Experian plc

Preliminary Results for the Year Ended 31 March 2015

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Part I: Strategic and Operational Review

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1. Introduction

Good morning, everybody, and welcome to Experian's full-year results. It has been just over three months since our Investor Day, when we laid out our strategic and capital plans, and I think we have accomplished a lot since that time. I am very pleased to say we returned to growth in Q4 and made progress against all the strategic plans that we outlined to you.

I think it is true to say that FY15 has been a period of transition for Experian and we have certainly faced some challenges, but we have developed strong plans to address all of them and we are now seeing some of those results. I am delighted that we ended the year on a much better note, with organic growth back in positive territory and a very strong cash outcome.

There was good momentum into Q4, and our aim in FY16 is to continue that momentum. We have a lot of things to do to deliver on that. We are slimming the portfolio. We have some work to do to get some of our businesses back to growth and drive some more efficiency in our operations, so we definitely expect that to be a period of some transition but we are very excited about the trajectory and the opportunities that we have in the business. We have some very strong growth prospects across many areas of our business and we are putting a lot of resources behind them to get after those opportunities. As we said in January, we are taking a new approach to capital allocation, prioritising the biggest and best opportunities.

2. FY15 results

Highlights

After three quarters of flat performance, organic growth rebounded in Q4 to 3%, giving us 1% overall for the year. The strength of the performance in Q4 was really down to improvements in Consumer Services and Decision Analytics. Across the year, we had some standout performances:

- Credit Services in North America was very strong.
- Asia-Pacific was very strong and ended the year with double-digit growth
- Passport had a fantastic year.
- We had a great H2 in Brazil.
- The UK delivered another really strong performance.
- Importantly, we made a lot of progress towards repositioning North America Consumer Services, with investments in the Experian.com brand and the transformation of our consumer proposition. We still have a lot more to do but we are very pleased with the reception to date.

- Margins at constant currency were up, despite the drag from North America Consumer Services and some higher regulatory costs incurred during the year.

We are making really good progress against each of the five strategic priorities we laid out earlier this year, bringing more focus and more capital discipline. We have made some changes to our operating model to make us a little more nimble and competitive and, as a result, in FY15 we are building a much stronger foundation to continue our momentum and to sustain that growth over time.

Of course, we have also given more back to shareholders. We have raised the dividend, which is up in dollar terms by 5% and, for those of you lucky enough to get sterling dividends, it's up by 16%. In January, we announced a $600 million share buyback and are executing against that plan.

Financial highlights

- Total revenue growth at constant currency was 3%, and organic revenue growth was 1%.
- EBIT was up by 4% at constant FX, and flat at actual rates. As that indicates, currency was a significant headwind for us, as the US dollar strengthened, and this affected the reported financials on an actual basis.
- Having said that, we delivered growth in benchmark EPS, up 8% at constant FX and 4% at actual rates, so a strong performance there.
- We had an incredibly strong cash performance – a record, in fact – converting well over 100% profit into cash, so a very strong outcome for the year.

3. Strategic overview

Strategic priorities

In January, we laid out strategic priorities, focusing on the bigger platforms and backing some of our biggest growth opportunities. We have some work to do to turn some of our operations around. We are also focused on enhancing the effectiveness of our operating model. We are executing well against that plan, and our near-term goal is getting back to mid-single-digit organic revenue growth and sustaining that growth to a higher level over time. These actions are underpinned by a new approach to capital allocation, which gives us a framework for deciding what the best opportunities are and how we are going to pursue and fund them. I will talk in a moment about putting that strategy into action.

Capital discipline

In terms of capital allocation, our goal is to manage for economic growth and generate good returns over time. We have, generally, the best success when we invest close to the core of our business, which is where we can extract maximum returns and see the greatest certainty of returns. While, over time, acquisitions will remain part of the mix, we are focused on multiyear organic investment opportunities. We have set up our financial planning process this year a little differently, to give us a better way to get after these opportunities. What we are doing is creating tension inside the company for capital, which allows us to fund things at several points during the year, and that competition really helps to garner greater clarity and focus around planning and execution. Lloyd is going to spend a bit of time talking about that in his presentation.

4. Regional update – North America

Recent trends

Turning now to the trends across the regions, let us start with North America. The trends that we are seeing in consumer credit are really positive. For the most part, lenders have adjusted to the new regulatory environment. There is more competition between banks. We have seen higher levels of credit marketing. There is a willingness to extend and to expand into some of the higher-risk segments of Credit Services. We had a very strong year in the consumer bureau and strengthened our position in the marketplace with some really good competitive wins. In North America Credit Services, 40% of the business is outside the traditional consumer bureau: for example, automotive business. We had a very strong performance across all of those verticals. Business Information had a very good year; Automotive had another fantastic year and continued many years of double-digit growth; and Experian Health, which is where Passport is, is exceeding our expectations. I will come back to Health in a moment.

Decision Analytics had a very strong finish to the year in North America as well as globally. We had some good deals coming through, particularly in software. Importantly, in North America, we have some good traction across the PowerCurve suite, with really good multiyear, multimillion-dollar contracts in financial services and telco, so a good, strong base to develop from there. We have integrated 41st Parameter into our fraud suite, and we have a go-to-market proposition there that really shows an integrated product along the whole fraud capabilities.

We are making progress in Cross-Channel Marketing, with some growth in that segment, and are seeing deals outside some of our traditional retail vertical, particularly in airlines.

In Consumer Services, we have made some great progress and think that, in Q4, we passed the peak rate of decline. We continue to work also with some of our affinity partners, which is designed to get them back to growth. That is something that we believe has long-term prospects, although the short term has been a little difficult as they have pulled back from some of the marketing.

