

Special Report for BIIA Members

What Grows?

Equifax and Experian announce latest quarterly results

Introduction

In the last 6 weeks both Equifax and Experian have announced their latest results to the market, for Equifax the results related to the first quarter of their financial year and included results from the acquisition of the CSC business in the US for the first time. Experian announced their results for their financial year ended March 31st 2013. This note highlights some of the key insights from these announcements.

Equifax

RESULTS OF OPERATIONS—THREE MONTHS MARCH 31, 2013 AND 2012

Consolidated Financial Results

Operating Revenue

	Three Months Ended March 31,		Change	
	2013	2012	\$	%
Consolidated Operating Revenue				
	<i>(Dollars in millions)</i>			
U.S. Consumer Information Solutions	\$ 245.1	\$ 210.3	\$34.8	17 %
International	123.7	121.0	2.7	2 %
Workforce Solutions	123.7	108.9	14.8	14 %
North America Personal Solutions	51.1	44.9	6.2	14 %
North America Commercial Solutions	22.9	20.8	2.1	10 %
Consolidated operating revenue	\$ 566.5	\$ 505.9	\$60.6	12 %

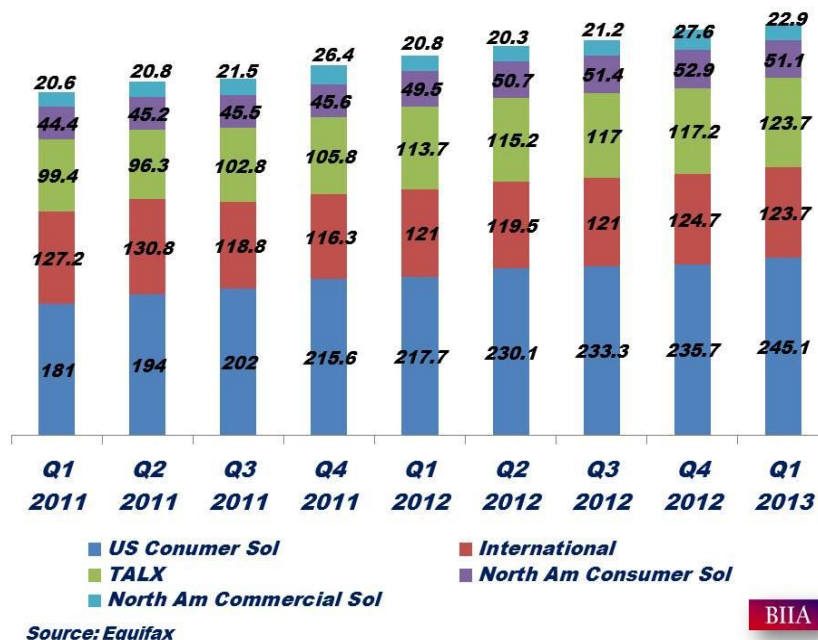
Equifax announced growth in the first quarter of 12% with strong performances in all lines of business in North America. At first glance these results look impressive, however, looking at the detail underlying the headline results shows that the acquisition of CSC had made a significant contribution to the results reported.

Organic growth in the US Consumer Information Solutions (USCIS) business was 2% with the acquisition of CSC contributing 15% of the total growth reported. Growth in Mortgage Solutions revenues contributed the majority of the 2% organic growth, leaving the remainder of the business relatively flat compared to a year ago.

Growth in the International business was 4% in local currency (2% after FX) with Canada growing the strongest at 5%. In Europe growth in the UK was offset by a decline in revenues from Spain with the region reporting 4% growth in local currency. Growth in Latin America was 4% in local currency with growth in Argentina, Ecuador and Uruguay being offset by declines in Chile due to the negative impacts of new regulation.

Workforce solutions reported strong growth, with Verification services growing by 23%. Demand for verification of employment and income being driven by increased activity in the mortgage and mortgage refinancing market. Revenues from Employer services grew by 6% largely due to the renewal of a federal Tax Credit programme.

