% on year end, and a cash conversion rate of 96% of benchmark earnings.

Net Debt

We started the period with $2.9 billion of net debt. As mentioned, free cash flow was $400 million. We spent $64 million of acquisitions in the period with both 41st Parameter and Passport happening after the period end. Spend on net share purchases in the period was $322 million and we also paid dividend to share holders of $236 million. We had $41 million of exceptional cash costs in relation to the cost efficiency programme, and after $45 million cash in flow from discontinued operations and other items, which takes us to $3.2 billion debt at the half year end.

Capital Expenditure

Before I turn to post-balance-sheet events, let me just say a quick word on capital expenditure. This chart sets out our capital expenditure as a percentage of sales over the last few years. It peaked at just around 10% in FY12, as we undertook a number of initiatives to support our growth. We had indicated that we felt that the capex would come off that level. It has, and while we do expect capex to continue to grow in line with the business, we do anticipate that the growth will moderate. We are now looking for capex in FY14 to be closer to 9% of sales.

Acquisition of Passport Health Communications

As Don said, we have agreed to acquire Passport for $850 million in consideration. This will be funded from our existing committed banking facilities. The transaction is subject to antitrust clearance, and they currently anticipate closing in mid to late November. We expect revenue of $121 million in this calendar year, representing growth of around 23% organically. Next year, we expect the business to deliver $145 million of revenue, 84% of which is already booked and contracted, given the subscription based nature of the business. For this business, we would look for EBIT margins in the high 20s, including some synergies, and the transaction will enhance earnings immediately upon closing.

Capital Allocation

When allocating capital, it is our aim to strike a balance between balance sheet prudence, funding our growth plans, and returns to shareholders. We have a target net debt to EBITDA range of 1.75 to two times, which we are prepared to exceed for the right investments, and have done so before, given the strongly cash generative qualities of the business, and the fact that we can de-gear relatively quickly. This is the model that we followed with Serasa, both the first acquisition and the buy in last year. Following the acquisition of 41st Parameter, and the agreed acquisition of Passport, our net debt will be around $4.2 billion, which will put us above our target range. For this reason, we have elected to stop the share re-purchase programme. Year to date, we have purchased around $370 million, so we are largely through the programme in any event. By the year end, we would expect net debt EBITDA to drop from the level post the acquisitions to around two and a quarter times, subject to future trading, and M&A. Of course we will give our usual capital allocation update in May when we present our full year results.

Other Modelling Considerations

We expect net interest for the year to be in the region of $75 million to $85 million, subject to completion of the Passport Health acquisition. Our benchmark tax rate is expected to be 27%, and as I mentioned earlier, we expect capital expenditure to approach around 9% of full year revenue. We expect the weighted average number of shares in issue for the full year to be 980 million.

Summary

To sum up, we delivered a good performance in the first half with 6% organic revenue growth, maintained margins and a strong cash outcome despite the headwinds that we experienced in emerging markets. For the second half, we expect organic revenue growth to be in a similar range as the first half, and we continue to expect modest margin improvement at constant currency, and to convert at least 90% of EBIT into operating cash. With that, I hand it back to Don for questions.

Summary

Don Robert

Thank you, Brian. To summarise, I will just say that, again, we have made great progress in the first half, both strategically and operationally. I think a lot of that is down to the capital investments that we have made in some of the prior periods that are now bearing fruit and driving growth. We are well positioned to win in the places that we really want to win badly. The pipeline that we have visibility into right now gives us optimism to the extent that we have been hiring pretty aggressively in the sales area to be able to better execute on those, and move them out the other end of the pipeline. I would also add that our ability to augment organic growth with acquisitions is absolutely critical, and when we see an opportunity as the ones we have seen, firstly in the fraud and identity space – that is arguably our best global growth opportunity at the moment. To be able to move on a highly necessary, soon to be indispensable technology driven acquisition is a great opportunity to have. Vertically, to be able to move into a position of market leadership in an area like US healthcare, arguably right in our sweet spot with lots of synergy opportunities, information derivative opportunities, is also one that we are extremely grateful for. We are optimistic for the second half, and I think we will now move into Q&A.

Part III: Questions & Answers

Robert Plant, J.P. Morgan

Organic growth was 7% in Q1, 5% in Q2, and the guidance is 6% in the second half. Is that because you think some of the markets are going to improve, or were there more one-off effects in Q2? I am thinking about the US government shutdown, and in Brazil there was a lot of political turmoil as well.