Consumer Services

Let us go into a bit of detail on Consumer Services North America. It has been about five months since we launched the Experian FICO proposition and we are now starting to get some measurable results from that. We know that consumers are responding positively to the swagger advertising campaign and the FICO offer, and our brand is gaining quite a lot of currency, opening up quite a significant gap, in recognition terms, between us and some of our competitors. The Experian.com brand is growing nicely, and the rate of decline in the free is also reducing. One significant data point is that our revenue in Q4 increased sequentially over Q3 on the direct-to-consumer products, and that is the first time that we have seen that for about two years. There is some seasonal impact in that, so it is not yet a trend but it demonstrates that we are seeing very encouraging signs.

We are also seeing really good progress in the memberships, and that positive momentum has continued through April. Of course, the key to success in this business is the lifetime value of members, so it is just five months, which is still too early to predict whether the FICO score enhancement really extends the average life of our members on the platform. We are going to get a stronger indication of that as we go through the next few quarters.

Our investment proposition in the Consumer business is not really all about the FICO enhancement – that is just the first step. Since we talked to you in January, we have taken some more important steps on that journey. In March, we migrated all customers on the freecreditreport.com platform to the Experian.com platform, about a million customers. The migration of other customers on other platforms will happen over the next couple of months. This has always been a key objective and it is great to get through that very smoothly. It is always a moment when you transfer that number of members of across. You need to really execute against that well to get it right, and we have done a fantastic job on that.

We have also launched our new Credit Tracker mobile apps, which I will talk about in a second. In January, Ty Taylor talked to you about the importance of our new technology platform. We are in beta test with that and it is moving forward nicely. This technology platform is important to us in terms of the flexibility that it will give us to launch more product enhancements, manage the retention and improve the customer experience across the entire customer base on a much more fast and more agile basis. It is going to do a lot of other things too: it will help us really tailor, personalise and customise offers for consumer, and help them get more out of the products and services that we give to them. We know that, when we engage with our customers more regularly and more often, they see more value in the product and it helps us with retention.

Consumer Services – Experian App

As I said, investment in new products is really essential to the transformation of this business, and we talked to you in January about the objective of, roughly every three to four months, having something new to bring to market. One significant development in March was the launch of our Credit Tracker mobile apps for Android and iOS users. This provides ease of access in a great way to engage consumers on a continuous basis. They are an early indicator of the type of things that we are doing with the Consumer Services business, and are really designed to maximise the unique position that we have as a data owner and to continue to provide new products and services to them. Reception to these apps has been fantastic, and you can read some of the reviews. It has been very highly rated on all of the platforms, and consumers love it, so we are very pleased with the introduction.

All in all, I think we are making great progress. We still have a lot to do in FY16, but we are very encouraged by all of the things that we have done and the roadmap that we have ahead.

Health

Staying with North America and moving to Health, this is one of our bigger growth opportunities and an area that we have targeted for more investment. Passport had a very strong year, with pro-forma revenue growth up 20%. We topped the KLAS rankings. We talked in January about the importance of these in the industry, and this is the fourth year in a row that we have been best in KLAS. Our brand is becoming increasingly well recognised and the business is really going from strength to strength.

When we bought Passport, we also talked to you about the importance of having a full end-to-end product suite, and we now have the most comprehensive product offering in revenue-cycle management. The reason that that is important is because it gives rise to bigger opportunities for us. We are winning new clients, the pipeline continues to grow, and the average deal size is growing and is up over 50% since we acquired the business. Just to give you an example of that, when we acquired Passport typically the average product bundle was around three products; we are now increasing that to five to six products, with the combination of the capabilities. We can see, then, that it is really working as we expected, and driving great growth and opportunities. We still have a lot of white space to target in revenue-cycle management, so we remain just as excited about what is coming next as about what we have done.

Health also represents a lot of other opportunities for us outside of revenue-cycle management, and one of the areas that we are focused on now is fraud and authentication, which represent quite a significant opportunity for us. The US health industry was the number one source of data breaches in 2014. Increasingly, hospitals and pharmacists are interacting with their patients through online portals and, unlike other industries, sometimes these online portals are not particularly well protected, so they are susceptible to fraud and we are seeing people access these platforms and gain customer identities. This is tailor-made for our existing product suite in PreciseID and fraud-prevention tools, and we are getting a lot of traction with this in the marketplace. We see this as a key organic-investment opportunity for us in the coming year.

I think that that is just a small taster of some of the prospects that we see across Health. We are very excited about it and have a long runway of growth ahead of us.

5. Regional Update – Latin America

Recent trends

Turning to Latin America, the Brazilian economy remained weak but we delivered really good growth in Q4, and that continued the trend that we saw in Q3. Nothing too much has changed in terms of the trends that we talked to you about in Q3. Lending activity in Brazil is slow, banks are more focused on collections and risk management than on loan origination, and this tempered some of our growth in the Consumer Information business. By contrast, Business Information had another very strong year, really down to us rolling out new features and scores, and new products which enhance our pricing mix in that channel. We are also seeing growing contributions from new areas, such as Limpa Nome, which helps consumers clear their debts. It is part of a growing number of services that we are providing on the Consumer Services platform.

Update on Strategy in Brazil

Our ability to deliver growth in this environment is really down to great execution by the Brazilian team. We talked to you a number of times about some of the things that we are doing in that business to position it better for growth going forward, and we are through some of those. For example:

- We have completely reorganised the sales force to line us up better against some of the vertical market opportunities that we see, and some of the structural growth opportunities that see longer term.
- We are investing in more analytics – for example, we have opened a data lab in Brazil – and lots of other areas.
- We also took out a lot of costs in Brazil this year, partly to protect our profitability but also to give us the ability to really drive those changes and invest for the future. I think it is a good example of our willingness to take in-year actions that are in the P&L in order to really enhance the longer-term prospects of the business.

