Special Industry Report for Members Only

Business Information: "Green Shoots of Recovery"

A series of articles in 2011, entitled "After the Go-Go days", looked at how the leading players in the Consumer and Business Information industry had risen to their dominant positions and how they were faring in the post "credit crunch" environment.

This new article takes a brief look at the current state of play for the four leading players D&B, Experian, Equifax and Transunion, as they report, with the exception of Experian, their results for 2011. As ever a look under the bonnet of these operations, identifies opportunities and challenges, as each of them attempts to execute on their strategic plans and deliver long term profitable growth to their shareholders.

Dun & Bradstreet

The announcement by D&B March 18th 2012, that they had suspended their Shanghai Roadway D&B Marketing Services Co Ltd operations in China, following allegations that data collection practices for the business may have violated Chinese privacy law, casts a shadow over their current performance. Roadway had revenues of £23m in 2011, a little less than 10% of the total revenues of D&B's Asia Pacific region. The allegations involve potential breaches of the US Foreign Corrupt Practices Act, as well as local Chinese laws and will be a significant distraction to the senior management team whilst investigations are on-going.

The incident not only raises questions regarding corporate governance & compliance for all information companies, but also highlights the difficulties of operating in emerging markets, where data is often difficult to acquire and privacy legislation is in its early stages of development. The news will have undoubtedly caused the other global players to look closely at their operations in similar markets. The industry awaits the outcome of the investigation with bated breath.

D&B grew total revenues by 5% (3% at constant FX) to $1758m in 2011, a creditable result given that their core North American business, which accounts for 71% of total revenues remains flat. Asia Pacific continued to be the stand out region, growing revenues by 43% to $260m, largely due to the full year benefit of D&B Australia, acquired late in 2010. Europe & International revenues at $252m where down on 2010 levels by 1% at constant exchange rates.

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The business in North America continued to struggle to find any growth, strong growth in Sales & Marketing Solutions (6%) and Internet Solutions (8%) were offset by an underlying decline of 1% in Risk Management Solutions (RMS). Total revenues for North America in 2011 where $1247m compared to $1230m in 2010, with RMS accounting for 53% of the total revenues of the North American business, it will continue to be a significant drag on growth for the whole business until it can deliver higher growth.

The Q4 Earnings Call in February gave some interesting insights into the challenges being faced by D&B in returning the RMS business in North America to growth. The development of the new strategic platform (Project name MaxCV), has focused initially on S&MS and Internet Solutions, this together with the move of D&B's development center to Dublin, Ireland has resulted in no new innovation on RMS platforms for two years. As a result of this, new releases of DNBi have been slower to come to market, which as Richard Veldran, CFO, highlighted in the call has had the impact of slowing down new sales of DNBi and has seen increasing price pressure, with renewals being made at an average 2% discount against previous contract values.

With project MaxCV not due for completion until the end of 2012 and roll-out targeted for H2 2013, it's not surprising that management are targeting flat growth again next year for RMS in North America. One final note before leaving the subject of RMS and North America, changes in accounting for revenue recognition in Q4, added 2% revenue growth in the quarter, given the total revenue growth was 3%; one can see the scale of the challenge in moving the business back into growth.

In Asia Pacific, growth was driven largely by the performance of D&B Australia. Poor performance in Japan, a combination of the economy and the aftermath of the devastating earthquake, has led D&B to decide to divest of the shares in the JV with TSR, their local partner in Japan and to enter into a franchise agreement with them, similar to that operated in Europe with the likes of Bisnode. This will reduce revenues by c$64m in 2012 but should increase operating profit. The investigation into Roadway Marketing Services in China would also be expected to have an impact on revenues and profit from the region.

Europe revenue was flat in 2011 (-1% at constant FX), with difficult economic conditions continuing to provide strong headwinds and slower than expected roll-out in the UK of DNBi, impacting growth.

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D&B also announced that MaxCV, the strategic technology project, would take longer and cost $30m more than previously estimated. This delay and additional cost being due to failures in the design process regarding the integration of data into the web services layer. As a result of this the total project will cost $160m and a revised target has been set of one key market fully operating on the new supply chain platform by the end of 2012 and roll out to all geographies by end of 2013. Perhaps of more significance, however, were the tax benefits Sara Mathew, CEO, attributed to moving the RMS innovation to Dublin, forecasting that D&B's tax rate would fall from 32-33% in 2014 to 28-29% in 2015.

