Trading update – Q3 FY18

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1. Opening remarks - Brian Cassin, Chief Executive Officer, Experian

1.1 Introduction

Good morning, everybody, and welcome to our Q3 trading update call. I am here with Lloyd Pitchford, who will take you through the trading performance following my opening comments.

1.2 Q3 Performance

We made good progress in Q3, with strong organic revenue performance across all region. Total growth was 8%, which was 6% at constant rates, and 5% organic revenue growth. We are very pleased with our progress in the B2B side of the business, where organic growth increased to 8% in the quarter, driven by strong business performance and a great market response to our new products. We are also making headway in Consumer Services, and the rate of decline in B2C continued to ease in the quarter. The combination of both trends gives us confidence that we will see further improvement and we expect to have a strong Q4.

1.3 Highlights

1.3.1 North America

Let me touch on some highlights for the quarter. In North America, performance was very good and trends are consistent with our comments during November. Organic growth in our B2B activities remains very strong, at 8%. It is a healthy credit market in the US, with high volumes and low delinquency rates. Our One Experian approach is making a difference in Credit Services and Decision Analytics, resulting in larger long-term contracts and deeper embedded relationships with clients. We are also benefiting from investments in innovation, and our pipeline for new products, such as our new Ascend analytical sandbox, continues to build.
In Consumer Services, IdentityWorks is performing very well, and we have now signed over 150,000 paying members. We are increasing our advertising campaigns as we enter the fourth quarter, which is historically a strong quarter for new enrolments. We have also signed new agreements with several major financial and non-financial-services partners and we are in the process of onboarding these new relationships. We are confident that Consumer Services will return to growth as we exit the year and will build on that performance in FY19.

1.3.2 Latin America

Turning to Latin America, it was another good quarter for Brazil. Overall, LatAm was up by 7%. We built strong foundations to our business in Brazil, which will benefit us as the economy continues to recover. Clients are choosing us for the superiority of data, our ability to offer advanced analytics, the sophistication of our Decision Analytics suite, and the ability to work with top data scientists through our DataLabs. During the quarter, we were delighted to sign another significant agreement with a major Brazilian bank for our full range of services, which is another big step in solidifying our long-term relationship with Brazil's largest lenders. Growth prospects in Brazil extend beyond these large clients and we are making further progress in the SME sector, and continue to engage with consumers through our free score offer. We have now enrolled over 19 million Brazilian consumers through SerasaConsumidor's services, which is a fantastic achievement by the team in Brazil.

1.3.3 UK and Ireland

In the UK, B2B delivered growth at 5% and, overall, we have seen good deal flow in the UK, with some sizable wins, including for PowerCurve Collections, which is the new PowerCurve module we recently introduced. We have also made a series of investments to position ourselves strategically to take advantage of key market trends. As an example, we are helping clients and consumers with the Open Banking directive by bringing together capabilities from our acquisition of Runpath with key capabilities developed organically through our DataLabs. In Consumer Services, while the soft spot will continue to be the credit-subscription revenues, we have been building out our loan-comparison offer CreditMatcher. We have added several major new lenders to our platform in the quarter, increasing our inventory of loan offers. CreditMatcher is growing strongly and demonstrating the resonance we have in the marketplace with consumers. We are also building our membership base through our free-score offers and, at the end of Q3, we had built an audience of 3.3 million free members.

1.3.4 EMEA/Asia Pacific

Finally, we continue to see great performance in EMEA/Asia-Pacific, with 12% organic revenue growth, and an increasing proportion of our wins in our integrated data and analytics offers, particularly in EMEA, which we expect to benefit both commercial positioning with clients and, ultimately, our margins for profitability in that region. This is a good demonstration of the competitive differentiation we can create when we successfully execute on our One Experian approach.

1.3.5 Summary

Overall, it has been a good quarter and we have great momentum as we head into Q4. With that, let me hand it over to Lloyd to take you through the numbers.