Don Robert

I do not think we see any one off activity, but just general trending in the right direction. Brian?

Brian Cassin

No, there were, as you referenced, some of those events, but we do not think that they had any real material impact on us in the half; maybe a little at the margins. What we saw in Latin America was the economic impact feeding through into our business. As we called out in the presentation, in terms of North America, we expect decision analytics to do better in the second half; we do expect that to be a good performance this year. Our credit services business, once you take into account the mortgage impact, is growing very well. We feel pretty good about that.

Ed Steele, Citi

Three questions on Passport Health, please. First of all, you have talked about 45% penetration of the hospital market. How do you see the growth in the next few years being driven? From extra penetration, so you are getting that number higher; or by selling more modules into the existing client base? That is the first question, please.

Don Robert

By the way, that 45 hospitals metric translates into 30% market share of all of the services, and the current set of customers. Over the next few years, I would see the growth being driven more by deeper penetration of existing clients than additional customer wins, simply because that is the most harvestable, low-hanging fruit. There is a much longer sales cycle when considering the large, complex hospitals and clinics that would have to go through a major systems upgrade in order to take us on.

Ed Steele

Thank you. I suppose the second question carries on from that: what is the average number of modules that your combined customer base currently uses, please?

Don Robert

I am sorry?

Ed Steele

What is the average number of modules? You talked about 10, I think. What is the average that your clients use at the moment? That gives us a flavour for what the possible upside is over time.

Don Robert

I do not know. Chris, maybe you do.

Chris Callero, Experian

Directionally, I can give you a response. Don used the term 'land and expand', and particularly for Passport that was their sales strategy: get in there, get a product or two going, and then let us get another one going, and then we will come back around. I would say it is more on the lower end of the 10; if I had to put a number on it, I would say two to three, at best, on average. That is where we see a lot of the upside is on the expand side, and so we are pretty excited about that.

Ed Steele

My final question is on valuation of your purchase: on my maths, 28 times EBIT this year, pointing to low 20s next year. Could you give us a feel for how you have benchmarked the valuation and what your inputs are in terms of DCF assumptions for the next few years please?

Brian Cassin

Our policy is to look to achieve double digit post tax returns on all of our acquisitions; we have achieved that historically. We look at the business itself, whether it strategically fits with us, whether we can extract synergies, how confident we are on that, and on these businesses we are very confident. Some of them are actually immediate in terms of replacing data suppliers. We also look at the growth that we think that business can achieve. Evidence for that is actually the growth that we are actually achieving in our own business. We look for all these characteristics to drive the business to the returns that we can get, and we are confident that we can get that from these acquisitions.

Ed Steele

How many years of double digit organic growth do you assume in your calculation, please?

Brian Cassin

We typically look for a business to get to the double digit post tax return in around three to five years. This obviously depends on the actual business and the valuation. With businesses like this, it is obviously to the maths that we are going to be looking towards the end of that period, but we remain confident that we will get there.

Ed Steele

Okay, thank you.

Paul Sullivan, Barclays Bank PLC

Just on Passport, can you talk about the competitive environment and who your major competitors are?

Chris Callero

A couple come to mind. MD On-line, LexisNexis and TransUnion are our principal competitors in healthcare payment space.

Paul Sullivan

Are they materially smaller than Passport?

Chris Callero

I am not sure if all of our sizes –

Don Robert

MD On-line is slightly smaller, but will be smaller when you consider the now combined entity, branded Experian healthcare.

Chris Callero

We become the leader.

Don Robert

Yeah. Again, this is the addressable market, so back to what I said during the formal presentation, 18% of US GDP, or $3 trillion a year of spend in healthcare in general. Just in our segment – revenue cycle management – the spending is projected to be $3 billion by the year 2017. All of these services that touch payments. There is a lot to go after here.

Paul Sullivan

On Brazil, you have not mentioned positive data. Do we scrub positive data out of the Experian story? Presumably the take up rates have been pretty low, and does it suggest that the years of double digit Latin American growth are now behind us?

