Experian plc

Interim Management Statement for the Quarter Ended 30 June 2014

Presented 11 July 2014

Contents

Part I: Opening remarks

Don Robert
Chief Executive Officer, Experian

1. Preamble

Good morning, ladies and gentlemen, and thank you for joining us today to discuss our first-quarter trading performance, in this, my last call as Experian's CEO. I am joined today by Brian Cassin, who will take you through the financials following my remarks. At the conclusion of our prepared remarks, we will, of course, open up the line for your questions.

2. Introduction

The results we announced this morning are consistent with the expectations we outlined to you in May at our year-end results presentation. While we are not pleased with flat organic revenues, we did say in May that, in the first half, we would be constrained by a number of one-off factors and by the impact of the transition we are undertaking in our US Consumer Services business. While most of our prepared comments and, likely, the majority of your questions today will focus on these factors, it is also important to recognise that there are some strong and improving performances in other parts of the portfolio.

3. Operational Highlights

Trading Update

The trading environment is stable-to-improving in most of our markets and providing some reason for optimism as we move through the year. In North America and the UK, the environment continues to improve for both consumer and business lending. We are executing effectively and we are fully armed with a portfolio of new innovative products developed over the last few years which put us in a great position to expand further on our leading market propositions.

In the US, we delivered strong growth despite a mortgage headwind. The major card issuers are now focused on growth and driving demand in credit marketing and originations, and we are continuing to benefit from our diversification into new vertical market sectors.

The climate in the UK is in similar form. Traditional lenders are getting back to growth and we are benefiting from increased demand.

Europe has stabilised and actions we took last year to restructure that business are delivering benefits.

In Asia, we are delivering good growth from our new focused approach on key markets in the region.

In Brazil, we are just days away now from putting the distraction of the World Cup behind us. The business environment was generally subdued throughout the duration of the games, as we expected it would.

Recent Acquisitions

We are very pleased with the performance of our recent acquisitions. Passport Health is performing very well. We moved quickly to integrate our sales teams and rationalise our products, and that is paying off with new and larger contract wins. We are integrating our legacy products like collection optimisation directly into the Passport eCare NEXT software, making it seamless and efficient to buy the whole range of products.

At 41st Parameter, we have secured new contract wins in all regions and across a wide range of vertical sectors, making further progress every month on our ambition to take this product global as quickly as possible. We are also embedding the 41st Parameter capabilities with key partners. You may have seen the announcement last month that FICO has integrated 41st Parameter TrustInsight capabilities into its flagship Falcon product to improve their ability to fight transaction fraud while minimising false positives that would otherwise stop good transactions.

These kinds of cooperative, large distribution relationships are good for our clients, good for our customers and good for the growth of our business. I am delighted with the progress we are making with both of these new businesses.

Transition of North America Consumer Services

Moving on to the transition of our North America Consumer Services business, which is progressing in line with our plan, we laid out the situation to you in some detail in our May results presentation, so I am not going to belabour that on today’s call. Instead, I will provide you with a brief progress report on our execution.

The key to success in this transition is to fully invest behind the Experian.com brand to drive higher-quality, sustainable growth. We have now shifted about 80% of our marketing spend to build the Experian.com brand awareness, and it is paying off with strong growth. Our experience has been that the Experian brand attracts a higher-quality member with a longer lifetime value. As we scale that brand, we will continue to measure the effect as a key metric of our success in this transition.

We have launched the first of a series of new television advertisements aimed at educating consumers about the value of our service and de-mything the other ‘free’ products that are in the market today. We have introduced a number of retention tactics aimed at slowing the runoff in our legacy free credit report/free credit score members and, concurrent with our work on the brand, we are developing our next-generation membership products, which will be introduced later this year and which will provide further competitive differentiation that will solidify our market-leadership position.

We are also making slow but steady progress in the onboarding of affinity wins. Univision went live this week with new Spanish-language advertising aimed at a whole new consumer segment, and we are very optimistic about the success of that partnership.

Our transition plan, then, is well underway. We are making good progress, we have a long way to go to get through this, and we will update you again in November at the half-year results presentation.