We think Brazil is going to remain a difficult economic backdrop, so we are going to have to weather that in the next year, but I think the actions that we have taken and the bets that we have made for the longer term really give us a good prospect of delivering decent growth, even in this environment.

6. Regional Update – UK and Ireland

Recent trends

The UK is a really good example of how focusing on our biggest businesses and platforms is starting to lead to superior outcomes. In the UK in FY15, we delivered growth across all of our business lines. We delivered double-digit EBIT growth, so a great performance on top of several years of good performance.

Credit Services had a very good year. Our Consumer Information business is on a very good growth trajectory. Importantly, our Business Credit business is back in growth following several years of investment to really change and improve the proposition there.

I am pleased to say that Decision Analytics had a very strong finish to the year. PowerCurve is starting to really show its mettle as a powerful platform and we are seeing some clients upgrade to the originations platform that we brought out about a year ago. This is really important for the UK business because we have always been not just a provider of credit reports but of solutions, and our legacy Autoscore platform really helped us generate long-term, really solid relationships with a lot of the banking sector. It is very important to move them on to the module and extend and solidify our market position.

The UK was also a strongest market for 41st Parameter deployments, and we have had some very good wins, recent installations starting to go live, giving us great reference points for customers and performing extremely well.

We had a very strong year in Marketing Services Cross-Channel, with good growth there. We see some more opportunities to bundle more of our digital-data assets into these sales going forward.

We also had another strong performance in Consumer Services, which delivered good growth even as it lapped some really quite strong performance over the previous year.

Spotlight on Consumer and Business Information

I want to comment a little more on two areas of the UK business, just to give you an example of some of the initiatives and new products that we are introducing. They are both in Credit Services. Starting with Consumer Information, about 12 months ago we made a small but important investment when we entered the market for prequalification and really carved out a unique and fast-growing segment of that market. This has done extremely well. We help inform consumers of the likelihood of being accepted for a particular credit product, like a credit card, and it opens up new opportunities with both lenders and comparison websites. Banks like this because it helps enhance the customer experience. Not only that but it is really in tune with the trends in regulation, because the regulators wants customers to be able to shop around for the best product, which is what this product really does.

More broadly across Consumer Information, FY16 is a big year for product introductions. We are executing against a really strong and healthy product roadmap, with launches of ExPIN, statement exchange and rental exchange, all of which are going to help enhance and build our propositions going forward.

Business Information is something we talked to you about in January. It is another area in which we are investing, both in the UK and more broadly across Experian. We see four real big opportunities here:

- Sophisticated products.
- Further penetrating the SME channel.
- Looking at international data.
- B2B marketing.

There are millions of SMEs in the UK today, but only a few hundred thousand of them use credit-management products, so it is a large and growing opportunity. We recently launched a product called My Business Profile to really target that.

International data is yet another expansion area which we are now doing with the onset of the global data network. We expect to generate higher volumes from this in 2016 and beyond. This really helps companies check up on a wide range of customers – businesses that they might be dealing with over the web – with questions like, 'Do these companies exist? Are they creditworthy?' This translates into new addressable markets for us, because it is not something that we have really offered before. The UK is one of the test beds for this product.

7. Regional Update – EMEA / Asia-Pacific

I am pleased to say that we have made some great progress in EMEA and Asia-Pacific. In Asia-Pacific, for example, we are now, after the actions that we have taken over the last few years, focused on a smaller number of key markets. We really delivered a step-up in performance this year, with double-digit top-line growth, and we reduced our losses in that region on a like-for-like basis.

In EMEA, we have had several years where we have been improving the operations of that business, most visibly in Decision Analytics. We had another year of good progress and we have gone further by integrating our Decision Analytics and Credit Services businesses to build ourselves a better platform to continue that performance improvement in the coming year.

In FY16, we are going to aim to reduce our losses in Asia-Pacific, while, at the same time, still backing some of the major investments that we have made. We will continue to evaluate the geographic footprint and expect some exits from some of the smaller geographies that we are in. All of this is on a path not only to get the growth of that part of the portfolio up, but really to start improving the profitability and getting ourselves on to a path of generating good margins there.

8. FY15 results - summary

- We had a very good finish to the year and, despite the challenges that we had in FY15, we are seeing recovery and have positive outcomes for the year, so we are very happy with that.
- We are executing against our plans to improve performance by streamlining the portfolio, and also to invest in the areas of our business that we believe are high-growth opportunities and to sustain that growth over time.
- We are very well positioned with the momentum that we have going into FY16. We are going to be doing everything that we can to make sure that we continue that, so we are very optimistic about the year ahead and our ability to really improve our performance from here.

With that, I am going to hand over to Lloyd to take you through the financials.

Part II: Financial Review

Lloyd Pitchford
Chief Financial Officer, Experian

1. Highlights – FY15

Thank you, Brian, and good morning, everyone. Let me start with a recap of some of the key financials and then go on to review the results in a little more detail.

- As expected, our organic revenue growth improved to 3% in the fourth quarter, market 1% for the year as a whole.
- Total revenue growth for the year was 3% at constant rates, whilst FX headwinds increased as we exited the year, reflected in full-year revenue growth of 1%.
- Our EBIT margin at constant rates rose by 10 basis points to 27.5%, or 27.2% after the impact of actual FX rates.
- EBIT from continuing activities increased by 4% at constant currency, with FX representing around a 4% headwind.
- With a lower tax rate and slightly reduced share count, benchmark EPS grew at 8% at constant rates, or 4% at actual rates.
- We reported another strong year of cash-flow performance, as Brian mentioned, with operating cash conversion of 104%.
- Finally, return on capital employed for the year was 14.9%, which I will touch on a little later.

