Trading update – Q3 FY22

14 January 2022

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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 hope you are keeping well. I am here with Lloyd. He will take you through the trading performance after my opening remarks.

1.2 Highlights

Q3 was another good quarter. It was towards the top end of our expectations. Total Group revenue growth was 15% at constant exchange rates, and organic revenue growth was 11%. North America and Latin America delivered double-digit growth and we had a solid performance in the UK. By segment, Consumer Services continues to perform very well. We are now at 128 million free members globally, which is great progress. There were very robust performances across B2B too, with notable callouts being our North America bureau, when you exclude Mortgage. In all, we are on track to achieve the upper end of the full-year expectations that we set out in November.

We continue our efforts to help people around the world to improve their financial health, and we are proud this quarter to award our Creating a Better Tomorrow award to a UK project, which helps local authorities identify people close to falling into financial vulnerability, ultimately benefiting around 16 million people in the UK. We are also now very close to the launch of our new Experian Go initiative in the US, following a successful pilot, and this is going to help millions of credit-invisibles to get a credit profile for the first time.

1.3 North America

Now let me touch on some of the regional Q3 highlights, starting with North America. Market conditions have been good. Consumer, core bureau, Decisioning and Health have all performed well. Consumer credit quality is strong. Bureau volumes have been robust, with only Mortgage in negative territory. This quarter, some highlights include further wins in Buy Now Pay Later, continued good progress for Ascend, and very strong growth in Decisioning. We are making good progress in Employment Verification Services, the acquisitions we made are performing ahead of plan, we are winning new clients, and we expect to continue to make good progress in this new part of our business.

Health has been very strong. The performance this year does include some one-off revenues that are linked to COVID, but growth is broad-based across the portfolio. What we refer to as a digital front door, where we help providers to improve the efficiency of their digital portals, Identity Management offers and Revenue Assurance for healthcare providers are all performing very well.

Consumer Services continues to make great progress. We now have 49 million free members, who we are successfully leveraging into new segments. Our Credit Marketplace is doing very well. We see favourable trends, with strong volume growth in cards and in personal loans. Our lending panel has grown in recognition of the quality of our leads. All in all, we see favourable market conditions ahead.

We have also begun the process of leveraging our free base into automotive insurance expansion. We have commenced the integration of Gabi, which will greatly enhance our insurance offer and give consumers a better shopping experience. We are highly focused on improving the membership experience by adding new features focused on financial health and to make our membership base stickier, and we are very happy with the progress that we are making to date.

1.4 Latin America

Turning now to Latin America, which also delivered double-digit organic revenue growth, the credit economy in Brazil is evolving at a rapid pace. We have very good traction with our positive-data attributes and scores. Our global platforms are also starting to drive more growth for us. The number of Ascend installations is up, as is demand for Decisioning software. The acquisitions we have made add further to our opportunity and we are particularly pleased with the progress of BrScan, which extends our position in the fraud and identity-management market.

Consumer Services delivered a strong performance. Q3 is when we hold our annual Limpa Nome credit fair in Brazil, where we help millions of Brazilians to negotiate their debts – something we are very proud of, because it makes a real difference to millions of people, and it is great for our brand in the Brazilian market. We have now started to integrate PagueVeloz, which will update the status of clean names more rapidly. Our plan is to diversify the business and we are making a lot of progress. Our Credit Marketplace and premium offers contributed meaningfully to the performance this quarter.

1.5 UK & Ireland

We are pleased with progress in UK&I, which delivered high single-digit growth. The fundamentals are stronger. It is translating into more effective new-product innovation and an improved new-business performance. Volumes have stayed fairly healthy, with strengthening credit originations and eligibility. This is partly due to the robustness of the underlying macro and also reflects our new-business performance. We have made inroads into new customer segments like Buy Now Pay Later. Uptake of our global capabilities is also on an upward trend, and it is encouraging to see greater consistency in the performance of our Decisioning segment.

In Consumer Services, continued expansion of our Credit Marketplace has led our growth. Lead-generation volumes have been very strong. This is a further illustration of the strength of consumer balance sheets in the UK and the willingness of lenders to extend credit.