It is a little over two years ago that Sara Mathew announced the $130m investment in a strategic technology platform that would be the basis for D&B's growth in the future, allowing it to innovate and bring new solutions, combining data, analytics and platforms, to market quicker and more cost effectively. It was a bold decision at the time, not least because such large technology programs are notoriously difficult to deliver on time and to budget. The project remains the most critical element of D&B's plan for delivering future growth and it has been identified by senior management as a key dependency for the RMS business in North America, if it is to achieve 3-5% growth per annum in the future. There are some signs that the new platform is helping to drive growth in S&MS, it is also clear that the project is stretching the capability of the organization to its limits.

Perhaps in response to these challenges, without any fanfare D&B has made some subtle changes to its organization. David Clark, formally Global Information Officer, with responsibility for global data strategy, moved to the role of Chief Customer Officer of North America. Paul D Ballew has joined D&B in January 2011 as Chief Data and Analytic Officer, with overall responsibility for global data and analytics strategy. Mr. Ballew's previous positions include SVP Customer Insight & Analytics at Nationwide Mutual Insurance, Executive Director of Market & Industry Analysis General Motors and prior to that Chief Economist, General Motors. He will report to Josh Peirez, President Global Product, Marketing and Innovation.

D&B also announced In March the release of two product enhancements, improved analytics capability for Portfolio Risk Manager for DNBi. Enhancements include the ability to export data to enable customers to undertake further analysis, use of custom scores within Portfolio Risk Manager, improved "drill down" capability within charts to see underlying company information and more efficient data upload routines.

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In April they announced the launch of Hoover's Optimizer enabling organizations access to their online database and tools to improve data quality and analysis and segmentation of customers and prospects in supporting marketing campaigns.

All of this activity is evidence, if any was needed, that D&B are serious about developing their Data & Analytics strategy, but also possibly an admission that they haven't made the progress they planned to at this point.

Whilst D&B will continue to re-engineer its business to find cost savings and manage its portfolio across the globe and will for the foreseeable future continue to be the leading global business information brand, the next 18-24 months will be critical in determining the success of its strategy.

Equifax

Equifax announced revenues for 2011 of $1.959m up 5% on 2010, with operating income of $471m up from $430m (10%) on 2010. According to their annual report, this growth was underpinned by continuing investment in new products, with $181m of revenue coming from products launched in the last three years and 69 new products launched in 2011. Product innovation is focused on Risk, Fraud, Verification, Analytics and Marketing.

The largest business unit US Consumer Information Services (USCIS) grew by 7% on prior year to $793m, growth primarily driven by an increase in transactions in the market, which for core online services grew by 11% on the prior year. Price pressure offset some of the benefits of the transaction growth. Operating Income grew by 6% to $287m.

Revenues from its International Business grew by 2%, including the impact of the merger of its Brazilian operation with Boa Vista; excluding Brazil revenues grew 12% at constant FX. Both Europe and Canada delivered double digit growth. Equifax have formed a strategic partnership with FICO in the UK to sell analytics and scoring solutions.

Workforce Solutions, previously TAX, which provides income and employment verification services to lenders and recruiting and talent management solutions to employers, grew by 2% to $404m. Verification services grew by 5% to $193m as increasingly lenders from non-mortgage segments utilized income and employment verification services as part of their risk assessment processes.

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Growth in these segments was partially offset by a decline in volumes from the mortgage segment. Revenues from Employer services was flat for the second year running at $212m due to less recruitment activity in the Government sector (Transport Security Authority) and lower License fee revenues. With operating profit falling by 2% to $90.7m ($92.1m) the continuing underperformance of employer services is a drag on overall growth from this unit.

TALX provided Equifax with a welcome boost to growth during the period immediately after the credit crunch and recession. Acquired in May 2007, the business grew in 2009 by 14% with Verification Services growing by 20% and Employer Services by 9% on the prior year 2008, which was the first full year after acquisition. Since that time Verification Services have grown strongly due to increasing demand from lenders and government agencies for verification of consumer's income and employment details. However revenues from Employer Services have remained flat. This ironically may be as a result of the US economy returning to better health, since the growth in 2009 was primarily due to an increase in demand for TALX's Tax Management services as a result of rising unemployment claims. With this part of the organization competing with ERMA suppliers such as Oracle and specialist HR management software vendors it will be interesting to see if this remains a core part of Equifax's business in the future.