2. FY14-15 revenue bridge

Looking, firstly, at the makeup of some of our revenue growth for the year, as expected we saw headwinds in our North America Consumer Services business, which reduced our overall organic revenue growth by 3%. Excluding this business, however, the Group reported 4% organic revenue growth for the year, and stronger as we exited the year, which I will turn to in a moment. The contributions from acquisitions – mostly Passport Health – contributed a further 2% to growth, giving us 3% total growth at constant FX. Finally, the effect of a stronger US dollar, particularly against a weakening Brazilian Real as we exited the year, provided a 2% FX headwind on revenue.

3. Organic revenue momentum

Taking a closer look at some of our organic trends during the year, we saw generally stable or improving trends as the year progressed. As expected, growth improved during the fourth quarter and, as we previously highlighted, the fourth quarter benefited from the timing of a large Decision Analytics contract renewal in EMEA, which was recognised in the third quarter in the prior year and the fourth quarter in the current year. If we adjust for this, the underlying organic growth rate would have rounded down to 2% in the fourth quarter for the Group as a whole.

I think it is important to see some of the underlying improvements during the year in our key businesses. Excluding the effect of the North America Consumer Services business, the organic rate for the Group was 6% in Q4 and 4% for the full year; importantly, it improved as the year progressed.

Looking at the North America Consumer Services business in isolation, as expected the rate of decline reduced in the fourth quarter as we launched the Experian FICO product. As Brian mentioned, with new products launched and customers transitioned, we expect to be past the point of peak decline. Whilst we expect the trends to improve sequentially from here, we still expect North America Consumer Services to be a drag overall in FY16, as that transition continues, but particularly as the affinity channel remains weak.

Finally, in Brazil, after a difficult start to the year, with some of the disruption around the World Cup and with an uncertain economic backdrop, we finished the year well, delivering a strong performance throughout the second half of the year, with 5% organic revenue growth.

4. Organic revenue growth trends by segment

Looking at those same numbers by business line:

- Credit Services had a good year, with the World Cup effect dropping out after Q1 and with a particularly strong performance in North America.

- Decision Analytics had a strong fourth quarter and, whilst the timing of that Decision Analytics contract I mentioned depressed Q3 and flattered Q4, it was a good second half overall, on average.

- Marketing Services moved into positive territory in Q4, as we saw the continued positive progress on our new Cross-Channel Marketing platform that Brian mentioned.

- The brand and product transition in North America Consumer Services is the key trend that underlines the Consumer Services segment.

5. North America

Looking now at the regional performances in a little more detail, North America delivered total revenue growth of 3%, with organic revenue down 2%. Credit Services grew strongly, up 7% organically, with growth across all of our business areas. Prospecting levels were strong, mortgage moved into positive territory at the end of the year and, collectively, Business Credit, Automotive and Healthcare delivered double-digit growth.

Decision Analytics delivered 4% organic revenue growth against a strong prior-year comparable.

Marketing Services was flat year on year. Cross-Channel performed strongly but is not yet of sufficient scale to offset some of the declines in our legacy email and more traditional list-processing activities.

In Consumer Services, we have discussed some of the drivers here. I think the affinity channel is important to call out. It remains weak, as our core base remains cautious about resuming marketing activity. We see a number of our customers in the market now but it will take a little time, as we progress through FY16, for some of those activities to offset some of the declines on our legacy base.

As we previously mentioned, we had strong comparatives in data breach in the fourth quarter, as we supported some of our US retail customers in the prior year. Those comparatives extend into the fourth quarter before they drop away.

The dominant headwinds to our margins were higher regulatory and compliance costs, as well as the negative revenue trend in Consumer Services, which was partially offset by some of the efficiency and cost actions that we talked about in our January seminar.

6. Latin America

Looking at Latin America, total and organic revenue growth was 3%. Credit Services grew 3%, with Brazil driven largely by Business Information and a strong performance across our bureaux elsewhere in Latin America, where we are making headway with some of our key strategic initiatives, including low-income lending.

Decision Analytics had a weak year, down 2%, and Marketing Services declined by 4%, reflecting the weak macroeconomic environment in Brazil.

Having said all that, margins were 36.5% for the year, mainly due to FX headwinds, as well as some of the revenue headwinds in Decision Analytics and Marketing Services.

7. UK and Ireland

In the UK and Ireland, total revenue growth was 5%, and organic revenue growth was 4%. Organically, Credit Services grew 3%, with volumes in Consumer Credit slowly trending upwards, and Business Credit on an improving trend, as we introduced new products and expanded into the SME channel.

In Decision Analytics, clients are investing in systems and we have seen a number of upgrades into our PowerCurve software.

Marketing Services rose by 1%, with good growth in Cross-Channel Marketing, tempered by reductions in some of the more traditional data activities.

While Consumer Services came off its highs as expected, our full-year growth was 8%, driven by increasing memberships and a growing contribution from our affinity channel in the UK.

Margin progress in the UK was strong, up 130 basis points, reflecting really good, positive operating leverage across that business, as well as some cost-containment activities.

8. EMEA / Asia-Pacific

In EMEA/Asia-Pacific, we delivered total growth of 4% and organic growth of 3% for the year. Growth in Credit Services was 4%, with generally stable conditions in EMEA and strength in Asia-Pacific, as Brian mentioned, largely in Singapore and China, with growing contributions from the bureau start-ups.

