Half year results FY21

17 November 2020

Contents

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

1.1 Introduction

Thank you very much and good morning, ladies and gentlemen, and welcome to our half-year results presentation. I hope you and your families have stayed safe and well during these times. As you can see from our results announced this morning, Experian has done well in the first half of FY21. We are now many months into the pandemic and so far business has been resilient. The biggest impact for us came in our Q1, which you will recall was negative 2%. We rebounded to growth in Q2 – very substantial growth, in some cases – and we are at the upper end of our expectations for Q2 and for the half. I will go through the presentations in a few minutes, but we have already highlighted areas where we have seen exceptionally strong performances. Consumer Services in North America and Brazil deserve special mention, but there are plenty of others.

That said, progress is uneven, and we continue to see weaknesses in some parts of the business, which did moderate as we went through Q2, but we still have some negative numbers knocking about. With virus spikes and new lockdowns you will forgive us for saying that we can't be 100% precise about how the next few months will play out. We are cautious about giving full-year guidance, but, as you can see from these results, we are incredibly well positioned. Even in the midst of a pandemic we have been able to grow organically. Our drive for innovation over the past few years and strategic decisions on where to position our business, in particular in Consumer Services, have and will continue to pay off. We continue to look for new areas of growth and areas to streamline our business and improve performance going forward, and we are even more excited about the opportunities we have ahead of us.

1.2 Resilient first-half performance

Q2 organic revenue growth was 5%. That took us to organic revenue growth for the half of 2%, after the 2% reduction in Q1. Total H1 growth was 3% when you include acquisitions. North America and Latin America delivered strong growth in context, up 7% and 5% for the half respectively. There is no doubt that we have benefited from the spike in mortgage refi in the US, but we have been working hard over the past few years to position ourselves better in this segment and we have benefitted from that.

As we all know, we have deliberately and methodically positioned ourselves strongly in Consumer Services, and this is paying off hugely. Globally we are closing in on 100 million consumer memberships. This already makes us one of the largest direct-to-consumer platforms in the world, something which will soon have even more importance and relevance in a world where digitisation is accelerating rapidly.

Of course, not everywhere performed well. The UK and EMEA/Asia-Pacific faced more challenges. Some of that is down to less favourable mix in those regions, and some because the pandemic has hit economies in different ways. Trajectory has generally improved in Q2, but we are still in negative territory.

Cost management has been an area of focus for us. One of our key principles has been to make sure we make the right decisions for the long term, retaining our operational capacity, building our employer brand, and continuing to invest for growth. We think we have judged it right so far. For example, we acted quickly on discretionary items, whereas we actually increased our marketing investment in Consumer Services. This has obviously benefitted the business, not just in the short term, but we believe for many years to come. We did take additional measures to rebalance our business in H1. The majority of this relates to the UK, which as you all know has been an underperforming region for us and is in the midst of a significant overhaul as part of our transformation programme. Lloyd will discuss that in a bit more detail shortly.

EBIT in the half is slightly better than we expected. Constant currency was up 1%. There was some margin impact, particularly as we navigated through the early stages of the crisis. Benchmark EPS was up 2% in constant currency, down modestly after the FX headwind. Our commitment to our capital priorities and the dividend is unchanged. The first interim dividend at 14.5 cents per share is the same as it was this time last year.

1.3 The COVID-19 crisis has catalysed pre-existing market trends

There are some clear trends emerging from this crisis. In the short term we will continue to face macroeconomic pressures and lockdown uncertainty, which will act as a constraint. However, as we have demonstrated, countercyclical elements in the business, deliberate actions and strong strategic positions in areas like Consumer Services, Health and Mortgage have meant that we have been able to continue growing our business during the pandemic. Our innovation pipeline is very strong. We are benefiting from new products introduced during previous years, as well as specifically during the pandemic. In a little over six months we have generated a significant pipeline of new COVID-related opportunities. Many of these are for fraud and collections, but they include things like new attributes and scores, recovery scores, downturn triggers, a new product called Ascend Loss Forecaster, recession-relevant bundles, and many other examples.

You have probably heard this many times by now, but the pandemic has accelerated trends that we believe were already evident. Banks were already accelerating investment in digital platforms. They are now moving faster to take out costs and, crucially, to improve customer performance in an accelerated digital world. This means greater opportunities for solutions we provide, not just software solutions like Ascend, but smart and new uses of data combined with platforms to help them reduce cost and improve performance.

The shift to cloud-based solutions, already a strong trend before COVID, has accelerated significantly. We recognised this trend several years ago and started to cloud-enable our suite of decisioning products through the Experian One platform, including pre-configured solutions for organisations that prefer standard, out-of-the-box applications, and highly configurable solutions for clients with more sophisticated needs. One thing I would like to point out is that, as we have been investing in Cloud, we have also been developing our core PowerCurve suite propositions, so in effect we have been dual-running our investment and decisioning over the last three to four years. It is not a trivial exercise, but we are now at a point where we have real traction for cloud-based solutions amongst our core client set. That puts us into a very good position as we look forward.

Online fraud is on the increase, and we have many ways to meet that need through CrossCore, Sure Profile and a number of other market-leading capabilities. As consumers we all know have massively shifted online, just at the time when personal finances have become more stressed and the need for personalised services has intensified. We are incredibly well positioned to satisfy these needs.

In Health, consumers want the same kind of digital experience they get in other industries, especially since their share of the bill continues to increase and we see healthcare providers investing in better patient experiences. In the last few years we have added hundreds of millions of dollars in new revenue from products that had not previously existed, and we shall continue to benefit from these trends going forward.

1.4 Substantial progress in North America

Turning now to progress in the half, it is very clear we have made substantial progress in North America. B2B had a solid first half, up 4%. Mortgage volumes have been strong, and refinancing volumes in particular. As I said earlier, this is an area we identified for expansion pre-COVID, and we have taken some market share. That has put us into a good position during the cycle. We do expect there will be some reversal of this in Q4.

