Second-half Trading Update – 16 April 2008

Welcome

Don Robert
CEO, Experian

1. Preamble

Good morning, everybody, and thank you for joining us on today's call to discuss our second-half trading update. I will begin the call by making some introductory comments, and then I will hand over to Paul Brooks to take you through the trading detail. After my closing comments, we will open for your questions. Also with me today are Nadia Ridout-Jamieson and Peg Smith from our IR team.

2. Overview

Headline Results

My take on today's trading announcement is that we are very pleased with our performance in the second half against some of the most challenging market conditions we have seen for several decades. We continued to grow in each of the third and fourth quarters despite the turbulence in the US and UK financial services market. This continued growth is significant and it demonstrates the benefits of our diverse business mix and our global reach. On a global basis, revenues were up 21% and organic revenue rose 2% in the second half. When we talked to you in January, we said the full-year profit outcome would be within the range of market expectations at that time, which was an EBIT of $935-965 million. Today, we are pleased to reaffirm that view.

Growth

In Brazil, Asia-Pacific and emerging Europe, our business is growing very fast and we continue to expand our geographic coverage with significant new opportunities for investment. There are some rather bright spots in our lines of business. Our ConsumerDirect business continues to be a real success story, with real double-digit growth in the US and growth nearly doubling in the UK. We are delivering good growth in business information in the US and the UK in Decision Analytics, particularly in Europe and Asia.

Challenges

Other parts of the business face challenging market conditions, due to the issues with credit liquidity and a broader economic slow-down. As a management team, our job is to make sure we have the correct cost structure in place to steer our way through the current market conditions and to position ourselves well for a market recovery. When we spoke to you in January, we outlined our expectations for cost take-outs. Now, one quarter on, I can tell you that the programme is on track, with the benefits set to come through in the second half of this financial year.

Opportunities

Even where markets are more challenging, we are still finding growth opportunities. Our clients have increased their focus on account management. They are taking aggressive action on defaults and, at the same time, looking to increase the value of their portfolios by retaining their best customers through cross-selling and up-selling. We are well positioned to support them in these areas and continue to see strong growth in our account management, collections and fraud detection activities.

Support

We are launching new efforts to support the capital markets. For example, in the US we have announced a new initiative to help investors monitor mortgage performance in the secondary market. Our near-term planning scenario calls for conditions to remain challenging for our financial services clients in the US and the UK. Our client activities vary widely depending on the strength of their balance sheets. Some are using this current market turmoil as an opportunity to gain share, while others who are more capital constrained are tightening credit criteria and taking aggressive collection action to prevent further loan book impairment. Ultimately, we continue to feel that stabilisation will not occur until mark-to-market activities are completed and capital deficiency issues dealt with.

3. Strategic Reviews

We previously announced that our French Transaction Processing (TP) business and PriceGrabber were both under strategic review. These reviews are advancing; we will provide more details in due course.

Trading Details

Paul Brooks
CFO, Experian

1. Revenue Growth

Our sales growth in the second half was 21% at actual exchange rates and 15% at constant exchange rates. Stripping out the impact of acquisitions, which was largely due to Serasa and Hitwise, organic revenue growth was 2% for the half, representing 2% in quarter three and 1% in quarter four. By principal activity, organic revenue growth was 7% at Decision Analytics, representing an improvement during the period. It was also 7% at Interactive. Credit Services was slightly down by 1%, as was Marketing Services. Both Hitwise and Serasa are performing well, meeting their respective buy plans. Hitwise will annualise during the next quarter, and will be treated as organic from June. Serasa will annualise from the beginning of July.

2. Trading Performance by Region

North America

North America was up 2% in total, with organic revenue growth of 1%. Credit Services organic revenue declined by 3% as good performances in Automotive and Business Information helped to offset the weak environment for consumer information, where we continue to see lower mortgage origination and pre-screen activity. We are pleased with the performance of Decision Analytics, up 3%, against a very strong prior-year comparable, reflecting new business wins in sectors outside financial services. Marketing Services organic revenue growth was 3% and, at Interactive, it was also 3%. Consumer Direct and PriceGrabber performed very well in the period, but this was partially offset by further weakness at LowerMyBills.

Latin America

In Latin America, revenues for the six-month period were $221 million, up from $3 million the year before, reflecting the Serasa and Informarketing acquisitions. Organic revenue growth was 40%, which reflects our small pre-existing Decision Analytics activities only.