Decision Analytics increased by 9%, with much better progress in Asia-Pacific following some of our reorganisation efforts in the prior year.

While Marketing Services declined by 3%, this was due to the large contract in housing that we had previously pulled out. Excluding this item, the business performed well, with strong new-business bookings particularly for Cross-Channel. The one-off will drop out of our numbers from the end of Q1/into Q2.

At an EBIT level, we made good progress at constant currency, although this was offset in this period by the effects of currency.

9. EBIT margin by geography

Looking now at our EBIT margin, as we mentioned at the start of this year in our capital and outlook framework, we will give guidance each year on EBIT margin. For the year we have just reported, margins were 27.2%. Before the effect of acquisitions and FX, there was good progress in margins across all regions, except Latin America. This represented a positive outcome, considering the transition in Consumer Services and also some additional legal and compliance costs that we had mentioned previously. Acquisitions reduced margins by 40 basis points overall, leading to margins at the Group level of 27.5%, up to 10 basis points at constant FX. The FX drag was 30 basis points, giving the reported margin of 27.2%.

Looking ahead, if current FX rates are to persist for the rest of the year, we would expect FX to provide a drag of about 20 basis points for the year ahead. Excluding that effect, we expect operating margins at constant currency to be stable, particularly as we focus, as we outlined in January, on investing behind some of our strategic growth initiatives and on really generating that improved growth momentum as we go through this year.

10. Group benchmark earnings

Moving on to our income-statement summary, total EBIT was $1,306 million, in line with the prior at actual rates and up 4% at constant rates. Net interest was stable. As we saw the effect of additional debt, was offset in this period by higher interest income. This gave benchmark PBT of $1,231 million, also in line with the prior at actual rates and up 4% at constant FX. The benchmark tax rate reduced to 24.4%, with changes in our funding structure and consequent profits mix. After a reduction in weighted average number of shares, benchmark EPS for the year was 95.2 cents, up 4% at actual rates and 8% at constant currency.

11. Cash-flow performance

As we mentioned we converted 104% of EBIT into operating cash, which is a great outcome for the business in a year of modest organic growth. Capital expenditure was $380 million, which represented 8% of Group revenue in the year, in line with our new capital framework, particularly as we reduced spend on some ancillary areas in the Group to focus on our core businesses. Operating cash flow was $1,359 million, whilst free cash flow of $1,135 million represents a cash-conversion rate of 122% of benchmark earnings.

12. Capital strategy – Net debt reconciliation

We ended the year with $3.2 billion of net debt, down nearly $600 million from the start of year as we prioritised our leverage reduction. Net share purchases were $192 million, of which $64 million related to the accretive share-purchase programme that we announced at the start of this year. Net debt to EBITDA at the end of the year, therefore, was 1.9 times, slightly below our new target range of 2-2.5, and down from 2.3 times this time last year.

13. Capital strategy – Return on capital employed (ROCE)

In January, we indicated we would place a greater emphasis on returns in our capital framework. Last year, return on capital employed was 15.6% for the Group, which included a part-year contribution from the acquisitions that we made that year in Passport and 41st most notably. If you rebase the prior year for the annual effect of those acquisitions, you start the year with a return on capital of 13.8%. In line with our other metrics, the transition in our Consumer Services business was a headwind of around 0.4%. Elsewhere during the year, however, we delivered positive momentum on returns, really from the progress you have seen in our organic business as well as from the effect of a reducing effective tax rate. Overall for the year, return on capital was 14.9%, an improvement of 1.1% on a pro-forma basis from when we started the year.

14. Capital strategy – FY15 capital framework

As I just reported, we again generated significant cash flow during the year, with substantial funds to progress our strategic goals. In the past year, we prioritised debt reduction, making only modest acquisition investments. In the years ahead, we intend to progress our strategic investments in our core businesses to underpin our medium-terms of mid-single-digit organic revenue growth and strong earnings-per-share progression.

As Brian mentioned, we have set our approach to our strategic planning and budget differently this year, and we have retained much more capital at the centre to really focus the budget and our spend and approve during the year to progress those strategic initiatives that we talked to at the January seminar. This will be a key part of our strategic investment approach going forward.

We increased the dividend ahead of the growth in benchmark earnings per share and expect to complete the $600 million share-repurchase programme that we announced in January by the end of FY16. As I mentioned, we have completed a little over 10% of that programme so far.

15. Outlook – Modelling considerations for FY16

We expect net interest next year to be in the region of $80-90 million, with the uplift from this year principally relating to the annualisation of a lower run rate of interest income that we saw in the second half of the year, due really to the fact that we repatriated some funds that were on deposit at very high rates in Brazil. It is good to have that cash in dollars and back in the home base.

We expect our benchmark tax rate for the year to be consistent with this year – around 24-25% – and we expect capex to be around 8%, in line with the capital framework that we announced in January.

We expect our share repurchases, as I mentioned, to be $540 million. A little under $100 million relates to employee shares. We would expected weighted average shares, therefore, to be around $964 million, depending, of course, on how we complete that share-purchase programme, the prices in the market and the timing of execution.

As I think everybody has seen, foreign-exchange movements continue to be an important factor for our results. If current rates prevail from where they were yesterday – and they have been fairly volatile in the last month – we would expect a 6% translation headwind at an EBIT level into FY16. As I mentioned, that equates, with this mix of countries, to about a 20-basis-point drag at the margin level.

