Third-Quarter Trading Update Conference Call – 15 January 2016

Strategic and Operational Review

Brian Cassin
Chief Executive Officer, Experian

1. Preamble

Good morning ladies and gentlemen, and thank you for joining our Q3 trading update call.

2. Quarter Highlights

Organic revenue growth was 6% for the quarter. Our core businesses are performing strongly, particularly Credit Services and Decision Analytics. We have made further progress in North America Consumer Services, which returned to growth in the quarter. We also divested several non-core assets to tighten the focus of the portfolio. We are now firmly within our target range for organic revenue growth of mid-single digits, with all four regions having delivered in this range in Q3.

3. Regional Results

North America

I will briefly summarise the results by region, starting with North America, which delivered a strong performance. We are benefiting from a healthy lending environment in the US, across both consumer and business credit, with strong demand for data and Decision Analytics in credit marketing, with new account originations. Sales momentum also continued in our high-growth verticals, which are becoming a larger part of the overall Credit Services mix.

In Health, new contract bookings from hospitals and physician practices were very strong and will underpin our growth projections for coming quarters. We also had great success in cross-selling additional products into the installed customer base.

Automotive continued its track record of double-digit growth, driven by a strong automotive sales market. We increased our market penetration through new client wins, across auto lenders, dealers and manufacturers.

In Consumer Services, we returned to growth earlier than expected, due in part to a one-time benefit from onboarding a new Affinity client. Our new technology platform enabled us to set up a new client and onboard their existing customer base in weeks, rather than months, and we recognised startup revenue in the quarter.

Experian.com continues to deliver good growth and our free service has now attracted over two million cumulative members. We are cross-selling to these consumers to drive incremental revenue.

Latin America

In Latin America, we delivered another quarter of good growth. The macroeconomic environment in Brazil continues to weaken, so our success is down to our own efforts in finding and exploiting pockets of opportunities. Our growth in Brazil has been driven by demand for countercyclical products, like delinquency notifications, where volumes continue to grow, as the frequency of non-performing loans increases, and also from new product features, scores and business information, aimed at simplifying credit decisions for small and medium-sized businesses.

UK and Ireland

Our UK and Ireland business delivered another quarter of good growth. Credit Services and Decision Analytics delivered good growth from new strategic client wins for the breadth of our data, software and analytics products. In Consumer Services, growth slowed as expected, reflecting a more mature and competitive market. You will see us evolve our UK Consumer Services product line over the coming months, in a similar way to the approach that is used in North America, including higher levels of consumer engagement, enhanced product offerings and mobile functionality.

EMEA and Asia-Pacific

Our performance across EMEA and Asia-Pacific is steadily improving, and we are on a path to consistent and more profitable growth. That is coming through in the numbers. This is visible in particular in Decision Analytics and Marketing Services, which both grew well, with new client wins and new deployments of software.

One final note: since the half-year results, we completed the disposal of a few more small non-core businesses. We announced the sale of Hitwise and Simmons, which were part of Marketing Services. While we did not formally announce it, we also completed the sale of a small credit bureau in Estonia, which was not core to our global position in Credit Services, and also a small marketing business in the Netherlands.

Financial Review

Lloyd Pitchford
Chief Financial Officer, Experian

1. Highlights

Good morning, everyone. As Brian mentioned, we have continued to make good progress during the quarter, with both total and organic revenue growth at constant exchange rates of 6%. This growth included an exceptional positive contribution from the North America Consumer Services business, with one-off revenue adding approximately 1% to group organic revenue growth.

As expected, at actual exchange rates, total revenue declined by 3%, primarily due to the FX impact of the weak Brazilian Real and the Pound Sterling in relation to the US dollar.

2. Regional Performance

North America

Both total and organic revenue growth were 6% for the quarter. Credit Services had organic growth of 11%. Marketing Services and Consumer Services also grew by 1% and 3% respectively, while Decision Analytics declined by 2%.

Credit Services delivered strongly across Consumer and Business Information, as credit acquisition and prospecting volumes remain strong and with double-digit growth across the Automotive and the Healthcare verticals. Decision Analytics declined modestly, as weakness in public sector more than offset strength in fraud and analytics. Growth in Marketing Services was helped by a positive contribution from data quality, and strong growth in the cross-channel marketing suite helped to offset decline in legacy email.

In Consumer Services, we recorded growth above expectations, due in part to the one-time benefit referenced by Brian, from onboarding a new Affinity client. We recognised startup revenue for this contract, which helped Consumer Services return to growth in the quarter. Excluding this one-off revenue, we continue to make steady, sequential progress in North America Consumer Services. This included growth in Experian.com, which sustained its positive trajectory during the quarter, partially offsetting the continuing contraction in the legacy portfolio.