Card and banking volumes are still depressed, as can be seen on this chart. Lenders have cautiously increased the amount of credit being extended, but their near-term focus is on credit quality and they have built up record loss reserves. Understandably, they are cautious and cost-focused, but in good shape generally. Lending will recover from these lows at some point, but we cannot be precisely certain when.

Ascend has done really well. It continues to build momentum. Total contract value is now almost $350 million globally. The team in North America have done a great job, and it was a material contributor to growth in the half. Added to this now is the global rollout, which is really gathering momentum. The product roadmap is full: Ascend Marketing, Account Review, Data Services and CECL Forecaster are all new modules, each of which attacks a different sizeable market segment, so our addressable market is growing. I think in time Ascend will probably globally be larger than our core North America CIS business in coming years.

The Experian One pipeline is growing, and bookings are up; mid-tier clients in particular are in the market for decisioning software. Some are finding the need to augment their online digital decisioning capabilities. Sometimes we put this together with data as a package service. This is a very powerful platform and is further strengthening as we add to it a host of different capabilities. This is yet another example of how our competitive advantage is really the breadth and depth of our solutions set, and our unique capability to bring it all together. To put it another way, no single competitor can match the combination of the advanced technology platforms, decisioning software and analytics, and vast data sources. As lenders and credit granters retool and update their data and decisioning systems, we see more opportunities to play to this fundamental strength, the ability to provide, integrate and deliver the various components to solve larger puzzles for our clients.

1.5 Verticals have been a source of resilience

Our verticals have been a source of resilience, and we have accelerated investments to capitalise on some clear market opportunities. Health continues to deliver solid revenue growth and robust sales, despite the fact that industry was hit hard by hospital and clinic shutdowns. We believe this is a good indication that the products and services we offer are critical to the healthcare market. The pandemic has accelerated several trends, such as the demand for digital healthcare and transition to alternative care settings like telehealth. This is helping drive growth in several of our product lines and these trends we believe are here to stay.

We are very pleased with the performance of both our core revenue cycle management business, our recent acquisition of MyHealthDirect, as well as our recent investments in consumer digital tools, collections, estimates and identity. It is also a business that relies heavily on the rest of Experian; it consumes an enormous amount of quantitative Experian bureaux data and marketing data to enhance workflow and analytics that we provide to clients. New business performance has been strong: 27% of sales in H1 were from new customer logos. This is significant because typically most of the growth comes from selling additional capabilities, so this bodes really well for the future. We highlight Automotive here, which was initially hit quite hard when the pandemic started and since then has bucked the trend of a challenging environment as car sales recovered. New initiatives and new products have helped our growth strategy there.

1.6 Core market expansion and strong execution in NA Consumer Services

Our performance in Consumer Services has been outstanding. You only have to look at the reported performance sales to see that we are outperforming the market in pretty much every category.

In North America a growth of 13% is a really good result, and we have achieved this as others in the industry have had to reduce headcount and pull back on marketing spend. By contrast, our brand awareness has grown, as shown here. Half the US population is now aware of Boost, and we continue to enhance the proposition. Consumers can now add payments they make to streaming services like Netflix and Hulu. Again, this is important because when consumers are under financial stress they want to better understand their financial position. There is still also demand for credit, and we have delivered record numbers of credit approvals on Credit Match. We continue to invest to enhance our propositions and enter new markets like insurance, which was already a material contributor in H1 and looks set to be another huge opportunity for us in the US.

Taking a step back from performance in the short term, we now address nearly 100 million consumers globally. That gives us a tremendous opportunity to continue the strategic progress and growth of this business. That said, we still have a long way to go if you compare it to the 1.3 billion consumers that we have on file. I would like to remind you that we see this not only as a growth business, but for a business whose largest asset is data on over a billion consumers worldwide, a key plank in fulfilling our obligations as a company to society more broadly.

1.7 Latin America delivers growth as investments in Brazil pay-off

Turning to Latin America, we had a very good performance for the half as a whole, up 5% organically. Brazil has coped remarkably well, all things considered. Q2 was outstanding, up double digits. Positive data is making progress; we already have 15 Positive Data products in market, and plan to launch another 29 across the rest of 2020. It is still early days, but we have had already implemented scores and attributes, and we have had very positive client feedback. Growth drivers are not limited to Positive Data, though. We have had successes for Ascend, and one of the largest contracts signed outside the US to date. We push forward with Experian One use cases, as well as CrossCore.

This combination of factors is hard for others to replicate. The data is superior. We have unmatched product capability, and we can combine and integrate these to create unique and hard to replicate solutions that deliver incredible value.

1.8 Connecting to 51.8m consumers in Brazil with significant commercial success

Add to this is the direct relationships we now have with one third of the Brazilian adult population, and you can see we have a very exciting future for our business there. No other company focused on financial services in Brazil has anywhere near this number. We now have 51.8 million consumers connected to the platform. 88% of all consumers in Brazil say they are aware of the Serasa brand.

Memberships are translating into commercial success. Revenues have more than doubled in the half, with big success for Limpa Nome. We also expect that Serasa will fast become one of the go-to places to get credit in Brazil. Score Turbo, which we recently launched, will facilitate this. Score Turbo is related to Experian Boost. It works by enabling consumers to pay their bills using our platform, which can help to instantly improve scores and get instant access to new sources of credit. This matters, because not only does it build our brand further, but we also collect data every time we interact with a consumer, so we enrich services for consumers while also extending our lead in data itself. Credit matching is fast becoming a revenue driver, and we expect to further develop the business.

Brazil is already one of the most digitised societies in the world, but it is also underpenetrated for credit. Incomes are low and the banking system is highly concentrated. This is an attractive combination of drivers, notwithstanding the current macroeconomic environment.