1.6 EMEA/Asia-Pacific

In EMEA/Asia-Pacific, bureau volumes are slowly recovering across the majority of our markets. Our ambition for this region is to build scale, streamline our operations and drive profitability. We have established strong positions in key bureau markets like South Africa, Spain, Italy and Germany. We are also simplifying our operating structure and evaluating how we can serve clients more efficiently. We see a lot of opportunity in the years ahead arising from positive structural trends, and there is good demand from clients in areas like open banking and for cloud-based propositions.

With that short overview, I am now going to hand it over to Lloyd for the financials.

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

2.1 Trading Performance

Thanks, Brian, and good morning, everyone. As you have seen, we had another good quarter, with organic revenue growth of 11%, which was at the high end of our expectations. Core lending markets performed well, with strength in North America and Latin America. Health and Consumer Services also continued to grow strongly. Organic revenue for Consumer Services was up 19%, whilst B2B was up 8%. Including acquisitions, total revenue growth at constant exchange rates was 15%. Exchange rates were a 1% revenue headwind in the quarter and, including this, total revenue at actual exchange rates grew by 14%.

2.2 North America

Looking at the regional performance and starting with North America, we had organic revenue up 13%, with B2B up 10% and Consumer Services up 19%. In B2B, our Data business grew 7% organically. Within here, bureau revenue grew 15% organically, with US Mortgage revenue declining 21% as volumes continue to decline from the highs of the refinancing boom in the prior year. We still expect Mortgage to be a 1% headwind to Group revenue for the year and into next year. Excluding this, revenue grew 16% organically, as demand for traditional credit pools and pre-qualifications volumes remain high. Ascend continued to grow well, with growth across all platforms.

Automotive grew 4% organically against a backdrop of tough trading conditions. Targeting grew 7%, continuing to benefit from a return of advertising demand. Our Decisioning business grew 16%, as all business units grew double digits. Health continued to perform strongly, with 17% organic revenue growth for the quarter. Volumes across the product suite remain strong and we continue to benefit from some one-off COVID-19-related activity, which, for this year as a whole, we expect to add around 4% to Health growth this year. Decision Analytics had another good quarter, with 13% organic growth. Volumes within Identity and Fraud continued to perform well, driven by demand from financial-services clients. Consumer Services grew 19%, our eighth quarter of double-digit organic growth. Lead generation more than doubled during the quarter, benefiting from the return of credit supply earlier in the year.

2.3 Latin America

Moving on to Latin America, organic revenue was 11% at constant exchange rates. Total revenue was up 21%. This included revenue from the recent acquisitions in Brazil. Factoring in the FX headwind during the quarter, revenue grew 16%. B2B was up 10% organically, while Consumer Services was up 19%. Bureau revenue grew 10% organically for the quarter, as bureau volumes continued to recover from the COVID-19 lows in the prior year. Growth was further supported by positive data. Ascend also continues to perform well, with increasing numbers of installations during the quarter. Decisioning overall delivered 9% organic growth, driven by demand for collection products. Consumer Services grew 19% during the quarter. eCred, our lead-generation product, performed well, with strong demand for consumer-credit propositions in Brazil.

2.4 UK & Ireland

The UK saw 8% organic revenue growth, up 10% at actual rates. B2B and Consumer Services grew 6% and 13% respectively. Bureau revenue grew 6% during the quarter, with total credit-search volumes trending above pre-pandemic levels. New business continues to perform well, with key client wins supplementing volume growth. Decisioning grew 7% during the quarter, in line with elevated online-credit activity levels and new business wins, and we have also seen an increase in fraud and ID-related volumes. Consumer Services delivered strong organic growth of 13%, with lead generation almost doubling during the quarter.