Don Robert

At the time that we did the first tranche of Serasa in 2007, positive data was very much in everyone's mind, and it was very much on a landscape. We cautioned at that time, from this podium: do not ever count on it as a major driver of growth. Hopefully it will underpin a healthy growth rate over time, but it will never be a game changer. As we saw the legislation come to the fore, and acted on, and then we got to the final rule making phase of this, and implementation, and then when the rules were seen, there were two big issues with it that have made it difficult. One of those is this whole consumer consent issue, where the rules are that the consumer has to physically sign a physical piece of paper allowing access to their positive data and directing to whom it should go. That is an incredibly difficult thing to achieve in a country like that. The second issue in a country that is known for being highly litigious is great liability to the banks, the furnishers of this information; also, to those of us in the chain of custody and delivery, for any errors in that process, errors of accuracy. In general, what we have seen as we have aggressively gone after opt-ins, and aggressively worked with all the banks – I myself met with the top five in June, chairman, chief executives and chief risk officers – there is no cohesion of thought there as to: is the difficulty in achieving a critical mass of positive data worth the possible liability of putting it into use? Also, will it really drive additional high quality loan production? So, I am less optimistic than I have been in the past about the critical mass nature of positive data. Should you scrub it? I think I would be happy if you did.

Paul Sullivan

Just finally, on the US; can you be a little bit more explicit as to the slowdown from Q1 to Q2, and the impact from just mortgage alone, and give us some colour on the growth verticals – the organic from auto. We talked about healthcare, but all the other growth verticals, just to give us a sense of the mortgage specific slowdown between Q1 and Q2.

Brian Cassin

Specifically in credit services, what we saw was a switch in mortgage from Q1 and Q2. The underlying growth rate in credit services in Q1 and Q2, excluding mortgage, was actually not that different. At the credit services level in the half, there is about 100 basis points drag from mortgage in the whole half. Most of that came in Q2, so you can see that Q2 was dragged down quite a lot by mortgage there. We are seeing really good progress in the core CIS business, and we do feel good about where that business is, and we reference some of the areas that we are seeing it. It is actually happening in strategic accounts. We are seeing more prospecting, more screening activity, and then on the other verticals, we continue to enjoy pretty good and strong growth in automotive, and healthcare. They are both double digit. Business information was softer in H1. We do tend to have a softer H1 in business information; it tends to be stronger in the second half. We expect it to repeat itself. Overall, I do not think there is too much other than mortgage to read into the change in credit services growth between Q1 and Q2. We are not seeing any fundamental difference in the conditions that we enjoy. Chris, could you add to that?

Chris Callero

I think you are spot on. We are well positioned and we work our way through a mortgage market that moved away faster than people thought. I think we are in good shape, and I think the vertical diversification gives us a lot of strength.

Toby Reeks, Morgan Stanley

Could I ask three as well? You talked a little bit about the competitive environment and healthcare. Could you talk about the actual offerings of the competitors? Do they match with the products that you are offering? Secondly, should we think about the similar acquisitions being made in the other focus verticals – quite expensive data, that sort of thing? Then, in Asia Pacific you talked about going where the action is. Could you give us an idea of where that action actually is, please?

Don Robert

Okay, I will take a couple of those, and Chris, or Brian; you can come in on competitor offerings. On the landscape, we do not see any acquisitions that would be analogous to this one in other verticals. Even if we did, the prudent behaviour now, considering the two that we just talked about today, is to take a breath and focus on integration, both culturally and operationally, on leadership, on bedding these things down, so that we get the returns and the synergies out of them that we desire. You will see us hit the pause bottom for a while on deals of this size anyway. Valuation, I guess that would all depend on circumstances, but to add to what Brian said, when you have got a market leader that is doubling in size every couple of years and producing margins in the high

20% and has got the number one technology platform, those are deals that are worth inching up the multiple on.

Moving to Asia, we have had less success than we had hoped in a couple of key areas. One, geographically, has been Korea. We have been labouring away there for the better part of nine years, with really not much to show for it, so we have unwound that position. In Japan, we have an excellent high performing marketing services business, but our legacy business there, decision analytics, has never gotten critical mass for a variety of reasons. That is being wound down as well. Certain parts of our China business have been difficult. Just pure, old-fashioned decisions analytics in China have never really taken hold the way we wanted to. I have been there more times than I can count, trying to understand why, and to talk to clients, so that is in a run off. We have also sold part of our business information company there that involved surveys, consumer surveys to WPP. So, areas where we did not think we could win, where we could not get critical mass, and where the investment and the expense was going to far outweigh the benefit. Generally speaking, the action is shifting to South East Asia. Singapore, Malaysia, potentially attractive. Australia has been a flagship business for us. I would not rule out Vietnam and Thailand at some point, although there is no hurry about that. Those places all have much more desirable characteristics for us than the areas that I have just mentioned. Who wants to take the other healthcare question?