1.9 Transformation underway in UK and Ireland

It was a tough half-year in the UK, down 12%. We do not have the same extensive countercyclical revenues in the UK: no health vertical, for example, and the mortgage market is structurally different. That said, we have made good progress on our business transformation. We have discussed this before. The issues in our UK business arise from the complexity of the technology estate built up over many years. The cornerstone of our transformation is about simplifying the estate, modernising it, removing it as an issue and then getting back to profitable growth. The goal is to have a much simpler, stronger core, which will be better positioned to take advantage of the large and numerous opportunities which we see ahead of us.

What have we done? In the last 12 months we have completely reorganised how the business is structured. We have massively improved service levels, and we have reduced our cost base substantially. Pandemic aside, we had expected to improve our performance this year. Obviously that did not happen, but the underlying improvements are there and that will set us up for significant progress as we go into FY22.

1.10 Moving forward with innovation investment in UK

Alongside all of this we have not let up on innovation. We have moved ahead with key investments. We secured new wins for Experian Ascend, including with a Tier 1 lender, and we have considerable traction with affordability and vulnerability solutions, which are well suited to the current climate. Perhaps most noteworthy of all, we have launched Experian Boost, a first for the UK market, which comes at a time when consumer finances are under a lot of pressure. In summary, we have done a lot of heavy lifting and we are on an underlying improving trajectory in this part of the business.

1.11 EMEA/Asia Pacific

EMEA/Asia-Pacific declined 18% as COVID-19 shutdowns materially affected bureaux volumes and caused delays of software implementations. This region has a much higher proportion of decision analytics software, and this has been harder hit. There is a lot of volatility in the outlook. Many countries in this region are in some form of renewed lockdown, so it could be longer before we see material improvements. We are getting more focus on some key markets where we can see a path to scale, and some markets despite the challenges have great momentum right now. I am very pleased to say that the acquisition in Germany has gone really well, even better than we had hoped. Volumes are strong and we have had some great wins in the market. We have already launched products like Ascend into the German market.

1.12 ESG – first half progress update

I want to quickly give you a brief update on ESG. This is central to how we manage the business, and you can see our three core pillars here. My earlier comments on Consumer Services showed how transforming financial lives is actually integral to what we do as a company. It is not just something which we do on the side. Since 2013 we have helped 35 million people with our social innovation products. We aim to increase this reach to over 100 million people by 2025. We have used our data and analytics to help governments help the most vulnerable during the pandemic, and we have launched United for Financial Help, aiming to help 15 million people and small businesses most affected by the crisis. More widely, women now make up 40% of our board. It is important to note that we meet the recommendations of both the Hampton Alexander Review and the Parker Review on gender and ethnic board diversity. We are pleased to have been recertified as a Great Place to Work for the third year in a row. Last year we cut our carbon intensity by 14%, and we are now committed to being carbon neutral in our own operations by 2030. This is always going to be an element of work in progress, but we are very proud of the positive steps we have taken, not just this year but in the years that led up to it.

With that I will hand it over to Lloyd to take you through the financial update.

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

2.1 Highlights – first half FY21

Thanks, Brian. Good morning, everyone. I hope you and your families are all safe and well. Starting with the highlights, as you have heard from Brian, against the unprecedented backdrop of the pandemic we have performed well in the half. After a 2% organic decline in Q1 we returned to growth in Q2 at the top end of our updated guidance, with organic revenue growth of 5%. Overall in H1 we delivered organic revenue growth of 2%. Total revenue growth across exchange rates was 3%, benefiting mainly from the German bureau acquisition. Exchange rates were a 3% revenue headwind in the half, mainly due to weakness in the Brazilian real, and as a result total revenue with actual exchange rates was in line with the prior year. Constant currency growth in benchmark EBIT was 1%. Benchmark EPS grew 2% in the half at constant rates but declined 2% after the FX drag.

We delivered a very strong operating cash flow conversion in a traditionally weaker first half, at 89% conversion. The Board approved a first interim dividend of 14.5 cents, unchanged on last year. We ended the first half in the lower half of our operating leverage range, with our financing further strengthened.

2.2 Organic revenue growth trends

Touching briefly on our organic revenue trends, after a strong finish to FY20 we saw the impact of the pandemic during Q1, with a 2% decline in organic growth. However, we have rebounded strongly in Q2, achieving the 5% organic growth we outlined, with 2% for the half.

2.3 Q1 to Q2 FY21 organic revenue growth

Revenue across all regions improved between Q1 and Q2, but there were a few standout drivers which helped deliver the return to growth.

US Mortgage strengthened further, adding 3% to Q2 organic revenue growth, up from 2% in Q1. Consumer Services revenue grew 17% globally in the second quarter, improving from 8% in the first, with Latin America Consumer Services delivering triple digit growth. We continue to see strong demand for Ascend as we scale the product globally. These contracts are now delivering material revenue, contributing 1% to growth at the Group level. In addition, the contribution from Positive Data in Brazil is growing as we launch more products to the market, and we also saw an improvement in underlying credit market trends. Whilst these are still not back to pre-COVID levels, they were better in many locations in Q2 over Q1. These factors helped drive the recovery in organic growth from -2% in Q1 to the +5% in Q2, despite the continuing uncertainty in a number of our end markets.

2.4 North America key organic growth trends

Looking a little deeper at two of our largest businesses in North America, the chart on the left shows the relative contributions to organic growth in our Consumer Information bureau. This is split between Mortgage in the light blue and the rest of the bureau in dark blue, with a combined performance shown at the top of the bars. Mortgages performed very strongly over the last three quarters since the Fed rate cut in Q4 of the prior financial year, adding 3% to Group growth in Q2. We have taken current volumes in Mortgage into our guidance range for Q3 organic revenue growth. Looking further ahead, forecasting is very uncertain. However, if you take the Mortgage Banking Association (MBA) forecasts for mortgage volumes for Q4, the 3% contribution to Group growth we have seen during Q2 would slow to between 0% and 1% contribution in the fourth quarter.