2.5 EMEA/Asia-Pacific

In EMEA/Asia-Pacific, organic revenue growth was flat, with Data up 3%, offset by Decisioning, which was down 6%. EMEA declined 4% during the quarter, where we have seen a slower return to pre-pandemic credit volumes overall, with the ongoing restrictions in this region for the current COVID outbreak. It is on an improving trajectory as we exit the year. Asia-Pacific grew 10% as the bureau businesses performed well in Australia, India and southeast Asia, with volumes continuing to recover.

2.6 Guidance

Moving on to our guidance, given the strong performance this quarter, we are tightening our organic revenue guidance to 12-13%, in the top half of our previous guidance. All other guidance for the year remains unchanged.

With that, I will hand you back to Brian.

3. Summary – Brian Cassin

Thanks, Lloyd. To summarise, Q3 was another strong quarter for Experian. We are realising the potential in Consumer Services, with a lot more to come. We are taking advantage of unique market opportunities like Brazil. We have entered new market segments, like Employment Verification Services, which have a lot of promise. This, coupled with the investments we continue to make in widening our Data assets and innovation, gives us a lot of opportunity to sustain our growth both this year and beyond. We feel very positive about our prospects as a whole. With that, we are going to open up the line for your questions.

4. Questions and Answers

Paul Sullivan, Barclays
Good morning, everyone. Three from me. Firstly, I am a little intrigued as to why LatAm growth slowed so much and is running barely ahead of inflation, particularly in light of all the structural positives that you have been talking about. Should we expect a bounce-back in the fourth quarter? That is the first question.

Secondly, Lloyd, you touched on lead gen doubling again within US Consumer, but could you give any more colour on the other moving parts of the US Consumer business and the sustainability of growth from here?

Finally, Brian, your thoughts on the bigger picture and macro backdrop, what customers are saying to you, and any early thoughts on how we should be thinking about the shape of fiscal ’23.

Brian Cassin
Thanks, Paul. Do you want to deal with the growth ones and I will come back on the macro?

Lloyd Pitchford
Yes, sure. I will start with lead gen. Paul, all the individual bits of the North America Consumer business grew double-digit in the quarter. If you think about the trend across the board, we clearly ingested a lot of subscription members during the pandemic, and so, as we go forward, we are expecting that bit of the business to trend more to be stable over the next 12 to 18 months, with much more of our growth coming from the Marketplace business, with the launch of the Auto Insurance products on the back of the Gabi acquisition. Looking ahead, you are more likely to see the North America Consumer business more in the low teens than the high teens, given that mix, but all bits of the business are going well.

On LatAm, it takes a little while for inflation expectations to filter their way through the bits of contracting. In this quarter, Brazil was a bit ahead of the growth in LatAm overall, so in the 12-13% range. The Consumer business was a bit lower this quarter and this is really because we had the Limpa Nome fair, which is a mostly physical fair, where we interact with lots of people, as Brian mentioned. The growth in this quarter can be a bit focused on the performance of that fair, and we would expect that to improve as we go into the fourth quarter. LatAm growth Q4 is probably more like the 13-15% range than the 11% that we saw in Q3.

Brian Cassin
Paul, on the macro, if you exclude Mortgage in North America, which is linked to the refinancing cycle that we have been through in the last couple of years, we are seeing really good conditions. The banks are in good shape. Consumers are in good shape. The signs across the economies are pretty good. I know that everybody is focused on the Fed increasing interest rates, but that is more to do with the hot conditions you are seeing across inflation and growth.

We feel pretty good about the outlook. There are no signs of distress anywhere in the system. When you look across as big a portfolio as ours and pick an economy, you can get whatever answer you want, but as we look across our bigger economies – the UK, for example – all of us have been surprised at how robust the UK economy has been, and that continues to be the case despite the ongoing challenges of temporary lockdowns here and there. Of course, we do have some particular spikes in inflation coming later in the year, with energy costs and so on, which will feed through to the consumer. Generally speaking, however, consumers face into this in pretty good shape. We can see that wages are rising.

Our overall view is pretty positive and we continue to monitor how we progress the pandemic. We are not through that, so we probably would expect continued spikes here and there, but we feel that the backdrop is pretty good.

Paul Sullivan
Any thoughts on the shape of next year at this stage?