2. Financial review - Lloyd Pitchford, Chief Financial Officer, Experian

2.1 Introduction

Thanks, Brian, and good morning, everyone. As you have seen from the announcement and as we guided at the half-year, growth accelerated in Q3, with total revenue growth of 8% at actual rates, 6% at constant exchange rates, and organic growth of 5%. As Brian mentioned, we delivered strong and improving growth across B2B, and our progress on product diversification further moderated the decline in our B2C business. For the Group, B2B organic revenue growth strengthened to 8% as we saw the benefit of our new product innovations gaining traction. B2C improved from -8% in H1 to -4% in Q3. We expect further improvement in the

Group's organic growth into our traditionally strong fourth quarter, with a continuation of these trends. In addition, the acquisitions made so far this year have started well and are performing ahead of our expectations.

2.2 Regional Performance

2.2.1 North America

Turning to the performance by region and beginning with North America, total revenue growth was 7% and organic revenue growth was 5%, primarily reflecting the Clarity acquisition. B2B continued to grow well, up 8% organically in the quarter, with Consumer Services improving to be down 1%. Credit Services was up 8%, with good growth in core credit volumes, boosted by a number of new signings for the new Ascend analytical sandbox as well as further progress in Health. Decision Analytics had a very strong quarter, up 17%, driven by software sales and good growth in fraud. Marketing Services was flat for the quarter, due to phasing of revenue in our Targeting business. The progress we highlighted at the half-year in Consumer Services has continued. Since launch in the middle of the calendar year, we have now added 150,000 paying members in IdentityWorks and are seeing good progress in our Partner Solutions business. We now expect this part of the business to return to modest growth in Q4.

2.2.2 Latin America

Moving on to Latin America, at constant exchange rates, organic revenue growth was 7%. Credit Services grew 7%, Decision Analytics 9%, and Marketing Services was flat against a very strong comparative in the prior year. Growth primarily reflected higher core volumes in Brazil and the new contract wins we secured with the major Brazilian banks, as well as a continued benefit from countercyclical products. Spanish Latin America remained a slight drag on growth in the quarter.

2.2.3 UK and Ireland

Turning to the UK, organic revenue was flat overall, reflecting 5% growth in B2B, offset by the expected decline in Consumer Services. Credit Services performed well, up 5%, led by solid underlying trends and further progress in Prequalification services. Decision Analytics was up 4%, driven by strong growth in our fraud-prevention services, and Marketing Services had a good quarter, up 5%, benefiting from good demand for digital-marketing services. The rate of decline in Consumer Services continued to moderate, down 15% in the quarter, reducing from 17% down in the second quarter, with strong growth in CreditMatcher offset by the expected decline in paid-for subscription revenue.

2.2.4 EMEA/Asia Pacific

Finally, in EMEA/Asia-Pacific, organic revenue growth was 12%, with strong growth across Credit Services, Decision Analytics and Marketing Services, as we secure greater value from clients through integrated services.

2.3 Outlook

Turning now to the outlook, we expect performance to strengthen further into our traditionally strong final quarter, as we benefit from new Trended Data service in US Credit Services, and expect further improvements in Consumer Services. For the year as a whole, we continue to expect organic revenue growth in mid-single digits, with stable margins and further progress in earnings per share.

2.4 Tax

Turning to a couple of other items, on US tax reform, we continue to review the full implications of the Tax Cuts and Jobs Act. As you know, the US tax regime to date has been a high headline rate, high deduction system, and the effect of the new regime for Experian will be a reduction in both the headline rate and the deductions available for certain Group costs, including interest. We expect these two effects to broadly offset, leaving our expectation for FY18 Group benchmark tax rate unchanged from our previous guidance of 26-27%. Whilst we previously expected the Groups' tax rate to trend upwards in future years, following this change we currently expect that, assuming a constant mix, it will remain broadly similar for FY19.

2.5 Share-Repurchase programme

On our share-repurchase programme, we have now completed $530 million of the $600 million programme as at the end of December, so the majority of the programme is now complete.