Outside of Mortgage, you can see the improved growth in the rest of the bureau from Q1 to Q2. This has been driven by a strong contribution from Ascend, whilst in other areas volumes remain subdued, as you saw in Brian's presentation. On the right-hand chart you can see the trends in our Consumer Services business. Our subscription products in light pink have contributed very strongly in the last two quarters, particularly as consumers look to better understand their financial position during this time. Despite the very challenging market backdrop, lead generation has continued to grow well, more than offsetting variability in our partner solutions growth. Compared to some of the sharp drops from some of our lead generation competitors, this represents a great performance from our team as we continue to take market share. This highlights the strength of our brand and the innovation we are driving through our diverse portfolio of direct-to-consumer products. It is worth noting that the 16% growth we saw in Q2 came on top of a very strong prior year performance.

2.5 First half organic revenue trends (1)

The next two slides showed a breakdown of performance from our businesses within each of our regions. In line with our discussions earlier in the year we wanted to provide this additional disclosure, given the unprecedented trading environment this year.

North America

Our North America business performed very well, with organic growth increasing from 4% in Q1 to 9% in Q2. Our core bureaux were very resilient, with organic revenue growth improving from 4% in Q1 to 14% in Q2. This was driven by the continued strength in Mortgage profiles, Ascend, and an improvement in core credit profile volumes. Automotive bounced back to growth in Q2, driven by healthier volumes. Our Health business has strengthened over the first half, with 4% revenue growth in Q2. This has been driven by better performance in collections and patient access as hospitals have adjusted to the current situation, increased capacity, and started elective surgeries again. Our Consumer Services has strengthened over the half, with revenue growth increasing from 10% to 16%, predominantly driven by subscriptions, as I mentioned earlier.

Latin America

Latin America declined by 1% in Q1 but achieved 10% growth in Q2, to deliver 5% growth for the half. Bureaux revenues improved, from a 5% decline in Q1 to 1% growth in Q2, driven by an improving trend in our bureaux volumes, Positive Data, and growing revenue from Ascend. The Consumer business has continued to be very strong, with revenue more than doubling in Q1 and nearly tripling in Q2. It has benefitted from an excellent performance in Brazil from Limpa Nome, our debt resolution tool. Overall across North and Latin America businesses, which account for almost 80% of our Group revenue, organic revenue was up 6% for the first half.

2.6 First half organic revenue trends (2)

UK and Ireland

Our UK and Ireland business improved over the half, from 15% down in Q1 to 8% down in Q2. We saw the supply of credit improve over the second quarter, leading to higher transaction volumes and driving better performances in our bureaux. Decision Analytics saw some improvements from the lows of Q1, improving from -16% in Q1 to -8% in Q2. This was helped by some improvements in new business environment and higher volumes in our fraud and identity business. Consumer Services moved from -18% in Q1 to -11% in Q2, with the improvement coming from growth in subscription revenue, which is proving itself to be countercyclical. The paid member base grew sequentially through the second quarter, and we expect this trend to continue. This has offset a weakness in lead generation, where we see healthy consumer demand to borrow but where supply has not yet fully recovered.

EMEA / Asia Pacific

Our EMEA/Asia-Pacific business improved from Q1 to Q2, driven by a better performance in EMEA. We saw an improving trajectory in bureaux volumes. Spain is recovering quite slowly, but Denmark, Norway, Italy and the Netherlands are now close to prior-year levels, and volumes in Germany are actually outperforming last year on a pro forma basis due to the strong position in e-commerce. Our Asia-Pacific business weakened, mainly due to delays in software implementations.

2.7 First half approach to cost management

Turning now to managing our cost base. As we outlined earlier in the year, we have been managing our cost base very closely and deliberately in the first half. We took the decision to continue to invest behind our growth programmes and through the depth of pandemic during Q1 to maintain our capacity across our businesses, despite the very different performances in different regions. This year we will continue to explain the main movements in our overall cost base by category.

Starting with volume variable costs – 15% of our cost base in this category – increased as expected, broadly in line with revenue. 15% of our costs are discretionary, and about 80% of this is marketing. Given the strength of our US and Brazilian consumer businesses we have continued to increase levels of investment in marketing, as we continue to gain market share in the direct-to-consumer segments. This rising marketing spend was more than offset by significant reductions in travel and other discretionary costs. 45% of our cost base is labour, and here we saw a slight increase in headcount due to acquisitions and the annualisation of prior year merit increases. We controlled organic headcount strongly. Overall, we ended the half with headcount broadly where we ended last year, including the impact of acquisitions. Lastly, 25% of our costs are fixed in the near-term, mainly depreciation, technology infrastructure, facilities and data costs. These costs have increased due to higher depreciation, reflecting increasing technology investment in prior years. We have also seen an increase in dual-running costs related to our technology transformation, as more of our products and services move to cloud provision without a reduction in our fixed infrastructure costs.

Overall, you can see the near-term approach has resulted in high cost control while continuing to sustain innovation and technology investment spend. The net effect is that our organic costs were up 2% in the first half, in line with the guidance range we gave. For the second half we expect a broadly similar level of organic cost growth of 2% to 3%. Some benefits of cost actions in regions most impacted by external trends are more than offset by increased investment in consumer marketing and the continuing trend of technology dual-running costs. As the longer-term impacts of the crisis become clearer we will clearly keep all our options under review.

2.8 Benchmark EBIT margin

Turning to the EBIT margin and looking at it on a geographic basis, starting from our reported prior year margin of 26.9%, North America grew EBIT by 12%, contributing 100 bps to Group margin. We saw strong operating leverage in B2B, and an improved Consumer Services margin, even as we increased marketing expenditure.

Margins in Latin America dipped slightly, with a 30 bps drag on Group margin due to adverse mix effects as the Consumer business, which is still in its investment stage, grew exceptionally quickly and we invested behind the Positive Data launch.

The UK margin reflected the impact of the pandemic on revenue, impacting Group margin by 130 bps.