16. Financial summary and outlook

- We have delivered a solid financial performance this year. While organic revenue growth was modest, we saw momentum develop across a broad part of the Group, and growth rates improved as we exited the year.
- We delivered good earnings growth and a strong cash outcome. Importantly, we exited the year with underlying organic revenue growth of 2% and expect this to improve sequentially as we progress through the year ahead, as we see continued improvement in the North America Consumer Services business.
- In terms of operating margin, we expect constant-currency margins to be stable for the year ahead, which is really due to our focus on our strategic growth initiatives and improving the growth momentum for the business.

With that, I will hand you back to Brian.

Summary

Brian Cassin

Thank you, Lloyd. We are very pleased that we have returned to growth in Q4. I hope that, during the presentation and, hopefully, also the Q&A, we communicate the confidence that we have as we exited the year and in our momentum going forward. We have made a lot of progress against the strategic priorities and plans that we laid out to you in January, and we expect and hope and have confidence that we are going to do better from here on in.

I would also say that we have made a lot of changes in a short space of time, all of which are really designed to build ourselves not only a better operating model but a better way and a better platform to sustain organic growth over time. I am sure you will agree that we have some tremendous growth opportunities within the business and we are setting ourselves up to focus on those, getting behind them and really making them happen. With investment and great execution, we can generate a lot of growth and value for years to come.

With that, let me invite Kerry also on to the stage, and then we will open it up for your questions.

Questions and Answers

Paul Sullivan, Barclays

Could you quantify some of the investment levels that are going into the business? Given we saw Equifax deliver a 500-basis-point uplift in margin in the first quarter in their US Credit Services business, it would seem like you are having to step up the investment quite a lot to offset the inherent operational gearing in the business.

Brian Cassin

I will let Lloyd comment on that in a second, but the first thing I would say is that, if we look at the outlook for next year, we have said stable margins. We are very confident in that. There are a number of things that we are doing next year that are designed to improve the operations, some of which we did this year, by the way. We have taken some of that restructuring cost within our margin this year, and we would expect to do that next year as well. That will give us, again, a better operating platform and cost base going forward. As you have seen, we have a number of growth initiatives across Healthcare, Business Information and core Credit Services, where we are going to be making organic investments. To a certain extent, it depends on the pace and timing of when those happen as to exactly where we end up on margin, but what I think we are signalling here is great confidence in our position and our willingness to really invest behind that going forward.

Lloyd Pitchford

Looking back at the year just gone, given some of the challenges that we had particularly in the first half, to progress the organic margin at constant FX by 50 basis points shows the margin potential for the Group. Equally, however, as we talked about in January, we see margin as an output of a series of decisions we make, rather than a constraint. I think you would expect us, coming out of a period of modest growth, to really prioritise growth investment, which is what we are doing for the year ahead. As Brian said, we are very confident in that margin position, and the outcome will really depend on the phasing of those investments.

Paul Sullivan

The flipside of that is that you have done 3% organic in the fourth quarter and there was a bit of phasing in there. You talked a lot about growth initiatives; so far, it has not really followed through in the numbers, which is fine, but it would suggest that mid-single-digit should be a floor for the business going forward, as opposed to a target.

Lloyd Pitchford

Medium-term, we had said mid-single-digit. I think you can see a track to get to the bottom end of there for the year ahead, but it really depends on that transition in North America Consumer Services. We are pretty confident that we will improve it sequentially every quarter for the next 12 months, and I think we will come back in 12 weeks and report progress.

David Phillips, Redburn

Could you elaborate a little on the B2C progress in Brazil versus B2B? Presumably, it was significantly better in B2B than it was in B2C.

Kerry Williams, Chief Operating Officer

Our direct-to-consumer business in Brazil is in the early days but is making great progress. It is starting to show up in terms of noticeable revenue, but the bulk of our business was in our B2B credit bureau and our B2C credit bureau. The core consumer credit bureau also had good performance, but the lending environment to consumers in Brazil right now is a little constrained, so it is just not making as much progress as the actions we took on the B2B side with some of our product innovation, changing our go-to-market sales approach and being able to put forward some pricing initiatives into that market, which generated a lot of good results in that area. In the consumer credit bureau, we just do not have quite that flexibility right now with the economic environment.

David Phillips

In terms of US consumer, in previous presentations you have talked about the affinity growth rate and the difficulties that you have faced. Can you say what that was in Q4 and what you expect for 2016?

Lloyd Pitchford

In Q3, we outlined that we had shown everything else other than free and Experian, which is about half the business, as being down about 5%. That expanded to mid teens as we exited the year, and the biggest element of that increase was the strong data-breach comparatives that we had in the prior year. Without that, we would have seen a bigger improvement in the underlying rate for that business. Those strong comparatives will be with us probably until the end of the first quarter and then drop out. Versus where we were four or five months ago, affinity is taking longer to recover. We are seeing positive developments in terms of some of our customers entering with marketing campaigns, but it will take us a little longer to recover.

David Phillips

Is that specific to the customer you talked about in the past as being almost at the point of signing up but not quite getting there?

Lloyd Pitchford

It is across the customer base. You are seeing some nervousness with marketing for existing products. In terms of the customer that we talked about, it is really about the strength and speed with which they can market that new product set.

Brian Cassin

On the affinity side, we have talked previously about the fact that we are seeing signs that some of our biggest customers are getting comfortable with starting to market again. That has been a long process and we have had to push it out a bit, but we are now definitely seeing signs that two of our largest customers are gearing up to start doing that. We have no doubt that they view the affinity proposition as something which is important to them. What has been important to them is getting the proposition right and giving them maximum protection from a regulatory standpoint. Given the environment that we all operate in now, that makes a lot of sense. We were, however, hinting last November that two of our biggest customers were thinking about it and showing signs, and that has moved forward. We will have to see how that evolves next year. It is still difficult to predict but there are some signs there that that is starting to move.

