

Experian plc

Trading update for the quarter ended 31 December 2014

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Part I: Opening Remarks

Brian Cassin
Chief Executive Officer, Experian

1. Introduction

Good morning, ladies and gentlemen, and thank you all for joining us on today's call to discuss our third-quarter trading performance. I am joined today by Lloyd Pitchford, who will take you through the financials following my opening remarks. At the conclusion of this, we will open for your questions.

2. Overview

The results announced this morning are consistent with the expectations we outlined to you in November at our half-year results presentation. We are executing well against our plans and we are optimistic that we will return the business to top-line growth in the near future. Our constant exchange rate total revenue rose by 2%, while organic revenue was flat.

3. Regional Performance

North America

In North America, the environment continues to show steady progress, with a strengthening economy, better employment numbers and improving consumer confidence. Consumer and business lending are expanding, with higher levels of credit prospecting and origination volumes. Larger banking institutions, while still tied up by their regulatory burdens, are starting to take advantage of an improving lending environment.

Our vertical markets are also performing well. Automotive continues to go from strength to strength, delivering another quarter of double-digit growth, and healthcare is doing well, with another strong quarter of revenue growth and bookings. We are adding brand new clients, as well as expanding our relationships with existing hospitals and physician practices, and this strength in bookings gives us clear visibility into revenue expectations for the coming quarters and beyond.

It was a busy and productive quarter in North America Consumer Services, and the quarterly numbers do not really do justice to what was accomplished. We went live in the market with the Experian FICO product and we launched BillGuard in the Data Breach channel. Furthermore, these were completed in time for our seasonally important fourth quarter. We also secured an important renewal in the Affinity channel, with one of our major clients.

Now, it has only been two weeks since the launch of the product enhancement and the new advertising campaign, so it is too early to make meaningful predictions about the progress of Experian FICO, but I can say that the launch went well. We had a good reception in traditional and social media channels and volumes thus far are tracking to plan. We are very encouraged by the KPIs that we monitor. That is about as far as we are able to go on this topic today. Just to reiterate though, the strategy is about building on our market-leading position by introducing more compelling propositions for consumers, and we will continue to add a steady stream of new features as time goes on and our products in the paid-for direct-to-consumer channel will look very different over time.

Latin America

Turning to Brazil, we had a good quarter, driven more by our own efforts than by any improvement in the operating environment. The economy is fairly stagnant, with banks remaining fairly conservative in what is a cautious lending environment. The growth in our business is coming from new clients and new features, for which we can charge more, particularly in the Business Information space. As we said before, we think we can generate growth, even if the economy continues to muddle along.

UK

In the UK, we are sustaining good, steady performance, with growth across all major business lines. We have had a somewhat adverse mix, because Consumer Services is bumping up against higher numbers, but set that to one side and it is a strong, balanced performance. We are making good, solid strategic progress and, after a period of significant investment in Credit Services, Business Information is recovering and Consumer Information is growing nicely, with growth in retail and financial services.

We picked up some good contract wins for 41st, with a strong pipeline building. That will help us as we head into next year while, in Marketing Services, the Cross-Channel Marketing Platform (CCMP) is seeing good market adoption with a lot of new contract wins. This point holds true across all regions in fact, and we are seeing growing traction in CCMP, with additional contracts globally in the quarter, taking the year-to-date total to over 70 contracts. These deals take time to onboard, but should benefit the Marketing business as we head into FY16.

4. Conclusions

In the two months since we reported our interims, it is fair to say that the trading environment has changed little and the business is trading very much in line with the expectations we set out towards the end of last year. We have made some very good progress, having launched Experian FICO, and we are confident that we will see an improvement in organic revenue growth in the near future.