Personal Solutions, Equifax's direct to consumer business, grew by 15% with revenues $23m up on the prior year at $181m. Operating Income improved by $9.5m to $54.1m with margins increasing 1.6 points to 29.9%. Revenue growth was driven by an increase in number of subscribers and an increase Average Revenue per Subscriber from Equifax brands. Sales via third parties also contributed to growth.

North America Commercial Information Solutions grew by 11% to $89m ($81m) and operating profit grew by 21% to $23.6m ($19.5m) the growth was driven by higher volumes in Risk Management and Marketing products.

Equifax appears to be benefiting from strong execution of its strategic plan helped by a recovery in the US credit market, excluding the mortgage sector. It's diversification into new vertical markets such as Telecoms and Utilities, acquisition of new data sets such as wealth data and employee data, focus on operating efficiencies and new product innovation delivering a solid set of results in 2011.

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With the impact of Brazil falling out of its results, the anticipated continuing recovery in US credit activity and contribution from recently acquired businesses it looks well positioned to deliver strong growth in 2012.

TransUnion

In February 2012 it was announced that TransUnion had been acquired by Spartan Parent Holding Inc. and subsidiaries, an entity controlled by Advent International Corporation and Goldman Sachs Capital Partners. The company being acquired for $1.685bn plus the replacement of all existing debt at the time of the transaction, with total debt at the end of fiscal year 2011 of $1.6bn, the total transaction was valued in the region of $3.2bn.

For a business with turnover of just over $1bn and operating profit of $252m, a price tag of 3 times sales and 14 times operating profit (9 times EBITDA), sent a wave of excitement through the industry. What the future will hold for a company that has had more than its fair share of internal management distractions and ownership changes and whether it will justify its price, the industry waits to see with eager anticipation.

TransUnion recorded 7% total revenue growth for 2011, total revenues up from $956m to $1,025m. Operating Income grew by 15% to $253m and margins improved by 2%.

Growth from its core US Information Services business was 4% to $660m ($634m). Growth in Online Data Services the largest revenue line in this business was 3%, with revenues at $451m compared to $438m in 2010. Stronger growth was seen from Credit Marketing Services and Decision Services at c5.5% for both of them, generating revenues of $127m and $82m respectively. It is interesting to note that Equifax's revenues from its equivalent USCIS business grew at 7% on a revenue base c$100m higher. One might suppose that Transunion have not been able to benefit from the increased credit activity in the market to the same extent as Equifax, because of its failure to diversify and invest in new products and services.

The International business grew by 10%, from $196m to $216m. Developed Markets (Hong Kong & Canada) grew by 3% due to foreign exchange benefits of 3.4%, underlying growth was flat. Higher revenues from increased demand in Hong Kong were offset by a decline in volumes in the Canadian Market. Revenue growth from emerging markets was 16%, (10% excluding FX and acquisitions) with strong growth being reported in all regions.

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Interactive revenues grew by 19% up to $148m from $125m in 2010. Interactive is the equivalent of Equifax's Personal Solutions business. Growth was attributed to an increase in subscribers in both direct and indirect channels.

During the course of the year TransUnion acquired a 100% stake in Crave Systems me Informatics SA, a Brazilian company providing software and services to help companies make credit and fraud decisions. It also acquired a 100% stake in Financial Healthcare Systems (FHS) a company based in Colorado providing software and services to the Healthcare market. TransUnion increased its stake in CIBIL the Indian Credit Bureau to 27.5% in December 2011.

TransUnion posted a strong set of results in 2011, total revenue growth of 7% and operating income growth of 15% are numbers not to be sniffed at. It will be interesting to see how the business develops its strategy under its new ownership.

- Will it focus on growing market share in the US competing directly with Equifax and Experian?
- Will it invest in further International operations?
- How will it differentiate itself from its larger competitors?

Experian

Unlike the other three players Experian's financial year did not end until 31st March 2012 and they will not report preliminary results until 10th May. To piece together how the business is progressing we have to look at their half year update for the business to September 30th 2011 and their Q3 update for period ending December 31st 2011.