Brian Cassin

On the products side?

Chris Callero

There are a couple of ways to answer that. The first is to recall. Even in our own case, we started back in 2008, and we wanted to learn the landscape. Actually, Passport was the one that appealed most to us in 2008, but too big for our appetite at that time. We did not feel that we were versed enough in the healthcare payments business, and so we started out small, if you will, with SearchAmerica, and then a couple of years later, made the move on Medical Present Value to further round it out. It is just now with Passport that we are able to complete the wheel as we articulate the marketplace, and we articulate the product sets. It might have been in Don's slides, so sorry if it is a repeat, but we actually go from about 14 products to 28 in the war chest, which is pretty substantial. Also, key to point out is, we are able to offer products and services. In many cases unique to us because of our capabilities, whether it is in the area of fraud and ID management that we can lace into our offerings, whether it is in the area of debt management, collections – which we pointed out already. That is unique with what we have with our data analytics, planning our decision analytics tools on top of this.

Also, even in something as basic as address management we will kick out a supplier, and we will put in our QAS capabilities, which are far superior. I look at it and I say, 'We have got all of the parts of the wheel connected now; how deep do we go with each of those parts?' Just having the parts of the wheel is not sufficient enough; it is how you package your offerings up, and how you create more differentiation, particularly in this marketplace. I would say we are well positioned competitively, relative to these other guys, but at the same time, there are parts of what they do pretty well, and we will pick apart those parts that we need to do better with as a result of the acquisition of Passport.

The last thing that I wanted to come across with is, one of the beauties of Passport is it is a really easy user interface, and it is software as a service, so it implements very easily. It is very smooth. If there is something, particularly in the area of healthcare that is very complex, and has lots of things going on, ease of implementation eases selling and positions us, again, very well with this business.

Toby Reeks

Can I just pick you up on that? In the core healthcare product you have a comparable product with the other players, not including all the fraud and extra bits you can layer on top of it?

Chris Callero

At least comparable.

Toby Reeks

On acquisitions, obviously not in the immediate future but conceptually, are these the sort deals you would be looking to do: big database, high-growth type?

Don Robert

Under the right circumstances we would have to give them serious consideration.

Graham Brown, Cannaccord Genuity

I have three questions. The first: I wondered if you could run us through what occurred during Q2 in your US decision analytics business. You talked about that being stronger and having a stronger outlook for the second half. It looked like it contracted by about 2% during the second quarter. I just wondered if there were any particular segments that were weak and also whether there was an upturn in the business towards the end of the quarter that gives you that confidence?

Brian Cassin

That is in North America, and you are right. We would not read anything into it. It is actually phasing. We have had a good performance in DA and some of the licence stuff. We think the pipeline is still pretty good and we will see an increase from government contracts feeding in during H2. The Center for Medicare has already started so we are already seeing volumes coming through from that. We are pretty confident that we will see an uptick in DA. I do not think there is too much to read into that, Graham.

Graham Brown

Thank you. The second one: you talked about moderation in the growth rate in the UK Consumer Services business. It has been running at a mighty rate for some period of time now. I just wondered first if you would give us a sense of what you think a sustainable growth rate might be in that business. Second, I wondered if you might give us a sense of the drivers behind that 28% growth in terms of price, volume and product roll out.

Brian Cassin

For a number of quarters we have been saying Consumer Services UK frankly is growing ahead of our expectations. We would have expected it to have come off those high 20 growth rates by now. It has exceeded our expectations. Member additions have still remained strong. We have had some pricing benefit feeding into that number too. Also, we have become very effective at managing churn: our retention strategies have been very effective and that all feeds into much better performance.

It is inevitable that the growth rate will come down. We will see it come off those rates. In terms of a long-term growth rate beyond FY14, we should see that move into probably the teens rate of growth. We think that is certainly feasible. I think we will have to talk in May about what we think about beyond that. We do think the growth is there. It is not there at the 28% level for sure. We will see that come off and we should see some of that come off in the second half. It is quite hard to be exactly precise, in response to your next question of what it will come off to: I do not know. We will see some moderation in that.

Graham Brown

Just second to that, I wondered if you might give us a sense of what the price impact might have been of that 28%?

Brian Cassin

Price is feeding into that; it is probably two-thirds to one-third in terms of membership and price.