David Phillips

The marketing spend was $300 million in Consumer last year; will it be a similar number this year?

Lloyd Pitchford

Our marketing spend has come down in line with the size of the business. With some of our new product sets and some of the new technology platforms that Brian mentioned, we will be able to spend our marketing money in a much more targeted way, at different parts of the market. There will be no increase proportionately versus the scale of the business.

Ed Steele, Citigroup

In Brazil, in the Business Credit bureau, what sort of price rises went through this past year? Was it much more out of kilter than before?

Could you give us an update on the P&L investments going into Australia and India, and perhaps a flavour of your enthusiasm relative to before for continuing the investments? I think Australia may be going a bit more slowly, perhaps, with the positive credit shift.

Kerry Williams

The price increases that we were able to do in the B2B sector were really fine-tuning our product offering and being able to put in some additional product capabilities. We were able to implement price increases in certain vertical markets, so that we were able to raise prices. It was as simple as that.

Ed Steele

Was it significantly different than the previous year?

Kerry Williams

It was a little more broad-based in this past year than what we had done in the previous year in that segment.

Lloyd Pitchford

It is affected by mix, so, as we move out into some of the smaller financial institutions and into the SME model, it is a little trickier to just have a pure price/volume number.

On the P&L investments, we are very encouraged with progress in India and some of the relaxation in some of the regulatory aspects that the new political regime there is implementing. India will be a long, slow burn for us but could build into something very sizable in the long term. In Australia, it is going a little more slowly and it will take us a little longer to get to some of the positive data aspects, but the business is built and ready to operate. We are marketing with customers, so we still feel positive about both. These are long-term investments that, when we build, have a really strong moat around them, so we are no less positive than we felt before.

Ed Steele

How much did you spend this year?

Lloyd Pitchford

I do not think we have called that out but it was low-single-digit millions in terms of the overall P&L loss for the two together.

Brett Huff, Stephens Inc

Can you give us a little more detail on the positive revenue impact that you are seeing from the FICO relationship?

A little more specifically, on your organic-revenue-growth outlook, it sounds like you exited with about a 2% constant-currency organic rate. How many years will it be until we get to that more mid-single-digit range? Is it really just the phasing of North America Consumer Services that is gating that number?

Lloyd Pitchford

The growth rate at Experian.com in Q3 was 9%, and increased to 14% in the first quarter as we launched the new product. Clearly, we went live with our advertising campaign and the new product right at the very end of December, so we saw that growth rate build and we exited the quarter more strongly than the average. We expect to see that now improve from there, as some of the new products that Brian outlined in his remarks really gain traction.

The impact of that on the Group as a whole, we would expect to see our 2% organic-revenue-growth number improve every quarter as we go through the year. Certainly by the end of the year, in the second half and final quarter, we would expect to be well into that mid-single-digit range of 4-6%. The average for the year really depends on the phasing of how we see that recovering as we progress through the year.

Matija Gergolet, Goldman Sachs

First, on the US, we saw a fairly weak GDP print in the US. Has this impacted your business at all? Can we think that your underlying performance in more normalised GDP growth rates could be better?

Second, you mentioned some potential disposals in the EMEA/Asia area. I appreciate that they are small, but presumably they are loss-making. Could that have a positive tailwind on the margin of 20-30 basis points from these disposals?

Brian Cassin

We have not really seen any impact from that number. I think everybody was a bit surprised by that. A lot of commentators are putting it down to weather impacts. We did see some of that in previous years. What we have seen for a number of years in the North America Credit Services business is consistent improvement and consistent growth for two to three years now. There are no significant changes to that, and activity levels continue at a good pace. I would say that, in our business, we have not seen any impact from a weakened Q1 GDP-growth number. We are not expecting that. We will have to see whether those numbers are revised, but certainly the trends continue to be good.

Lloyd Pitchford

On disposals, we have to wait and see how those progress and which bits of our business we ultimately decide might not be part of our core. In principle, you are right. It is important also to say that we think of that as recycling capital and, as we move that into investing in our core business, we will have to see what the effect of those two legs of the transaction will be.

Rajesh Kumar, HSBC

On the US, could we have some colour on the impact of the mortgage segment on the Credit Services division?

On the Brazilian Business Credit bureau, thanks for answering Ed's earlier question on pricing. Could we get some colour on how those contracts are structured? Are they annual rolling and do they come up for renegotiation every year? Why do you not see your competitors bidding at a lower price and competing down the price each year when they come up for renewal? If we could get some colour, perhaps, by contrasting it with UK Business Services, that would help.

Lloyd Pitchford

On mortgage overall for the full year, as you know the mortgage business is a relatively small part of our Credit Services business. It provided a positive addition, however, which was about 0.3-0.4%, although that was really focused in the last four or five months of the year.

Kerry Williams

In terms of Brazil, there are generally three types of sales that are made in the SME space: a spot transaction, a subscription base and a fixed annual amount with levels in it. If you exceed a level, the price may increase, or you may get a price discount if your volumes go above a certain volume tier. Our ability to price in that market is a direct function of the quality of our data asset and in the innovation of the products that we are bringing into the market. The more that we are able to help the SMEs manage the risk in their business, the more we can price for the value of that. That is all that has been going on there.

Rajesh Kumar

Is it fair to assume, then, that most of it is financials at the moment, and that growth is coming from SMEs, in terms of the Business Credit bureau in Brazil?

Kerry Williams

The part that I am specifically referring to is our own selling efforts into the SME market.