Part II: Financial Review

Lloyd Pitchford Chief Financial Officer, Experian

1. Revenue

Good morning, everyone. Turning to our trading performance in the quarter, total revenue at actual exchange rates declined by 1%. At constant rates, total revenue was up 2%. As expected, organic revenue was unchanged year on year. The difference relates principally to contributions from the Passport acquisition and FX movements relating to the strength of the US dollar. By principal activity, organic revenue growth for:

- Credit Services was up 6%;
- Decision Analytics grew by 1%;
- Marketing Services declined by 1%; and
- Consumer Services was down 12%.

2. Regional Performance

North America

Total revenue growth was 1% and organic revenue declined by 3%. Credit Services had organic growth of 7%. Decision Analytics was up 2%. Marketing Services declined by 1% and Consumer Services declined by 18%. We had a good quarter in Credit Services. In Consumer Information we saw good growth in credit origination and prospecting volumes, as well as recovery and mortgage. Business Information performed well, and there was strong growth across both the automotive and healthcare verticals. While Decision Analytics posted low growth in the quarter, this was largely due to the phasing of authentication volumes linked to the timing of enrolments arising from the Affordable Healthcare Act. Elsewhere, there was good growth in Decision Analytics.

There was modest decline in Marketing Services, reflecting some attrition on legacy products, which strong growth in CCMP is yet to fully offset. We had an encouraging new business performance for Cross-Channel Marketing, and we will begin onboarding these new clients in the coming months. As Brian has already referenced, the decline in Consumer Services was in line with our expectations. Experian.com continued to grow well, despite the planned deferral of marketing spend into Q4, offset by continued attrition in the free brands. Affinity also declined in the quarter, as did Data Breach, due to a peak in Data Breach in the second half of last year.

Latin America

In Latin America, at constant exchange rates, the total and organic revenue growth was 5%. Organic revenue was up 6% in Credit Services, and declined by 4% and 6% in Decision Analytics and Marketing Services respectively. In Credit Services, as expected, we saw positive progress in Brazil and reported good growth, reflecting strength particularly in Business Information, as we have enhanced the value of our services and secured new clients. We also saw modest recovery in Consumer Information, although the macro-environment remains weak. Elsewhere in Latin America, Credit Services' performance was good.

In Decision Analytics, we had a good quarter in Brazil and the drop in revenue was largely due to non-recurring items elsewhere in the region. The decline in Marketing Services was principally due to weak prospecting and mailing revenue in our Brazilian business.

UK

At constant exchange rates, total revenue was up 5% and organic revenue was up 3%. Organic revenue growth was 3% in Credit Services, 3% in Decision Analytics, 2% in Marketing Services and 6% in Consumer Services. In Credit Services, we had a solid quarter in Consumer Information and a strong recovery in Business Information, held back somewhat by the payments channel. Decision Analytics also performed well, driven by both software and fraud, and including a good contribution from 41st Parameter, where we have had some good contract wins. Growth in Marketing Services is being driven by Cross-Channel Marketing, where momentum has been building with a series of new business wins in the quarter. As previously flagged, Consumer Services slowed somewhat, as it consolidated very strong growth over the last two years, although we have continued to see good growth in the direct-to-consumer channel and a growing contribution from the Affinity channel.

EMEA/Asia-Pacific

In EMEA/Asia-Pacific, at constant exchange rates, both total revenue and organic revenue growth was down 1%. Credit Services grew by 4%. Decision Analytics and Marketing Services declined by 3% and 4% respectively. In Credit Services, we saw steady growth across our bureaux in EMEA and Asia-Pacific. While Decision Analytics was down, this was mainly caused by the timing of a large renewal contract which this year will be reflected in Q4. The decline in Marketing Services reflected the wind-down of a large contract in EMEA that we have previously referenced. Excluding this item, performance was good, particularly in Cross-Channel.

3. Balance Sheet

At 31 December 2014, we were under two times net debt to EBITDA on a 12-month rolling basis, which is in line with our previous commitments to deleverage following the Passport acquisition.

4. Outlook

Looking ahead, our expectations are unchanged from those we outlined in November. That is we continue to expect organic revenue growth to improve as we exit the year and, for the full year, to maintain margins at constant currency, to deliver further good progress in benchmark earnings at constant currency and to exceed 95% cash flow conversion. Finally, we continue to see volatility in global currencies, which I am sure you will keep in mind as you update your models.

