

## **Second Half Trading Update – 17 April 2007**

### **Operational Review**

**Paul Brooks**  
**Chief Financial Officer**

#### **Preamble**

Good afternoon, ladies and gentlemen, and welcome to our second half trading update call. With me today are Fay Dodds and Peg Smith from our Investor Relations team. I will start by saying a few words about our performance, before moving on to questions and answers.

#### **Performance**

##### **Summary of Second Half Results**

In summary, we are very pleased with the results announced today. We have delivered another strong period of sales performance, with growth across all of our regions. Total sales growth in the second half was 12% at constant currency. We have delivered strong organic sales growth of 8%, consistent with the 7% growth we had in the first half. As a result of our focus on operating leverage and margins, this has translated into a strong outcome for the year.

##### **1. Progress against Key Strategic Objectives**

During the second half of the year, we have also made progress against our key strategic objectives. These include:

- Deepening client relationships, with significant contract wins throughout the business. For example, three of the top US banks have renewed and expanded multi-year, multi-million-dollar contracts with us in the second half.
- Continued product innovation: we have gained market share in the collections area by developing new tools to help clients better understand how to prioritise and collect past due debts.
- Growing in new verticals: for example, FootFall, our business which helps retailers by counting the number of shoppers coming to their stores, has won its first ever contracts in the US and China.
- Geographic expansion: organically, with the launch of our operations in India, and also by two small acquisitions in Brazil and China; and growth

via acquisitions, with five small acquisitions in the half-year in Credit and Marketing.

## **2. Americas**

Let us now look at each of our regions. Turning first to the Americas, sales from continuing activities in the three-month period increased by 12% in total. Organic growth was 9%, with acquisitions generating the remaining 3%. The highlight of the period was US Credit Services, which improved to give a mid-single-digit organic increase in the half, with the business demonstrating good growth across the whole range of our products.

Decision Analytics again performed strongly, while organic sales in marketing solutions were marginally down year-on-year. Organic sales at Interactive grew by slightly less than 20% in the second half. LowerMyBills sales were down 5%, impacted by the slowdown in the US sub-prime lending market. We are taking mitigating action to address the shortfall. Our other Interactive properties performed well in the period, although, as predicted when we spoke to you in January, growth rates have come back to more normal levels after the exceptional rates seen in the third quarter.

## **3. UK & Ireland**

Turning now to the UK and Ireland, sales from continuing activities increased by 14% in the second half at constant exchange rates. Organic growth was 6%. The environment in UK financial services remains challenging, and this affects both our Credit Services and Marketing Solutions activities. Credit Services showed low single-digit organic growth, while Marketing Solutions was in line with last year. Decision Analytics performed well, delivering high single-digit growth. Interactive sales more than doubled.

In March, we announced we would integrate our marketing data, processing and database management activities into a single business unit. This will result in a headcount reduction of about 100 over time. The costs of this restructuring will be \$12 million, with about \$8 million of this to be incurred in the year to March 2007. We will expect 100% payback of the costs incurred in the first full financial year, which will be fiscal year 2009.

## **4. EMEA/Asia Pacific**

Turning finally to EMEA/Asia Pacific, sales at constant exchange rates increased by 9% in the second half, of which organic sales contributed 8%. Credit Services growth accelerated, in part reflecting higher growth in French transaction processing, which has benefited from a number of contract wins. Decision Analytics and Marketing Solutions performed well, delivering double-digit sales growth.

## **Conclusion**

Overall, we have had a successful 2007 in terms of sales and profits, and have continued to execute well on our growth plans. As Don said in his quote, we look forward to 2008 with confidence. We do face specific challenges, especially in the first half, in some of the markets which we operate in. These include tough conditions in the US sub-prime mortgage market and continuing weakness in the financial services industry in the UK. However, we believe the scale, strength and diversity of Experian's business model will continue to enable us to meet our strategic and financial objectives in the current year.

With that, let me turn the call over to any questions.

## **Questions and Answers**

### **Michael Meltz, Bear Stearns**

Could you talk about the performance in Credit in the US? You certainly had acceleration from the third quarter, with high-single-digit revenue growth in the quarter. What are you seeing there in the year to date?

You mentioned tough conditions persisting in US sub-prime; where is that hitting you? Are you referring just to LowerMyBills or to the Credit side as a whole?

### **Paul Brooks**

In terms of Credit Services in the US, we had a strong second half. We had very tough comparatives in the first half, but they were still fairly challenging in the second half, because we grew by 10% in the second half last year. There was a slight acceleration in the fourth quarter versus the third quarter.