The margins in EMEA/Asia-Pacific reflected revenue weakness in the region, which more than offset the benefits from the addition of the German bureau acquisition.

Within Other we saw a positive impact of 100 bps, reflecting strong central discretionary cost control and positive mix effects in the half.

2.9 Benchmark earnings per share (EPS)

Turning now to EPS, starting from the first half of FY20 in which benchmark EPS was 49.1 cents per share, growth in benchmark EBIT from continuing operations was 1%, reflecting the organic revenue growth performance. Interest expense decreased to $60 million as a result of lower average global interest rates. The tax rate is flat at 26.2%, and we saw higher weighted average numbers of shares at 907 million in the half. EPS was therefore up 2% on a constant FX basis and down 2% at actual FX rates, reflecting the weaker Brazilian real.

2.10 Reconciliation of Benchmark to Statutory Results

Now taking a look at our usual reconciliation to statutory results. Amortisation of acquisition intangibles increased to $65 million, consistent with the increased acquisition activities last year. Acquisition-related items remain flat at $14 million, and exceptional items reflect restructuring costs which we have recorded in the half. At the end of last year, we talked about our planned transformation programme in the UK business, which we were initiating to improve the performance of the business. As the most complex technology and application estate we have been establishing a roadmap to simplify our technology estate, enhance customer experience, and return the business to profitable growth.

In the first half we started to implement our plans, with a new organisation structure focused on delivering enhanced outcomes for our clients, alongside a multistage technology transformation programme. In addition, following a number of acquisition and growth initiatives to bring scale to some of our smaller markets, we also initiated a number of restructuring actions to gain greater operational efficiency and focus our activity on a smaller number of scaling end markets in EMEA/Asia-Pacific. These changes are all focused on improving the operating performances of the business and have strong near-term paybacks.

In H1 we recorded $22 million of exceptional restructuring costs, and we expect the total for the full-year cash costs to be $50 million. We have strong line of sight on the benefits of the changes we are making and expect them to deliver $40 million of year-over-year annual cash cost savings from FY22. Finally, on this slide, non-cash financing remeasurements decreased from $51 million to $29 million, which includes FX losses on the Brazilian real into Group funding.

2.11 First half Benchmark operating cash flow

We saw very strong cash flow generation with 89% conversion in H1, which is the historically weaker half for cash flow. This includes some catch-up from the end of last year when we saw the impact on cash of the emerging pandemic at the end of our financial year, and also the mix of very strong growth in Consumer Services, which has a shorter cash cycle. Benchmark operating cash flow therefore increased 69% in the half at actual rates. There was a reduction in capital expenditure, with a disciplined approach to infrastructure spend and maintaining the prioritisation of product development. Net capital expenditure represented 8% of H1 revenue, broadly in line with the 9% we saw in FY20. Lastly, depreciation and amortisation has increased, driven by investment in previous years.

2.12 Strong financial position and funding liquidity

Looking at the balance sheet. As you know, our target net debt to EBITDA range is 2.0 to 2.5, and we finished H1 at 2.25, just in the lower half of the range. We continue to hold strong investment-grade ratings, and these have been stable since 2011. Looking at our funding, we issued a new £400 million sterling bond in October to take advantage of the current low interest rates. This bond provides funding for the bond maturing in October next year. After that we do not have any bonds to refinance until September 2024. We have spread on maturities to ensure we do not have large refinancing requirements in any one period. Reflecting our capital priorities and given the resilience of the business this year, our strong financial position and our confidence in our business model, the board has recommended a first interim dividend of 14.5 cents per share, unchanged on last year.

2.13 Q3 revenue and second half cost ranges

Turning now to our near-term expectations. There is clearly still a high degree of uncertainty as we look ahead, particularly around the potential for further lockdowns and the variability in economic activity. We therefore will not give full year guidance, but we will provide some elements of ranges in our revenue and cost expectations. Our current view is that organic revenue for Q3 will be in the range of +3% to +5%, with a further 2% from acquisitions, all at constant currency. The outlook in this range will depend on the continued strength in mortgage volumes in the US and the progress of our North America and Latin America Consumer business. We are also watching closely the impact of renewed lockdowns on credit volumes across our key geographies.

On costs, we continue to finely balance tight cost control with investment in the business to position ourselves for recovery. For the second half we expect a broadly similar level of organic cost growth of 2% to 3%. Some benefits across actions in regions most impacted by external trends is more than offset by increased investment in consumer marketing and the continuing trend of technology dual-running costs. As the longer-term impacts of the crisis become clearer, we will clearly keep our options under review.

2.14 Modelling considerations for FY21

Lastly, turning now to FY21 modelling considerations. We expect acquisitions to add around 2% organic revenue growth for the year. We expect FX will be between a 4% to 5% headwind to EBIT growth in FY21, assuming current rates continue. We expect net interest to be around $120 million, reflecting the lower market interest rates. Benchmark tax rate is expected to be around 26% to 27%, reflecting the mix of profits. Due to the ownership structure of the German bureau, we expect full-year minority interest to be around $5 million to $6 million. Finally, taking into account the shares we issued for the consideration of the German bureau, the weighted average number of shares is expected to be in the region of 910 million for the year as a whole. With that, I will hand you back to Brian.

3. Concluding remarks – Brian Cassin

Thanks, Lloyd. Just to wrap up, I think this has been a pretty extraordinary half-year for everybody, but Experian has come through it very well, delivering growth and a very strong cash flow performance. We think our business will emerge from this crisis very strongly, and we also think we are just really at the start of some exciting new growth stories that you can see from the results today. More broadly, we think the secular trends for businesses like ours have become more pronounced. The investments that we made before the crisis – and indeed, continued to during the crisis – mean we are very well positioned to take advantage of these. While we cannot say for sure precisely what the next six months will bring, we are very enthusiastic about where we are positioned, and we are very enthusiastic about the opportunities for our business ahead.