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

Part II: Financial Review

Brian Cassin
Chief Financial Officer, Experian

1. Highlights

Thank you, Don. Turning now to trading performance in the quarter, total revenue growth at actual exchange rates for the quarter was 4%. At constant rates, growth was 3%. Organically generated revenue was unchanged year-on-year. The difference relates principally to contributions from the 41st Parameter and Passport acquisitions, and some FX benefit relating to stronger sterling relative to the US dollar. By principal activity, organic revenue growth for Credit Services was 2%, Decision Analytics was flat, Marketing Services declined by 2%, and Consumer Services was down 5%.

2. Trading Performance

North America

Turning to the performance by region, total revenue growth in North America was 5%, and organic revenue declined 2%. Credit Services had organic revenue growth of 6%. Decision Analytics was 2%. Marketing Services and Consumer Services declined by 3% and 10% respectively.

We had a good quarter in Credit Services. In consumer information, we saw growth in credit originations, prospecting and other credit-profile lines, which offset the decline in mortgage refi.

Business information performed well, having regained momentum, and we delivered strong growth across both the automotive vertical and our legacy healthcare operations.

While Decision Analytics posted low growth in the quarter, this was largely due to a big comparable, having signed a large software deal last year. In underlying terms, we continue to see good growth in fraud and strength in the software pipeline.

The decline in Marketing Services was driven mainly by our data activities, partially offset by growth in data quality and cross-channel marketing. As Don has already referenced, the decline in Consumer Services was in line with our expectations, and we saw further strong growth in the Experian.com brand offset by attrition in the free brands.

Latin America

In Latin America, at constant exchange rates, total and organic revenue growth declined by 3%. Organic revenue was down 2% in Credit Services, 23% in Decision Analytics, and 1% in Marketing Services.

As expected, the World Cup affected volumes in Brazil due to the reduction in the number of trading days during the tournament. In total, we had five fewer working days in the quarter and the operating environment was generally more subdued during this period.

The drop in Decision Analytics was largely due to a large prior-year comparative in Brazil, and phasing in relation to booking and delivery of software in other parts of the region.

While Marketing Services was also down, the rate of decline has continued to moderate as we introduce new products to secure new client wins.

UK and Ireland

Turning to the UK, at constant exchange rates, total revenue was up 6%, and organic revenue up 5%. Organic revenue growth was 4% in Credit Services, 2% in Decision Analytics, 2% in Marketing Services and we had another strong quarter in Consumer Services, which was up 13%.

Performance in Credit Services was solid, as higher levels of lending activity drove transactions in consumer information, and we secured new client wins in business information. While growth in Decision Analytics is still a bit slow, we are pleased to sign a further new client for 41st Parameter in the quarter.

In Marketing Services, there was a significant contribution from cross-channel marketing, as revenues start build from some of the new client wins, mitigated somewhat by weakness in data.

Consumer Services continues to grow its membership base and improve retention rates. We expect this growth rate to moderate slightly as the year progresses.

EMEA/Asia Pacific

Finally, in EMEA/Asia Pacific, at constant exchange rates, total revenue growth was 4% in the quarter, with organic revenue growth of 2%. Credit Services grew by 5%, Decision Analytics was up 6%, and Marketing Services declined by 5%.

In Credit Services, the majority of our bureaux in continental Europe have returned to growth, and we saw strong contributions from our business-information operations in Asia Pacific.

In Decision Analytics, we delivered growth on the back of PowerCurve deployments.

While Marketing Services declined, it was due to the wind-down of the large contract in EMEA which we previously called out. Excluding this item, Marketing Services performed well.

3. Outlook

To summarise, our performance in the quarter was in line with the expectations that we referenced at our May results. As we look ahead to the first half, we continue to expect the one-offs in North America Consumer Services to detract from growth.

For the second half, we continue to expect a return to more normal levels of organic revenue growth, as some of the one-offs recede, the acquisitions annualise and are counted as part of organic revenue growth, and as we manage our way through the Consumer Services brand transition.