UK and Ireland

In the UK and Ireland, revenue from continuing activities rose by 7% at constant exchange rates, with 1% in organic revenue. In Credit Services, organic revenue declined slightly in the half, by 1%. Weakness in consumer information caused by the tough lending environment was largely mitigated by strength in business information, which is illustrative of the balance we have in our portfolio. Organic revenue for Decision Analytics rose 1%, with trends largely unchanged during the period. Application processing activity was weak, but was offset by some improvement in pipeline conversion rates. Organic revenue at Marketing Services, which has financial services exposure in the UK, declined by 7% in the half. Consumer Direct in the UK continues to be a great success story, with interactive sales nearly doubling in the period, building on the market-leading position of our CreditExpert product.

EMEA / Asia-Pacific

At constant exchange rates, revenues in EMEA/Asia-Pacific rose 12% in the second half, with good organic revenue growth of 6%. At Credit Services, organic revenue growth was 1%, while at Decision Analytics there was outstanding performance with organic revenue growth of 24%, attributable to very strong growth from new contract wins in both Europe and Asia-Pacific. Marketing Services also performed strongly, up 10% organic, also due to strength in Asia-Pacific.

Second-Half Performance Summary

Don Robert
CEO, Experian

Experian remains a strong business performing well in a difficult market. We will end fiscal 2008 with a good profit outcome in line with our previous expectations. It is still too early to call a turn in the US and the UK financial services markets, but we expect strong performances next year in other Experian regions and in key business lines. In the meantime, our game plan calls for us to keep a tight rein on costs, all the while continuing to invest in the long-term growth of the business. Said differently, we are in an offensive position as we approach clients and new markets around the world. Experian is a business with excellent future growth opportunities. We are very confident about our future prospects.

Questions and Answers

George Gregory, Credit Suisse

Relating to North American Credit Services specifically, do you think that at some stage the growth rates Experian has been seeing in collections and portfolio management could normalise, given the strong growth you have been seeing over the past year? Secondly, is there any reason why US origination activity could change in the coming 6-12 months? Could you define what is driving that business at the moment?

Don Robert

Origination activity could change within the next 6-12 months but, again, this is going to be a function of liquidity coming back into the marketplace, greater transparency and completion of mark-to-market activities. It would be reckless of me to go out on a limb and say it is going to happen, but I would not foreclose that opportunity.

In terms of your question on normalising growth rates on collection products, the strong growth rate right now is due to lenders being in a defensive position on how they are monitoring their loan books and collecting on their existing loans. One would naturally expect stronger growth in a tougher economic environment. As we have said in the past, these things tend to reverse positions: when origination activity returns, back-end activity tends to decelerate.

George Gregory

If we remain in a somewhat difficult climate for financial services, and do not see an imminent rebound in origination activity, given the strong growth in collections, i.e. given the fact banks and other financial institutions have been focusing on their risk positions, does there come a stage where the strong growth could normalise while origination activity does not pick up? Is that not feasible? As long as things are tough, will collections and portfolio management demand stay strong?

Don Robert

We are certainly in uncharted waters here; your question is quite theoretical. Our approach to this is to continue to invest aggressively in new products to maintain momentum in the collections part of the business. For instance, our partnership with Clayton Holdings gets us to the secondary market, helping holders of these products evaluate their risk positions. That is an example of how we would continue trying to extend the growth rate.

George Gregory

I was somewhat surprised by the strong performance of Automotive Loans in the US. What is driving that growth? Do you expect it to continue?

Don Robert

We are taking share in the business of providing credit and risk products to lenders but, beyond that, our automotive information business, where we provide information about the vehicles themselves, is growing, again through very aggressive marketplace action and picking up new clients and partnerships.

Robert Miller, Redburn Partners

What is your opinion on the tone of negotiations in the credit information space, with regard to margin pressure? Do you find the demands of your key customers are pushing margins down in that space, or does it remain as it was 12 months ago?

Don Robert

Requests have become more aggressive. In the interests of protecting our own margins, we have continued to sell value, bundled services and analytics on top of our information product. We have managed to hold the line on pricing and have renewed several very large multi-year contracts in the last three months, on terms that are acceptable to us.

Paul Brooks

If you look at our average unit price in the fourth quarter, it is stable year-on-year.

Robert Miller

Is there any sign your two big competitors are changing their pricing strategy?

Don Robert

No.

Robert Miller

The tailwind on acquisitions in your headline growth rate is going to slow in the near future unless there are many in the pipe. Is there much activity in this space generally or has it dried up as a result of lack of visibility on asset pricing?