I am now going to hand back to the operator for your questions, for which we will also be joined by our Chief Operating Officer, Kerry Williams.

4. Questions and Answers

Paul Sullivan, Barclays
A couple on Consumer and then one on margin. Firstly, can you clarify the Lead Gen contribution to growth in the US and your thoughts on Mortgage contribution to Consumer in the second quarter and the sustainability into the second half? Do not take this the wrong way, but you talked about engagement versus memberships. Half of America is aware of Boost; why have only 5 million people signed up?

On margin, how do we think about the evolution from here going into next year with those cost savings kicking in? Is there any reason – perhaps linked to Mortgage – why the US margin would reverse if the UK recovers? Is 20% to 30% still a sensible margin target for the UK over the medium term?

Brian Cassin
I will let Lloyd chip in in a second. The first point about Consumer Services: the lead gen business is still growing; actually growing strongly. That growth has been impacted by the market environment, but the fact that we are able to grow shows the strength of proposition that we have. That is the first question.

The second bit was about engagement and sustainability. Engagement is really, really important, because it is all very well to have millions of consumers as members of your platform, but if they are not engaging with the platform the value of those consumer relationships is significantly lower. What has been consistently happening in all of our businesses – US, UK and Brazil – is that engagement levels have been increasing dramatically. That gives us a broader licence to continue to innovate and offer propositions on the platform. We mentioned Insurance in North America, which is a good example of that. We launched that product at the start of the year. It is growing really, really strongly. We see that as another very exciting and huge opportunity for us to play in where we have every right to play and are already demonstrating success.

We will not take your question the wrong way, Paul, but 5 million people signing up to give you access to their bank accounts is not trivial. It might seem like we have been talking about the product for a while, but actually it is a little over a year and a half since we have introduced it. We continue to see great engagement from that. As we continue to evolve the proposition we expect to see connections continue to escalate. There is still a little bit of friction in the consumer experience, so it takes a little bit longer for people to sign up than we would like. We have a few things to fix that, but we are very happy with that. At the outset we would have absolutely taken that.

It is broader than that. The proposition itself has completely changed the brand perception of Experian in the market. It has given us a completely differentiated thing to talk about and it has elevated our brand proposition. The broader benefit of something like Experian Boost goes beyond the actual number of connections, to the halo that it gives around us as a company and licence to engage with a very broad population. Even though we only have five million consumers connected, the traffic that it drives to the site is very, very significant. Overall, we are very happy with that. I will hand over to Lloyd to talk about the balance of the question in terms of the split growth and on the UK margin.

Lloyd Pitchford

On the balance of Consumer it is important to think about it all together. On Boost we ended last year with 3 million connections. We are now at 5 million, so you can see really good progress in the first half of this year, particularly given what has been happening in the world. That, combined with the membership base we have, has meant that we have been able to continue to grow lead generation at a time when our competitors are seeing that really fall off a cliff. The lead generation overall in the second quarter was still growing between 30% and 40%, including the introduction that we had in the auto insurance marketplace during that time as well. You stand back and you look at the performance of the Consumer business, how each of the propositions are feeding off each other, and compare it to the performance of the competitors. We really see the benefit of the investments we have made there.

On margin, Mortgage clearly comes at a pretty high margin. Next year we will have to find a way to lap that in North America. Equally, you are seeing the investments that we were making in the UK to launch Boost and to get the operating performance there improved – similarly in EMEA/Asia-Pacific – and also the investments that we have been making in Consumer and Positive Data in Brazil. Overall, that, plus the restructuring cost benefits, give us plenty of options with margin, either for operating performance or for further investment next year.

Sylvia Barker, J.P. Morgan

Just going back to the margin point, could you give us some detail around the North American margin within Consumer Services, which you said has done really well? We can see the overall Consumer Services EBIT and margins are up quite strongly in the first half and on the B2B side, anything else you can say around the profit contribution from Mortgages would be quite helpful.

Secondly, on the UK, will you see any benefits from the measures you are taking in the second half of this year already, or should we only think about that as a boost into next year? Maybe if you can just talk a little bit about the second-half margins this year, given we are obviously seeing some improvements in the underlying growth, but perhaps the savings are not kicking quite yet.

If we think about your Mortgages comments and the guidance, it seems that essentially your organic was quite consistent overall during the quarter at the Group level: can you maybe comment on that? Mortgages seems to be still running at a decent pace, or are your slowdown comments are more relevant to Q4?

Lloyd Pitchford
I will start with the Mortgage question. In the second quarter, Mortgage contributed 3% to Group growth. It was up a bit over 60% in the quarter. That is how you get to that 3% contribution. As you look out this quarter, clearly there are a range of outcomes. We might see it reduce a little from that 3% more to something like 2%, but there is clearly a range. The comments I made were mostly around the fourth quarter, when we start to lap tougher comps and where the external forecasts are suggesting that Mortgage might be a little less strong. Again, clearly a range of outcomes there.

On margin, about two-thirds of the margin progress that we have made in North America comes from the very strong position we have had in Mortgage. That clearly comes to a higher than average margin, so we will see that next year. However, there are a range of other movements across the North America business where we have been investing. If you recall, this time last year we had the additional marketing spend for the Boost launch in North America; we have actually spent over that elevated level this year, given the positive trends that we have had in our business. For the UK the majority of the benefits of the restructuring programme in the UK and EMEA/Asia-Pacific will flow next year. There is a little bit in in the second half, but the majority is next year.

For the second-half margin, clearly the elevated revenue drops we had in the first quarter really weighed on the first-half margin. You would expect an operating margin that is more approaching the prior year in the second half and an improved position for the full year as a whole, as opposed to the first half. That is in line with that 2% to 3% cost guidance that we have given. Hopefully that is clear, Sylvia.