2.6 IFRS15 restatement

One final point before I hand back to Brian is that, in May, with the prelims, we will be restating our results for the introduction of IFRS 15. As I have said before, we do not expect these to materially impact revenues, but we are using the opportunity for this restatement also to look at our segmental structure and, should this result in any changes, we will update on these in May too. With that, I will hand back to Brian.

3. Concluding remarks – Brian Cassin

Thanks, Lloyd. To summarise, we are making great progress across the portfolio, scaling the products that we have introduced over the year, with more introductions to come over the coming months. This will help us to sustain the great rates of growth we are seeing in the B2B and the continued recovery in our B2C operations.

4. Questions and Answers

Brett Huff, Stephens Inc
Could you give us a little more detail on how the convergence from some of the free services that you are providing in the Consumer Services business were converting to some of the paid services? I know that there is an effort to do a full paid version but also a method to try to convert folks from free to paid, so could you give us a sense of how that is going as you move that Consumer Services business back to growth?

Brian Cassin

Do you mean on the credit-subscription products or more broadly?

Brett Huff

The credit-subscription products.

Brian Cassin

The free channel is a strong acquisition channel for us, and we see pretty strong upsell from that. That is both in the US and the UK. I do not know whether we have given the specific metrics on that, Lloyd.

Lloyd Pitchford

No, we have not, but our main monetisation channel for our free acquisitions has been and continues to be the upsell into the paid product, and the upsell rates have continued to strengthen.

Brett Huff

You mentioned, in the commentary on Brazil in the release, that improving market conditions were one of the drivers of the performance there. I think it was a couple of quarters ago that you mentioned that Brazil had started to turn the corner. Do you have any comment on whether it has gotten meaningfully better here sequentially from the last quarter's update? Do you have any commentary on the underlying economic health there, and where we are in that recovery and how much more benefit there might be here in the next couple of quarters?

Lloyd Pitchford

There has been no step change. We did 9% in Brazil during the quarter. As we look into Q4, we have a very tough comp – we had double-digit growth in Q4 in Brazil last year – but the underlying trends remain positive. As we look out, we said that, next year, we will have, we think, some weakening in some of our countercyclical products, which will soak up some of the additional growth that might come from improving economic conditions, but it then bodes well as we exit next year and go into FY20, assuming the economic conditions continue.

Rory Mckenzie, UBS

I will start with two on the US Consumer division. First, on the customer numbers, how many customers do you have overall in that division now and how many are paid-up subscribers? Second, with either LendingWorks or CreditMatcher, can you talk at all about pricing or any targets you have for monetisation or how you expect revenues from that part of the division to grow?

Lloyd Pitchford

We have about two million paid members in North America. The credit-subscription members are declining – that is a trend that we have seen continue. The 150,000 that we have in the IdentityWorks product is up from 120,000 at the end of October. November/December is a traditional holiday period for these sorts of products and is our slowest quarter. We are into our peak quarter now in the post-Christmas period. You have seen us launch new advertising campaigns and new products into the mix in IdentityWorks, and that is trending well. Sorry, what was your second question?

Brian Cassin

It was on the LendingWorks products. I think you were looking for some metrics around that, Rory. I do not think we have given any metrics round it. I think what we have said – and this is as consistent in Q3 as it was at the first-half – was that we have seen more progress in the UK, where we have built a relatively sizable revenue stream off the back of the CreditMatcher product. It has been less of a focus for us in the US, because we have really been pushing the IdentityWorks product, so that has not changed. What I would say is that we continue to see improvement in both the UK and the US in CreditMatcher and in LendingWorks, but still no significant effort, particularly in the US, as of yet.

Rory Mckenzie

Overall, in that -1% organic growth in US Consumer in Q3, can you at least give a sense of how much Partner Solutions contributed, how much new products added, and then how much the traditional subscriber-base revenues are declining? Are you now confident that you are at that tipping point for growth ahead? Even a sense of the relative magnitude of the moving parts would be helpful.