Don Robert

As you correctly observe, Serasa and Hitwise, our two largest deals from this pasture, will be anniversarying shortly and moving into the organic column. The pipeline for acquisitions is very focused and targeted. We have talked a lot about increasing focus on credit information. Unique information supplies analytics businesses. In that context, opportunities are slimmer in the acquisition pipeline than they have been. We are not seeing a large amount of competition for deals at the moment, as you correctly guessed, because of financing issues in the market. It is a good time to be a strategic buyer; we are a very focused strategic buyer.

Andrew Ripper, Merrill Lynch

You flagged net debt this morning at $2.7 billion at year-end, which is better than you originally commented. Were there any particular factors behind your strong cash flow in the second half of the year? Broadly speaking, looking forward over the next couple of years, if you do not do any deals, how much would you expect to de-lever? Is $400-500 million of cash flow a year, post-dividends, a realistic expectation? I know you have a €350 million bond maturing next year. If you replace that with bank debt, what sort of margin would you pay over LIBOR on bank borrowings?

Paul Brooks

We clearly had a good cash flow performance, particularly in the fourth quarter, which we are pleased about. It was due to good management of cash. Working capital has been aggressively managed, and also capex has been well controlled. LowerMyBills is a good example of where we have been particularly attentive, because of bad debt risk. Even in this difficult climate, we are managing to maintain our days sales outstanding (DSOs) very well. Cash performance was good and ahead of our expectations.

We are keen to maintain a strong investment-grade credit rating. Particularly in the current climate, it is very sensible for us to continue with that strategy. Very roughly that translates to about twice EBITDA an amount of debt. We are slightly over at the moment. We should be in a position to generate that kind of range of cash flow, $400-500 million. We continue to expect to convert about 85% or more of our operating profit into operating cash. Our actual cash tax in the coming year will not be much more than 10%, which is well below our actual P&L charge.

On the bond maturity, we have over $100 billion of headroom on our bank facility at the moment. Currently we are paying around 30 basis points over LIBOR.

Andrew Ripper

The previous questioner reminded us Hitwise is about to anniversary and therefore come into organic growth. With Serasa there is good visibility on the numbers, but Hitwise is a little lost in the overall marketing figures. Could you give us a sense of what the sales run rate and the organic growth rate has been for Hitwise, so we have a feeling of what difference it will make to the marketing numbers when it comes into organic?

Paul Brooks

At the time of the acquisition, we referenced the previous year's revenues as $40 million and said we expected this to grow by about 40%. Indeed, that has happened; it is exactly to plan. We referenced $12-15 million EBIT for the full year. Obviously, we are only partly through the year, but it is on track. It is spread between three regions – the US, the UK and EMEA/Asia-Pacific. Growth rates are similar in each area.

Andrew Ripper

In terms of the business plan for 2009, I presume you have either just signed off the budget or are about to. Can you give us any sense of the outlook for Hitwise?

Paul Brooks

It will be on plan, based on the budget for the coming year. The growth rate will slow this year, as expected, as the numbers get bigger, but it is still very strong.

Andrew Ripper

Don mentioned that your strategic review process on TP and PriceGrabber is progressing. If you decide to sell, could you indicate what you are likely to do with the proceeds? Will it be a combination of debt paydown and buybacks, or is it too early to say?

Don Robert

It is pretty early. You hit one of the key variables on the head. If there is a sale, the question will be 'how much?' You have to look at the conditions of debt markets at the time and the refinancing of our bonds. There are a lot of variables. We are deferring those decisions until we have more certainty around processes.

Andrew Ripper

This ties into my early question because, unlike a lot of other cheap stocks we have in the sector, Experian de-leverages quite quickly. On the basis of organic cash flow, where you could see $1 billion of debt reduction over the next couple of years, I am sure some shareholders would be keen for you to return some of the proceeds realised, if you choose to sell, via buyback.

Don Robert

Thanks for bringing that up. We would certainly not rule out a buyback. We have a very good capital allocation framework. There are so many moving parts between the economy and debt markets in these strategic reviews that it is hard to say exactly what we might do.

Andy Chu, Deutsche Bank

Growth rates in UK Credit Services are down to –2% in quarter three and flat in quarter four. You made some brief comments on the performance of Credit Services. Could you give more detail on the dynamic between that improvement in growth rate from quarter three to quarter four? Is this an inflection point in UK Credit Services?

Paul Brooks

We did not see any material change in the performance of the consumer credit business in the UK between the third and fourth quarters. We continue to see challenges there, particularly in the mortgage side of the business, and also in retail finance and credit cards. These are challenged areas. The rate of growth was similar in both quarters. The main difference between the third and fourth quarters was that our Business Information business had a stronger quarter. As we said earlier, this just shows the advantages of balance we have in the portfolio. That was clearly a good mitigating impact.