Brett Huff, Stephens
Congratulations on a nice quarter. I did some quick math on the Brazil Consumer, because this may be the first time you have explicitly broken it out. You said 1% of Group revenue; if we assume a $5 billion-dollar full year, that gets you something like $50 million. The North American Consumer business is about $1 billion, give or take. As we think about Brazil and it getting bigger, how should we compare that to that North American $1 billion over time?

Lloyd Pitchford
Clearly, we are really excited about the potential of the Brazilian Consumer business; just at the point when Positive Data is becoming available in that market, we are pretty excited to have our brand and the IP in our Consumer products to bring it to that market. We sized the opportunity

about a year ago by saying we thought we could develop a Consumer business of several hundreds of millions of dollars. Clearly, we are well on our way to maybe the first $100 million. FX has been a bit of a drag for us against that, but you can see the progress we are making. That is the sizing we have put on it.

Brett Huff

Thinking about the marketing spend, I have seen a lot more of your Boost adverts on TV, so I am definitely receiving the message. It is working. When you think about the LTV to customer acquisition costs or other metrics like that, how much more gas can you put on that fire and still have a compelling LTV to CAC range? How do you guys think about that?

Lloyd Pitchford

We monitor that really closely. The complexity in it that we are learning as we develop the diversification in our business is the extent to which we get cross-sell from one customer acquisition channel into other products with a lifetime value. That is the area that we have been super surprised over the last 12 to 18 months, as we have seen that Boost membership and that traffic come in, the ability to convert that into other products, into lead generation on credit, auto insurance and identity. You have to think about the holistic lifetime value across the whole diversity of products. We watch that really, really closely.

Brian Cassin

One other thing I would add is that the marketing spend is very deliberate. It does give you an immediate return, as you can see in the results, but what is more significant are some of the brand metrics that we put up in the presentation. We know that continuing to invest in this is not just a one-year payoff; this will pay off for many years to come because you just embed the brand name and the propositions in the minds of the consumer, and that gives you a very significant long-term benefit. We see this as both tactical as well as very strategic. We are pretty happy with some of the metrics that we put up on the presentation earlier.

Rajesh Kumar, HSBC

When you talked about Boost and your Consumer business in the medium term, obviously you have transformed the business. There is a lot of great growth opportunity, but we have seen some incremental noise around data regulations. Could you share your thinking on the subject in terms of how you are going to strategically position yourselves in North America, UK and Brazil?

The second one is on the restructuring expense. Can you run us through how much of the expenses will be cash expense this year, and how much of it is basically a provision that can be used up next year?

Brian Cassin

I will deal with the first one. On the Consumer Services business, you have to think back to the original incarnation of what we set out to do here strategically. We set out to use our position as a credit bureau to develop propositions which demonstrated the value that we bring to consumers more broadly. On the regulatory point of view this is exactly in line with where regulators all over the world want to see a business like ours going. First of all, it is consumer-consented, because every consumer that we have as a member has signed up to be a member and has agreed to the use of data in accordance with the terms we set out. Not only that, they are actually – and we know this from the interaction – really happy to see that their data is being used to enable them to get better outcomes, and that is the key point. This is completely compliant from the direction of travel of where we see regulation going. It puts control back into the hands of consumers. It gives them more information, more ability to influence outcomes for them, and the reaction we get from consumers is very, very strong.

In terms of the future of the business we are very excited about it, because not only have we proven the ability to grow business in the vertical that we have done so far, it has given us a broad licence to continue to innovate in different parts of consumers' lives. As we move forward you will see us branch out into other areas of significant spend.

On the restructuring, the $50 million will be mostly cash this year. The vast majority is cash expense, and it is cash this year. Just to outline, these are changes that are not really COVID-related. They are focused on areas of the business that we targeted for improvement before we saw the pandemic: improving the UK business, as we outlined pretty heavily last year, and also improving the focus in EMEA/Asia-Pacific. That combined is where we are targeting this, and it is cash cost.

George Gregory, Exane BNP Paribas
I have three questions. Firstly, just following up on the earlier questions on Consumer, I am just keen to understand how we should think about the phasing next year as we comp against the very strong growth in both North America and Latin America Consumer. Any rough sense of how much of that in each business might drop away due to the mortgage dynamic in North America and debt reconciliation in Brazil?

Secondly, I wondered if you could elaborate on what exactly you are doing to your technology estate in the UK a bit.

Finally, on a related topic, thanks for your ESG comments. I just wondered to what extent you would consider accelerating the migration of your data estate to the cloud in order to benefit from the energy-efficient architectures of some of the cloud vendors.

Brian Cassin
Lloyd, you can take the question on Consumer and then we will hand it over to Kerry to address the technology question in the UK and the broader cloud point.

Lloyd Pitchford
Obviously next year is quite a way away and there is quite a lot of variability in markets, but clearly where we have seen strength this year we will need to lap that. The Brazil opportunity is large, so whilst we might see the percentage growth rate nominally reduce we would hope to continue to progress that business with a similar contribution. We are pretty excited about the opportunities for diversification in the North America Consumer market. There are lots of exciting ideas. We will probably give you a bit more in May, but we have a lot of ambition for our Consumer business, given the investments and the strategic muscle we have putting behind that. On technology in the UK, maybe Kerry wanted to come in for that.

Kerry Williams, COO, Experian

Good morning, everyone. On the technology estate in the UK you break it down into two pieces. On the Consumer side we are well-progressed on our technology transformation. We have already brought in and are live on what we internally call our Corvette platform, which was created in the US. We were able to bring that over to the UK. You have seen innovation starting to now come off of that new technology capability in the form of launching Boost in the UK market. We are well-progressed on new technology in the Consumer business in the UK. We are now turning our attention to the B2B estate in the UK, which is arguably significantly more complex and a larger technology estate than the Consumer business was. We are starting down that journey. This is in the early days from a technology perspective in the UK.