In their half year update Experian reported total revenue growth for H1 2011 of 15% (11% at constant FX, 6% organic growth) up to $2.3bn from $2.0bn in H1 2010. EBIT from H1 2011 grew 12% at constant FX to $560m, with margin increasing to 24.5%.

Strong growth was reported across all regions and business lines. The North American business grew by 7% to $1.1bn with Credit Services growing at 8% to $377m and strong performances from Decision Analytics and Marketing Services. Interactive revenues shrank by 5%, largely to decline in the lead generation business, but at an estimated $1.0bn in revenues for the full year remains six times the size of Equifax's Personal solutions business its nearest competitor.

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Latin America continued to be the star performer with total revenues growing by 20% to $460m. The Credit Services Business line, which was at this point entirely Serasa in Brazil, overtook the equivalent US business to record revenue growth of 19% up to $437m. The acquisition of Computec the leading credit bureau in Colombia will add an estimated $100m of revenues in 2012 with underlying growth of c20%.

UK & Ireland posted 8% growth with strong performances from Decision Analytics and Interactive, total revenues increased to $399m for H1. Growth at Credit Services remained weak at 2% against a continuing backdrop of lower credit activity.

EMEA/APAC grew 18% with strong performances in Credit Services and Marketing Services, supported in part by acquisitions made in 2010, early 2011. Revenues from Decision Analytics declined by 4%, largely due to one off items.

The Q3 update showed no let-up in growth with total revenues growing at 12% at constant FX. There was positive growth across all regions and growth from Latin America accelerated to 27% organic growth, 42% with the inclusion of recent acquisitions Computec and Virid. Growth in the North American Consumer Credit Services continued at 7%, but the Interactive business declined again by 4% in the quarter. EMEA/APAC continued to grow in line with H1 performance with the Decision Analytics business returning to growth in the quarter.

Current estimates are that Experian will grow its business by between 12-15% this year putting total revenues in the range of $4.7-$4.85bn and EBIT in the range of $1.0-1.2bn for the year. The business continues to benefit from its global footprint, wide range of products and services, vertical market diversification and financial strength.

Summary:

2011 has been a year of progress and return to higher levels of growth for the four big information players. D&B is still reliant on the delivery of its new strategic technology platform to be able to kick its revenue growth up a notch or two. Equifax appears to have a relatively simple plan which it is executing on well, particularly in the Consumer Information space in North America. Transunion has new owners and the industry waits with interest to see how it will develop its strategy in the future. Globally Experian continues to lead the pack as it relentlessly focuses on executing its plan of increasing its global footprint, diversifying into new vertical markets and investing in new products and data.

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If you want an independent view of the state of play between the three biggest players D&B, Equifax and Experian, then taking the market view as a guide**: $100 dollars invested in D&B, Equifax and Experian 12 months ago would at the time of writing be worth, $99, $112 and $124 respectively.** The market appears to have provided a fair assessment of the relative performance of each of them, over the last 12 months.

Looking forward to 2012, the three Consumer Credit Bureau operators should benefit from an improvement in credit conditions in North America and see growth from developing markets. UK and Europe will probably continue to experience weak lending activity but there should be some pick up towards the end of the year. Latin America and parts of Asia Pacific will continue to experience strong growth in consumer credit activity.

The outlook for Business Information remains less certain with mature markets stubbornly refusing to return to pre-crisis growth levels, even where, as in the US, there are signs of economic recovery. It can be argued that the crisis exposed the weaknesses of Business Information, the need for timely accurate information and analytics tools is essential in managing credit risk in the B2B environment and much of what is available today does not come up to scratch. If the main players in this market are to remain relevant they must find an answer to these issues or find their markets increasingly under attack from low cost and freemium business models.

Analytics is already a key driver of growth for all the businesses reviewed here and will be increasingly important not just in credit but also marketing. Platforms that incorporate data and analytics and allow decisions to be embedded in customer workflow are what customers want to help them manage their businesses more effectively.

Maybe we will look back on 2011 as the year we saw the first green shoots of recovery for the industry.

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BIIA is indebted to Phil Cotter for sharing his insights with BIIA Members.