Summary

Brian Cassin
Chief Executive Officer, Experian

To summarise, we have made good progress in the quarter, we will continue to develop and execute on the plans we outlined to you in November and we expect growth momentum to improve from here onwards.

Part III: Questions and Answers

Brett Huff, Stephens

I know you said that there is not much more you can say about the FICO response, but could you just remind us of the particular product you are selling with that? I think it is the FICO score versus the Experian-branded score. Could you give us a sense of the specific KPIs that are giving you some confidence that that will drive some revenue in the near term?

Brian Cassin

It is about making the FICO score available on the Experian platform. Essentially, we are going to tailor that to individual use cases for consumers. I do not know if you have seen the advertisements we are running, but they are gaining a lot of attention in the US. As I said, we are only two weeks in, so it is very early, but we can see that the level of interest being generated is very strong. The KPIs we look at from that perspective are very encouraging. That has to continue and translate into orders and revenue. They are encouraging signs at this stage, but that is as much as we can say at this point.

Brett Huff

Growth in Brazil has accelerated nicely relative to the last reporting period. You mentioned that was more about the features you were introducing and maybe even from a pricing point of view, specifically in the commercial credit business. Can you be more specific about those two fronts?

Brian Cassin

Brazil performed pretty much as we expected in Q3. We had highlighted in November that we saw our growth rate around where Brazil came in, in Q3, as what could be achieved in the current environment. That was very much driven by the actions we have taken and not really by any improvement in the economic backdrop. The actions we are taking are onboarding new clients and up-selling to new features. With those sorts of additions, we can move on to higher price points. This is a particular opportunity for us in the Business Information channel, where we continue to see a lot of ability to grow the business, notwithstanding the backdrop. The Consumer side is necessarily weaker, because it is more heavily dependent upon the overall banking environment.

Joel Spungin, Bank of America Merrill Lynch

The deleveraging you reported in the quarter, dropping from 2.17 at the half year to below 2, looks pretty good. Is there anything specific or seasonal in the third quarter that will increase the rate of deleveraging or is it fairly constant through the year?

Lloyd Pitchford

Our cash flow is weighted towards the second half, but there is nothing particular between the third and fourth quarters. That is probably the best way to describe it.

Joel Spungin

There will be no substantial movement of working capital in the period or anything like that.

Lloyd Pitchford

No. We had quite a strong comparative for working capital in the second half of last year, but there was nothing else to call out.

David Brockton, Liberum

In prior quarters, you have separated the reduction in US Consumer, with regards to the free brands versus Experian.com. Can you give us an impression of that changing mix through the third quarter and the relative sizes of those businesses now?

Related to the weaker growth of Marketing Services in Brazil, and weak prospecting and mailing data, to what extent do you feel that is related to the economy or is there something else structural behind that?

Lloyd Pitchford

In the first half, we talked about the free sites coming down by around 30%. That continued into the third quarter. In the first half, the Experian.com brands had grown by 15% and that slowed to just under 10% in the third quarter. Considering we had quite a reduction in our marketing activity to keep that back for the new product launches, we thought was encouraging. The other 50% of the business is a mix of Affinity, Data Breach and other channels. At the first half, we were down 5%. That increased a bit into the third quarter as we encountered some strong comparators in Data Breach in the prior year. You will remember that we had a peak in Data Breach activity across Q3 and Q4 in the prior year.

Brian Cassin

We have referenced before that Marketing Services in Brazil is not a very big business, but it is also concentrated on what we call Targeting, so it is essentially marketing data. That in itself is very focused on our traditional financial services clients, so it is heavily linked to the extent that they are prospecting for new clients. You tend to see a lot of data sales going through when they are doing that. That is one of the areas where you can see the weakness of the economy, because we have seen softness in that business line all year. The environment will remain tough for some time to come. There is nothing structural in that; it is purely related to the overall macro business environment.