In terms of the question around migrating data to the cloud, we have been doing that for some time now. We have been leveraging the cloud capabilities, particularly in our Consumer businesses, for several years. For our customers on the B2B side, there are still some customers that would prefer not to have their data in the cloud. What we have done with our technology vision and roadmap going forward is we have the ability to either host data in the cloud, host it within our facilities, host it at a third-party location, or even on-prem at the customer side. We are very flexible about where we store the data in the cloud or elsewhere. As we bring up a new technology platform, each one of those decisions is made based on the needs of the customers, the operating efficiency, and the flexibility and the platform that we want to get to. It is an opportunity for us to continue that migration, for sure, but there is also some desire from some customers to not have data in the cloud. We manage that on a geography and customer basis.

Andy Grobler, Credit Suisse

Both are on Latin America. From a margin perspective, as that Consumer business in Latin America grows up to hundreds of millions – hopefully – what level of margin should we expect? Is it going to be similar to the broader B2C Group margin or above that within Brazil?

Secondly, you talked about product launches from Positive Data into Brazil. Can you just talk a bit more about which products have been launched and what momentum you expect into the second half, and I guess over the next 18 months as those products begin to get that momentum?

Brian Cassin

Just on the clarification on the product launches, we said that the product launches related to COVID were broad across the portfolio, not specifically Brazil, although we do have products in Brazil like anywhere else. The bigger story in Brazil over the last year really has been Positive Data, and that is where the big focus is. I am going to ask Kerry to talk a little bit about that, and then ask Lloyd to adjust the Latin America margin expansion question. Kerry, do you want to address the product one first?

Kerry Williams

Sure. Andy, as you would imagine, we started with the path of least resistance and the greatest demand in the marketplace, and that would be around scores and reports. Scores around Positive Data were the first products into the market. That is part of the 15 products that were referenced in Brian’s overview of the business. We continue to look at other areas. We are moving into the triggers world, which has had great success in other areas of Positive Data. As Brian referenced, we have launched Ascend in the Brazil market. Ascend, now with Positive Data becomes highly desirable in the Brazil market as opposed to just in a negative data environment.

Really, the initial roadmaps for us had been around scores and reports, and attributes in the marketplace. We are moving towards triggers, Ascend, and all of the capabilities that we do with Ascend, whether it is the analytics, marketing capabilities, or other capabilities that we hang off the Ascend platform. That is the immediate focus.

Andy Grobler

Kerry, in terms of incremental revenues from those products – I know it is difficult to be precise – but over the next 18 months or couple of years, what could we expect from those data products?

Kerry Williams

I will let Lloyd handle the revenue question.

Lloyd Pitchford

We think of the Positive Data products as integrated propositions. We saw them differently across different client sets, so we do not really call out the separate revenue that we expect that to bring, but clearly Positive Data is going to be a tailwind, not just in terms of the products we sell, but the feed through of what that will do to credit availability in the market, which then broadens our end market. No specific answer, but we expect it to be a continual tailwind for quite a number of years.

On margin there are two ways to answer this. If you look at the Latin America business without our Consumer business, the margin would be about 4% - about 400 bps – higher, so you can see the effect of the investment that we have been putting into the Consumer business. We have always said we think a Consumer business at maturity can generate a margin of something around the mid-twenties. Of course, if you look at North America, we are currently beating that, and that business pays a royalty fee to the Consumer bureau, so it is actually accretive to Group margins. That gives you a sense of where a mature market could get to. Clearly, we are a long way from that in Latin America, and we are really developing our market position. It is really clear if you carve out a relationship with consumers and be the leading brand, which we are today and we are investing behind, then there is a long runway that you can monetise behind. That is what we are pretty excited about.

Anvesh Agurwal, Morgan Stanley

On Boost, once a consumer receives the higher credit score to Boost, can he or she go to a retailer or a bank to say, 'Please use my Experian Boost score'? If that is the case then you have obviously got a tailwind on the B2B side of the business as well, rather than just the B2C side. Do consumers have that power in terms of what credit score is being used by financers?

Secondly, just a clarification: how much is the dual-running cost on the IT systems, and when should we expect it to end?

Brian Cassin

On the Boost proposition, the way we have designed Boost is that it becomes an integral part of the credit pool. The lenders do not have to do anything to accept the boosted score. They do have to decide to use it. As big a part of the proposition to consumers is convincing the panels of lenders to make products available using the boosted score. That does take some time, but we now have a fairly significant panel of products which are being made available to US consumers with the boosted proposition. People really get different and better offers when they boost their score. In the UK – where we launched it last week – we were very adamant that we would launch with propositions in-market. Where consumers were actually able to boost their score they would see an enhanced proposition. Obviously that starts off with a limited number of offers, and we believe over time – as we saw in the US – that will extend as people get more and more comfortable. It is very much a two-way proposition. The key is that it is seamless; once the consumer boosts the information is available for use from the lenders, and they do not really have to do anything else but consume the data. We put a lot of thought and effort into the design of the product.

Just a final point, really. We have only been in market five days in the UK but we already have 100,000 people in the UK who have signed up and boosted their scores through the platform, so in one week I think you can see the impact that we can have in markets.

Lloyd Pitchford

Anvesh, on running costs I know some of our larger competitors report this separately outside of their benchmark operating profit. I called it out because it is in our base P&L. One of the reasons we continue to report it there is that is almost impossible to clearly identify exactly what is a dual running cost. As we move to the cloud, we have clearly got existing fixed investment and fixed running costs with spare capacity on our owned infrastructure. You have got that dual running, as you are then paying for cloud-related services. It is significant. It is tens of millions of dollars a year, but not identifiable with a degree of precision to call it out as an exact number.

Anvesh Agurwal

Yes, but in terms of when we should expect it to end, if not the exact number, does it continue next year as well, or beyond that?

Lloyd Pitchford

Our transition to cloud is a multi-year project, so this will take us another three to four years in total to be completely on to cloud infrastructure. It is not a short-term effect.

5. Close - Brian Cassin

Thank you very much, everybody. That concludes today's session. Thanks for joining. We wish you all a good day and look forward to speaking to you again in the future.