For the year, we continue to expect at least to maintain margins, to deliver growth in earnings per share, and to exceed our 90% cash-flow-conversion target.

With that, let me hand back to Don.

Concluding Remarks

Don Robert

Thank you, Brian. To summarise, while, for a number of extraneous reasons, we have hit a lull in performance, I am reminded again of the enduring qualities of the Experian business. We are taking action and these challenges will soon be behind us. At the same time, we are systematically and methodically investing behind the significant range of growth opportunities, so our optimism for the future remains undiminished.

With that, let me open up the call to your questions.

Part III: Questions and Answers

Kean Marden, Jefferies

I would like to ask three quick questions, if I may. On US Credit, first of all, it seems to me that the uptick that you have seen in activity has taken place in some of the early-cycle variables. I am just wondering how you feel about momentum within that business unit over the next six to 12 months.

In US Decision Analytics, you made the point that the comparable was a bit tougher. I think it was modestly but, to me, that does not seem particularly onerous and does not fully explain the deceleration in organic revenue growth that we have seen, so I am wondering whether there any specific contracts within the portfolio that are underperforming there.

Finally, if my calculations are correct, I think the Passport business may have seen an additional $10-11 million worth of revenue contribution in the first quarter sequentially, which leaves it, I think, on track to deliver quite an impressive organic-revenue-growth number this year. I am just wondering whether that analysis is correct and whether you can share the Q1 organic revenue growth.

Brian Cassin

Let me just address the US Decision Analytics point first and then Passport, and I will throw it back to Don for US Credit momentum. I would not read anything into the US Decision Analytics number. The business is doing well. You will see volatility quarter on quarter and it just depends on which way contracts fall. We do expect that to continue to do well this year, so I think you are just seeing a quarterly number there.

You are right on the Passport business: it is doing extremely well. Organic revenue growth is above 20%, so it is tracking well and in line with our expectations.

Don Robert

On US Credit, I do not know that I would call the activity necessarily early-cycle; I think I would call it more of a scientific approach to growth on the part of the larger retail lenders, who are in the market again with a firm mandate to pursue high-quality growth and who are seeing increasing value in the data, the analytics and the targeting tools that we provide to them.

I do think that it is important to point out that the reported numbers are probably understated a bit because of the fact that we have chosen not to renew a handful of significant reseller contracts, just due to compliance-related issues and things of that nature, so we continue to become a little more conservative about who we do business with in this new, highly regulated environment.

The business is robust for all the right reasons, I guess, would be the overarching point that I would make there, and add to that that the business-information component of those numbers was also quite strong, for a whole different set of reasons.

Robert Plant, JP Morgan

In terms of the three one-offs, presumably the World Cup has an equal weight in Q2 as it did in Q1; there is probably a lessening impact across the year from the US consumer-marketing switch; and the loss of the contract in Europe was a last-year effect. Should we, therefore, expect Q2 to be a little better than Q1, and to see a marked improvement Q3/Q4?

Brian Cassin

I think, directionally, that is right: I think we expect a little bit of an improvement in Q2. The World Cup does not have the same sort of impact in Q2 in Brazil as it had in Q1. We still have fewer business days but nothing like we had in Q1, so we do expect Brazil to improve a bit. That said, I think we did have a very strong quarter in US Credit Services, so there may be some puts and takes on that. We think Q2 might be a bit better but, overall, we think H1 is as we outlined. As we said in May, we do expect H2 to be better and, as we move through that period, for growth to move up.

Robert Plant

When does this process stop being a drag on the US consumer business?

Brian Cassin

I think there is a range of outcomes for that. As Don outlined, there are a lot of actions in place and we are feeling better about where we are going with that. We do expect that Direct to Consumer position to get better in H2, but it is a little difficult to call where that happens at this stage. At this stage, we think it is a bit better in H2, but we certainly think that Q2 is going to be fairly similar to Q1.

David Brockton, Liberum

Firstly, on Brazil, could you give us a feel for the organic growth of the credit business excluding the impact of the World Cup, just to give us a feel for whether there has been further underlying deterioration there.