Graham Brown

Thanks. A final one: you talked about post-tax returns on the acquisitions. I wondered if you could give us a sense of what the tax implications of the acquired goodwill would have on those last two acquisitions. Perhaps if you give us a sense of, based on a high 20s EBIT margin, what the post-tax margin might be?

Brian Cassin

At a marginal tax rate in the US of 40% you can work it out on that basis. Our tax rate in the US is a lot lower than that because of the structural benefits, but when I talk about post-tax returns it is calculated at the marginal rate. We would expect probably to do better than that on a cash flow basis. Does that answer your question?

Graham Brown

I just wondered if you would give us a sense of what percentage tax shield you are getting from the acquired goodwill? That was really the thrust of the question.

Brian Cassin

I do not think we have gone into that level of detail in terms of the actual tax rate in the US. You can see the goodwill at an overall group level takes us down from benchmark to cash tax from around 27% here to around mid-teens. That is the overall. It is mostly goodwill; there is some utilisation of losses and some disallowables, which are in that number. However, the step down from benchmark tax rate to the cash tax rate of the mid-teens is largely the goodwill impact. That is US and Latin American goodwill. These acquisitions will not add a huge amount to that.

Don Robert

Brian, given the broader interest in these transactions and valuation, can you make any sort of a broader comment or observations on how prior acquisitions might be performing?

Brian Cassin

Yes, as a reference, if you look back at all of our transactions since FY08, we split them into mature transactions, so those which were done that are now past their three- to five-year period and those ones we said in the last couple of years. Our returns on the mature acquisitions are well into the double digits on a post-tax basis. Even taking into account the acquisitions that we have done in the last couple of years, which includes the Serasa minority buy-in, we are actually pretty close to it as well. Overall it is a very good track record; most of the businesses that we acquire produce very strong returns. Some obviously do not, but the majority do.

Andrew Ripper, Merrill Lynch

Thank you. I just wanted to go back to Brazil: Don, you mentioned in the commentary today the impact of lower delinquencies. One of the attractions of your business is that you are basically providing services across the credit lifecycle. I guess it is unusual to have a market where both origination activity and delinquencies are soft. I wonder if you can talk about that in terms of what has happened in other markets and maybe give us one or two clues perhaps from other markets of how Brazil might progress from here in terms of those two drivers on the consumer side of the business.

Don Robert

The best way I could describe it is that the Brazil consumer right now is hesitant. Given the fact that this is a country that historically is very comfortable with consumer debt, I think what we are seeing is just a pause as a result of the hesitancy and a more conservative position with regard to the debts they already have in terms of paying them down.

Generally speaking, Brazilian banks do not use analytical tools to the same extent as they are used in the US, the UK and even some of the Asian markets. They are not as comfortable with, for example, behavioural analytics that would help them segment a portfolio of defaulted or delinquent loans that would help them decide how to focus their activity and their recovery activity. It is interesting when you do not have that one-up, one-down situation in the attendant application of analytics; the opportunity for us is just a little bit lower in terms of revenue production.

I cannot think of a specific instance where I have seen that kind of a relationship recently in a mature market where you have both loan production and loan quality at those levels. Anything coming to mind Peg, Chris?

Peg Smith, Experian

Normally what you see is that as delinquencies begin to plateau, portfolio qualities improve and you will see lending [inaudible]. We have not seen that yet in Brazil.

Chris Callero

What ends up happening is once delinquencies start looking good – as somebody that ran a consumer lending business, the first thing you look for is signs of relief, signs of light at the end of the tunnel. Then you start shifting your emphasis back to marketing and getting there before your competitors get there because it is going to be an interesting environment and those who get there first are going to be able to get the positive effect from the marketplace by picking the best customers and the like through their marketing initiative.

It is just very unusual right now that we have both things happening at the same time. I have never experienced anything like this before because my marketing head would be pounding on the door and already going out with solicitations to generate action, either in the branches, over the phone or internet. We will have to wait and see how this develops but I think the key point is the whole country is at a pause. That is largely what is effecting this situation, but it is certainly not long term. Something will break sooner or later; we just have not seen evidence of it.

Andrew Ripper

In terms of the conversations you are having with banking clients, is there an indication the supply side could potentially get more proactive over the next couple of quarters?