Brian Cassin
Lloyd can comment in a bit more detail, but we expect next year to be a year of really good growth.

Lloyd Pitchford
If you look at our guidance for the fourth quarter and you back out year to date, that suggests, in the fourth quarter, about 8-9%, and that is after a 1% headwind on Mortgage. That is where consensus is for next year. We will formally guide when we get to May, but we are pretty comfortable at this stage. That tells you that we are pretty confident about the progression of the business.

Sylvia Barker, JP Morgan
Good morning, everyone, and thank you. Maybe just to clarify a little bit on the Q4 moderation. You have now commented on full-year '23 as well, so it seems that Q4 at around that 9-ish percent level seems reasonable. If we think about the delta, consumer subscriptions seem to be probably 50-60% of that. I do not know if that is fair. Maybe if you can just touch on the COVID impact within the Health business and maybe just the core credit bureaux.

Secondly, on free users within North America, I guess the growth in that slowed down a little bit quarter on quarter. What are the dynamics there? We do get questions around how quickly that can carry on. Going forward, what is a reasonable expectation of that user base growth? To what extent is that something to focus on, given that you are cross-selling and building the business around each user to a great extent, with more products anyway?

Finally, on margins in the UK and EMEA/Asia-Pac, just to check in on the previous comments, you said that UK margins should be reaching 30% at some point over the next few years, and then EMEA/Asia-Pac should be profitable going forward. I just want to check in on those two as well, please.

Lloyd Pitchford
Starting with the UK and EMEA/Asia-Pacific, there is no change to what we said before. The long-term guidance for the UK over five years is to get that back to 30% margins. This is the first year of that, and you have seen, in the first half's results, a strong bounce-back, and progression from here will be more rateable over the next four years. On EMEA/Asia-Pacific, we are expecting an improvement in profitability this year, as we said, and then our goal is to really improve the financial performance of that business. We will have a bit more to say about that in May.

On the Consumer user base, we are continuing to add millions of free members across the base. If you go back this year, Q1 we were 116 million, then 122 million and now 128 million, so some really good progress across that base. Naturally, there are diminishing returns as you get up into a high penetration of those user bases, so our goal is to expand that and continue to expand it, but to drive engagement with product. That is really where we are targeting all of the investment that we are making across the consumer base. We have a pretty powerful distribution engine there and our goal is to be able to provide additional functionality into that consumer base and create value through that.

On the outlook, 11% this quarter and in that 8-9% range. There are moving parts there. We have elevated growth in Q3 on Health, and some areas of elevation around the holiday season in the bureau in North America etc, so we probably expect North America to come down a bit, Brazil to go up a bit, EMEA/Asia-Pacific to get better, and the UK B2B business to probably get a little bit better, but the Subscription business would moderate the Consumer business a bit in the UK.

Those are roughly the moving parts. Trajectory into Q4 and next year, underlying in the 9-10% range with a 1% headwind of Mortgage is where we are looking at just now.

Anvesh Agrawal, Morgan Stanley
Good morning. I just have a couple of follow-ups on what has been asked already. In Brazil, with Limpa Nome probably comping out and eCred still ramping up, can we be in a couple of quarters where we see a slightly slower trend or do you see an immediate ramp-up happening from Q4 and Q1 next year?

Just on the Auto slowdown, is that purely related to what is happening with supply shortages or is there anything else that is going on there?

Finally, with the CFPB news that came out, I understand that you have agreed to a new mechanism on how to address third-party complaints. Are we looking for any additional cost to that or does nothing materially change from that?

Lloyd Pitchford
As I mentioned, the third quarter is a bit focused on Limpa Nome. Naturally, as the business gets bigger, the growth rates moderate a little bit, but we are still expecting strong growth from the Consumer business, and Q4 will be higher than we have seen in Q3, as much more of the growth of the e-Cred business impacted. As I look back maybe three years ago, Limpa Nome was 70-80% of the Consumer business in Brazil. It is now about 50%, so you can see the effect of the very strong growth in e-Cred that that is having there.