Secondly, with regard to the consumer business, does the transition have a disproportionate impact on the margins for the first half, given that there is, I guess, a cost of customer capture of the Experian brands and you are losing some of the existing customers within the free brands?

Brian Cassin

It is very difficult to take out something like the World Cup impact. The only thing we can point to is that, when you look at the like-for-like business-day comparison with last year, the business is up on a pro-forma basis. It is not in decline when you exclude the one-off; we would expect it to be in modest growth.

Don Robert

I would say that you are generally right on the margin question, in that the free memberships that are running off are the most profitable memberships in the portfolio. The Experian.com branded members that we are currently onboarding do carry a higher CPA, but the lifetime value and profitability will be far greater with those. All of that said, we do manage the entire portfolio to a targeted margin from quarter to quarter and half to half. Overall, there has been some pressure but not a tremendous amount. Generally speaking, it is somewhat dilutive to the Group margins, or at least the North America margins.

William Vanderpump, UBS

Returning to North America Consumer Services, I think you mentioned some of the measures you were taking in that business, and one was TV advertisements educating consumers about the difference between your product and some of the alternatives. Could you lay out where, exactly, you think those differences are – i.e. your model versus theirs – and why that gives you a sustainable advantage? I think there has been some confusion about that.

Second, what is the actual size of the mortgage headwind that is concealed within North America Credit Services?

Don Robert

The first question is absolutely a key one, so I am glad you have asked it. The differentiation between ourselves and these other, newer competitors that we collectively refer to as the 'freemium' players, who are running a freemium offer or model, is that their products are lead-generation businesses, so they are buying a credit report wholesale and giving it free to the consumer. The products are visually sometimes quite appealing but, behind the curtain, what they are doing is spraying the consumer's confidential and personal and financial information all over the place and selling it to those who would directly make offers of financial products and services to the consumer.

We think that consumers are largely unaware of that and that they deserve to be educated about it, so we are in the process of doing that. That, however, is PR, advertising and awareness. Where we think the real substance and the real opportunity is for us is in continuing to evolve our product line in a way that, only someone who owns the content – the content being the credit information – and who has long-term access and relationships to all of the players on the periphery that contribute that content, this puts all of us in a unique position to evolve the product line in a way that no one else can.

That is our focus going forward. We have a robust map, things are well underway, and I am pretty confident that we will have things to talk about and to show you in November, and perhaps something even prior to that.

William Vanderpump

In terms of the detail on that, on owning the content, which was one of the points you made there, can we link any of that to the discontinuation of the resellers that you mentioned in North America Consumer Services? Are you supplying any of the major 'freemium' products at the moment with wholesale credit reports? Is that something you are looking to shut off to protect your position?

Don Robert

I think I am going to do a completely American thing and say 'I will take the Fifth on that' – exercise my Fifth Amendment right not to comment.

William Vanderpump

Fair enough. Have you been forced to do anything, given the increased competition that you referred to in May, on the pricing side of your product portfolio?

Don Robert

We have, but not because we have been forced. If I am honest, we probably got a little too aggressive on the upside with some of our segments and channels in terms of membership pricing, so we have played around with that to optimise retention, margins and profitability.

Brian Cassin

The mortgage headwind was about 100 basis points in Q1 at the Credit Services segment level. It was a little better than we anticipated, which explains some of that outperformance.

William Vanderpump

Through the year, when does that hit the easier comparative? Is that second half as well?

Brian Cassin

It is very much late second half, and more Q4 than Q3. Q1 and Q2 were the worst impacts.

Andy Chu, Deutsche Bank

Could you make any comment on the political environment in Brazil? Elections are, I believe, coming up in October, with a potential change of government and scenarios that may come out of that.

Secondly, I think Don mentioned that you have shifted 80% of your marketing spend towards North America Consumer Services. What was that percentage before? In line with Group revenues, I guess it would probably be about 20% of the marketing spend. As you have started the year, are you going to be spending materially more at the Group level? If not, will the shift towards the transitioning of North America Consumer Services and the lack of spend in other parts of the business potentially hamper organic growth?