Robert Plant, JP Morgan

With the presidential election now passed in Brazil, has there been any change in terms of enacting the switch to positive data? Have the banks accelerated their process? Do you think the Government might place more pressure on them to do so?

Brian Cassin

The answer to all those questions is no. We have not seen much of a change in anything really, apart from what seem to be some very welcome appointments by the Government in key positions. There has really been no change since we talked a couple of months ago.

Paul Sullivan, Barclays

Back on US Consumer, it is fair to say that you are confident that growth in that business has now troughed. Is that the conclusion to take away from this? Is there any comment you can provide us in terms of the shape or speed of recovery that we should expect over the next 12-18 months?

We know that Decision Analytics is lumpy and always seems to be buffeted by phasing and other issues, but can you give us a sense of the steady-state growth that we should be expecting from this business over time, especially now that 41st is organic?

Brian Cassin

We have this conversation a lot, but Decision Analytics is a business that will move around from quarter to quarter. You have to look at the long-term track record of that business, where we have been consistently growing at a very good rate. Our expectations are that that business can continue to grow at strong high single-digit rates. It will vary a lot from quarter to quarter, and we remain very confident about the long-term prospects of that. There is nothing in the quarter's results that leads us to conclude anything other than that.

Lloyd Pitchford

As you look ahead to Q4, we will still have some of the Data Breach headwinds from the prior year, but the key metric to look for, when we talk in three months' time, will be the Experian.com brands. They were 15% in the first half, down to just under 10% in Q3. As we get behind the marketing campaign, we would expect to see that moving to strong double digits, up to high teens and hopefully figures above that.

Next year really depends on how quickly the new product set stimulates growth in Experian.com brands. The decline in free will reduce proportionately as we go through the year, and we are hopeful as we progress through the second half of next year to get that overall business into a more stable and growing position overall. It really depends on the response of the market to that new product set.

Kean Marden, Jefferies

The healthcare lead indicators that you flagged had strengthened. Could you share some more background on those and whether they would allow organic revenue growth to accelerate from the circa 20% you have seen in that space? Is an uptick necessary to sustain that type of like-for-like growth?

I think I am correct that some of your price points on US Consumer Services have changed. Is there any price inflation that we need to accommodate in our revenue growth forecasts from the beginning of this year onwards?

On your comments regarding Brazil mainly being self-help, some decisions in other industries were deferred ahead of the presidential elections. We saw a rebound as those have caught up. Did your business see that or are you adamant that it is mainly self-help?

Brian Cassin

We are seeing very strong order backlog in healthcare. Given the lead times and revenue cycles there, the visibility of the business is always strong in healthcare. We expect to sustain the growth we are experiencing not just into next year, but beyond. That does not mean an acceleration from the organic growth rates we are seeing today. It does not have to be. We are very pleased with where we are and our outlook.

We have not really seen any decisions by Brazilian clients or in that marketplace that are different. It is too early after the election to see any meaningful impact. A lot of decisions have to be made by the new administration about how they set out their stall. All I can do is reiterate what I announced a few moments ago, which is that there has generally been positive reception to some of the new appointments and there is a feeling that a positive agenda will be set out. That might give some background optimism, but we are not planning on any help from the economy. Any growth will be created by us, and that is our operating assumption.

Lloyd Pitchford

The key metric on the US Consumer is the volume growth. There are some price changes, which signal our strength and belief behind the new product launch, but what will drive outlook for the next 12 months will be the volume numbers. We are clearly excited to see that response over the next couple of months.

Kean Marden

I agree with your policy that the volume trend is the key statistic but, for accurate forecasting, can you share the average price increase that we need to factor in for accurate like-for-likes.

Lloyd Pitchford

It depends on the mix. We have lots of volumes at different price points, so it is too early to say. As we see which volumes go against which price points, we will be able to update you more, but it is too early to say now.