Latin America

In Latin America, at constant exchange rates, both total and organic revenue growth was 7%. All segments were up in the quarter, with organic revenue of 7% in Credit Services, 5% in Decision Analytics and 4% in Marketing Services. Brazil maintained its growth rate at 6% during the quarter.

In Credit Services, we continue to see growth in both Consumer Information and Business Information, in Brazil. This includes a growing contribution from delinquency notifications associated with increasing volumes of non-performing loans, which is helping to offset weakness in the broader macro and credit environment. We also benefited from Credit Services' strength across the rest of the Latin America region.

The growth in Decision Analytics reflects new software implementations across the region and, in Marketing Services, from a small base we saw traction from our cross-channel marketing suite, as well as a growing contribution from data quality services in Brazil.

UK

At constant exchange rates, total and organic revenue rose 4%. Organic revenue growth was 5% in Credit Services, 8% in Decision Analytics, 2% in Consumer Services and flat in Marketing Services.

Credit Services performed well, with strength across financial services and the vertical markets and good demand for credit pre-qualification services. Growth in Decision Analytics was primarily driven by strength in software, analytics and fraud prevention, as we onboard new products and new clients to our products. Marketing Services was flat for the quarter. We saw positive contributions from both digital marketing and data quality services, offset by a softer quarter for the cross-channel marketing suite. For the reasons covered by Brian, growth in Consumer Services slowed to 2%.

EMEA and Asia-Pacific

At constant exchange rates, both total revenue and organic revenue growth was 7%. Decision Analytics performed very strongly, up 23%, and Marketing Services also had a strong quarter, up 10%. Credit Services was down 5% and this softness, in part, reflects weaker market conditions in some of our operations, such as South Africa, which is more than offset by growth in Asia-Pacific.

We continue to make excellent progress in Decision Analytics, following the actions we have taken to reposition the business, with growth coming from new software implementations and new client wins for fraud and identity management. Our Marketing Services also performed well, with encouraging uptake of the cross-channel marketing suite.

3. Guidance

Looking ahead, our expectations for the full year are unchanged, barring movements in foreign exchange. We continue to expect organic revenue growth to be in the mid-single-digit range for the year, with stable margins at constant currency. Currency continues to be a drag on our reported results and we now expect a translational FX drag of 11% on EBIT in FY16, approximately equivalent to a 70 basis-point impact on margin. If current rates prevail, we now expect the FX drag in FY17 to be 3% at the EBIT level, equivalent to a 10 to 20 basis-point margin impact.

One final point on modelling is to note the effect of disposals. As Brian mentioned, we have continued to focus the portfolio and have concluded a number of small disposals during the quarter. When you take those disposals together with the disposals we have reported previously, they reduce the comparable FY15 continuing revenue base by a total of $152 million.

Summary

Brian Cassin
Chief Executive Officer, Experian

To summarise our comments this morning, Q3 was a good quarter, towards the top end of our target mid-single-digit range, with notable strength in key parts of the portfolio. Over the past 18 months, our plans have been directed at getting back to a sustainable level of growth in the mid-single-digit range and we are executing well against that. We have exited non-core activities. We are making headway in turning around some under-performing areas and we are returning surplus capital. As we look ahead, we will continue to focus our efforts and invest in our best growth opportunities through organic and M&A activities and the financial goal of sustaining mid-single-digit organic revenue growth and strong earnings growth. We feel well placed to deliver our broader ambition to build substantially bigger businesses, based on powerful platforms across key parts of Experian, with a solid supporting capital framework.

Questions and Answers

David Phillips, Redburn Partners

I wanted to ask more about Latin America as a whole. The organic number is a slight improvement on Q2. Are you initiating cost initiatives to try to counter the effects of inflation there? Do you expect to see some margin impacts from the effect of inflation or do you think you can mitigate that?

Brian Cassin

We have already been initiating a lot of cost actions in Brazil, over the last 18 months. As some of you are well aware, cost inflation is a feature of the business in Brazil, particularly on the labour side. In an environment where your growth is in the mid-single digits, you are not going to make any progress unless you do. That is common to most businesses that we see and know of in Brazil, as well. That is a regular feature and we are making a lot of progress.

That is the overall part of the plan that we have for our Brazilian business, setting ourselves up to access strategic growth opportunities, but also streamlining our business, making ourselves more efficient and driving out costs. We have been executing well against that.

Lloyd Pitchford

On the growth rates, you are right about the overall position in Latin America. Most of that came from outside of Brazil. Brazil was fairly stable at 6% in Q2 and 6% in Q3.