Brian Cassin

I am going to make a start on answering those two questions and then hand over to Don to add some colour to it. On Brazil, our view is that the election could be a catalyst for an improvement in the outlook. We do not think there is one before that. I do not think that, from our perspective, the outcome makes much of a difference. Right now, there is a lack of clarity around which direction the country will go in.

Clearly, we think that whatever political party comes to power is going to have to address some of the issues in the economy, which will be part of their manifesto and part of the election. We and many people in the Brazilian business community feel the same way: that that could be the point at which things start to get better.

In terms of the marketing spend in Consumer Services, I was a little unclear on some of the direction of your question. Just tracking back to May, we said we had shifted quite a lot of our marketing spend into the Experian brand and away from the free brands. That was a reversal from the position of, say, two years ago, where the vast majority of the spend would have been on the free and not on Experian.

What Don referenced is that that has gone further and we are now up to about 80% spend in Consumer Services directed at the Experian brand, not the free. Hopefully, that clears up that bit. I do not know, Don, whether you want to add any colour.

Don Robert

I think Brian has answered it very well. The only thing I would add is maybe a slightly different way to think about it, up to 18 months ago or maybe even a bit further back than that, spending money on acquisition in the free channels was really our blunt instrument. We were very good at that: we knew exactly how to monetise the spend, and we had a very robust network, channels and partnerships.

At the same time, however, we knew that was a portfolio and a brand that was ultimately not destined for permanency. It was a decision that we took very deliberately to start to invest into more valuable, stickier brand and to concentrate all of our dollars behind one brand versus multiple brands. The overall quantum, then, is fairly static but the mix has very much changed.

Brett Huff, Stephens

You talked a little about Marketing Services being down, I think you mentioned specifically on some of your data services, but then had good cross-selling on some of the other products. Could you dive down into that for us a little more?

Don Robert

Let me give you some general commentary before going deeper. Generally, I would say that the slowest area in the Marketing Services portfolio is, of course, the US business. We are growing in all other parts of the world, which is very encouraging, and growing with our state-of-the-art cross-channel marketing platform. That said, we are seeing a lot of good traction in cross-channel within the US, but this is a huge business, also with a lot of competition and a lot of conversion pressures which take time and are rather cumbersome and expensive to implement.

Within the Marketing Services business, we still have a legacy component that supplies list-processing services and data for the direct-mail industry, which is still a robust industry and far from dead, as we all know. It is not a large part of the business but we are seeing clients generally cutting budgets for this type of activity, as they shift it elsewhere, so that has had a drag effect on the US business.

Andy Grobler, Credit Suisse

Firstly, on Passport, you mentioned that organic growth is still very strong and the integration is going well. Where are you in terms of your thinking on the timeline to get to that 10% post-tax return on capital?

Secondly, and slightly predictably, on Consumer Services in North America, we have seen the regulator pushing for more free distribution of credit scores. What impact do you think that will have on your business if the credit card companies in particular start to take that up?

Don Robert

I think we have spent a fair amount of time on the free-credit-score-disclosure issue in the past. That is a tough one, because the companies that have the ability to disclose it, which are mainly banks that can put a credit score on a current account or checking account statement, do not have the ability to service the scores, to stand behind them and to provide all the backup that the consumers really need to interpret them. Therefore, we feel that is a bit of a road to nowhere and is probably not going to be too exciting in the end.

Brian Cassin

On your first question, there is no change on that. We are on track. As I said in May, I think, we are feeling good about it but we would not change the template at this stage.

Rajesh Kumar, HSBC

Are there any regulatory reasons why you decided to move away from free brands? One of your competitors is suggesting that the Consumer Financial Protection Bureau (CFPB) has asked for some data from them in Q1. Did you go through something like that?

Secondly, on Brazil, could you give some colour on the trends between the business and consumer sides, excluding the World Cup effect?

Don Robert

I am going to ask Peg to comment on your first question, and Brian will take the second one.

Peg Smith, Investor Relations, Experian

I think it is important to note that there was no regulatory pressure at all on us to move off free. That was a decision on our part strategically. What you are referring to in terms of one of the competitors was the disclosure by Equifax that it had received a CID, which is essentially a subpoena from the Consumer Financial Protection Bureau, on its Personal Solutions business.