Revenues from Personal Solutions grew by 14%, due to higher revenues generated through the Equifax.com website and the launch of a number of new products.



Commercial Solutions, Equifax's US Business Information business grew by 10%, with growth from transaction revenues of 3% (60% of total revenues) boosted by a 22% growth in one off project based revenues.

In the earnings call management cited tough comparators to Q1 2012, when the USCIS business grew by 20% and a slow January for the business as reason for the lower than expected organic growth. They said that internal indicators suggested that organic

growth was returning to mid-single digit figures.

Experian

Experian announced growth for the financial year ending 31st March 2013 of 10% at constant FX, delivering organic growth of 8% (8% H1, 7% H2) with total revenues of \$4.7bn.

Year ended 31 March US\$million				
	2013	2012	Total growth	Organic growth
Revenue				
North America	2,258	2,092	8%	7%
Latin America	1,001	961	21%	14%
UK and Ireland	873	824	7%	5%
EMEA/Asia Pacific	581	579	4%	3%
Total revenue	4,713	4,456	10%	8%
EBIT before central activities	1,336	1,243	13%	
Central activities	(81)	(74)		
EBIT – continuing activities	1,255	1,169	13%	
EBIT margin	26.6%	26.2%		

	2012	2013	Growth	Organic Growth
Credit Services	2099	2181	12%	9%
Decision Analytics	490	512	8%	5%
Marketing Services	938	1005	9%	5%
Consumer Services	929	1015	9%	9%
Total	4456	4713	10%	8%

Not only did Experian report growth across all regions they also reported growth across all four of their lines of business with Credit Services and Consumer Services leading the way with 9% organic growth each.

In a presentation given to analysts and investors on 9th May management highlighted the following drivers of growth and some areas they are addressing:

- Growing market momentum in North America, UK, Latin America and emerging markets in Europe. Challenges in Asia Pacific and mature European markets
- Global growth programme contributed over 4% of organic revenue growth in the year

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- A section focusing on the UK highlighted that investments made in new bureau technology, roll out of global products including Business IQ (a competitor to D&B's DnBi product) and continuing to attract and retain more customers to the Consumer Services products was driving growth. Consumer Services was the star performer in the UK portfolio growing at 28% with revenues rising from \$152m to \$193m as more people took out subscriptions to access their credit reports and other services online.

In the question and answer session, Experian were asked about their meetings with the new US regulator, the Consumer Financial Protection Bureau. COO Chris Callero reported that they had had initial meetings but didn't expect any feedback from the CFPB for some months any feedback received would be confidential and not made public. He went on to say that they estimated that the cost of compliance with new regulations would be in the order of \$10m per annum.

He also gave an update on positive data in Brazil, with a deadline set by the government for banks in Brazil to start contributing this data by August 2013. He explained that the key obstacle facing the provision of this data at present was the need for consumers to "opt in" to enable the banks to provide the data to the credit bureaus. The current signs were that consumer "opt in" was going to be slow despite efforts by the credit bureaus to educate consumers on the benefit of making this data available.

Unfortunately this appears to be yet a further example of well-intended legislation to protect consumer privacy placing obstacles in the way of the primary objective; In this case that of bringing greater transparency to the consumer credit market in Brazil and in turn delivering the consumer and economic benefits that arise from being able to make better loan decisions.

Summary

Both Experian and Equifax continue to deliver strong growth, buoyed by growing lending activity in key markets such as North America and the UK and their continuing investments in diversifying into new vertical markets, new geographies and new products. However as Equifax demonstrated in the first quarter, the comparators will be tougher this year and acquisitions may be required to continue growth at the level seen in the last year. Both have seen their share prices grow in the last 12 months Experian by 41% and Equifax by 36% (as at 16/05/2013). However both of them must be more than a little upset to see weaker performance at competitors such as Acxiom and Dun & Bradstreet being rewarded with share price growth of 55% and 25% respectively over the same period.

One senses that this financial year could be a significant year in the evolution of both these organisations as they seek to sustain the growth that they have achieved over the last 12-24 months.



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

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