Andy Chu

Do you benefit from the growth in CreditExpert? Is there a knock-on impact on growth rates within Consumer Credit? What is the boost from CreditExpert to your growth in Consumer Credit services?

Paul Brooks

We do benefit. In fact, the impact is stronger in the US. Not only do we supply credit reports to our own business but, in the US in particular, we also supply credit reports to our competitors in this space. When we talk about the general sale of fast origination purposes, consumer credit generally is definitely a source of growth within the credit business. Internally, we have arm's length pricing between Credit Services and ConsumerDirect. This is a very favourable pricing arrangement, because there are some quite big volumes involved.

Andy Chu

What has happened to the customer base and performance of the N4 Solutions business after the acquisition last summer? Have the mortgage providers in the UK stepped up to the plate in terms of capex spend? Is that business booming or, on the contrary, is N4 Solutions performing poorly in this credit-crunch environment?

Don Robert

It is the former part of your question. We have secured some of the largest contracts that N4 has ever had since acquiring the business. That has to do with lenders being much more aware of mortgage compliance.

Andy Chu

Are you prepared to say what sorts of growth rates you are seeing there?

Paul Brooks

On a pro-forma basis, we are seeing good double-digit growth in N4.

Jaime Brandwood, UBS

Could you confirm that most of the expected $40 million cost savings in 2009 will come through in the second half?

Paul Brooks

That is correct.

Jaime Brandwood

By the second half, you will be at the annual run rate of $80 million.

Paul Brooks

Yes, or pretty close.

Jaime Brandwood

Could you give your rationale for why you think UK business credit data is doing so well in what appears to be as constrained a lending environment for corporate as it is for consumers in the UK?

Don Robert

As a general rule, UK businesses are doing well, and we have a lot of services and solutions for small and medium-sized enterprises (SMEs) that are much in demand, including our Delphi scores, which help them do a better job assessing risk. It is a combination of a market that I would not call 'impaired' at all, great products and very aggressive selling.

Jaime Brandwood

This business was probably a lot smaller as a percentage of the total, back in previous downturns, but how has UK business credit behaved in times of general economic slowdown in the UK?

Don Robert

It has been growing very steadily for a long time. We have not seen any abatement in that trend over a period of seven to eight years.

Jaime Brandwood

Are you feeling good about the outlook then?

Don Robert

We are, yes.

Jaime Brandwood

There is a better trend in UK Marketing Services as well. Why did you see a reduced rate of organic decline in the quarter? Is that better trend sustainable in UK Marketing Services?

Paul Brooks

There were two factors there. QAS had a good quarter, which is helpful. That is our biggest single business within Marketing Services. The other factor is Business Strategies, which tends to have a much bigger fourth quarter than any other quarter of the year, particularly in relation to the public sector. A lot of public sector buying takes place as we approach the end of the budgetary year. They had very strong growth in the quarter, particularly business with local authorities with the sale of the Mosaic customer segmentation tool. That factor is a quarter-four factor. The strength of QAS we see as ongoing.

Jaime Brandwood

Are you prepared to give us a rough estimate of how much Business Strategies is of total UK Marketing Services? Is it 10% or 20%?

Paul Brooks

It is in that range. It is enough to make a difference in a quarter, but it is not a massive part of the total business.

Jaime Brandwood

US Marketing Services is holding up very nicely. You are still seeing a beneficial channel shift from old to new media. As the US macro environment becomes more challenging, particularly on consumer spend, does that worry you at all?

Don Robert

We are naturally cautious in an environment like this, but what our clients tell us now more than ever is they are interested in a solid improvement in their return on investment (ROI) on marketing spend. That goes right to the heart of everything we do in that business. The new media channels play into that trend. They are more efficient and we are doing a better job of helping our clients find new customers through those channels.

Jessica Flounders, Morgan Stanley

In the Interactive division, are you seeing any impact from consumer slowdown in PriceGrabber, both in terms of the actual consumer going out and looking for goods? Is there any risk to the structural set-up of your business in terms of retailers wanting to pay for the conversion, rather than just the lead? It seems that LowerMyBill's performance continues to deteriorate. Have you formed a view of what the recovery of this business would be like and, therefore, the cash-generative ability of this business in the medium-to-long term?