Andy Chu, Deutsche Bank

Looking out to Q4, your comments about a bounce back into growth and trying to work out some of the moving parts, could you define contributions from Passport? You have one quarter that will add somewhere between 50 and 100 basis points of growth, and you have a little bit of drag from Asia-Pacific. How important are North America Consumer Services within the context of returning to growth? If that business does not lift from -18% can you still be in positive growth in Q4?

On the Affinity partnerships, in the first half, many of your legacy partners were not actively marketing. Have you seen any change in that outlook from what they are doing or intending to do?

Lloyd Pitchford

We were at 0% for the third quarter but, as we called out for the EMEA/Asia-Pacific region, we had a contract timing difference, which was recognised in Q3 last year. There was an initial contract for longer than a year, which will be recognised in Q4 this year. That was a contract just under \$5 million, which held back organic growth in Q3 for the group by about 0.4%. Comparing Q3 to Q4, you will see double that effect in the growth rate in Q4. The rolling of Passport at a group level, comparing between the quarters, will be somewhere between 0.2% and 0.3%. You can see it is up around 1% and, on top of that, we have the improved reaction from North America Consumer Services and some expected improvement as we see some of the Cross-Channel Marketing growth and also increasing trends in Asia-Pacific. Those are probably the key moving parts.

Brian Cassin

On the Affinity point, little has changed from the prognosis that we gave when we talked in November, apart from the fact that one of our major clients has renewed. That is significant, because a lot of time and effort goes into these contract decisions. The fact that they have renewed gives us confidence that that client in particular will return to proactively marketing on the platform. We are still seeing the same trends that we discussed in November and elsewhere, so I do not think our view on the Affinity market has changed. The short term is a bit tough but the long term is still attractive.

Matthew Walker, Nomura

On your comment about Experian.com in Q4, you mentioned potentially returning to high-teen or slightly better growth rates there. I would have thought it would be better than that as FICO is such an important product and you are already running at 15% in H1. Would you not be expecting a much better growth rate than 15% or 20% for Experian.com in Q4?

You mentioned a headwind in Data Breach in Q4 from contract wins last year. Can you quantify that for us, please?

In Marketing Services, Cross-Channel is going well but some of the traditional parts are not doing so well. Can you update us with any thoughts about potential disposals in parts of Marketing Services?

Brian Cassin

On the Q4 question and the Experian.com brand, we are expecting to see a pick-up and obviously we want that to be as high as we can. We are trying to plan for that as prudently as we can, and that is as much as we want to say about that, at this stage.

Last year, we had a strong year for Data Breach. We won Target and quite a few other high-profile ones that fed into Q4. That is a headwind for us. We have not identified that individually, but it makes it more difficult in that channel.

There is nothing new to add by way of comment on Marketing Services. Nothing has changed in terms of how we see that going forward. We laid out some of the areas where some legacy products continue to drag. I am very pleased by the performance in Cross-Channel Marketing; you can see some of those contracts coming through. As we go through next year, we can talk more about action plans.

Rajesh Kumar, HSBC

Could we have some detail on the price and volume mix of growth in Credit Services in the US and Brazil?

Lloyd Pitchford

It depends on the sector. We have talked before about how pricing on our core financial services clients is more challenging but, as we have spread out into some of the newer areas, the newer verticals and some of the smaller institutions, we are seeing pricing benefits and hitting higher price points. We have core growth in some of the core financial services. We are seeing price deflation, but that is more than offset by a positive mix and pricing in some of the smaller channels.

Rajesh Kumar

Is it very different or similar in Brazil?

Lloyd Pitchford

The key difference in Brazil is the mix between Consumer and Business Information. Consumer is obviously affected by the stagnant economy. The vast majority of the growth comes from the step-out into the SME channel and Business Information. There is some pricing mix benefit there, but there is also a much heavier volume weight towards the Business Information and SME channels.

David Phillips, Redburn

For UK Consumer, you are lapping against strong comparators, but have you seen any increase in churn or is it purely the law of big numbers? As this business becomes more mature, you are returning towards a 6% growth rate?