David Phillips

In the US, where the core Credit Services business has been doing very well, do you expect there to be any benefit, over the next 12-24 months, from trended data platforms with the likes of Fannie Mae, where you may be able to win some contracts?

Brian Cassin

We expect that to be part of the overall development of the business. We have been selling trended data in our Credit Services business for many years. It is not new for us, but we obviously look for new pockets of growth with that. It is just one of the plans that we have for enhancing our product offering in Credit Services.

Kean Marden, Jefferies

Lloyd, you gave us the revenue impact for the non-core asset disposals. Is there much profit attached to that? Do you have any visibility over that number, first of all?

Lloyd Pitchford

Most of it is Marketing Services business, so lower than group average margin. At the half-year, we said that the disposals were accretive by about 10 basis points, so it is a little over that for the full-year impact of all the disposals, so it is not material really.

Kean Marden

I picked up from one of your house brokers an expectation that Latin American like-for-likes would slow in fiscal year 2017. First of all, is that an accurate representation of your thoughts?

Lloyd Pitchford

We show in the release that we have had a growing contribution, within that 6% in Brazil, from the notification products which are the counter-cyclical products. As we go into next year, the economy is still weak, so underlying volumes are weak. It is more than likely that we would see our Brazil number to still be in the mid-single-digit range, but probably at the lower end than the 6% we have been running at. Into Q4, we will continue to see numbers similar to those we have had in the last couple of quarters.

Kean Marden

I appreciate that this is an IMS but, if you look at your mix of your growth, it seems to be better in the high-return, high free cash flow conversion units. Are there potentially positive implications for year-end net debt and potentially the surplus capital that you can put to work over the next 12 to 18 months?

Lloyd Pitchford

We will update at the full year, but the trends that we saw in the first half have continued. That is all I can really say on cash.

Paul Sullivan, Barclays

Can you give us some more detail about the uptick in the Credit Services business in the US? What specifically drove that? Did anything in particular stand out there? How sustainable do you think that is? I know it is early days but, when you look into fiscal year 2017, you have talked about the slowdown in Brazil, but are there any headwinds or tailwinds that we should be thinking about in the US franchise, looking beyond the next quarter into next year?

Brian Cassin

We are seeing strength across the board in Credit Services. We have always talked about the different components of that, with higher growth contributions coming from Automotive, Healthcare and Business Information. There is no real change to that continued strong performance. There is very strong performance in the core CIS [Consumer Information Solutions] business as well.

The environment continues to be robust. You probably all saw JPMorgan's results yesterday, which are indicative of that. We are benefiting from that. There are continued signals from across the US that there is still resilience. We continue to see good performance in the business going forward.

Lloyd Pitchford

If you look across the portfolio, there are puts and takes. As we have been reporting, we have been on an improving trend in Consumer Services. Credit Services is doing well. We hit slightly tougher competition in areas like mortgage, although that is a small part of our portfolio, as we go into Q4. Brazil may soften a little. If you take all that in the round, we have finished this quarter at around 5% underlying. That is a good place to be as we go into Q4 and into FY17.

Paul Sullivan

To follow up on that, you have been quite consistent on the margin front, saying that flat means flat. Coming back to Kean's point, you are taking growth from the highest-margin businesses and their outperformance. Is some of that margin dilutive in itself and is that outperformance, in your view, all reinvested to further that kind of progression?

Lloyd Pitchford

Flat still means flat for this year. Obviously our focus this year has been returning the business to growth and dealing with some of the portfolio focusing, which we have talked about. We have lots of opportunities and ideas to invest for growth across the businesses. We will update on our margin guidance for FY17 in May, but I would say that there are lots of investment opportunities.

Andrew Farnell, Morgan Stanley

Of the 1% contribution you have from Affinity, how much is from onboarding the new account, relative to the legacy accounts coming back to marketing again? Can you also give us a sense of the gap between onboarding fees and when they actually start to generate revenue?

Lloyd Pitchford

The 1% is entirely the onboarding fee. It is one-off income entirely within this quarter. Like any contract, in Affinity you usually achieve an onboarding fee and then an ongoing monitoring fee. We started to record those ongoing monitoring fees, which is in the mix of our overall Affinity base. Even when you take that into account, it is still a net decline, for some of the reasons that we have been talking about previously, but it is encouraging. We have said that we have been talking to a number of new Affinity clients. It is hard to call exactly when they will land, but it is nice to get one across the line.

Andrew Farnell

At the H1 2015 results, you mentioned a top-five financial institution. Is this in relation to that or a different account?