In the Consumer Information business, which is by far the biggest component of Credit Services in US, it was particularly pleasing. We saw growth in the customer acquisition side of the business, in terms of sales relating to the acquisition of new customers by our clients, and we also growth in the account management and collections side of the business. In fact, the only part of the business which was slightly down was mortgage. Otherwise, it was a pleasing trend. We also saw good growth in our business information and automotive business, which are the other two parts of Credit Services.

There are three places where sub-prime could impact us: one is Credit Services; one is LowerMyBills; and one is FARES. In Credit Services, the exposure to sub-prime is very small. Credit Services represents about 40% of our American sales and well below 5% of Credit Services sales relate

to sub-prime. Although we expect to see some impact there, it is not something that would have any significant impact on our numbers. FARES is also not particularly exposed to sub-prime, so the issue for us really is LowerMyBills, which is a business that predominantly supplies mortgage leads to sub-prime lenders.

The fourth quarter was weaker than the third quarter and we saw deterioration in the course of the fourth quarter, as you might expect, as the issues in sub-prime have unfolded. One of the beauties of it is that it is mainly a direct cost business, so as the demand for leads has reduced and as lenders tighten their criteria or, in some cases, go out of business altogether, we have been reducing our marketing expenditure.

We are also looking to diversify the business into other areas where we can apply our expertise from LowerMyBills. One idea is to move into the prime market and another is looking at credit card solicitation, which we are launching in May. During the course of the year, then, we are looking to mitigate the impact of what is a difficult sub-prime market on that business.

**Michael Meltz**

Roughly how big is that business now?

**Paul Brooks**

As you know, we do not break down the components of the Interactive business. We gave the sales of the business just before we acquired it, which was \$120 million in the year to 2005, from which you can gain a feel for its contribution to Interactive. Overall, the Interactive segment generated sales of slightly less than 20%, despite the relatively weak performance of LowerMyBills.

**Michael Meltz**

How was Consumer Direct trending in the half?

**Paul Brooks**

It was still growing strongly. We did flag, at the third quarter, that both Consumer Direct and PriceGrabber had very strong third quarters and that we expected them to return to more normal rates of growth in the fourth quarter.

**Michael Meltz**

Did it exceed the Group average in the half?

**Paul Brooks**

Yes.

**Matt Littlewood, Merrill Lynch**

One of the key areas of investment focus today is very much what you are seeing in PriceGrabber. Could you talk about the trends that you are seeing there, particularly in relation to year-on-year growth rates in the third and fourth quarters?

**Paul Brooks**

Again, we do not break down the Interactive sector in detail. Overall, we had growth of just less than 20% in the Interactive segment and, as we disclosed, you can see LowerMyBills going backwards by 5%. I think that that gives you some degree of confidence that the rest of that sector is growing strongly.

**Matt Littlewood**

Do you expect the growth rate that you saw for PriceGrabber in the fourth quarter to be consistent for the rest of the calendar year?

**Paul Brooks**

Yes – we continue to expect strong growth from PriceGrabber.

**Matt Littlewood**

Do you expect it to be in line with what you have seen historically?

**Paul Brooks**

Yes, broadly in line.

**George Gregory, Credit Suisse**

In this morning's Fair Isaac call, it was stated that VantageScore was not having much impact on the FICO credit score. Could you elaborate on that and perhaps give an indication of when we might see that having an impact on Fair Isaac and on Experian?

Second, in terms of the Decision Analytics business in the US, I recall you reporting, at the interims, growth of 26%; now, you are saying that it is growing strongly. Where can we say that it is growing now or are you not able to say?

**Paul Brooks**

We now have about 1,300 clients who are buying VantageScore and nearly all of our strategic clients are testing it. The test results are very encouraging, indicating that it is a better predictor of risk than other scores on the market. We are encouraged and are definitely ahead of the plan that we set ourselves.

We see revenue increasing each month, but we have been at pains, for some time, to stress that we do not see VantageScore having a material impact on our numbers in the short or medium term. This is a long-term play. Although we are very pleased with the progress, we believe that VantageScore will be a success, and ultimately a big success. It is not going to have a big impact on our numbers in the short-to-medium term.

In terms of Decision Analytics, we had strong growth in the first half. In fact, growth in the second half in the Americas has been even stronger and it has been fairly consistent throughout the half.

**Karl Green, Credit Suisse**

With reference to your comment about a strong outcome for the year, would you say that you are comfortable with where consensus EBIT forecasts are for the year?

**Fay Dodds, Director of Investor Relations**

From where we sit, consensus EBIT before today was \$810 million. We are very happy and comfortable with that level of forecasting, even after the \$8 million restructuring charge.

**Karl Green**

Are you going to take that \$8 million 'on the chin', rather than breaking it out as exceptional?

**Paul Brooks**

We will identify it separately but we will 'take it on the chin' above the EBIT line.