Brian Cassin

We are still adding new members. The churn has not increased significantly at all. This is really just the law of big numbers coming into play. You are flagging the fact that we felt that the 20% plus growth rates we have enjoyed in previous years are too much to expect going forward. We are happy with where the UK Consumer Services business is right now, and are still optimistic about growth in that business going forward.

David Phillips

Following your point about Data Breach, obviously Target is skewing year-on-year comparators but, every time we pick up newspapers, there seem to be lots of instances of data breach still happening. Do you think there is some reticence on the part of retailers that have been breached to engage this product or is it the case that many people involved in a breach are already covered by previous breach products? Do you think the breach market can return to growth in 2016 and beyond?

Brian Cassin

The answer to the last part of that question is yes. To put this in context, the Target breach affected 70 million consumers in the US. There was almost a comment that you are nobody if you have not been data breached at this stage. A lot of people have their card details with a lot of different retailers.

With that said, if you look at the news around this and the concern that it is causing, you can see that the market backdrop for the position we have in this industry is very favourable. This is now moving on to the agenda of many more companies than it has been in the past. In the longer term, we see this as a very good opportunity and we think we are very well positioned.

David Phillips

Is the Australian bureau accelerating in growth or does it have similar rates to the first half?

Brian Cassin

We are seeing steady progress throughout the year in the Australian bureau. It is still very modest, but we are now generating revenues from the bureau platform and we are pleased with its progress.

George Gregory, Exane BNP Paribas

In terms of the Affinity subcomponent of US Consumer, to what extent are you making any changes to the product set similar to those you are making to the Experian.com brand to defend or improve the offering relative to competitors?

What is your net interest and tax rate guidance for fiscal years 2015 and 2016?

Brian Cassin

The first point to make is that each Affinity contract is very different and the product offerings are tailored to the requirements and needs of the individual institution. We constantly look to improve that, and we would expect that process to continue. Whether it will look exactly like what we have elsewhere is difficult to say. In some cases, it will; in some cases, it will not. The overall sense I want to give you is that, as we improve our products more generally, it improves our position in Affinity. We would look to bring those improvements to all parts of the business.

Lloyd Pitchford

On interest and tax, there is no change to the guidance we gave previously. To remind you, we brought the interest guidance down to between 75 and 80 for the full year this year, and the tax rate down to around 25% for this year. We will update on that with the full-year results in May, but there is no change for this year.

George Gregory

On that basis, what should we be assuming for 2016? Do you have any initial thoughts?

Lloyd Pitchford

We will talk in May. When we brought the tax rate down to 25%, we said that the range of 25-26% was good for this and next year. We will talk more about interest as we approach the full-year results.

Iain Armstrong, Brewin Dolphin

With regard to the slowdown in the UK, has there been an impact from the demise of the payday loan business? You focused on that a couple of quarters ago as a possible target growth area.

Brian Cassin

No, that has never been a big part of our business. In some senses, so long as there is volume still going through that channel, it still benefits us wherever it goes, but it is not a significant impact on us.

Iain Armstrong

You talked about the Australian bureau making steady progress, but there is an Indian one as well that is a bit further behind in terms of development?

Brian Cassin

It is not further behind in terms of development. It is obviously a very new and developing market, and we continue to see very good progress in India. Both of these credit bureaus will be posting growth rates in the hundreds of per cent, off very small bases, so it is hard to draw any conclusions. We are making progress is the message I would leave.

Iain Armstrong

Do you have a breakeven date for both of those? Is it 2016 or something like that?

Lloyd Pitchford

It is a few years away. They will need to ramp up as we go through 2016 and 2017, so it will certainly not be in 2016.

Concluding Remarks

Brian Cassin
Chief Executive Officer, Experian

Thank you, everybody, for joining the call today. We look forward to seeing you soon for our investor seminar, which is on 28 January here in London. There will also be a webcast for those of you who are unable to attend. Goodbye for now and see you in a few weeks. Thank you very much.