We have also received a CID, but you should note that that is nothing more than them, through a subpoena, requesting additional information from our business that we had not, prior to that, been willing to disclose because of confidentiality. There is no wrongdoing or indication of problems. It is just a mechanism for getting that level of disclosure, so do not over-read that one. This was not a regulatory change. This was a purposeful business decision.

Brian Cassin

On Brazil, there was no significant difference to call out between consumer information and business information. Business information has, over the last year, been slightly stronger than Consumer Information. That has continued but there really is not much between them.

Graham Brown, Canaccord

On the Latin America Credit Services business, I think David Brockton asked the question earlier but could you give us a sense of what the sales-per-day organic growth would be there?

Second, on the exit rate on US Consumer Services, could you give us a sense of whether we have passed the bottom in terms of organic decline? Where is the exit rate there?

Brian Cassin

I think I am going to draw the line at sales per day in terms of the level of detail. I would just reiterate what I said: it is very hard to disaggregate it. We do not see any significant change in the underlying economy or, indeed, the position of the business in Q1. We did lose five business days and we had some softness around it. Our best guess is that, if we strip out the impacts that we had, it would be low-single-digit underlying growth as a backdrop. You can appreciate it is quite difficult to be precise on that, but I think that that is the best that we can say.

On US Consumer Services, we think that Q2 is going to continue on more or less the same trend, so we are not pulling in the other direction just yet. We expect that to be more in the second half.

Iain Armstrong, Brewin Dolphin

In terms of confidence with regard to the improvement in organic revenue growth in the second half, could you give us a feel as to what percentage of your revenue is repeatable and, therefore, allows you to say that there are three missing pieces in the jigsaw, so to speak, that are going to be replaced over the next nine months?

Brian Cassin

As we have said before, we are confident that the organic growth will improve in the second half. There is a range of outcomes. The percentage of our business that is pre-booked at the start of the year varies massively across regions and across business lines. In terms of the trends that we see, however, in some of the one-offs and some of the factors that we have discussed, they lead us to believe that we have a better platform in H2. Clearly, we have a long way to go but we are confident that it will be better than H1.

Ian Armstrong

You spoke about the costs of moving from free membership to Experian.com for members. Do you take the charge for all of that cost upfront, or do you capitalise it, given that you are saying that, over the long term, the paid member will be much more valuable than the free member?

Brian Cassin

There is no capitalisation of anything in Consumer Services. It is all P&L activity. All of that transition will work its way through the North America P&L statement next year.

Hector Forsythe, Oriel Securities

On the US Consumer Services side of the business, you expressed quite a lot of confidence in the longevity of Experian.com members and lifetime value compared to the free portfolio. Could you go into that in a little detail?

Don Robert

We can go into it in a little detail but not too much – this is getting into family secrets now. The members are stickier, meaning that they stay with us for longer, in a material way, than the free members.

Hector Forsythe

On that, do you have the evidence yet?

Don Robert

Of course we do, yes. We have had Experian branded members for a long time in this portfolio. The demographic profile of the Experian member is of a different quality and calibre, statistically, than the free member. The rate of attrition is lower and, overall, putting all of that together, you have less cost and more income for a longer period of time than the free memberships.

Hector Forsythe

Are you not going to distort the Experian.com portfolio by transitioning people from the free portfolio?

Don Robert

No. It is an option that we have and that we continually keep under review, because, at some point, it could make sense to just hit the big switch and move everybody over, but we think that our ability to model that and to truly understand it mathematically is still missing a couple of key data-points at the moment. We also feel that, generally, it would just be too disruptive and cause a level of attrition of these older profitable memberships that remain that we would not want to take on right now.

Concluding Remarks

Don Robert

Thank you, everyone, for that good Q&A session especially. We look forward to seeing you in November at our half year results, when it will be Brian, along with Kerry Williams and Lloyd Pitchford, for the first time as our new CFO, leading that show. Goodbye for now and we will see you in November.