Lloyd Pitchford

If you look back to the presentation we made in January, what you can see in Brazil is that we have a very focused core business versus the footprints we have in the US and the UK. Our strategy really is to grow out from that into all of these vertical channels. Is it self-help or is it strategic progress? I think you could call it both, but we are really growing our footprint out.

George Gregory, Exane BNP Paribas

There was a short comment in the slides that referenced some headwinds in the legacy email-marketing business, which I think is a new point. Maybe you could elaborate on that.

It would be useful to get your thoughts on how the ‘freemium’ landscape is evolving. Clearly, it is in a state of flux, so any further thoughts on that would be useful.

Kerry Williams

This was something that I discussed in the January investor meeting in terms of the change in the marketplace from pure email marketing to the Cross-Channel Marketing platform. A lot of customers are migrating over to our digital-marketing platform and we are being tremendously successful with those migrations, but the headwind is that the email business itself is not where the most sophisticated marketers are headed these days; it is over in Cross-Channel Marketing. There is a transition going on there and, any time you have a transition, it just takes a little focus with the clients to get them migrated from one platform to another. That is the comment around that.

Lloyd Pitchford

On the market in Consumer Services, as we talked about previously we are seeing the market bifurcate between those customers who want a premium product and who want to not only know their score but to understand it, interact with it, and understand how to improve it, and those who are looking for a free product. We are very focused on the development of the brand in Experian.com; equally, with the transition of our customers off the free platforms, we have two strong free brands there that we can use as a way of bringing in some of that client set, that we can then interact with and upsell from. Part of our multi-brand strategy going forward is to be able to attack different parts of the market with different product sets.

Andy Grobler, Credit Suisse

Following on from George’s question on the freemium market, do you at the moment provide data to any of those larger freemium organisations such as Credit Sesame and Credit Karma? If so, do you think that will continue or could that policy change at all?

On Healthcare, is the focus through this year still going to be very much on growth or on margin, or on a bit of both?

Brian Cassin

We do not provide data to our major competitors. There are still some smaller competitors that operate around the fringes and with whom we have legacy relationships, but we do not sell to Credit Karma, for example, which I think is probably where Equifax came out with that statement.

On the Healthcare margin, the objective here is to build a business for long-term growth. We have said that we are not focused on driving that business for margin improvement in the short term. That said, however, the margins have improved in that business, although that is more of an outcome than an objective. In time, we will get to a point where growth rates seem like they might come down a bit, and I think that is several years away. We will see a lot of margin improvement in that business, but really what we are doing now is investing more in the business to get after some of the additional growth opportunities as well as building out as much as we can in Revenue Cycle Management (RCM).

Lloyd Pitchford

A really positive thing, as I have looked at that Healthcare business in my first six months with the company, is that the contracts we are signing are multiyear contracts. We are penetrating new customers and spreading our penetration within the customers that we have. These tend to be quite sticky businesses, so we have a lot of opportunity ahead of us in that business.

Kean Marden, Jefferies

Developing the point that you made earlier, Lloyd, about Brazil being slightly more of a self-help story, is there anything that you can signpost to us in terms of timeline of rollout of new products that we should monitor in fiscal '16, particularly referencing the fraud and identity space that you highlighted as being the biggest multiyear opportunity back in January?

Kerry Williams

We are rolling out our fraud capabilities in Brazil. We have integrated our offering to move it into the market and we are engaged with a number of companies at this point, so you will see progress in that regard in the fraud space. We continue to roll out a number of products in our core consumer and business credit bureaus, and we are expanding our offerings to consumers with our direct-to-consumer offering in the space. Across the spectrum, then, we have a variety of new initiatives, new capabilities and new data sources that we are rolling out to the market in Brazil.

Kean Marden

Would you characterise these as incremental and broad-based rather than us needing to focus on one particular event?

Kerry Williams

I guess I would not broad-brush that all of them are just incremental; I would say things like our opportunities in Decision Analytics, where we are just building our data lab, and the opportunities there are more than incremental. That is expanding into new areas. Our fraud capabilities are more than incremental and are clearly going to open some new markets and opportunities for us. In the core credit bureau (consumer and commercial), some of those may be more topical incremental-type new products coming out, so there is a mixture.

Lloyd Pitchford

I do not think you will see one big opportunity that we will see a step change in growth from. This is all about growing out that footprint.

Matthew Walker, Nomura

You mentioned in Credit Services some competitive wins. Would you say the market shares between you, TransUnion and Equifax have remained stable over the year, or would you say that you have gained share?

If you stripped affinity out of the data-breach bucket, what do you think the prospects are for affinity if you do not include data breach for FY16?

Kerry Williams

In terms of Credit Services, in the markets where we have chosen to compete – and that would exclude providing our data to direct competitors, particularly in the freemium space – we have done better than just maintain our share over the past year. We are very comfortable with how we are interacting with clients and with the progress that we are making. That is borne out by the core growth that is going on in our franchise businesses, so we are in really good shape there.

Brian Cassin

In terms of the performance of our business over many years now, we have been posting very strong growth rates across CS and DA combined in North America. Some of the stats will be a bit more specific, but in some areas our win rates among major clients are as high as 85%, so we feel really good about our core competitive position.

As Kerry said, we decided not to take a short-term fix of selling our data to some of our direct competitors. That could have benefited us in the short term but, I think, longer-term, we have a strategy to build out a Consumer Services business that we are very focused on.

Lloyd Pitchford

We still expect affinity, as a standalone item, to be a drag for the full year ahead, but more in the first half than in the second half. We expect that drag to lessen, and that is all part of the improving trend as we progress for Consumer Services as a whole.

Brian Cassin

With that, we will bring it to a conclusion. Thanks very much for coming.