Lloyd Pitchford

This is a different account and not a financial institution account.

Andrew Farnell

Finally in terms of Healthcare, what is the average number of products that you have in the installed base now? I think you mentioned that that continued to go up.

Lloyd Pitchford

There is no change from the half-year.

Rajesh Kumar, HSBC

Firstly on Brazil, how much of your guidance on slowing in 2017 is due to concerns around pricing? Secondly on the Healthcare business, are you seeing more customers being added at all or is the entire growth coming from more utilisation per customer?

Brian Cassin

Brazil is nothing to do with pricing. It is all to do with well publicised weakness in the macro environment. We have been performing very strongly, but it is obvious that the Brazilian economy has worsened. This is just a bit of caution about the outlook for that business in the next year.

On the second point about Healthcare, it is both. We talked at the half-year about the progress that we are making, not just in further penetration of the existing client base, but also onboarding new logos. That continues to be very strong across the business.

Brett Huff, Stephens Inc

First of all, could you tell us a little bit about the progress in making an upsell from freecreditreport.com to the Experian.com brand?

Secondly, can you give us a sense of where we are in the cycle for auto products, which continues to be very strong? How much longer do we have for strong growth in that particular vertical, within the core credit business?

Brian Cassin

Obviously these are still early days, but the upsell from the free report is actually very strong, tracking ahead of our expectations. It is proving to be a very effective acquisition channel for us and we continue to expect to see benefit from that, going forward.

On the Automotive side, we continue to see strong progress in that business. If you look back at the track record of that business over a long period of time, we have grown in any environment. Some of it is clearly due to the fact that the auto market is buoyant, but a lot of it is also because we have been successful in expanding the business with new logos. That continues. We still see potential for the business to expand in that way, even if we see a bit of a slowing in the new car market. I do not think there will be a huge change. There may well be a bit of moderation to that, but we still expect to see growth in that business.

Kean Marden

Can we discuss the usual bridge you have in North American Consumer Services around free sites, Experian.com and the Affinity and other channels? On an underlying basis, your plus 3% reconciles more to minus 4% like-for-like. Are we still seeing Experian.com growing at about 20% within that that? You said that Affinity was still negative. Are there any thoughts that you could provide on that bridge?

Lloyd Pitchford

To refresh you on what we said at the half-year, with the continuing progress that we have been making on Experian.com, it is now bigger than the legacy free base. Together, they make up a little under 60% of the total consumer business. With the growth that we are seeing in Experian.com, we saw net growth of that 60% in the period. The decline in Affinity and the rest of the portfolio brought it to that -3 to -4%, if you exclude the one-off.

The split between free sites and Experian.com is becoming less relevant, as we move customers between them. They might come to us though the free channel and be sold up to Experian.com. We are really looking at that group together now.

Ed Steele, Citigroup

First of all, for the free access model in North American Consumer Services, have you decided yet whether you are going to pursue a lead generation business model as well as upsell?

Brian Cassin

Yes, we are going to look to monetise that free base through a variety of different ways. The answer to that one is yes.

Ed Steele

In the UK Consumer Services division, what are you seeing right now in terms of premium competition?

Brian Cassin

We talked about that a bit at the half-year. We have had free competition in the UK market for quite some time. Obviously a lot of you on the call will be aware that Noddle has been around for several years and they have a pretty large installed base now. We have seen an uptick in the competition with the entrance of ClearScore into the marketplace. We have seen that market become more competitive and we expect that to continue.

We still posted growth in Q3. Actually, that 2% number was slightly higher when you strip out the impact of a one-off in the Affinity contract. We still see that in the near term. But, as we said again at the half-year and reiterate now, we expect that business to develop and we expect to develop it in largely the same way as we have done in the US. We will be transforming that business with segmentation of the client base, and new products and services, as we go through the next year.

Ed Steele

Does that include your own free product?

Brian Cassin

We have said before that it is a very competitive marketplace, so we do not want to be drawn on specifics, but we will be looking at the whole range of opportunities for that business.

Ed Steele

You stopped publishing the Serasa delinquency index. Do you think you will restart that? I know that it is something that quite a lot of market participants refer to.

Peg Smith, Executive Vice President, Investor Relations

We stopped that for a period of time, based on some changes occurring to the frequency with which we were receiving data from contributors in Brazil. We hope to be able to start that back up and publish again. I am not quite sure what the horizon is for doing that, at this point in time. It will depend on when we are confident that the integrity of the data is at least equivalent to what we had in the market before.

Concluding Remarks

Brian Cassin
Chief Executive Officer, Experian

Thanks, everybody, for your time this morning. We look forward to speaking to you again in May for our full-year results.