Lloyd Pitchford

We have said that, if you think about the 150,000 paying members, we have about an equal share between our $10-a-month product and our $20-a-month product, so you can get a sense of the scale that that is growing at in terms of annual revenue. Partner Solutions was growing low-to-mid-single digits, and there is high-single-digit decline in the credit-subscription volumes. Those are the moving parts and they are pretty similar to what we had talked about at the half-year. We are very confident that Consumer Services in North America will be into modest growth in Q4.

Paul Sullivan, Barclays

Can you provide any further thoughts on the fallout from Equifax? I do not know whether you have any additional colour in terms of potential market-share gains or perhaps other positive or negative things coming out of that. Second, does the CFPB leadership change have any implications in your view? Third, is there any logic in consolidating the UK consumer market?

Brian Cassin

We commented extensively on Equifax in response to questioning at the half-year. It is only six or so weeks since we talked to you on that, so nothing has really changed. In terms of market performance, I think we said at the half-year – and we would reiterate – that we are very confident in our own performance, driven, frankly, by the actions that we have taken in our own business. The performance of something like Ascend is giving us great wins. It is a great product and we are getting a lot of traction with that. We are doing very well. We have always said that it is way too early to estimate any kind of long-term implication from what happened at Equifax. We were not expecting anything short-term. We do believe that the strength in our business is, frankly, down to the stuff that we have done.

Your second question was on CFPB. Again, I do not think that there is anything really to comment on at this stage. There has been a change at the top but there has not really been any fundamental change across CFPB as of yet. We still engage with them on a regular basis. We do not expect that that much is going to change in the short term. As we have always said, while that has been a significant issue for us over the last few years, we have coped with it extremely well and I think we have a very productive relationship with CFPB, so it is business

as usual, as far as we can see.
The final question, I think, is probably a reference to the Bloomberg article this morning. We are not going to comment on that.

Paul Sullivan

I did not think you would.

Brian Cassin

As you know, we never comment on any speculation in relation to potential acquisition targets, and we are sticking to that.

Paul Sullivan

With revenue growth accelerating into the fourth quarter, it is setting itself up to be quite a strong year of revenue growth in fiscal '19. Do we dare start to imagine that we could see some margin expansion on the back of that accelerating revenue growth?

Lloyd Pitchford

We will come to guidance on margin in May. Clearly, you have seen the benefit in our revenue-growth acceleration of some of the investments that we have been making in previous years. We have a number of other areas that we can invest in the business, including in the buildout of the LendingWorks product in the US and the launch of Identity in the UK. We have things to invest in; exactly what that nets out to next year, we will update you in May.

Tom Sykes, Deutsche Bank

Could you help with some of the maths around the growth of your subscribers? It seems that you have about 25-30 million of annualised revenue on your subscriber base from the ID product now. Is that contributing to the bottom line yet? As you grow your subscriber base, are you getting more efficient at adding those subscribers and narrowing down the customer-acquisition costs? Could you give us an idea of the churn-off rates as people end the free trial?

Lloyd Pitchford

Are you talking about Identity?

Tom Sykes

Just on Identity – just on that incremental revenue from the 150,000 subscribers that you have. How should we think about that beginning to translate into some absolute EBITA growth?

Lloyd Pitchford

If you look at competitors in the market, the Identity product is quite a long-payback product, so you have to invest a little to acquire the customers, but the customers then are much stickier than credit-education customers. We will continue to invest grow that business and I would expect it to be an investment in growth, certainly as we go through next year.
In terms of the rates of membership, the increase from 120 to 150 over that two-month period is the net, so you have the additional acquisitions offset by those who choose to roll off. We are really in the peak period now, so our Q4 or calendar Q1 is really the peak period for this type of product, with a lot of holiday days in the November/December period. We are not giving data on convergence. It is still too early in the development of the business, so we will lead with the

metrics of paying members and you can then translate that through at about $15 per paying member but month on average. That gives you a good sense of where revenues are projecting.

Tom Sykes

Would you be able to make some comment on the growth of CSID and maybe what its ballpark revenue number is, and also growth in non-financial-services versus financial-services clients in your B2B business in North America?