On Auto, it is just really the supply-chain issues that are well-publicised. Anybody who has tried to buy a car recently knows you are having to wait a long time, and that is pushing down into a lack of availability also in the used-car market, where you are seeing a lot of inflation. We are going to have to see those effects work their way through that business before we are likely to see growth elevated back into the high-single-digit range.

Brian Cassin
On the CFPB point, it is not a significant change. We will be adding additional resource to handle those additional volumes, but not significant in the overall grand scheme of things.

Karl Green, RBC
You have just partly answered my question around the CFPB statement that came out earlier this year. They made some fairly strong comments about the industry being either unable or unwilling to comply with the FCRA. Just to be clear, in terms of those extra resources that you are putting in, do you think that that will that take you to being deemed compliant with the law as per the CFPB's understanding of that?

Brian Cassin
Let us get a few things clear here, which is that we have always been compliant with the law, so there has never been any question about that. The CFPB has a different interpretation about how we should deal with mass complaints that come in through the CFPB portal. What is driving this are credit clinics, which the CDPB also acknowledge account for a very significant volume of the complaints that are put through. Most of these are attempts to get data on people's credit reports changed. In some cases, there are valid reasons why that should be done, but, in many cases, there is no valid reason, and that is borne out by the number of times that the reports are changed.

What we are seeing here is an escalation in the volume of complaints into the consumer portal, and an agreement between us and the CFBC about how we deal with those. We have always been obligated to and always have dealt with complaints that come directly through the bureaux. This is an area that the CFPB is very focused on, and we expect that they will continue to pay a lot of attention to this going forward.

Karl Green
But you would disagree with their contention or the question as to compliance with the law.

Brian Cassin
We have always been fully compliant with the FCRA. There is no question about that. What we are talking about here is a change in procedure in dealing with large-scale complaints.

George Gregory, BNP
Good morning, Brian and Lloyd. Just one from me, please, following up on your some of your earlier comments. The guided growth in US Consumer in the low teens, with stable subscription businesses, would seem to suggest Marketplace revenues increasing fiscal ’23, year over year, by a similar magnitude, I suppose, to what they will have possibly increased in the current year. That is against a base which is significantly larger. Is there any colour that you can share on the implied deceleration of the business? I appreciate that some of those businesses will naturally mature, but you are also scaling up in new verticals. I am just trying to get a sense of the range of scenarios on the US Credit Marketplace into next year, please.

Lloyd Pitchford
If you look at the current makeup of the business, about 60% is a subscription business – both Credit Education and Identity Theft, which are really merging into a single product. About 20% is Marketplace and about 20% is Partner Solutions. If you think about the natural evolution of that, the vast majority of our growth in the next few years is going to come from Marketplace. Credit subscriptions will have to ingest the big peak of membership that we brought in over COVID, so that is more likely to be broadly stable to up a bit over the next 12 to 18 months before more normal growth would return. If you think about Partner Solutions, that is a mid to a bit more than that growth rate under normal times. It is Marketplace that is really going to drive the growth. If you look at that, you can see that we are still expecting very strong growth from that Marketplace business as we continue to grow the propositions, launch the insurance business, and expand some of the other propositions that we have in the innovation pipeline.

George Gregory
I guess I am just trying to get a sense for the context for that low-single-digit and the implied growth rate on Credit Marketplace.

Lloyd Pitchford
I did not say low-single-digit.

George Gregory
Low teens, pardon me. Yes, more just to get a sense for whether that could possibly prove conservative, given the pace of growth in your Marketplace business and the scaling of some of the new verticals.

Lloyd Pitchford

We have a lot of exciting plans for that. We have grown what now is well over a $200 million annual business, so there are clearly a range of outcomes. Today, it is 20% of the Consumer business overall, so you have to factor that in, but it is scaling well. I think that that probably covers it.

5. Concluding remarks - Brian Cassin

Thanks, everybody, for joining today and thank you for the questions. I hope you all have a good day. We look forward to speaking to you again in May for our full-year results. Thank you.