**Jaime Brandwood, UBS**

In US Credit Services, how much can you say about what is happening in the competitive environment? Is Equifax at all distracted by its pending acquisition of TALX? Do you think you might be gaining some share there in terms of the acceleration?

On the UK side, where you cautioned that the first half might be slightly more challenging, do you see that primarily as a market issue or are there any other factors?

**Paul Brooks**

What we are seeing in the UK is a continuation of trends that we have seen for some time now. It is a difficult environment in the UK financial services sector. New borrowings and net unsecured lending are down year-on-year, and our clients are focusing much more on cross-selling to existing customers and managing existing portfolios, rather than going out and getting new business. This is also related to consumers being increasingly stretched. We do not see that situation changing over the next few months, so we continue to forecast reasonably low single-digit growth. It is a robust business that has countercyclical qualities, so we expect this kind of situation to continue.

**Jaime Brandwood**

In terms of that shift away from origination towards account management, is it fair to say that that is a beneficial mix driver to your UK margins?

**Paul Brooks**

It really has no impact on the margins. Generally, we prefer it when conditions are benign and when our clients are acquiring new customers, but we have this countercyclical element that offsets any issues on the acquisitions side. In terms of margins, however, whatever side of the cycle we are on, it makes no difference

**Peg Smith, Executive Vice-President**

In terms of our competitive position in the US credit environment, it is no more and no less competitive than it has been. I would not, in any way, say that Equifax is distracted. I think that we compete against them as a respected competitor, as we do against TransUnion. We are seeing in US Credit Services a return to the market by consumers with an interest in taking on new credit products, which has enabled the increase in overall growth for Credit.

**Jaime Brandwood**

Is origination picking up then?

**Peg Smith**

Origination is picking up and, at the same time, continuing to sell strongly for account management, collections and recovery.

### **Jaime Brandwood**

Is that mainly credit cards?

### **Peg Smith**

It is mainly credit cards, but also all kinds of instalment lending products. It is quite broad-based at this point, which gives us confidence about the sustainability of this business.

### **Matt Littlewood**

You said that you are taking mitigating action vis-à-vis the negative growth in LowerMyBills. Could you add some colour in terms of what exactly you are doing, how soon you would expect the results to come through, and whether you would expect the situation to worsen before improving?

### **Paul Brooks**

In terms of the market, things have clearly been deteriorating during the course of the March quarter, and we are certainly not expecting things to improve over the first three to six months of the year. As we have already been doing, we are qualifying and verifying leads, aiming to score most of the leads that we then sell on to our customers, which has given us a competitive edge up to this point. It is probably almost essential now, given that lenders are now being far more selective in terms of whom they lend to. That is an ongoing exercise for us, continuing to make more and more of our leads qualified and verified.

As I said, we have also cut back our marketing expenditure in line with the reduced demand from lenders. One interesting feature is the fact that so many people still want sub-prime loans, which is a result of lenders cutting back on their propensity to issue those loans.

We are looking to focus more in the prime area; more than three-quarters of our business has traditionally been sub-prime, and we are looking to change that mix. We are looking to launch a credit card solicitation business next month, which we have been planning for some time.

We are, in summary, taking a lot of measures; some of them will take time to start hitting the bottom line, but we expect to see those mitigating impacts on the sub-prime industry during the course of the year.

### **Matt Littlewood**

Would it be fair to say that things are already worse than what is reflected in the -5% figure?

**Paul Brooks**

What we are saying is that we saw a deteriorating trend during the March quarter.

**Viktoría Orizarska, KBC**

Can you update us on your acquisition pipeline? At the time of the demerger between Experian and GUS, you mentioned that you need a strong balance sheet since any acquisition will probably be a relatively large one. Has anything changed in your acquisition strategy in that sense?

**Paul Brooks**

The year that has just finished was relatively modest in terms of acquisitions, certainly compared to the previous year, when we spent £1.3 billion in the year to March 2006. We were more in the region of £150 million in the year just finished. Acquisitions do not come along regularly and evenly; at the moment, we have a strong pipeline of acquisitions, so I would expect some activity shortly. As has been announced, we are in preliminary exclusive discussions with the owners of the Serasa credit bureau in Brazil. If that were to progress, it would be a deal whereby we would acquire a majority stake in that bureau.

**Viktoría Orizarska, KBC**

What would be the size of that majority stake?

**Paul Brooks**

It is too early for us to comment on that.

**Matt Littlewood**

You said that you were comfortable with 2007 and 2008 consensus EBIT numbers; could you confirm what you currently see as the consensus for 2008?

**Fay Dodds**

It is about £810 million for this year, rising to about £880 for next year.

**Paul Brooks**

Thank you for your interest. We look to discussing our preliminary results with you on 23 May.