Lloyd Pitchford

You will remember that, when we took on the CSID business, some of the competitors in our Identity business were customers, so we saw them roll off. If you exclude that, the CSID business is very strongly double-digit. If you look at the growth rates overall, you are seeing that growth is weighted towards the financial-services business because of the Trended Data product and Experian Ascend, but we are seeing good growth across all sectors.

Giasone Salati, Macquarie

First, on the US credit cycle, do you have any comment in general or specifically? Second, on the UK and Europe, is the GDPR change this summer an opportunity? Do we have to think about any investments related to that opportunity? Finally, I know that you do not comment on acquisitions but are you happy with the portfolio as it is in terms of further disposals or do you think it can be trimmed for the best in the future?

Brian Cassin

I do not think that our view on the US credit cycle has really changed since we talked to you in November. It still remains strong, in our view, and we are seeing good volumes and good take-up amongst clients. The backdrop is evident in the performance of the US Credit Services business, so that remains pretty strong.

On GDPR, we talked about this in November. It is quite a big change across the whole of Europe and I think a lot of companies are going to be struggling to get ready for that. We have a whole suite of products that are targeted towards helping people comply with GDPR. We have been working and positioning ourselves for that for some time. It clearly does require us to put some effort into it but that is included within the normal guidance for our business going forward, with nothing out of the ordinary. I do think it is a good opportunity for us but we have to see how it plays out.

On the disposals point, we have been through a period over the last three years where we have taken a lot action across the portfolio to clean it up. We are largely through that. We did say, when we were asked this question previously, that there could be some smaller peripheral stuff, but the larger stuff is complete.

Rajesh Kumar, HSBC

Following up on the tax question, with the change in taxation rate, I know it is early days but have you had some initial thoughts on how it impacts your capital-allocation policy going forward? Second, should we think of BEPS regulation and any impact of that on your numbers in terms of either tax rate or revenue opportunities at all?

Lloyd Pitchford

It does not really affect capital allocation because the net amount that we pay in the US is not really changing, so it does not affect it when you look at the deductions that are reducing, as well as the headline rate. There is no real change.

On BEPS, we are mostly through the impacts now. The fact that the US regime has clarified is a big uncertainty removed. Previously, we had been expecting the tax rate probably to trend up a bit, given some of the uncertainties in the US and some of the implementation of BEPS. Now, it is more stable and underpinned in that 26-27% range, so it feels good to get some of that uncertainty removed and to be at a stable rate going forward.

Rajesh Kumar

Following up on the GDPR issue, are you seeing a lot of interest from clients or is it still an initial phase of discussion and that you will see a big flush of meet-the-deadline work around May?

Brian Cassin

We are only a few months away from the deadline. As a general comment, I think companies more broadly have been slow to realise the implications of GDPR. During the second half of last year, we saw an acceleration of inbound interest, and the outreach that we had was getting more traction. It is a very complex issue for a lot of companies to deal with. There is a lot of activity around this space and I expect that to continue.

Rajesh Kumar

Within the service offering, how does your offering compare with the likes of legal companies, legal consultancies or IT services, or are you offering a fully bundled product within that?

Brian Cassin

It would be a very long conversation to describe the full capabilities that we have which address GDPR, but, essentially, it moves across the entirety of our data and our data-quality operations. The basis of the regulation is consent management and accuracy of data. It applies to a number of different areas of Experian's business, so we are extremely well-positioned. Lots of companies are looking at this marketplace. We will play in this marketplace both directly and by providing our products and services to other participants because, quite frankly, the number of companies that need to address this simply cannot be addressed just by Experian doing it alone. It is a big trend.

George Gregory, Exane BNP Paribas

Lloyd, you previously gave some guidance with the H1 numbers on cash flow in the second half following the slightly higher working-capital outflow in the first half and the elevated capex. Could you give us an update on that?

Lloyd Pitchford

There has been no change. We expect cash conversion in the second half to improve – it always does – around 90% for the full year this year.

5. Close - Brian Cassin

Thanks for joining today. We look forward to seeing and speaking to you again in May for our preliminary results.