Don Robert

Not over the next couple of quarters, but what they are all sizing up is the migration of the Brazilian class system. They grade the classes in terms of letter grade, so they are interested in watching when a D becomes C and a C becomes B and wanting to be able to identify those targets, segment them and be able to underwrite them accurately. That is the biggest medium to longer term opportunity that exists out there. It also takes us back to positive data, which, if it were truly coming into play full force, would be very helpful in this regard.

Andrew Ripper

Secondly, going to the growth initiatives, you obviously made a quite a big pitch on the fraud side, supported by 41st Parameter and you talked about putting more resource behind a smaller number of larger initiatives. Which other of the growth initiatives would you pull out, aside from fraud, in terms of incremental P&L investment – obviously the capex is going the other way – to what degree are you supporting them in terms of increase sales heads? How significant is the ramp in sales activity?

Don Robert

There is one opportunity that I will touch on that transcends fraud as a product offering and our vertical market strategy. That is this: every single one of our vertical market propositions should contain a highly specialised fraud offering. Look at all the different forms of fraud we have: we have equally got the same number of specialised fraud techniques in mobile telephony. The same thing would hold true in healthcare: prescription fraud, misusing the system, medical tourism, things like that. One big focus of ours will be not to spend so much on sales assets but on product development specialists who can help us create very high impact, sharp, helpful fraud solutions.

Vertically, we talked about healthcare and you saw the others that we highlighted including automotive. We are looking for things that contain the following characteristics: they produce information as well as devour information; they need analytics badly; they are global, and if not global, then at least available for exploitation in markets that are important to us. Preferably, they will have some sort of a processing capability as well, because that makes you very sticky to the client, if you take away some of their dirty work and automate that. I'll leave it at that.

Andrew Ripper

Just a tiny one to finish off with: how big was the Colombian document management business, please?

Brian Cassin

We have reached an agreement to sell it. It will come out; it is a pretty small business. It will have an immaterial impact.

Don Robert

We only have time for one more; let us go to Andy Chu.

Andy Chu, Deutsche Bank

I wondered if you could talk a bit more in detail about the US consumer in terms of growth expectations in the second half. I think a question earlier was around confidence into the second half of a 6% growth rate. You have made some comments around the Affinity product in terms of uploading new customers, but what should one expect in terms of improvement in growth rates in US consumer services in the second half?

Then if I could just ask a quick catch up on anything to speak of in terms of the review from your new regulator: what was the cost impact, if you like, in the first half from incremental audit work and incremental prep work, please?

Don Robert

I will take those really quickly. In terms of US consumer, we have two issues there. One is Affinity, as you have already identified. In fact, we have had an amazing run of very sizeable Affinity wins in the US consumer services business. Getting them on board is very difficult, very lengthy, and then stimulating demand for the product in cooperation with the bank or the lender is also a bit of a chore. They take time. We have those rolling out that will probably benefit FY15 more than the second half of this year. There are several coming on stream.

The other issue we have in that business is a little bit of a brand transition where we are trying to put more marketing dollars behind our best brand, which is the Experian brand. Statistically that was not always so, but it is increasingly that way now. Brand migrations, as you saw when we went through the whole free credit report transition, can be a little bit tricky. We still have a big free tail on that business, so I would expect the second half to look similar to the first in ECS. What about you, Brian?

Brian Cassin

Yes, I think traditionally the fourth quarter of the year can be a bit stronger for us, so it is possible you might see a mild uptick but not a significant difference half on half.

Don Robert

Then on your CFPB question, we have been asked specifically by the regulator not to comment on progress of the examinations but I would say at the moment it is uneventful and on-going. In terms of the cost of it, I take a lot of stick from my colleagues about a comment that I made in the January trading update where I threw out a horrendously big number about the potential cost of CFPB. I think I am going to be right on this one: what did I say, $40 million or something like that? When you consider the direct costs of compliance and the opportunity costs that are 100% in the ECS/Affinity space that has delayed our Affinity clients in implementing our programmes because of having to deal with regulatory scrutiny, it gets up into a fairly interesting range. Sorry, Brian, I had to get that out there – I love it when I am right.

Brian Cassin

Can I add to that?

Don Robert

Please – do not correct it, though.

Brian Cassin

In the $50 million that Don called out and the actual $10 million cost that we said that we can identify, we have certainly incurred that in North America in terms of on boarding additional resources from compliance, legal and so on. I would expect that we may well incur additional costs in relation to that going forward. It is a headwind for us.

Don Robert

Thank you for joining us, we look forward to talking to you again in January and we are available for individual questions now.