Paul Brooks

We are not seeing a negative impact of the current environment on the PriceGrabber business. We are seeing a transition in terms of verticals. Traditionally, it was very much focused on consumer electronics and now a number of other verticals are growing very well – things like toys, apparel and sporting goods. We are also benefiting significantly from our co-brand arrangements, and are seeing strong growth there with people like AOL, with whom we are co-branded. The business model is robust. If you look at the revenue per referral, it has held up very well. We have had an adverse mix effect, because consumer electronics tends to be at a higher referral rate than some of the other verticals. The rates have held up very well. We are pleased about the prospects for PriceGrabber.

LowerMyBills was the factor behind the slight reduction in the Interactive sales growth rate in quarter four in the US. Clearly, it got worse. We are still generating a lot of leads. In fact, growth in enquires is up by over 30% year on year, despite the fact that we have drastically reduced our marketing spend. This particularly reflects the demand out there for mortgages, particularly re-finance mortgages. Of course, lenders are being very picky, so have tightened the filters on the kinds of leads they want. What we have seen is that the price per lead has come down significantly over the course of the year. We are diversifying the business into new verticals, as we have mentioned before. They are still relatively small, but we are very encouraged by the prospects and the signs we see, particularly in credit card solicitation and automotive insurance. As fiscal 2009 progresses, even in the absence of mortgage recovery, we would expect to see these new verticals start to impact growth rates.

Manuela Sperandeo, Alpstar

Could you give us a sense of the split between transaction-based versus contract-based business? I know that is very difficult, so just give us an idea. How much of your cost base is fixed? If there is a downturn, if you have a significant drop in mortgage approvals, what would be the sensitivity?

Paul Brooks

It very much varies according to our various product lines but, in very broad terms, the majority of Credit Services revenue would be transaction-based and the majority of Decision Analytics would be subscription-based. Marketing Services is a mix and Interactive is mainly subscription; this is consumers taking out monthly subscriptions. Whether it is transaction or subscription, we look at what we regard as recurring revenue, be it contractually or habitually recurring. We see over 80% of our revenue as recurring revenue. These are ongoing client relationships that last over time.

As regards the cost base, Interactive is mainly a direct cost base. About two thirds or more of the costs are variable, mainly online or broadcast marketing costs. Elsewhere in the business, we have some variable costs, such as bonuses, commissions, royalties and so forth, and some very fixed costs, like data and some of our data-related costs. The mass of our cost base is labour of various sorts which, although it is fixed in the short term, is cost we can take action on if the levels of activity reduce. To give you an example of that, you can see some of the actions we have been taking in terms of the restructuring programme we have announced and also some of the other things we have been doing over the last year or two, where we are basically looking to get more efficient and also to manage our labour base in accordance with our sales revenue.

Manuela Sperandeo

Can you give us an idea of their sensitivity to drops in mortgage approval?

Paul Brooks

It is very hard to respond precisely to that question. Clearly, on a marginal basis, there is a low marginal cost with the sale of an individual mortgage report. There are still things we can do on costs to mitigate the impact of revenue decline.

Don Robert

We would be happy to take this offline with you, Manuela, and walk you through some of the cost and volume dynamics of the business, if that would be helpful.

Jaime Brandwood

Is LowerMyBills' revenue for the year-end in March 2008 going to be around $100 million?

Paul Brooks

As you know, we are reluctant to send a carrot to every business, but it will certainly be more than $100 million for the year.

Ed Steele, Citibank

Do you feel there is scope for additional cost-cutting on top of the $80 million? Last year's preliminary results gave relatively solid growth guidance for the full year. Do you intend to do that this year?

Don Robert

On the issue of further cost-cutting, as I indicated in my remarks, we are playing a game of offence. We recognise the need to bring the cost base in line with the current trading environment, and we feel we have done that. We are still aggressively taking the business forward by investing through the P&L, moving into new markets and bringing out new products. We would hesitate to cut anymore unless it was necessary, but we are going to remain very vigilant on costs.

Paul Brooks

We are not inclined to give specific guidance for the full year, because there is too much uncertainty about the current market environment and the economic climate. We are giving you some clues as to the way we see the year panning out based on current market conditions continuing. We have referenced the fact that we are going to be facing strong comparatives in the first quarter. We have referenced the benefit we will get as our acquisitions annualise. We see weaker comparatives in the second half and are going to see the fruits of the various investments we are making in the business. We are confident we are going to see nice profit growth in the course of the year. Beyond that, I doubt we will be too specific, even in May.

Closing Remarks

Don Robert
CEO, Experian

I look forward to talking to you all on 21 May when we release our full-year results. Thanks for joining the call today.